

"THE URBAN INFORMAL SECTOR IN SOUTH AFRICA:  
WHAT OPTIONS FOR DEVELOPMENT?  
A CASE STUDY OF KWAKASHU, NATAL"

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## **Preface**

This thesis was based on research conducted in KwaMashu township near Durban from October 1983 to January 1984 under the supervision of Dr. Paul Wellings of the Development Studies Unit at the University of Natal in Durban.

This study represents original work by the author and has not been submitted in any form to another University. Where use has been made of the work of others it has been duly acknowledged in the text.

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## Abstract

In the past few years there has been a dramatic increase in research on the informal sector in South Africa. Motivating this research, besides academic curiosity, is growing concern over poverty and unemployment amongst South African blacks. The general belief that these factors have contributed significantly to the political unrest now sweeping the country is another encouragement to research. What is being increasingly suggested, not only by academics but also by government officials, businessmen and others, is that the informal sector could be developed in appropriate directions to provide jobs, raise living standards and (hence) promote political stability. Attention is now being focused on the question of how best to achieve this objective. In this thesis, proposals for 'developing' the informal sector in South Africa are examined by a careful analysis of the relevant literature and an in-depth case study of the KwaZulu township, KwaMashu.

The first question that needs to be addressed is how to conceptualise the informal sector. There are many interpretations, depending in part on the stage of development attained by the local economy, of what comprises this sector. Does it only consist of the poor, the unlicensed, the untaxed, the unprotected, the harassed? There are many perspectives, too, on whether the informal sector is independent and autonomous or whether it is integrated into the economy in ways that might impede or facilitate its development. It has been argued, for example, that the state and capital determine the parameters of

the informal sector at a level most functional to their requirements. These interpretations are critically examined in Chapters One and Two with particular reference to South Africa.

Attention is then directed towards the particular case of KwaMashu. The research methodology is discussed in Chapter Three. The approach adopted here combined random-sample questionnaires and case study methods. In order to locate the research in its geographical, temporal and political setting the history of KwaMashu is also briefly reviewed. The research results (which cover the extent, viability, potential and difficulties of the informal sector), are examined in Chapters Four to Six. Chapter Four gives the results of the survey - including three detailed case studies and the findings of the questionnaire survey. In Chapter Five garment makers and retailers (two categories which together make up a large component of the KwaMashu informal sector) are analysed more closely using information obtained from case studies. The field work included interviews, not only with informal sector participants, but also with the officials whose decisions influence the development of the informal sector. The latter is examined in Chapter Six. An important finding - particularly relevant for policy decisions - concerned the division in levels of informal sector operation and the policy decisions affecting each level. The concluding chapter combines the findings of literature surveys with the empirical results from KwaMashu in order to assess the opportunities for and the limits to informal sector 'development' in South Africa. Practical and realistic means by which those in this sector might be assisted are also discussed in some detail.

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## INTRODUCTION

### What is the Informal Sector?

Two smiling children, certainly less than ten years old, stand at the door with a basket of vegetables between them. They want to barter used clothes for vegetables which, they explain, their mother will sell in the township. Once they have found someone willing to barter, they return every few months to collect inputs for their small business. A man appears intermittently selling home-made brooms. Paint peeling off a window reminds one of the handyman who, with his two assistants, can paint, repair and do plumbing - for twenty-five years he has had his own small business but has no business address: one simply inquires among his regular clients.

The more affluent areas of South Africa reveal many stories such as these, of people who are not formally employed but have found other ways of earning a living, either through force of circumstances or by choice. But they are merely the tip of the iceberg. A drive through the poorer areas, namely the townships and the bantustans, reveals the phenomenon to an even greater extent. Along the road are the upturned boxes with a variety of fruit and vegetables, or possibly pieces of meat for sale. Outside the school gates at break is an elderly woman selling pieces of appetising freshly fried fish.

Most people living in a Third World country (and to a lesser extent elsewhere in the world) are aware of these tiny businesses and it has

long been realised that the unemployed, particularly in places without social welfare, must in some way eke out an existence. But it was really only in 1971 that Keith Hart at a conference at the Institute of Development Studies, University of Sussex, coined the term 'informal sector' and gave rise to innumerable studies of this component of Third World economies.

Subsequently, the informal sector has come to be seen by many, academics and policymakers among them, as a possible partial solution to the underemployment and consequent poverty endemic in urban areas of the Third World (see ILO, 1972). The problem confronted by this research is the feasibility of developing the informal sector, particularly in an urban township in South Africa, in order to increase employment opportunities and improve access to basic needs.

This question is tackled on two fronts. Firstly, a detailed review of studies of the informal sector is made in order to understand the working of this sector in other parts of the world and elsewhere in South Africa. Secondly, a random sample survey, as well as a number of case studies, of the informal sector in KwaMashu was undertaken to collect the empirical data on which to base an assessment of the possibility of developing this sector in the South African context.

### Theoretical Perspectives AB

One of the difficulties of undertaking research into the operation of the informal sector is that a clear theoretical dichotomy has arisen between two approaches. On the one hand there are studies which draw

firm distinctions between the informal and formal sectors viewing them as two discrete universes, one traditional and one modern. This perspective is criticised (see Moser, 1978) as dualist and many researchers espouse, in preference, the 'petty commodity production'<sup>1</sup> approach. Petty commodity production has been well summarised by Edwards (1978:40-41).

"a petty commodity mode of production is characterised by a class of free, independent small producers, usually artisans (crafts people) and small farmers. These producers own the means of production, the craft tools and the land. They organise and control their own production process and sell their products on a market, thereby obtaining funds to purchase other commodities for their needs. Petty commodity production is thus for exchange rather than use. There is no apparent appropriating class here. The petty commodity mode is an example of an incomplete or transitional mode. It often exists in relation to another predominant mode or tends to become fairly quickly transformed into another mode as some of the producers begin to accumulate their surplus and develop into an appropriating class".

Moser (1978) emphasises the importance of basing analysis on 'relations of production'. Such an approach clearly shows that "the level of capital accumulation possible is constrained by structural

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1. A difficulty with the term 'petty commodity production' is that much of the activity in the informal sector is distribution and services and is not therefore really suited to analysis in terms of its relation to the mode of production. It might therefore be better termed, as Das (1984) suggests, "petty capitalism".

There is considerable disagreement as to whether petty commodity production constitutes a mode or a form of production. Moser (1984:170) argues that "since a mode of production refers essentially to totality which is self sufficient both at the superstructure level and at the economic base (and) petty commodity production has historically never constituted the dominant or total production of society, and is always articulated within another wider social formation, it would seem more accurate to define it as a form of production". This approach is seen by its proponents as viewing petty capitalism as an integral, subordinate component of capitalism and thus to stress the necessity of viewing the sector in relation to the broader economy and not in isolation.

factors in the total socio-economic system such that small scale activities in the urban sectors of countries with external oriented economies can only participate in economic growth in a dependent subordinate way" (Moser 1978:1056).

Whether very small scale producers and distributors are seen to have independent growth potential is therefore conditioned, at least in part, by the position that the researcher adopts with respect to those distinct approaches.<sup>1</sup> The 'informal sector' approach and the 'petty commodity production' approach were considered in detail prior to the commencement of the fieldwork. Problems were experienced with both approaches as they were found to be both rigid and emotive. The most serious drawback of the informal sector approach was the assumption of most writers in this genre that there were unlimited possibilities for expansion and that the difficulties confronting the sector were the result of the sector's internal mode of organisation. Hence the petty commodity production approach was adopted as a basic framework.

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1. "In this respect the conceptual definition of the urban economy (such as dualist or non-dualist) often very largely determines both the area of study and the research methodology utilized. The types of questions asked determine the range of answers given which, in turn, sets the parameters of the arena for policy formulation" (Moser 1984:137).

## CHAPTER ONE

### CONSTRUCTING A PROFILE OF THE INFORMAL SECTOR

#### SUMMARY

This chapter focuses attention on the character of the informal sector according to recent research. Since there are various interpretations of the concept, attention is directed initially towards the different definitions used in the literature. Consideration is then given (briefly) to whether this phenomenon is solely a feature of Third World economies. Then the different sizes, and compositions, of the informal sector in various countries are examined. Attention is also directed towards the characteristics of informal sector operators as revealed in published research, prior to examining these characteristics in the particular case of South Africa. The chapter concludes with an examination of a relatively new approach to conceptualising the informal sector: the way in which a particular branch of the sector is incorporated into the national economy. The discussion permits a comparison of two different approaches to the informal sector - the dualist and the integrated.



## CHAPTER ONE

### 1.1 The Problem of Definition

Ever since Hart (1973) introduced the term 'informal sector' and based it on the distinction between "wage earning and self-employment" (Hart 1973:68) discussion has ensued, indeed, controversy has raged, over what **really** constitutes the sector. Almost fifteen years after the beginning of the debate a well known writer on the sector wrote recently that "since the utility of the informal sector concept was first recognised, researchers and policymakers have applied it to a diversity of empirical data, and in many different contexts. What has resulted is complete confusion about what is actually meant by the informal sector" (Moser 1984:142). An examination of some definitions will highlight the confusion and difficulties.

#### 1.1.1 Definitions Based on Factors External to the Sector

Mazumdar (1976:656), in analysing the formal/informal sector concept, based his dichotomy on the urban labour market and described the informal sector as 'unprotected' as against the formal 'protected' sector. The basic distinction between the two sectors related to the fact that employment in the formal sector was protected so that formal sector wage-levels and working conditions were not available to job-seekers unless they managed to cross the barrier of entry, with its mechanisms instituted by both the trade unions and government to prevent entry.

Weeks (1973b), like Mazumdar, stressed factors external to the character of the enterprise, but laid specific emphasis on the role of the state. While the formal sector, which includes government activities as well as private sector enterprises, is officially recognised, nurtured and regulated by the state through such mechanisms as tariff and quota protection, import tax rebates, selective monetary controls and licensing measures, the informal sector operates outside the system of benefits and access to formal credit institutions.

Similarly, Bose (1984) emphasised external factors but he felt these related particularly to the market. He argued that:

"The informal sector is constituted by those units and unorganised individual workers who cannot, in the main, take advantage of the formal, organised market for capital, inputs or outputs or other services like training. Such units and individuals are forced to operate in a different market where they have to pay significantly higher prices for whatever they purchase, be it inputs or services, capital or even consumer goods, while receiving significantly lower prices for whatever they sell, be it goods or services or labour power. The formal sector and informal sector are thus linked with each other in an exploitative relationship through which the informal sector is forced to subordinate itself to, and to serve, the formal sector directly and indirectly. This has been perpetuated by the extreme lack of organisation on the part of the informal sector and the formal sector's dominant control over the state machine" (Bose 1984:42).

This latter definition falls into a group which recognises a symbiotic relationship, albeit 'asymmetrically symbiotic' (Davies 1979:89), between the two sectors rather than regarding them as two separate universes as do the dualists.

### **1.1.2 Definitions Based on the Character of Enterprises**

The International Labour Office definition, as first outlined in its Kenya Report (ILO 1972), is a clearly dualist definition in which the characteristics of informal enterprises are seen as quite different from those of the formal sector. Informal sector enterprises were identified as having the following attributes : ease of entry; reliance on indigenous resources; family ownership of enterprises; small scale operations; labour intensive and adapted technology; skills acquired outside the formal school system; unregulated and competitive markets. This definition has been particularly important as it has been so widely used and has greatly influenced the conceptualisation of the informal sector.

### **1.1.3 Definitions Based on a Continuum of Activities**

The reason for the difficulty experienced in obtaining an unequivocal definition of the sector may well be that "the phenomenon is quite complex... despite some real differences in the institutional and organisational characteristics of the formal and informal sectors the difference is less clear-cut in terms of individual incomes, social class or economic mobility, and there is much greater integration between the formal and informal sector than we had at first been led to believe" (Banerjee 1984:118). Hence, for Bromley and Gerry (1979:5) "it is more realistic to conceive of a continuum stretching from stable wage work to true self employment and to give particular attention to the intermediate categories and transition processes

along this continuum". More recently, Bose (1984) has conceived of an informality-formality continuum of different strata of enterprises, from tiny units to multinationals.

#### **1.1.4 Definitions Based on Disaggregated Activities**

Some analysts confronted with the impossibility of a clear definition have suggested that there is little point in attempting to delimit the sector rigorously (eg. King 1974 and Elkan 1976). Richardson (1984), however, suggests that a less extreme solution may be to "forget about defining the boundaries of the informal sector as a whole and to focus on analysing specific subsectors within it, such as small scale manufacturing, maintenance and repair establishments, handicraft producers, street sellers and others" (Richardson 1984:9, see also Mingione 1984:64).

#### **1.1.5 Definitions Depending on the Focus of the Research**

Mingione (1984) points out, following Hathur & Moser (1984:xvii), that the definition of the sector varies with the focus of the research and that whereas:

"area studies reveal a complex mix of survival activities serving to complement a relatively low income deriving from formal employment... sectoral studies show how informal activities of a specific kind... increase and provide the principal means of survival for an increasing number of households of the urban surplus population" (Mingione 1984:65).

If the focus is on area studies the definition may be similar to that of the ILO (and results in comparable studies eg. Sethuraman 1981).

On the other hand, a focus on sectoral studies with a branch-specific definition will emphasise linkages with the formal sector such as in the studies by Schmitz (1982b), Moser (1977), Gerry (1978) and Tokman (1978a).

#### 1.1.6 Operational Definitions

An analytical definition used in theoretical studies is not necessarily suited to empirical research, however. Most of the above definitions are impossible to operationalise for research. Consequently many of the "... operational definitions of the informal sector adopted in empirical research are based either on worker characteristics or establishment size, or a mixture of both" (Richardson 1984:7). Schaefer (1976) suggests an earnings criterion for the informal sector by defining it in terms of workers who earn less than the legal minimum wage (discussed in Richardson 1984:8).

This makes some sense in Brazil where, according to Richardson, there is a closer correspondence than in other Third World countries between the informal sector and low wages but it still presents major problems as it defines the informal sector as being the urban poor and so limits studies solely to the urban poor.<sup>1</sup> Such a definition would include some formal sector workers who earn less than minimum wages and would leave out informal sector workers who earn more.

The most usual definition goes back to Hart (1973) and includes the

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1. Similarly Teilhet-Waldorf and Waldorf (1983:595) note that many informal sector studies pre-select their sample to comprise low income groups.



self-employed and unpaid family workers in the informal sector, and excludes waged and salaried workers in the formal sector. The problem here is that the professional self-employed (eg. medical doctors), clearly part of the modern sector, would, by this definition, fall into the informal sector (as would employers who own their own formal sector businesses). Employees, even of clearly very small enterprises, would be placed in the formal sector. These cases must then be decided on an individual basis. It has been possible to remedy some of the defects of this operational definition by combining it with an establishment - size criterion but it has then to be decided whether the cut-off point should be five, ten or even twenty-five persons. It would also be possible to use the value of capital investment as a definition but, again, the cut-off point is arbitrarily established and presents difficulties for inter-country comparisons. Richardson (1984) concludes that "probably the most convincing practical approach is a hybrid, mixing the establishment-size criterion with a low cut-off point and including the self-employed and unpaid family members, with additional minor adjustments to exclude very small professional firms and other anomalies" (Richardson 1984:9).

#### **1.1.7 The Definition Used in this Research**

The focus of the research in this dissertation has been an area study since little of this nature has been done in the Durban townships (except for Wellings and Sutcliffe 1984, and Maasdorp 1983). It is

anticipated that this background could later be used for branch-specific studies of the kind undertaken by Schmitz (1982b) on the Brazilian textile industry. Bearing in mind the focus of the study and the need for a definition that could be operationalised in the field, the following has been the working definition: The informal sector consists of the self-employed. It excludes those with professional skills,<sup>1</sup> but includes those employed by the self-employed. Those officially recognised by the authorities (eg. those renting KwaZulu Development Corporation small factory units or paying tax on their businesses) are excluded from the study. This definition, though appearing somewhat arbitrary, in fact worked very well in this particular case because for a long time legislation prevented economic activity within South African black townships. Consequently there is far less of a continuum of enterprises than elsewhere and the few small formal operations are quite readily distinguished from the informal ones.

In the final analysis it would appear that the researcher, in practice, often has little difficulty in separating the formal from the informal sector. It was felt necessary to include this section of definitions, however, in order to refute some of the false assumptions generated about the informal sector, such as its employment generating function, and to show that it is frequently incorrectly conceptualised.

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1. This refers to skills acquired through formal education such as the practice of medicine or law.

## 1.2 Is the Informal Sector Solely a Third World Phenomenon?

Much of the research and writing on the informal sector implies, if only tacitly, that it is solely a Third World phenomenon. Certainly in the Third World these activities display characteristics which are not to be found elsewhere. Within the welfare states of Western Europe and North America it is probably true to say that the poor and unemployed would derive income from social welfare and so not become involved in many of the activities undertaken in the Third World. But unemployment and poverty are not the only reasons for entering the informal sector (see 1.5.5).

"The street vendors of Manhattan, the improvised boardwalk market stalls of Venice Beach, California, and the fruit sellers outside the Federal Buildings in Washington D.C. (just as they are in Brasilia and Bangkok) are evidence enough that there are market niches for informal sector enterprises even in the most affluent of countries" (Richardson 1984:4, see also Peattie 1984:179).

Richardson points out that skilled trademen with formal sector jobs 'moonlight' in the informal sector in off-duty hours. The literature on such activities in the USA has not highlighted the benefits of the informal sector, such as labour absorption and increased competition, however, but has rather emphasised the impact of the informal sector on the undermeasurement of GNP; tax evasion; and illegal activities (Richardson 1984 and Bawly 1982).

An important difference between Western and Third World informal sector activities is noted by Das (1984:128): "It is unique to the Third World that petty capitalism is so poverty bound". In the UK,



for example, people unable to obtain formal sector employment can obtain social welfare benefits and so are not forced to create their own employment.

Just as the informal sector, in one form or another, exists in the West, so too it exists elsewhere. An interesting article by Shen (1984) discusses the informal sector in China where, since 1979, the government has encouraged peasants to sell their excess rural production. Some peasants have given up farming to specialise in certain occupations such as cafeterias, repair shops, carpentry services or retail businesses to supplement the public service sector and state channels for commodity circulation. This differs clearly from similar activities in the developing world in that it is expressly supported and monitored by the state. The existence of the informal sector in these conditions questions the view that the informal sector is solely a feature of peripheral capitalist societies.

In communist economies, despite the priority given to employment, unemployment does in fact exist and "the petty capitalist sector is a lucrative alternative to absolute poverty" (Das 1984:127). Half a million are unemployed in Shanghai, for example (Das 1984). Cheap alternatives to the goods available from the state controlled sector are necessary for the poor - the very presence of unemployment indicates that there are income disparities - but evidence from the USSR and China shows that demands for goods from the petty capitalist sector are also based on quality and variety (Das 1984) as is the case in the West.

In the West there appears to be a tendency for some small enterprises to grow over time but this is much influenced by big firms which may either take over small ones or keep them small by competitive pricing. The government, too, influences the growth prospects of such small firms. Thus the question can be raised whether in China the informal sector will come to "work to the distinct advantage of those who already have power in the market or the political forum" (Logan 1984:121).<sup>1</sup> But whether the informal sector in Western and communist economies can be regarded as fundamentally the same thing as that obtaining in the developing world is a question that has received insufficient attention.

### **1.3 Extent of Informal Sector Activity**

#### **1.3.1 Differences in Size because of Differences in Definition**

Richardson (1984) emphasises that the definition used is of critical importance in estimating the size of the sector. Official statistics cannot be used because these data do not include enterprises lacking in formal status. What data figures there are on the informal sector have been culled from surveys more especially those of the ILO on certain cities, and these have not used a standard definition. Hence,

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1. The very fact that the informal sector is actively being encouraged by the state in China indicates that the way in which it is integrated into the economy is quite different in China from that in the West - implying that future developments will be interesting to watch and of some importance to informal sector studies in Third World countries.

differences in size between countries are often the result of definitional differences rather than real differences. Richardson (1984) stresses, however, that despite this variation it remains clear that the informal sector is quantitatively very important in developing countries.

### **1.3.2 Variations in Size**

As the two accompanying tables<sup>1</sup> show, the percentage of the labour force engaged in the informal sector in developing countries, and indeed in developed countries such as Japan and (though to a more minor extent) the USA, is high and in places very high indeed. Table 2 also shows (see Section 1.4), that distribution has far more participants than manufacturing, and that the percentage of total employment taken up by informal sector activities tends to decline as the country's level of development rises.

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1. The figures in Table 1, from data collected in the late 1970's, are more recent than those in Table 2, but a more important difference is that, as discussed in 1.3.1, the definition used is critical in the estimate obtained. In Table 1 the percentages are the result of different studies, using different definitions, and are not themselves strictly comparable.

**Table 1**  
**Estimated Share of Urban Labour Force in the**  
**Informal Sector in Selected Developing Countries**

Area	Per Cent
<b>Africa</b>	
Abidjan (Ivory Coast)	31
Lagos (Nigeria)	50
Kumasi (Ghana)	60/70
Nairobi (Kenya)	44
Urban areas (Senegal)	50
Urban areas (Tunisia)	34
<b>Asia</b>	
Calcutta (India)	40/50
Ahmedabad (India)	47
Jakarta (Indonesia)	45
Colombo (Sri Lanka)	19
Urban areas in west Malaysia (Malaysia)	35
Singapore	23
Urban areas (Thailand)	26
Urban areas (Pakistan)	69
<b>Latin America</b>	
Cordoba (Argentina)	38
Sao Paulo (Brazil)	43
Urban areas (Brazil)	30
Rio de Janeiro (Brazil)	24
Belo Horizonte (Brazil)	31
Urban areas (Chile)	39
Bogota (Colombia)	43
Santo Domingo (Dominican Republic)	50
Guayaquil (Ecuador)	48
Quito (Ecuador)	48
San Salvador (El Salvador)	41
Federal District and State of Mexico	27
Mexico, Guadalajara and Monterey	42
Asuncion (Paraguay)	57
Urban areas (Peru)	60
Urban areas (Venezuela)	44
Caracas (Venezuela)	40
Kingston (Jamaica)	33

Source : S.V. Sethuraman, The Urban Informal Sector in Developing Countries (Geneva: ILO, 1981), Appendix Table 4.

A review of informal sector studies undertaken by the International Labour Office shows that 25-70 percent of the urban labour force are engaged in informal sector activities; in income terms too, its share ranges between 20 and 45 percent of the total urban incomes (Mathur and Moser 1984:xi). There is evidence to suggest that in the developing countries informal sector employment has been growing more rapidly than formal sector employment - a tendency that may have been reinforced by the widespread recession in the developing countries in the late '70s and early '80s (Richardson 1984).

**Table 2**  
**Self-Employed and Unpaid Family Workers**  
**as Percentage of Labour Force (c.1960)**

	Commerce	Manufacturing
Venezuela	42	28
Mexico	60	17
El Salvador	61	31
Uruguay	19	18
Chile	51	21
Ecuador	76	58
Honduras	57	43
Jamaica	51	50
Malaysia	55	31
Thailand	86	48
Philippines	66	58
Korea (Republic of)	78	28
Turkey	66	41
Greece	55	29
Morocco	66	42
Iran	76	33
UAR (Eqypt)	64	17
Ghana	84	76
Tanzania	57	35
Japan	37	11
United States	16	2

Source : A. Sen, Employment, Technology and Development (Oxford : Clarendon Press, 1975), pp.18-21, As adapted by Richardson (1984:11).

#### 1.4 Subdivisions Within the Informal Sector

As Table 2 shows, in all instances illustrated the informal sector forms a much larger percentage of the the distribution subsector than it does of the the manufacturing subsector. This difference is most extreme in the economically developed countries where the formal manufacturing sector exerts its hegemony over the informal manufacturing sector most markedly. A study of Columbia found 63 percent of the informal sector were in trade and 20 percent in services, while manufacturing accounted for only 5 percent<sup>1</sup> (Sethuraman 1981:102). Conversely, House (1984:281) found that 50 percent of informal businesses in Nairobi were involved in manufacturing, 21 percent in trade, and 29 percent in services; perhaps since industry is not well developed in the total economy, at least in comparison with Latin America.

Richardson (1984:31) argues that with increased economic development this division intensifies :

"a strong case can be made for the disappearance of many of the small scale manufacturing and repair subsectors at high levels of development. A high proportion of consumer goods embody advanced technology that requires large scale production. High labour costs, combined with low product prices, make repairs an inefficient option for all but the most expensive commodities (in the formal sector). However, there is a thriving home maintenance and repairs informal sector (which includes carpenters, masons, painters and electricians) that is very competitive as a result of low overhead costs and cheap means of advertising (using such means as supermarket notice boards and word of mouth)" (Richardson 1984:31).

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1. Part of this difference is accounted for by the definition used - they placed cooked food in the retail category.

Thus, at increased levels of economic development, while the informal manufacturing sector faces increasing disadvantages compared to the formal sector, the informal service sector enjoys increased advantages.

## **1.5 Characteristics of Informal Sector Operators**

### **1.5.1 Sex**

Some studies have found a preponderance of women in the informal sector (Hazumdar 1986:675, Souza and Tokman 1976:359). The studies edited by Sethuraman (1981), on the other hand, reported a large number of instances where the majority of the operators were male. The Marga Institute in Colombo (Sri Lanka) found that 88 percent of participants were male; Mabogunje and Filani in Kano (Nigeria) found that very few participants were women and Moir in Jakarta found that only 25 percent were women (all in Sethuraman, 1981). It is suggested by Sanchez (1981) in a study of Cordoba (included in the above group of studies) that if a distinction is made between quasi-formal and informal enterprises there are far more women in the latter.<sup>1</sup> Sixty three percent of the informal sector participants (employers and employees) were women as opposed to only 23 percent in the quasi-formal sector. They suggested, therefore, that women's participation is relatively greater in low income informal sector categories (Sanchez 1981:145).

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1. Quasi-formal here includes manufacturing units, self employed construction workers and commercial activities with a substantial capital input. Informal enterprises are characterised by free entry, very little capital and skills, very small scale and with much income uncertainty.

This is borne out by Moser's (1977) study of market-sellers in Bogota. She found that the majority of large-scale sellers were middle-aged men between the ages of 35 and 49 (married with medium sized families) while small-scale sellers were mostly women over 50 years of age (single with illegitimate children, or widowed or deserted and the sole supporters of small size families) (Moser 1977:472). This implies, as will be seen repeatedly, that it is necessary to disaggregate the informal sector and examine the subsectors.

### 1.5.2 Age

There appear to be quite marked variations in the age distribution of informal sector operators in different studies. Some studies reveal very young participation. According to Bromley (1978a:1162), for example, 10 percent of the street-traders in Cali are below the legal minimum working age of fourteen. The youth<sup>1</sup> of the informal sector in certain African studies is evidenced by the fact that in Kumasi 72 percent of informal sector entrepreneurs were under 35 years of age and in Freetown 66 percent were under 39 years (Sethuraman 1977). A survey of a number of studies found "... pronounced selectivity of workers... in the informal sector. A disproportionate number of them would be workers outside the prime age group" (Mazumdar 1976:675).

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1. More interesting however, is the finding of the Marga Institute in Colombo that only 25 percent of the informal sector participants were under 24 years of age despite the fact that 75 percent of the unemployed in the Colombo Municipal Council Area were in this age group. This study illustrates the fact that, contrary to much of the information from Africa, in Colombo the informal sector absorbs few young unemployed persons (Marga Institute 1981:103).



More pertinent, however, than overall averages is the pattern which emerges when the informal sector is broken down. A study of Freetown disaggregated the subsectors of the informal sector by age groups and found significant concentrations of certain age groups in particular sectors. Eighty percent of those aged 15 - 19 were in very small scale retailing which requires a low capital investment; two-thirds of the males in the 20 - 24 age group were also in retail trading. In the 25 - 29 year age group there was increasing diversification with some participation in the motor transport business, footwear manufacture and repairs. Similarly, with increasing age, women were found to move from being predominantly in trade to a higher participation in food-processing and dressmaking ( Fowler 1981:51 & 53).

### **1.5.3 Education**

The overall picture, examining the education levels of informal sector participants in various empirical studies, is that education levels tend to be relatively low (see Mazumdar 1976:675). However, it is uncommon for researchers to attempt a meaningful comparison of education levels between those in the informal sector and those in wage employment.

A brief examination of some survey results shows that while levels of education are generally low there is also considerable diversity - clearly not all informal sector participants are illiterate. In Cali (Colombia) it was found that 25 percent of street traders had one to three years of education and only 5 percent had any post-primary

education (Bromley 1978:1162). A similarly low level of education was found in Freetown where 66 percent of informal sector employees had never been to school. Among employers this percentage dropped to 40 percent (Sethuraman 1977:345). Informal sector operators in Kumasi appear to have a much higher level of education; 40 percent of informal sector entrepreneurs have had some primary education while 58 percent have had some middle school education (Sethuraman 1977:345).<sup>1</sup> A far lower level of education was found in Hartley, Zimbabwe, where 51 percent of the informal sector had had no schooling, 42 percent had had a primary education and 7 percent had had a secondary education (Davies 1979:91).

It is interesting to speculate that educational levels will vary depending on such things as the number of women in the sector, which, as already argued, corresponds to the level of informal sector activity being investigated.

Among the few studies which compare levels of education in the informal sector with that in other sectors is one on Colombo (Sri Lanka) by the Marga Institute (1981) which found a median level of education among informal sector participants of four years. This was very low compared to the average level of schooling of the unemployed which was ten years.<sup>2</sup> In Jakarta it was found that the median of

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1. Another study of Kumasi showed that 28 percent had no education at all, but that the proportion of entrepreneurs with more education is higher among young males (Aryee 1981:91).
  2. Age, again, may have influenced this as informal sector participants were generally older, while it was the younger members of the society who tended to be better educated.

three years education for informal sector participants was far lower than for the employed population of the city (Moir 1981:110).

It is, however, not only education in the formal system that is relevant to the informal sector. Ghana, for instance, has a very well organised apprenticeship system which enables apprentices to acquire skills at very little cost compared to the cost in the formal education system (Sethuraman 1977:345). It has been estimated that, for Africa at least, by far the "...most important source of training for potential informal sector manufacturers is the apprenticeship system in the informal sector" (Aryee 1978:294). These skills, the lack of which forms a far more significant barrier to entry than would the lack of a formal school education, are very necessary in such sectors as small scale manufacturing, craft, maintenance and repair work.

Richardson (1984), in fact, maintains that there is little evidence that formal education (such as literacy and numeracy) is essential for informal sector employment. Even for informal sector employers bookkeeping is, he maintains, generally unknown<sup>\*</sup> and possibly unnecessary (Richardson 1984:17). He notes that Lipton has argued that it is the very 'fungibility' of business and family finances which increases the flexibility of informal sector enterprises and is one of their major strengths, but that this does make even simple bookkeeping methods impossible (Lipton 1980, quoted in Richardson 1984:17).

#### **1.5.4 Income and Income Distribution**

The conventional wisdom that the informal sector provides only very low incomes, themselves always inferior to formal sector incomes, has been challenged by recent research (eg. Richardson 1984:14). It has been found that there is "... a wide diversity of earnings in the informal sector and within important components of it..." (Mazumdar 1976:675). The assumption that incomes are always low was derived in part from focusing on the more visible sectors of the informal sector which require neither skills nor much capital. But when small scale manufacturers, and maintenance and repair establishments, are included the income distributions of the formal and informal sectors do in fact overlap. A further reason for the diversity of incomes is that owner-employer income is generally quite substantially higher than that of employees. Employees' incomes, though low, may not be much lower than formal sector unskilled workers' incomes where poorly paid casual workers earn lower-than-average wages (Sethuraman 1981:48). These findings do much to explode the myth that the informal sector consists solely of those passing time in low paid activities waiting for better-paid wage employment (see Schmitz 1982b:43).

An examination of a variety of findings from many developing countries in South America, Africa and Asia by Richardson (1984) leads to the conclusion that the informal sector does not have uniformly low incomes. There are differences in income between various subsectors and there is thus considerable danger in treating the informal sector "...as a homogenous whole or basing conclusions on the assumption that

any specific subsector is representative" (Richardson 1984:16).<sup>1</sup> A study in Nairobi found a wide diversity of incomes with manufacturing being the most profitable and services (apart from vehicle repair) the least. There was however, a wide disparity **within** sectors as well. Forty-two percent of the informal sector had incomes of less than the formal sector minimum wage (House 1984:285). There is a further difference in the income of owners of businesses<sup>2</sup> depending on whether they are independent or sub-contracted, and among workers depending on whether they work within an enterprise or as outworkers (Schmitz 1982b:159). Another important factor in the range of incomes in the informal sector is the difference between employer and employee incomes. In Kenya it was noted that the informal sector consisted chiefly of wage workers and "... what stands out about the so-called 'informal sector' is that most of what it covers is primarily a system of very intense exploitation of labour, with very low wages and often very long hours" (Leys 1975:267). All these factors need to be considered when comparing formal and informal sector incomes.

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1. A study in Brazil concluded that "...the image of the small scale sector as that of the poor, and the large scale sector as that of the privileged, is questionable. To some extent this characteristic has emerged because of the way the sectors were defined or because of a lack of disaggregation" (Schmitz 1982b:41).
  2. The income of the head of an enterprise also often includes unpaid family labour and some of it represents the return on capital invested. Thus such income is often not strictly comparable with that of informal sector employees or formal sector workers. A further complication is that since surveys in general limit consideration to "...visible 'socially acceptable' activities and exclude 'socially undesirable' activities which are often the most lucrative, they will underestimate income inequality as well as the overall level of wealth generated by the informal sector" (Glass 1983:4).

There are difficulties, too, in comparing informal sector earnings from one country to another. A common method is to examine the relationship between income in the informal sector and the minimum wage levels in the country concerned. However,

"...the minimum wage in Kenya and Tanzania in 1971 was relatively high and enabled a worker and his family to make a decent living (while) the minimum wage in Brazil of the same year was barely sufficient for the survival of the worker let alone his family. In contrast the Brazilian minimum wage in the mid-fifties came close to covering the cost of reproduction of the worker and his dependents" (Schmitz 1982b:41).

In assessing income distributions within the informal sector there are thus many variables to be taken into account but the one finding which does emerge clearly is that, although there is much poverty, incomes are not invariably lower than in the formal sector, nor do incomes cluster around the mean. This is not to deny that incomes are, very often, minimal. In a study of women in Lusaka (Zambia), for instance, it was found that:

"Few made profits and most spent whatever they made on daily needs... their trading has helped them augment their families' livelihood. These activities, in other words, were unlikely to yield the profit necessary for the kind of expansion and diversification that might put new resources to use and employ more women productively" (Hansen 1980:214).

Of course since her study was limited to women traders (of food, handiwork and charcoal) it is not representative of the entire informal sector but of a particular subsector. This reinforces the view that "earnings are low in the informal sector partly because of the selective factors affecting the type of labour found in the sector" (Mazumdar 1976:675).

### 1.5.5 Preference

An early assumption was the idea that the informal sector forms a 'stepping stone' for migrants waiting to find formal sector employment (as in the Harris-Todaro model [Todaro 1976]). This has come under criticism from researchers who find many informal sector operators in fact prefer the informal sector and are there by choice. In Freetown, for example, it was found that when respondents were asked what type of work they would prefer only 25 percent opted for wage employment. It was also found in the same study that the desire for wage employment decreased uniformly as participants increased in age (Fowler 1981:67). In a study of Jakarta 86 percent of the informal sector preferred self-employment (Moir 1981:114). These findings are borne out by a study by Mazumdar (1981) in Malaysia in which he found a net lifetime movement out of wage employment into self employment. He suggests that, rather than being a starting point for those seeking a first job, the informal sector may symbolize upward mobility.

There is evidence from empirical studies to show that people do move from the formal to the informal sector and back again. In a study of Hong Kong 60 percent of the informal sector entrepreneurs had previously been employed in the formal sector and in Lomé (Togo) 64 percent had been so employed (Sethuraman 1981:46). Similarly in Bangkok Teilhet-Waldorf and Waldorf (1983:598) found that 34 percent of their sample had moved from the formal to the informal sector. These findings could suggest that people are moving from the formal to the informal sector as a matter of preference or that there is a high

degree of retrenchment and subsequent unemployment in the formal sector. Consequently such findings cannot in themselves indicate a preference for the informal sector.

Detailed case studies of textile workers in Brazil showed that:

"probably the single clearest finding which emerges in all 3 case studies is that the small scale producers (owners) are not unsuccessful job seekers, but rather the contrary : they tend to be skilled workers who have left their jobs of their own accord... The respondents find that setting up their own business gives a better chance for economic and social advance than does wage employment... The main reason given for leaving a job is low wages. The other reasons are all connected with aspirations for 'independence' (Schmitz 1982:155-6).

The evidence indicates, thus, that many people may be in the informal sector from choice.

#### **1.5.6 Employment**

Employment generation and unemployment relief are aspects frequently raised in the promotion of the informal sector. Much of the empirical research has shown, however, that the number of employees (wage labourers as opposed to unpaid family assistants) in the informal sector is very low. Over 80 percent of the street traders in Cali, Colombia, worked without assistants (Bromley 1978a:1162) and only 2 percent of those in the informal sector in Nairobi were waged employees (Bujra 1978:57). Eighty-five percent of the informal sector enterprises in Colombo were one person enterprises and in the remaining 15 percent the majority only employed one or two persons excluding the owner (Marga Institute, 1981:102). In Jakarta only 10 percent of the informal sector had workers in addition to the head of



the enterprise (and of these 75 percent employed one to three workers), but of the manufacturing enterprises 58 percent were one person enterprises (Moir 1981:115).

It is apparent that the informal sector as a whole offers little scope for employment generation<sup>1</sup> but note should be taken of Fowler's (1981) call to disaggregate the sector as there are more employment opportunities in some subsectors than others. He found in Freetown that 84 percent of the trade enterprises did not employ anyone whereas in manufacturing and transport the figure dropped to 54 percent and in construction to 30 percent. The non-trade enterprises therefore employed far more people than did trade enterprises. Seventy four percent of all enterprises had no employees of any sort (Fowler 1981:57).

Interestingly enough Kennedy (1981:584), examining informal industry in Accra (Ghana), found that there were 4.7 employees per enterprise, excluding the proprietor, thus lending credence to Fowler's (1981) suggestion that the sector be disaggregated in order to examine the extent of wage employment.

The advantages of family employment, as well as the question of employment potential, need to be considered, however. Many family members are unable to work - because they are ill, too old, too young, have many domestic responsibilities or are studying - but by incorporating their labour into the enterprise the family income is raised substantially. Case studies in the Brazilian textile industry

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1. This should not be taken to imply that the informal sector does not create work for the operator concerned, which it certainly does. Further it is important in redistributing income.

found that "...it is not rare for the small firm owner to accept a lower real wage (per hour), in exchange for a (risky) opportunity to earn a greater amount by working longer hours and incorporating the labour of his family" (Schmitz 1982b:158). Family labour, as opposed to waged labour, has the very real advantage, considering the uncertainties of life in the informal sector, of enabling the small producer to respond flexibly to changing demand and to survive periods without work without having to pay hired labour.

The employment potential of the informal sector thus appears to be limited, bearing in mind that it is the manufacturing sector which offers the greatest scope for employment and this is the sector most affected and restricted by developments in the formal sector. This is the case in South Africa where manufacturing is relatively well developed. But every enterprise gives work to at least one person and, particularly important, also to family members who could possibly not participate in the formal sector: therein lies its value in employment generation.

#### **1.5.7 Age of Enterprise**

Much of the evidence indicates that the majority of informal sector enterprises are relatively recently established - which may mean that they do not have a long life span, but are constantly starting life and dying. The relatively constant size of the sector may disguise much internal change. Generally most informal sector enterprises are under five years of age. In Jakarta, for example, only 39 percent had been in existence over five years, in Lagos 34 percent, in Kumasi 48

percent, in Freetown 31 percent and in Colombo 60 percent (in Sethuraman 1981:103+115). However, the fact that generally over a third of the sector has been in operation for over five years does indicate a degree of stability frequently overlooked in earlier studies.

Certain findings indicate that the trade and service sectors are frequently of more recent origin and the manufacturing and construction sectors rather longer established. This indicates that sectors requiring little capital start up more easily (and perhaps perish more easily too) (Fopohunda 1981:80 and Moir 1981:115).

#### **1.5.8 Migrants**

Some studies have found that migrants are disproportionately drawn into the informal sector and that they use it as a 'stepping stone' to formal sector employment. An example of this is that 75 percent of the street-traders of Cali, Colombia, are migrants to the city but (it should also be noted) they are not recent arrivals: 80 percent of the migrants have lived in Cali for over five years (Bromley 1978a:1163). House (1984:284) found that only 2.4 percent of participants in Nairobi's informal sector were recent migrants while 51 percent had lived in the city for over ten years. Richardson (1984) examines the (often conflicting) evidence on participation by migrants and concludes that "migrants are as likely to work in the formal sector as long term residents... Although there are some low level informal sector activities to which, in certain countries and in certain

circumstances, new migrants may gravitate, this is atypical rather than typical" (Richardson 1984:18). Similarly, a survey of research from Brazil, Peru and Tanzania suggested that "there is no evidence to suggest that the informal sector plays a predominant role as a point of entry into the labour market for fresh migrants to the urban area" (Mazumdar 1976:675).

#### **1.5.9 Capital**

Informal participants generally, in all countries and subsectors, have difficulty raising capital. A survey of a number of studies concludes that "...informal sector enterprises rely heavily on internal resources (owners, family and friends) for capital; ...the lack of credit is a major barrier to expansion and ...they are unable to obtain capital from either the banks or the government in the quantities they need at reasonable cost" (Richardson 1984:25; see also Jurado 1981:126 for Manila).

In Freetown it was found that banks provided only 2 percent of funds used by the informal sector, and in Kumasi only 3 percent (Sethuraman 1977:345). In Lagos, 80 percent of enterprises financed the purchase of capital equipment from their own savings and 17 percent borrowed from friends and relatives with the result that 86 percent found obtaining capital a major constraint (Fopohunda 1981:76). In Freetown, 80 percent of the study sample owned capital equipment of one kind or another (machines, tools, furniture, vehicles) and most of this was cheap and locally made by small enterprises. Manufacturing was found to be, as expected, the most capital intensive sector and

retail trading the least capital intensive (Fowler 1981:61). Studies have shown all subsectors to experience difficulty in obtaining working capital and this appears to affect their operational efficiency and to result in many becoming sub-contractors instead of independent operators (Schmitz 1982b:171). Commercial credit is difficult to obtain because of lack of adequate security and the high cost of processing small loans. Banks prefer lending for fixed capital investments rather than the working capital so vital to informal sector firms (Richardson 1984:25). This is borne out by work in Lagos where it was found that 82 percent of the informal sector never attempted to obtain bank credit but, of those who did, 88 percent failed to get it (Fopohunda 1981:76).

### **Summary**

It is apparent, therefore, that over the past 10 years much information has been collected to document the characteristics of the small entrepreneurs and of their enterprises. This has had a certain value in giving some indication of the characteristics of, and subdivisions within, this sector.

There has been considerable criticism, however, of the dualist tradition which examines the informal sector as something apart and removed from the formal sector (eg. criticisms by Moser 1977, 1978, Gerry and Birbeck 1981, and Bromley 1978b). More recently, the emphasis has been (as touched on in the introduction) on the linkages between the informal and the formal sector, and the way in which the

informal sector fits into the larger economy (Tokman 1978b, Schmitz 1982a & b, Bienefeld 1975, Gerry 1978, Gerry and Birbeck 1981). The question of the functionality or otherwise of the informal sector to the state and to capital is examined in the next chapter. The remainder of this chapter will consist of a brief profile of informal sector characteristics in South Africa and an examination of what Schmitz (1982b) refers to as the 'branch-specific' approach.

### 1.6 Profile of the South African Informal Sector

This has been compiled as a tabular summary of characteristics of the informal sector as revealed by research in South Africa. It is presented in this way in order to facilitate comparisons of findings.

#### Informal Sector in South Africa

Characteristic	Numbers	Location	Source
<b>Extent of Informal Sector</b> <sup>1</sup>	9,5% of households	Crossroads-Cape <sup>2</sup>	Dewar & Watson 1981:60
	5% of households	Vrygrond-Cape	
	4% of households	Mitchell's	
		Plain-Cape	
	5% of households	Heideveld-Cape	
	Almost 10% of households	Moroko-Soweto	Morris 1980:114
	50 - 60% of households	KwaMashu-Durban	Wellings & Sutcliffe 1984:521
	21% of economically active persons	Clermont-Durban	Maasdorp 1983:156

1. Some of these are percentage of households, others of economically active persons, therefore they are illustrative not comparative.
2. These did not include illegal activities eg. shebeens which would increase the size of the sector.

Characteristic	Numbers	Location	Source
	27% of economically active persons	Mdantsane-East London	Jacobs 1982:396
	73% of households (excluding agricultural sales)	KwaMzimelo rural KwaZulu	Preston-Whyte & Nene 1984:6
	32% of adults, which is 69% of households	KwaNgele-peri-urban KwaZulu	Cross & Preston-Whyte 1983:
Sub-sectors <sup>1</sup>	Retailing 77%, Manufacturing and Services 23%	KwaMashu-Durban	Wellings & Sutcliffe 1984:528
	Retailing 59%, Production 31% Services 10%	Cape Town vicinity	Dewar & Watson 1982:133
	Retail 36%, Production & Retail 52%, Production and Services 4%, Service 8%	Windhoek	Simon 1984:561
	Retailing 43% Manufacture 30,5 %, Shebeens 18%,	Mdantsane-East London	Jacobs
	Retailing 32%, Manual 21% Shebeens (brewing and selling) 33%, Service 5%,	Clermont-Durban	Maasdorp 1983:30
	Retail 28% Manufacture 18%, Shebeens 31%, child minders 14%,	Morokq-Soweto	Morris 1980:114
Sex	57,5% of informal sector are women (and notable sexual division of labour occurs)	Windhoek	Simon 1984:565
	55% of informal sector are women	Clermont-Durban	Maasdorp 1983:128

1. These classifications differ from study to study.

Characteristic	Numbers	Location	Source
	77,5% of informal sector are women	Mdantsane East London	Jacobs 1982:396
	Hawking <sup>1</sup> - 70% are women	Soweto	Rogerson & Beavon 1982:266
	Hawking - 88% are women	Transkei	Nattrass N 1984a:15
<b>Age</b>	Significant extent of child labour	Soweto	Zarenda 1980:302
	Hawking under 20 - 6%, 21 to 30 - 26%, 31 to 40 - 28%, 41 to 50 - 17%, 51 to 60 - 19%, over 60 - 4%	Johannesburg	Beavon & Rogerson 1982:120
	Average age 40,8 years	Mdantsane	Jacobs 1982:395
<b>Education</b>	32% no formal education, 28% some primary education, 32% some secondary school, 8% unknown	Windhoek	Simon 1984:567
	General education level low, 48% no formal education	Mdantsane East London	Jacobs 1982:395
	Hawking: Men - average 4 years. Women - average 6	Transkei	Nattrass 1984:15
	Hawking: 21% no education; 32% Sub A to Std. 3; 39% Std 4 to 6; 7% Std 7-9; 1% matric	Johannesburg	Beavon & Rogerson 1982:120
<b>Income (profit) and income distribution</b>	1. 80% received incomes of under R200 per month 2. Informal sector median incomes were higher than those in the formal sector.	Clermont-Durban	Maasdorp 1983:42

1. Hawking is a subsector of informal sector activity and the characteristics are not necessarily representative of the whole sector.



Characteristic	Number	Location	Source
3. Highest earnings from building and mechanical work followed by sellers of clothing.			
Percentage of businesses generating under R50 profits per week :-			
49%		Crossroads-Cape	Dewar &
75%		Vrygrond-Cape	Watson
77%		Heideveld-Cape	1981:64
64%		Hawkers	
Of the total 48% generated weekly profits of under R24; 71% had profits under R50 per week			
80% of sample refused to divulge income data, "many women aimed to supplement family income, not at full-time employment".		Windhoek	Simon 1984:567
Wide income range - top 10% of earners accounted for 30% of informal sector income.		KwaMashu-Durban	Wellings & Sutcliffe 1984:537
Hawkers - 5% of hawkers earned 45% of total income from hawking.		Durban	Wellings & Sutcliffe 1984:537
Hawkers - "Striking spread of incomes, a minority higher than is paid to lower echelon wage employees in the formal sector" Of households dependent on street trading the majority exist below minimum recommended budget levels.		Central Johannesburg	Beavon & Rogerson 1982:121
Men's mean income R118, Women's mean income R65 75% of incomes below R200 per month		KwaNgele, peri-urban KwaZulu	Cross & Preston-Whyte 1983:10, 11

Characteristic	Numbers	Location	Source
<b>Formal Sector Employment</b>	57% have never worked in formal sector	Windhoek	Simons 1984:567
	20% presently in both formal and informal sectors, 50% previously worked in formal sectors	Clermont-Durban	Maasdorp 1982:159
<b>Employment creation</b>	Hawking - 37,5% have never worked in formal sector	Johannesburg	Beavon & Rogerson 1982:120
	66% of enterprises are 1 person concerns, only 4% employ more than 3 persons	Cape Town vicinity	Dewar & Watson 1981:6
	68% of enterprises are 1 person concerns, 4% employ 3 persons	Windhoek	Simons 1984:565
	69% of enterprises are 1 person concerns, of the others majority have 1 employee	Clermont-Durban	Maasdorp 1983:61
<b>Preference</b>	Reasons for being in the informal sector - 61% preference, 8% retrenchment, 25% to supplement family income	KwaMashu-Durban	Wellings & Sutcliffe 1984:533
	48% prefer formal sector, remainder said informal sector was all they could do	Windhoek	Simons 1984:568
	85% plan to remain in informal sector (i.e. not temporary)	Clermont-Durban	Maasdorp 1983:59
<b>Age of Enterprise</b>	72% under 5 years, 16% over 20 years	Windhoek	Simons 1984:566
	73% under 4 years, 5% over 8 years	Clermont-Durban	Maasdorp 1983:59
	Hawking 42% under 5 years, 24% over 16 years	Johannesburg	Beavon & Rogerson 1982:121

Characteristic	Number	Location	Source
<b>Migrants</b>	Hawking. "The stereotype of street trading as a temporary 'refuge' occupation for newly arrived migrants to the city is not borne out. No case of newly arrived migrants from bantustans".	Johannesburg	Beavon & Rogerson 1982:121
<b>Capital</b>	<ol style="list-style-type: none"> <li>48% started with capital outlay of under R25 and almost without exception source was family savings</li> <li>There is an observable link between profit and size of available capital</li> <li>56% of businesses operated with under R250, though 5% had investments of over R2000</li> </ol>	Cape Town area	Dewar & Watson 1982:138
	Median capital outlay - R28	Clermont-Durban	Maasdorp 1982:151
	<ol style="list-style-type: none"> <li>Only 29% of undertakings reported an initial capital outlay</li> <li>Average capital outlay was R395</li> </ol>	Mdantsane-East London	Jacobs 1982:396
<b>Linkages</b>	<ol style="list-style-type: none"> <li>93% obtained inputs from Grey St, Durban market, bottle stores &amp; factories</li> <li>Customers mainly from shack areas &amp; townships, some liquor and dagga sales to white &amp; Indian customers</li> </ol>	Clermont-Durban	Maasdorp 1983:168
	<ol style="list-style-type: none"> <li>90% of inputs from East London</li> <li>99% of customers were local individuals and households</li> </ol>	Mdantsane East London	Jacobs 1983:396+401
	<ol style="list-style-type: none"> <li>Inputs frequently from formal capitalist sector</li> <li>Products sold to final user</li> <li>Most linkages appear tenuous and not exploitative</li> </ol>	Windhoek	Simons 1984:564 & 568

Characteristic	Number	Location	Source
<b>Problems</b>	40% - regulations of various authorities 20% - suitable premises and facilities, 19% provision of capital and credit	Mdantsane East London	Jacobs 1982:367
	40% - harassment by authorities	Clermont-Durban	Maasdorp 1983:73

From the above it is clear that there is a wide range in the extent of informal sector activities which may reflect, in part, research methodology but may also indicate areas of higher unemployment and/or lower wages.

Retailing (particularly when shebeens are included) is the dominant sector,<sup>1</sup> while in the manufacturing sector garment manufacture<sup>2</sup> is in all cases the major activity by a considerable margin. There are more

1. This can be explained in the South African situation as follows: "It may well be that the avenues for genuine productive informal sector activities in the Johannesburg area are far more limited than in other parts of Africa by virtue of the more developed and favoured formal sector and thus distribution and services may comprise one of the few options available to earn additional or even subsistence income" (Zarenda 1980:300).
2. The manufacture of clothing appears to be important throughout Africa. Detailed research has shown that "The largest share of small scale manufacturing employment is consistently found in the clothing industry which accounts for between 30 - 59% of total small scale employment" (World Bank, 1979:4).

women in the informal sector than men<sup>1</sup> but the difference is most extreme in the hawking sub-sector. While Zarenda (1980) found extensive child labour in Soweto this was not found in either Mdantsane or in hawking in Johannesburg.

In all the studies education levels were fairly low with between 21 percent and 48 percent having no education. In all studies informal incomes were low: Maasdorp (1983), Dewar and Watson (1981) and Cross and Preston-Whyte (1983) reporting some 80 percent receiving under R200 per month. On the other hand large income inequalities were found particularly in the case of hawkers (Wellings and Sutcliffe 1984; Beavon and Rogerson 1982). In all studies a fairly high percentage (30 to 57 percent) had never worked in the formal sector while some 20 percent worked in both. There was a marked preference

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1. This could be explained by the fact that African women are more economically disadvantaged than men. "African women had lower money and 'in kind' wages than men and, due to the generally higher ...(costs)... of child rearing, an even lower value of labour power. Thus their real consumption lay far below that of African men on average. These differentially low wages and real consumption may have been one of the reasons why African women have been at the forefront of many labour, consumer, pass, rent and fares struggles in South Africa" (Curtis 1984:395). This would indicate that government policies to exclude women from the formal economy, as far as possible, have had the effect of placing African women in South Africa at a greater economic disadvantage than men, compared to other developing countries. Since 1952 women have only been able to come to town to seek work if granted permission from rural labour bureaux: since this rarely happened they could only, in fact, come as dependents of urban men. In 1964 legislation forbade even this avenue of entry to urban areas so when they did come, illegally, their work opportunities were restricted to such fields as the informal sector. Since 1980 women have once more been allowed to join their menfolk but are dependent on them for urban status (see Cock et al 1983:281-282).

for informal sector occupations.<sup>1</sup> Very little employment was created by this sector - 65 to 70 percent employed no assistants. Frequently the great majority of enterprises had operated for under five years but, apart from Clermont (with many new arrivals), there were also a fair number of older enterprises.

Migrants did not generally form a significant part of the informal sector (see Beavon and Rogerson 1982:121) but Maasdorp (1983:28), working in Clermont (which includes a large squatter area), found 52 percent of the operators were migrants. As a result of influx control of course there would be a great difference in migrant representation between formal townships (with few migrants) and squatter settlements (with many). The capital outlay expended on initiating an enterprise was almost uniformly low (although in Mdantsane it was somewhat higher with an average of R395). Many operators had no initial capital outlay. In all studies backward linkages with the formal sector were very strong while almost all the sales were made to township residents. This is highly significant since it indicates that increased monetary circulation in the sector depends on increased formal sector incomes.<sup>2</sup> It would appear from the 2 studies cited that

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1. A finding that contradicts these and indicates that the nature of the sample (whether work seekers or the informal sector) is highly significant is that a mere 7 percent of work seekers interviewed at a Durban labour bureau indicated that as a survival strategy, in the absence of formal employment, they would turn to the informal sector (Mpanza 1984:31).
  2. A similar conclusion was reached following research at KwaNgele, a peri-urban area 30 kilometers from Pinetown - "The fuel for the expansion of the informal economy is the community's disposable income. If this is increased it will create additional opportunity space and people can be counted on to move into it" (Cross and Preston-Whyte 1983:13 and 12). This does not take into account the phenomenon of 'taste transfer', discussed in 2.6.2, however.

regulations and the corresponding harassment for non-compliance constitutes the major problem facing informal sector operators.

### **1.7 Integration of the Enterprise into the Macro-Economy**

An increasing number of researchers contend that very general, fairly superficial, surveys of the characteristics of informal sector operators (though they may have served a certain purpose) increasingly need to be replaced by, or at least supplemented by, more penetrating and specific studies. A major advantage of this approach is "...that greater analytical depth could be achieved if the range of occupations under study was reduced" (Bromley and Birbeck 1984:184). They point out that their interest in this approach was "...linked to an increasing dissatisfaction with the heterogeneity and incoherence of the so called informal sector" and a "...growing uneasiness about the approach taken by the ILO/WEP and World Bank studies... and the heavy reliance on questionnaire surveys conducted among random stratified samples of household establishments". They disliked this mode of research as they felt that "Research on how the urban poor 'make out' in an unjust and frequently oppressive social system appeared to be bureaucratized into tedious statistical manipulations of data based on pre-conceived yes/no categories, producing many metres of computer printout but few meaningful conclusions". They argue that often the only result of such research is the "...large scale regurgitation of questionnaire results as percentages" (Bromley and Birbeck 1984:184-185). In their research on the street sellers of Cali, Colombia, they could not use random sampling techniques or pre-coded questionnaires;

instead they got to know the traders well enough to discover something of their strengths and problems.

Schmitz (1982b), too, is an ardent advocate of this approach. He regards it as essential that workers in the informal sector, and their working conditions, are compared with workers in larger enterprises in the same category. As he rightly points out "...what is of concern to small scale weavers are the actions of large weaving firms, not what the small shoemakers or street sellers do" (Schmitz 1982b:188). Branch specific studies (as he terms them) therefore look at technology, competition, raw materials, subcontracting and legislation for the branch as a whole, not simply the informal sector, and so large enterprises, middlemen, equipment suppliers and input distributors are all interviewed.<sup>1</sup>

Many of Schmitz's findings were very different to those of other informal sector studies, but it must be remembered that he was looking only at manufacturing enterprises. While ease of entry was one of the ILO's (1972) criteria for inclusion in the informal sector, Schmitz (1982b) found that entry barriers such as skill and capital **were** limiting.<sup>2</sup> This study is of great significance to informal sector research in increasing our understanding of the particular constraints suffered by subsectors of the informal sector as well as the strengths

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1. This type of approach is of particular relevance to this study of KwaZulu as the two types of methodologies were combined in order to gain a deeper insight into the workings of the informal sector.
  2. In the three studies of knitted garments, hammock making and weaving.



they possess, even though his work was specific to Brazil. The emphasis in Schmitz's work is on the integration of the informal and formal sectors rather than the examination of a separate sector (as in the dualist tradition). Thus his research highlights the value of the radical school's insistence on the effect of external constraints on the informal sector, while at the same time rejecting their "...gloomy and deterministic predictions (which) deny all accumulative prospects and (give rise to) a theory of marginalisation as the general paradigm of small scale production in the periphery" (Schmitz 1982b:192).

On the other hand, the fact that accumulation occurs does not deny the potency of external constraints which may permit accumulation under particular circumstances in particular sectors while preventing it in others.

## **Conclusion**

This chapter has examined the difficulties inherent in defining the informal sector and proposed an operational definition; examined the extent of informal activities (in the Third World and elsewhere); examined the characteristics of informal sector participants, in South Africa and elsewhere; and noted that it is studies which explore the integration of the informal into the formal sector which are most likely to provide insights into the operation of the sector.

## CHAPTER TWO

### CAN THE SECTOR GROW INDEFINITELY

#### SUMMARY

Many claims have been made regarding the informal sector's potential insofar as lessening unemployment and promoting political stability are concerned. The aim of this chapter is to show that the informal sector is merely a dependent part of the greater economy: its future is not autonomous. After briefly examining the linkages between the formal and informal sector which determine informal sector growth, attention is directed towards the reasons why, and manner in which, both the state and the formal sector are able to control the development of the informal sector. This chapter concludes with an examination of the situation in South Africa in order to create a framework within which the empirical work can be analysed. ✖ ✖

## CHAPTER TWO

The role of government and capital regarding the informal sector, it has been suggested, is that of maintaining the sector at an "...optimum size, not too big so as to represent dangerous competition to the formal sector but not so small as to have no influence on wages" (Davies 1979:101). This is of fundamental importance to the understanding of the informal sector as it would imply that it is not the informal sector, separately, that must be analysed but its relationship to the political and economic structures of the society. If Davies' interpretation of the situation is correct then research into the characteristics of informal sector operations is less pertinent than the operations' linkages to the macro-economy. This would mean that the crucial aspects to be investigated are not the characteristics of informal sector participants but the space available to the sector.<sup>1</sup>

The purpose of this chapter is to examine the contributions of theorists to the concept that there is an 'optimum size' for the

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1. This question of the space available is, of course, a much more difficult aspect to investigate. Although it is possible to weigh up the advantages and disadvantages to the state and to the formal sector of the growth of the informal sector and to assess the theoretical explorations of social scientists it is an extremely difficult aspect to analyse empirically. In surveys or case studies it is normal practice to investigate the existing small businesses, those that are surviving (if not necessarily flourishing). This means that those that could not be established, or were forced to close down as a result of formal sector activities, are not analysed. This is a fundamental and major drawback of field studies and a justification for a theoretical assessment as well as an empirical one.

informal sector. The mechanisms by which this optimum size could be maintained are examined, followed by the advantages and disadvantages to both the formal sector and the state of the continued existence of the informal sector.

## 2.1 Linkages - Exploitative or Benign?

Moser (1978) stresses the need to examine the **relationship** between 'the different elements of the ensemble' rather than the need for defining the two sectors. She points out that:

'it has been concluded that the level of capital accumulation possible is constrained by structural factors in the total socio-economic system such that small scale activities in the urban sectors... can only participate in growth in a dependent subordinate way... The studies have taken a pessimistic view of the relationship between large and small firms and assume them to be 'exploitative' rather than 'benign'" (Moser 1978:1055-1056).

These 'exploitative' and 'benign' interpretations of the relationships are examined in some detail by Tokman (1978). He subdivides both 'exploitative' and 'benign' relations into 'autonomous' and 'integrated' (i.e. the extent to which they interact with the macro-economy). The autonomous informal sector under **benign** conditions is seen as providing goods and services for lower income groups and has minimal links to the rest of the economy. The advantage of the sector to the macro-economy in this instance is that it is labour, not capital, intensive so its contribution is to lessen unemployment while decreasing foreign borrowing. If the informal sector is integrated into the total economy, under benign conditions, the growth potential of the sector is considered (by some) to be further reinforced since

the linkages are assumed to be complementary. Because this sector is located close to customers, provides credit and sells in small units it is seen to be playing a vital role in distribution for the formal sector. It is also highly integrated into the economy - exporting roughly 75 percent of its production and importing 75 percent of its consumption. This approach (i.e. viewing the informal sector as integrated under benign conditions) favours sub-contracting, since this increases the links between the sectors and anticipates an increase in the size of the informal sector with that of the formal sector.<sup>1</sup>

Opposed to the assessment of linkages as benign is the view that they are essentially **exploitative**. These conditions, too, can be autonomous or integrated. Under conditions of autonomy the informal sector, operating largely in isolation from the formal sector, is felt to depress wages in the formal sector by allowing for the existence of a reserve army of the unemployed and by providing workers with relatively cheap goods and services. The linkages with the formal sector are felt to be controlled by, and in the interests of, the formal sector; thus the informal sector experiences a lack of stable access to certain inputs and to markets. The monopoly of resources that the formal sector enjoys means that only residual resources are available to the informal sector. The markets left to the informal sector are those which are unattractive, because of size or income levels, to the formal sector. However, improved markets will result

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1. Since higher average income levels would increase the informal sector market.

in formal sector penetration, thus limiting the growth potential of the informal sector. Growth of the sector is thus seen to be the result, not of the generation of surplus, but of an increasing labour force which cannot be absorbed by the formal sector (i.e. involutory growth)<sup>1</sup> and also of the existence of market possibilities rejected by the formal sector. When, however, the informal sector is more closely integrated into the economy there is a reinforcement of both market subordination and of the lack of access to resources (operating through the manipulation by the formal sector of backward linkages i.e. informal sector inputs). Further, such integration is considered to lead to a siphoning-off of surplus since:

"The urban elite absorbs a disproportionate share of urban income; the dynamism of the lower circuit is therefore absolute when this economic subsystem is considered to be closed. (Santos 1979:135-136).

According to Tokman (1978b) the vital question concerning the space available for growth of the informal sector is determined by the formal sector, or as he puts it by 'oligopoly conditions'. Tokman therefore stresses the necessity of examining the forces affecting the informal sector rather than analysing it as an independent entity.

## **2.2 Conservation by the State of the Informal Sector**

The informal sector may be seen by the state as a solution to

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1. Involuntary growth is when an increase in numbers of participants is not matched by an increase in money circulating thereby resulting in falling income.

widespread unemployment, a means of lessening trade union pressure, and a way of effecting fiscal savings.

### **2.2.1 Structural Unemployment**

A major reason for the interest displayed by international agencies and Third World governments in the informal sector is the increasing structural unemployment developing countries are experiencing. Any solution to their problem would involve increased social security, at considerable cost to the state and employers; the alternative would appear to be ever increasing political instability. Thus the major factor regarding the encouragement rather than elimination of the informal sector is that structural unemployment in the Third World countries is increasing rather than decreasing and informal sector employment is seen to offer a means of reducing this imbalance. Thus "...a number of writers have pointed to the creation of employment opportunities as the single most important function of petty commodity production" (Kennedy 1981:584). Bienefeld and Godfrey (1975) examine more closely this concern with unemployment and show that "there are 3 main reasons why one might be interested in the problem of unutilized labour power. One might see it:

1. As a deplorable waste in the context of a concern with growth and economic development generally.
2. As a critical issue which identifies i.e. quantifies and locates the suffering inflicted by the polarizing tendencies of capitalist development, both from poverty due to low income and from the demoralization and indignity of having no productive role.
3. As a potential source of political instability or social unrest" (Bienefeld and Godfrey 1975:4).

The burgeoning interest of governments in the informal sector whilst directed ostensibly at the second reason, may well be less overtly focused on the third reason.

While there are vast differences in informal sector activity between First and Third World countries it is interesting to note that in examining the survival of what are virtually informal sector activities in Italy "it is difficult not to conclude that the survival of the traditional sector has been willed by Italian political elites" (Berger 1981:80). The reason for this is interpreted as follows:

"The traditional sector absorbs and digests problems that might otherwise tear apart what the political elites of all parties regards as a fragile social fabric. Of these potentially radicalising problems none is more critical than employment... The elasticity of (these) firms makes them the shock absorbers of the economy..." (Berger 1981:84).

### **2.2.2 Trade Union Pressure**

A reason for the encouragement of small business in Britain is argued to be "...a desire to reduce the power of trade unions" (Bechoffer and Elliott 1981:188), since, they contend, "strike rates and union activity are generally much lower in small concerns. Stability, profitability and social control may all be served by the promotion of small fry...". While the level of trade union activity in Third World countries generally would not make this, as yet, a major reason for interest in the informal sector, in South Africa the trade union threat is increasingly being seen by capital as significant.



The high degree of differentiation characteristic of the informal sector is also functional to political stability since it:

"...militates against the formation of groups who might gain enough economic or political control to force changes in the structure of the economy. (This) means that the long term survival of 'refuge occupations' is supportive rather than detrimental to the continuance of the existing capitalist urban economy" (Moser 1977:487).

### 2.2.3 Fiscal Savings

Apart from the advantages to political stability (i.e. to the legitimization of the government) of the informal sector there are also very real cost advantages which encourage the conservation of this sector by the state. The costs of training in the informal sector, low as they are, are borne either by the pupil in a well established apprenticeship system or skills are simply picked up on the job by the employee. It was found in Nigeria, for example, that:

"...industrial skill training is a two tier system. First, industrial skills can be acquired in a formal institutional setting... Second, industrial skills can be acquired through the indigenous apprenticeship system in the informal sector... The informal sector apprenticeship system has contributed immensely to industrial skill training and the development of small-scale industry in Nigeria" (Oyeneye 1984:61 & 67).

Another way in which the informal sector reduces the fiscal demands on the state is by savings in foreign exchange. Thus by recycling raw materials and by "...showing ingenuity in using old spare parts and/or basic materials in order to build substitutes for various pieces of equipment..." (Kennedy 1981:587) petty commodity producers are effectively reducing the country's import needs.

The cost benefits to the state include more than these very direct savings, however. The informal sector, by providing income - earning opportunities for those who would otherwise be unemployed, or too old or infirm to work in the formal sector, reduces the social security demands on the state. One reason for the interest shown by many governments in the informal sector may therefore be that it appears"... to offer the possibility of helping the poor without any major threat to the rich, a potential compromise between pressures for the redistribution of income and wealth and the desire for stability on the part of economic and political elites" (Bromley 1978b:1036). The fact that money is not being spent on social welfare investment<sup>1</sup> means that more capital is available for investment "...in areas which directly benefit the capitalist mode of production" (McGee 1979:9).

### **2.3 Conservation by Capital of the Informal Sector**

It is not only the state that is aware of the advantages of promoting the informal sector. Businessmen are similarly aware of the benefits involved. According to this view capital promotes the informal sector:

"... from a general wish to see a market economy with lots of small competing units; from a wish to see risk taking and innovation in the hands of little enterprises rather than their own; from a desire to reduce the power of trade unions and from the knowledge that strike rates and union activity are generally much lower in small concerns" (Bechofer and Elliott 1981:189).

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1. An example of this is that informal sector housing and lodging reduces pressure on the state to invest in housing.

### 2.3.1 Lowering Wage Levels

The advantages of the informal sector to the formal sector include:

1. its social security role.
2. the provision of a subsidy to low industrial wages in a similar manner to the rural subsidy from subsistence farming.
3. the provision of goods and services more cheaply than the formal sector could supply them, thus keeping formal wages down (see Davies 1979:98, 101).

All three points in fact indicate that the informal sector could serve to depress wages in the formal sector but it is extremely difficult to show empirically that they have this effect. It is likely, however, that the sector (by its very existence) lessens both the need for, and the means by which (since it lessens the possibility of group solidarity) workers could press for wage increases.

Moser (1981) found in Ecuador that where wages in the formal sector are below the 'family wage' (i.e. the wage needed to support a family at a minimum level) it is women who "adopt a variety of alternative survival strategies to supplement family income" (Moser 1981:20).<sup>1</sup> The fact that families are able to supplement their incomes in this way, however, works to capital's advantage. For her, "the evidence suggests that women's contribution, through a variety of wage labour,

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1. This is a point to be noted in the empirical research in KwaiMashu. Thus women can be referred to as 'economic shock absorbers' (Cock 1983:279).

petty commodity and unwaged forms of work acts as an important mechanism which allows men to sell their labour power to the capitalist sector for less than a subsistence family wage" (Moser 1981:28).<sup>1</sup> Beavon and Rogerson (1982), Wellings and Sutcliffe (1984), and Bienefeld and Godfrey (1978), like Davies (1979), suggest that the availability of cheaper goods through informal manufacturing and trading may "hold down the pressures for rising wage labour costs in capitalist enterprises" (Beavon and Rogerson 1982:111).

It is also argued that "...by functioning as a form of social security the informal sector eases the pressures on capitalist employers to contribute to the 'social wage' by various forms of taxation" (Wellings and Sutcliffe 1984:540). These points although theoretically interesting are difficult to substantiate empirically. A much more broadly based investigation into the whole economy and the linkages between the sectors would be necessary in order to decide whether wages are in fact lowered by the existence of the informal sector and even then conclusive results would be difficult to obtain.

Bienefeld and Godfrey (1975) argue that the informal sector also serves to keep wages down by performing a reserve army role. This

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1. It can be argued that when people, despite the presence in the household of a wage worker, give the reason for their involvement in informal sector activities as 'poverty', it is the lack of a 'family wage' and of social security benefits for the wage worker to which they are referring. This is so in South Africa largely because wages are 'bachelor' wages paid to migrants (whether in fact the man's family resides in a township or a 'homeland') and the social overhead capital of maintaining his family is borne (or thought to be borne) by the 'homeland' economy.

would imply that people in the informal sector are there only until they can obtain formal sector employment. When they lose their formal sector jobs they mark time with informal sector employment. Whether this is so or not, the important question is whether informal sector operators are **perceived** as a 'reserve army' by wage workers. It is possible that if wage workers perceive the informal sector as a 'reserve army' of potential wage workers waiting to move into their jobs they may hesitate about making wage related demands.

### **2.3.2 Bearing Risks**

A further benefit to the formal sector is that the informal sector "...serves only residual markets in which large firms are not currently interested. As soon as the small producers have developed a market to the extent that it is of interest then the large firms take it over" (Bienefeld and Godfrey 1975:8). This aspect consequently hinges on the risk taking function of the informal sector.

Robertson (1983) writing on the Mokola market in Accra, (Ghana), notes very emphatically that it is informal sector traders who bear the risks. "They (the small traders) are exploited by the big firms who successfully shift the brunt of the marketing risks onto their shoulders yet absorb most of the profits. The middlewomen are then blamed for supply problems and the resultant hardships" (Robertson 1983:490).

A similar phenomenon occurred in Lima where "... in the transport

sector, the bus routes which were opened by independent owners of ramshackle cars were gradually taken over by fleets of capitalist owned minibuses". It was also found that most products sold by street traders "...have a high risk factor either because there is unstable demand or because the products are perishable" (McEwan Scott 1979:124-125).

Another route by which the risks of the capitalist sector are transferred to the informal sector is by sub-contracting. Bienefeld and Godfrey (1975:8) show that one of the advantages exploited by the capitalist is that price-competition between informal operators results in the low price of sub-contracted inputs to the formal sector. Thus "In Japan the use of sub-contracting has apparently allowed the large capital intensive plants to transfer uncertainty onto small firms" (Berger 1981:85-86). If a firm cannot fulfil its target the extra is often sub-contracted because the marginal return on further investment is small if not negative. A further advantage to capital during a recession, is that, as Berger (1981) found in Italy, sub-contracting as much work as possible out of the plant avoids hiring new workers who could not easily be dismissed. Thus a policy of sub-contracting to the informal sector provides several cost and risk sharing advantages to the formal sector.

### **2.3.3 Increased Distribution of Formal Sector Goods**

Besides such production advantages to the capitalist sector there are also important distributional advantages in encouraging the informal sector. Bromley (1978a), writing on Colombia, shows that street

traders comprise a major distribution system for importers and manufacturers, particularly of goods which are consumed regularly and in small quantities. In short, "street traders provide a low cost labour intensive distribution system which works long hours and involves virtually no commitment or responsibility for manufacturers or wholesalers" (Bromley 1978:1065). Since it is highly competitive, margins are forced down and traders sell at a wide range of locations for long hours thus increasing the availability of goods and widening the market for manufacturers.

In late Victorian England 'corner shops' served a similar function by increasing the sales of formal sector goods:

"Far from presenting a threat to the substantial tradesman, such (small) shops provided a complementary service supplying the irregular, unstable but expanding working-class market. Through them the larger retailer could also participate indirectly in this trade..." (Winstanley 1983:13).

Traders in the informal sector are often prepared to extend credit, partly because of the intense competition but also because many of their customers are known to them personally, whereas credit would be unobtainable from a formal sector outlet. This increases the distributive network by enabling people to buy goods which they could not otherwise have afforded. The fact that many small-traders are prepared to break bulk and sell in very small quantities also increases the distributive network (selling goods where they would not otherwise have been sold) and ultimately benefiting the formal producer as much as the low income customer.

Distribution is also facilitated through ostensibly independent informal traders who are in fact closely integrated into the formal economy. Bromley (1978a:1165) found in the course of research in Cali, for example, that at least 35 percent of all street traders are 'commission sellers' or 'dependent workers'; i.e. disguised wage workers. Consequently capital enlarges its market since:

"Many street traders are little more than disenfranchised employees of larger enterprises... and carry most of the risk in unstable and sometimes illegal activity. 'Employers' avoid any binding obligation to 'employees', escaping government attempts to regulate employment through social security, job security and minimum wage legislation" (Bromley 1978a:1168).

#### **2.3.4 Minimising Trade Union Activity**

It is a great advantage, to the capitalist as well as to the state, that the informal sector operator's independence (illusionary or not) and his sense of competitiveness with his peers, works against the kind of group solidarity necessary for trade union activity. It has been found that "Most small businessmen, in Britain at least, dislike trade unions, not just because the latter fight for higher wages, but because their whole approach and style represent that highly organised, large scale world which independent entrepreneurs generally try to keep at arm's length" (Bechofer and Elliott 1981:195). Sub-contractors and dependent traders are far less of a threat to the formal sector than are wage employees who can attempt to force change by group solidarity. The fact that informal sector traders and producers are almost entirely dependent on the formal sector for their



inputs means that their livelihood is dependent on their acceptance of prices and conditions. Furthermore, as small undertakings they lack financial muscle.

## **2.4 Means by which the State and the Capitalist Sector Conserve the Informal Sector**

Some of the means used by the State and by the capitalist sector to conserve and extend the informal sector are very similar, eg. promoting the 'myth of success', or making capital and knowledge available: others are peculiar to one, eg. the formal sector establishing links with the informal, or the other eg. the state revoking restrictive legislation.

### **2.4.1 The Myth of Success**

As long ago as early Victorian times it was suggested that a 'corner shop' was a possible route to affluence but historical research shows that:

"Theoretically a ladder to independence and local status for aspiring working men, in practice running a small shop was the resort of unskilled migrants, widows and wives of labourers trying to eke out a living and possibly... a cushion for blacklisted factory operatives. In the hard decades up to 1850 at least such shopkeeping offered little chance of a 'rags-to-riches' fairy story" (Winstanley 1983:15).

The 'myth of success' is a major way in which allegiance to capitalist philosophy (an important reason for the conservation of the informal sector) can be ensured. The idea that it is possible to rise from humble beginnings as a petty producer and reach the ultimate goal of

owning a large business is a major inducement to the continued perseverance of many informal sector operators. The publicity given, and note taken, of success stories are sufficient to motivate many thousands of aspiring entrepreneurs to enter the fray in spite of the doubt one might reasonably have about the continued independence of a successful small scale business (see Gerry and Birbeck 1981:148). Those who succeed become models with which the less successful identify their own futures. Radical literature stresses that, because the capitalist sector opposes the unlimited development of petty commodity production (see 2.6), this route is in fact largely illusory. They emphasise that the value of the informal sector to the formal sector lies in the apparent ease with which the poor can attain riches.<sup>1</sup> The poor feel that the route to success is not closed to them but that failure to achieve it is the result of personal deficiencies - not those of the capitalist system. This increases their commitment to the capitalist ethic at the same time as motivating increased participation in the informal sector. The emphasis by the state and capital on the individual's route to success is important since it contributes to the "stimulation of an individualistic-competitive, petty bourgeois, attitude to work" which "...inhibits possibilities of organisation and solidarity" (Bromley and Gerry 1979:11).

The symbolic value of the 'myth of success' lies in the "ideological servicing of contemporary capitalism" (Bechofer and Elliott 1981:193).

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1. By stressing 'ease of entry' into the informal sector the reformist school appears to imply that such entry in itself ensures subsequent success.

Thus, efforts to develop the informal sector stress the individualistic-competitive ethic so vital to the continuance of capitalism (both because of the commitment to the capitalist ethic and because it lessens involvement in pressure group politics such as trade unions).

#### **2.4.2 Informal Sector Encouragement by the Formal Sector.**

Bromley's (1978a) research in Colombia showed clearly that the formal sector encourages the development of distributive links between the formal and informal sectors. The increasing advocacy of sub-contracting by many in industry also indicates the desire for the development of links on the production side. Large enterprises, aware of the advantages, seek to encourage small concerns by providing loan capital or technical knowledge and by persuading governments to assist such efforts (see Bechofer and Elliott 1981:187). Such efforts are directed primarily at small formal firms but in South Africa are directed increasingly at the informal sectors.

#### **2.5 Suppression by the State of the Informal Sector**

The State's legislative apparatus almost invariably seeks to control, or even eliminate, the informal sector. There are various reasons for the state's attitude towards the informal sector but the most important is its need to co-operate with, aid and abet capitalist interests in the formal sector. As Hunt (1981) expresses it, in discussing Marx's view of the state, "During each period of history,

or for each mode of production, the state is the coercive instrument of the ruling class" (Hunt 1981:93). Other ideologies, however, view the role of government very differently : reformists view it as acting, or at least capable of acting, in the best interests of society as a whole and not only of a particular class. The role of government in a country's economic affairs clearly differs markedly from one country to another depending on the type of economy and the stability and efficiency of the government. Much of the research on the effect of government decisions on the informal sector in Third World countries indicates that governments generally are protecting and supporting the formal sector, particularly foreign - owned multinationals, at the expense of the indigenous informal sector. Thus governments "...create an economic environment in which large firms, multinational as well as national, are sheltered from competition and given incentives to use excessively capital intensive methods of production" (Griffith 1977:64). Part of the reason for this is the negotiating power of the multinationals who, in return for bringing capital and expertise or technology into a country, can insist on protection against indigenous competition. A further reason is that government members, being part of the educated, salaried, elite (and frequently with business interests of their own), protect their interests at the expense of the poor who are often illiterate, and politically disorganised. These points are developed *inter alia* by Werlin (1974), Robertson (1983), Weeks (1973b) and Ross (1972).

A critic of the ILO study of Kenya contends that "the affluent minority in Kenya has always exercised far more influence over decision making than the impoverished majority" (Werlin 1974:211).

Prior to independence in Kenya, government policies were largely determined by, and beneficial to, the European elite. Elite domination was supposed to end with the coming to power of an African government but, while colonial vestiges are being removed in Kenya,

"... the expatriate elite is now being replaced by an African bourgeoisie virtually as uninterested in abolishing economic inequality as the previous regime... This makes it very unlikely that the government will significantly help the informal sector at the expense of those Africans who increasingly benefit from the existing formal sector" (Ross 1972:32).

Another illustration of government interest in big business is drawn from the decline of Makola market in Accra where it is noted that "Government's actions concerning small entrepreneurs since independence have been biased towards control, while generally allowing big business freedom of action" (Robertson 1983:486).

The role of government in the type of industrial development that is encouraged is a concept Weeks (1973b) develops. He contends that "...in the Third world the state plays the major role in determining access to resources and therefore private profitability; further, I argue that the state planning process must be seen as a process of regulating and restricting opportunity" (Weeks 1973b:76). He maintains that the popular view regarding the duality of economic structures (that of a low income sector which is a relic of the past and a high income and high technology sector) "...is wrong as its basic premise ignores the role which the state plays in fostering dualism..." since, he argues, "...the formal sector develops in a non-competitive environment with privileged access to strategic resources" (Weeks 1973b:77 &79). He also stresses the desire of the Kenyan

government to attract international firms and that this must inevitably be at the expense of the indigenous sector. He explains that:

"it is of course not beyond the wit of man to formulate state policies to force upon international firms the use of local suppliers. Policies aimed at doing so can be found in the ILO report on Kenya - for example that foreign firms specify a programme of fostering indigenous suppliers. Yet such policy measures impose a cost upon international firms and it is unlikely they would be welcomed. It is not very realistic to expect them to be imposed by a state which has clearly demonstrated its priority for foreign investment through tariff and quota policy, fiscal and monetary policy, industrial licensing policy, and building and health regulations" (Weeks 1973b:82).

Weeks clarifies in his article the difficulties a country intent on encouraging foreign investment will experience in trying, simultaneously, to develop the informal sector: this highlights a major obstacle confronting the development of the informal sector.

The subsistence function of the informal sector, in the absence of adequate formal sector employment, is assumed by many Third World governments to encourage rural-urban migration. This is a further reason favouring the suppression of informal sector activities. The unregulated, untidy appearance of much informal sector activity creates a picture of urban life very different from that of the Western cities most Third World Governments seek to emulate. The lack of organisation of squatter areas, the irregular paths and jumble of shacks together with the lack of control by the state over informal sector businesses make these areas, in the eyes of the authorities, a possible breeding place for insurrection, vice and disease. The fact that tourists, a growing source of income in many Third World

countries, will find them unsightly is a further justification for their eradication.

An example of this is recent legislation passed in Tanzania, the Human Resources Deployment Act of 1983, which requires the resettlement of unemployed urban dwellers in their villages of origin. The objective is allegedly to counter growing urban unemployment and diminishing rural agricultural production. In Dar-es-Salaam the entire informal sector was declared illegal:

"...unlicensed motor mechanics, shoe-shine boys, hawkers, petty traders, tailors, barbers, etc., are treated in the same way as 'loiterers'. It should be noted that many of these people are totally self-reliant, hard working and enterprising. Some are better off than salaried employees... Round ups and arrests of suspects have been a common feature of life in Dar-es-Salaam... The President has described this campaign as a strong vehicle for enhancing economic production in the country... Our immediate concern is to observe the state's criminalisation of rational and ordinary practices and the state's employment of its coercive apparatuses in enforcing this policy" (Shaidi 1984:85-87).

## **2.6 Suppression by Capital of the Informal Sector**

### **2.6.1 The Elimination of Competition**

The development of capitalism from the stage of competitive capital to monopoly capital necessitated the elimination of competition. An interesting example of this occurred in early twentieth century Britain and illustrates a strategy used by the competitive level of capitalism:

"...substantial tradesmen were not slow to demand unprecedented state interference with individual freedom, calling for

compulsory early and Sunday closing to rob the small man of his most valuable competitive weapon - long opening hours - disguising their real intentions, however, as a disinterested crusade for the improvement of shop assistants' hours of work. Deprive the family shopkeeper of the opportunity for exploiting his relatives by restricting the hours he could open and the "Shop Question" as it was known, was immediately solved. No matter that this represented an unprecedented infringement of the self-employed man's freedom to work when he wished" (Winstanley 1983:15).

The fact that informal sector operators have fewer overheads<sup>1</sup> is an important reason why formal businesses are sometimes highly antagonistic towards them. On occasion very real advantages may lie with the informal sector.<sup>2</sup> It would appear that one of the advantages of the informal sector is, strangely enough, its very illegality. This illegality necessitates it being virtually invisible and, while creating other difficulties, means that it does not have to conform to such legislation as health requirements, trading acts, return of official forms and payment of income tax. This brings the informal

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1. They have fewer overheads because their residence may double as a work place; they do not abide by minimum wage legislation; they use family members instead of paid labour; and they have far less paper work since they do not submit returns to the government.
  2. Tokman (1978 a) found in the course of research on competition between the informal and formal sectors in retailing in Santiago that the informal operators enjoyed such a competitive advantage in low income areas of Santiago that a large supermarket found it necessary to close all its operations in poorer areas of Santiago after trying for ten years to break the competition of the informal shops. He estimated that the competitive advantage lay in the fact that those with low incomes needed to purchase small quantities of different products daily and so shops that broke bulk, were located within easy walking distance and worked long hours, flourished. He also found that within the informal sector there was an emphasis on the repair of articles which in the more affluent sector would be discarded. Hence, manufacturers tend to feel that the repairing of articles and thus the existence of informal sector repairs is costing them increased sales. Tokman (1978 a) estimated in fact that 75 percent of informal sector employment in Latin America is in the service sector, which includes repair work.



sector into conflict with the competitive level of the formal sector.<sup>1</sup>

By removing excessive control of standards for all businesses in poorer areas some of the antagonisms felt by the small formal sector businesses might be removed, but this might also remove one of the few competitive advantages of the petty commodity producers and traders since they do not conform to these requirements anyway. Removing excessive legislation would increase the competitive advantage of small formal businesses. It is the competitive level of capitalism, therefore, which most opposes the informal sector.<sup>2</sup>

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1. Evidence of this was found in Zimbabwe where "...the main competition in the informal sector comes from black petty capitalists - certainly these are one of the groups most opposed to informal trading" (Davies 1979:96). Small formal sector capitalists would clearly oppose any move to regulate the position of the informal sector in which it was not made clear that the informal sector would have to abide fully by all the legislation governing the competitive level of capitalism. This despite the fact that, according to Davies (1979), many small capitalists rose from this stratum themselves. Much of the legislation governing black petty capitalists in Southern Africa is there to maintain standards which prevail in the West. Thus "the customer is paying for the ensurance of standards... (which for the poor) might be regarded as a waste of time" (Davies 1979:95). Many laws could therefore be abolished with regard to both small scale formal and informal businesses.
  2. A criticism of the ILO's position on the informal sector in Kenya is that "those traders, distributors, transporters, owners of service enterprises, in fact all African businessmen who had succeeded in breaking into some more or less protected area of activity, where a more substantial and secure profit could be made, would have to give up their new found protection so as to give encouragement to the unregulated and competitive (in the mission's terms 'informal') sectors from which they had recently escaped" (Leys 1975:262).

### 2.6.2 Taste Transfer

A more insidious and far less direct way in which capital suppresses the informal sector is through a process known as 'taste transfer': the manipulation of the tastes and desires of the poor to conform with the goods manufactured in the formal sector. Advertising and packaging greatly affect the tastes, and so consumer demand, of the poor. Since petty commodity producers lack the finance necessary for advertising they find themselves at a grave disadvantage when competing with formal sector firms. Capitalist penetration of the Third World "...changes attitudes and creates a new and expanding range of felt needs - for shoes, bicycles, manufactured furniture, ready made clothing etc," (Mc Gee 1971:82). Research into soap manufacture in Kenya showed that advertising "...must be seen as a central factor in the transfer of tastes to this country from developed capitalist societies... Advertising has been crucial in generating local demand for sophisticated, well packaged, multinational corporation type products" (Langdon 1975:20; see also Bienefeld 1975:56 &62). 'Taste transfer' is defined as "redefining a simple basic need for soap into a demand for Omo, Cold Power, Lifebuoy or Palmolive... for drink into a demand for Coke or Pepsi... for food into.. Cadbury's chocolate bars...". Thus "...they establish patterns of demand which are very hard for small scale, indigenous Kenyan industrialists to meet directly" (Langdon 1975:30).

Similarly, Stewart (1977) working on maize processing in Kenya found that a switch to white flour resulted largely from advertising. These changing tastes required changes in technology to which the small

producer was financially unable to adapt (Kaplinsky 1979). The result is that "once advanced country technology has been introduced it creates a society in its own image, requiring further imports of technology to feed the markets which have been created and to enable the industries to survive and expand" (Stewart 1977:138). This effectively precludes informal manufacturers from production and ensures that markets are retained by the formal sector. This is the major reason for the suggestion (Tokman 1978a) that it is manufacturing within the informal sector which, particularly in the event of higher incomes for the poorer sections of Third World countries, will wither and decline while the service industries may well prosper.

A further important aspect of 'taste-transfer' is its role in social control. Hunt (1981), in discussing the work of Veblen, points out that there are two principal ways in which capitalists exercise social control. One is 'patriotism, nationalism, militarism and imperialism'. The second is through 'emulative consumption' or 'consumerism' (see also Mason 1981). The reason for this is that "one of the most powerful forces in society is emulation, which is the most important guarantor of social, economic and political conservatism" (Hunt 1981:129-131). Veblen insisted that relative poverty (not being able to consume goods at the same level as those with whom one is accustomed to class oneself), is every bit as important as absolute poverty. The enormous sums of money spent on advertising by the multi-national corporations, the new models brought out annually to fire consumer desire, serve to keep people on the consumer treadmill

and ensure their allegiance to capitalism. This reinforces the symbiotic relationship between government and the multi-national corporation by serving simultaneously the interests of both.

### **2.6.3 Formal Sector Hegemony**

The above paragraph suggests that the 'space' available for development of the informal sector is a direct function of the extent of formal sector development and, far from being the result of characteristics and abilities of informal sector operators, is virtually entirely dependent on the formal sector. Thus "...the avenues of expansion and capital accumulation available to petty commodity production are largely determined by the extent to which capitalism has established its hegemony over the principal production processes in the economy" (Gerry and Birbeck 1981:133). This idea can be extended further to suggest that "the petty commodity sector... is concerned with the provision of goods and services considered unprofitable by foreign or large scale capital" (Moser 1978:1058). When these goods do become profitable, however, large scale capital would begin production and readily capture the petty commodity producers' market. The informal sector can thus be seen as being "...like a chameleon taking its colour from its environment... it is a dependent stratum - dependent first and foremost on the dominant economic groups and institutions. It is their decisions, their interests, that do most to affect the size and circumstances of the stratum..." (Bechofer and Elliott 1981:187).

It would, perhaps, be too much to expect the formal sector to assist

the informal sector if this conflicted with its own best interests. The capitalist sector thus constantly limits the 'space' available to the informal sector without ever destroying it totally. Leys (1975) suggests that in order to follow the recommendations of the ILO report that the linkages with the informal sector be increased:

"foreign enterprises would pay higher corporation taxation, drastically reduce their profit remittances, and shift away from the capital-intensive technology and imported inputs usually supplied by their parent companies without significant loss of enthusiasm for investment in Kenya. The obvious puzzle presented by those proposals is what incentive the mission thought all these groups - the heart and soul of the alliance of domestic and foreign capital - might possibly have for making such sacrifices" (Leys 1975:262).

In short "Capitalist production is, above all, interested in the extraction of profit not the provision of employment" (Moser 1978:1062).

The primary reason, therefore, for the inability of the informal sector to grow indefinitely, and the reason why small informal businesses cannot easily grow into large formal businesses, is the hegemony exerted by formal sector firms. Clearly, "the fact that petty production is faced with advanced methods and technologies operating in the same exchange economy effectively blocks the transition of petty capitalist production to capitalist commodity production" (Le Brun and Gerry 1975:24).

#### **2.6.4 Internal Versus External Constraints**

It would appear from the foregoing that most of the constraints on the

growth of the informal sector are external to the sector. However there is also literature which emphasises problems internal to the sector and which suggests that "...the growth of small producers is seen to be a process which is open ended but held back by the lack of entrepreneurial or managerial skills" (Schmitz 1982a:431). Similarly, "(in the USA) most researchers have found that the main reason for the high rate of failure (of small businesses) is not competition from big business. It is mismanagement or uninformed management" (Growth 1982:36) (see also Nihan et al 1979:633).<sup>1</sup> Schmitz contends, however, that "what is at issue is not that good management is important, nor that bad management occurs, but whether small scale producers in developing countries fail to expand primarily because they lack managerial ability" (Schmitz 1982a:431). The impression of chaos often associated with small businesses is frequently the result, he argues, of the flexibility and ability to improvise which is their strong point. The lack of forward planning is also closely tied to the market in which they operate and their shortage of resources. Schmitz (1982a) then examines the external factors - exploitation, sub-contracting, access to markets, the technological gap, access to raw materials, and access to credit and government discrimination in detail and concludes that:

" managerial training continues to be the favourite recipe prescribed by policy making bodies in many developing countries... Emphasis on the lack of entrepreneurship and managerial skills puts the balance for the failure of small enterprises on the people who run them rather than on the environment in which they operate" (Schmitz 1982a:445).

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1. These references apply particularly to small formal businesses but a study of the literature shows that many dualists regard internal constraints as limiting the informal sector as well.

### 2.6.5 The Effect of Sub-Contracting

Sub-contracting is often put forward as an important method by which the informal sector is subordinated and controlled. Schmitz (1982b) found that, in all three manufacturing industries that he studied in Brazil, the small enterprises were in an unfavourable position to retain their surplus since this is determined by the enterprise's strength or weakness in the market. Since these small businesses operated under conditions of severe competition they had little room to manoeuvre. In consequence the bargaining power lay with the large firms who could be expected to channel surplus away from the small scale sector especially if the relationship was one of sub-contracting. In the hammock industry, for example, it was found that small independent producers earned roughly twice what sub-contracted producers earned, indicating a substantial siphoning off of surplus under sub-contracting. Schmitz (1982b) estimated, however, that a greater problem than that of exploitation for subcontractors was the problem of irregularity of work since in periods of lesser demand the large scale sector cut back on the small firms first.

The reason why many hammock producers were pushed into sub-contracting was that they were seriously affected by price instability and problems with access to inputs because a large textile company exerted an increasing monopoly. This also prevented those already sub-contracting from becoming independent. It was also a problem of access to raw materials and a lack of working capital to acquire new inputs before selling the finished product, which accounted for the high degree of sub-contracting in the weaving sector. A further

difficulty experienced by all three branches was that yarn was not sold in sufficiently small amounts; therefore the enterprises became dependent on middlemen whose prices were far higher than those paid by the large scale enterprises.

While using sub-contractors is advantageous to big firms as it allows them to adjust rapidly to changes in demand, this practice is, ironically, the sub-contractor's greatest problem; there may be extended periods during which the sub-contractor is given no work by the parent firm but yet must continue to pay wages.

#### **2.6.6 The Role of Technology**

Changing technology, as seen in 1.4 and 2.6.2, may be a critical element impeding the growth of the informal sector. Schmitz (1982b) found that this factor affected his three case studies very differently, illustrating clearly the need to disaggregate the sector and look at each subsector separately before attempting to forecast future growth trends. The hammock industry is a traditional activity in Brazil<sup>1</sup> which has been taken over by domestic (independent and subcontracted) and medium size enterprises but retains its traditional technology and in all cases the finishing off is done by outworkers. There is virtually a complete absence of big capital enterprises in this industry possibly because of the slow introduction of new

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1. The market for standard hammocks is large since they are used instead of beds throughout Brazil and there is a developing export market for luxury hammocks.



technology (as a result of technical problems in automation). In the clothing industry, on the other hand, a gradual upgrading of technology is made possible by the purchase of more modern second-hand equipment. This increases the barriers to entry into the enterprise but prevents the technological gap between the small and the large scale sector growing so fast that the informal sector is rendered non-competitive.<sup>1</sup> In the weaving industry, however, technological developments which increase the number of looms one weaver can operate make it increasingly difficult to set up as a small producer, since the capital required, even for second hand equipment, is so great and (unlike the clothing industry) equipment cannot be added gradually. Technology, therefore, is not a limiting factor in the Brazilian hammock or clothing industry, but is in the weaving industry.

## **2.7 The 'Optimal Size' of the Informal Sector**

This chapter has sought to examine the inherent tension implicit in the position of the informal sector within Third World economies. On the one hand is the desire of the state and the formal sector to maintain and conserve the informal sector because of the advantages of employment and political stability, as well as the various fiscal advantages it offers; on the other hand is the desire, particularly of capital (supported by the state), to eliminate the informal sector chiefly because of the competition it offers.

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1. In this branch the small scale enterprises have a certain advantage over the large scale in that their flexibility allows them to cope more readily with changing fashions. Their major difficulty lies in marketing this wide variety.

Marx's prediction, written in a period of preponderantly competitive rather than monopoly capital, was that:

"...the lower strata of the middle class - the small tradespeople, shopkeepers... the handicrafts men and peasants - all these sink gradually into the proletariat, partly because their diminutive capital does not suffice for the scale on which modern industry is carried on and is swamped by the competition with large capitalists, partly because their specialised skills are rendered worthless by new methods of production" (quoted in Bujra 1978:49).

But the situation has changed in some important aspects since Marx's day and the increasing power of trade unions, and the risk of political instability arising from unemployment, has meant the state and the monopoly level of capital are often able to see certain advantages to themselves of conserving the informal sector insofar as it serves their purposes. Thus "... in contrast to nineteenth century Britain, these forms of production do not appear to be disappearing" (Roberts 1978:117). Clearly neither the state nor capital, holding between them very effectively the reins of political and economic control, will allow themselves to be threatened in any way by an increasing, and (to them) non-functional, proliferation of informal sector operators. Thus they seek to maintain a balance : to hold the sector, as Davies (1979) suggests, at 'an optimum size'.

## **2.8 The Maintenance of the Informal Sector at an 'Optimum Size' in South Africa**

The theoretical perspectives outlined in 2.1 to 2.7 are broadly realised in the South African situation. Extensive structural unemployment and the political desirability of a stable black business class are important factors explaining the recent interest of both

state and capital in the informal sector. Yet legislation, and the limited space left to the informal sector by the extent of formal sector operations, effectively prevents unlimited expansion of the informal sector.

### 2.8.1 Advantages of Informal Sector Expansion

Research has indicated that "... structural unemployment in the 'unskilled or 'deskilled' sector may reach 75 percent by the end of the century' (Wellings and Sutcliffe 1984:521). Certainly the employment situation has deteriorated steadily in recent years,<sup>1</sup> and it has been estimated that:

"... for the decade 1970 - 1980 as a whole African unemployment has risen from 11.8 percent in 1970 to 21.1 percent in 1981. What is probably most significant is that African unemployment continued to rise throughout the course of the 1978 - 1981 upswing in the economy... Since the middle of 1982 the number of Africans in employment has been falling rapidly as the recession has picked up and bitten into all sectors of the economy" (Keenan 1983:189).

The political repercussions of rising unemployment are clearly appreciated by government. This is illustrated by a statement by Simon Brand (economic advisor to the State President): "We should pay more attention to the employment potential of this sector. With full social security still a long way off the informal sector performs a valuable function".<sup>2</sup> Similarly, Dr. Ben Vosloo<sup>3</sup> noted that:

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1. This phenomenon has been attributed largely to the expansion of monopoly capitalism and accompanying capital intensification (Innes 1983:179); see also Nattrass J. (1984:65).
  2. Financial Mail 1978:968, (see also Louw 1979).
  3. Managing Director of the Small Business Development Corporation.

"The main key to the deteriorating unemployment problem is the creation of more small business ventures by blacks...(and)...South Africa could expect second and third generation black urban residents to become a destabilising factor in society if they were denied new business and job opportunities in the future"<sup>1</sup>.

Industry too is aware of the role of the informal sector:

"Blacks, have to be brought into the system of free enterprise as soon as possible - unlike the pattern in the territories to the north - otherwise they will fall prey to socialist ideals... - We have to push the development of the informal sector and look at low cost, labour intensive projects"<sup>2</sup>.

The role of the informal sector in class formation is seen as another reason behind the moves to decrease restrictions on the informal sector in South Africa in order to "...facilitate management of the increasing polarization of the working class" (Wilkinson and Webster 1982:9). It has been pointed out that the South African state "...intends to establish a class, both complementary to the interests of white capital and dependent on the white state which would act as a conservative influence on the poorer black classes" (Wellings and Sutcliffe 1984:524). The creation of a middle class, owning their own means of production and not being dependent on wage employment, could play an important role in the political stability of the country if this middle class saw its best interests as lying in a capitalist - oriented future and as being contingent upon continued stability.<sup>3</sup> Although in South Africa such a class may well want majority rule they

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1. Race Relations News, September 1985.

2. Mr A. Hamilton, president of the Natal Chamber of Industries, quoted in the Sunday Tribune, 20th October 1985, pg.B1.

3. The argument regarding the perceived need for the creation of a black petty bourgeoisie, following the political unrest of the mid 1970's, is well presented by Robert Davies (1979:190-196).

would, presumably, not want to see it brought about by unrest which would, presumably, diminish the profitability of their concerns.

A further advantage, apart from lessening unemployment and assisting in the maintenance of political stability, is that the costs of job creation in the informal sector are very much less than those of job creation in the formal sector. Whereas it is estimated that every employment opportunity created in South Africa's decentralisation points costs R25 000 (Dewar and Watson, 1981:66; see also Stanwix 1984, and Tomlinson and Hyslop 1984) the costs in the informal sector of job creation are infinitesimally small and, more important, are borne largely by the operator himself.

An advantage to capital is that the informal sector lowers the cost of reproduction of the labour force thus enabling industry to pay lower wages (Webster 1984:11-12). The indications are that, as elsewhere in the world, increasing trade-union activity is an important reason for both the state and capital to encourage informal sector growth (see 2.2.2) in South Africa. There is clear evidence that the incidence of strikes in South Africa is increasing:

"Another indication of the increasing intensity of strikes and the superior worker organisation of the 1980's is found in the increasing number of work-days lost to the production process through industrial action. The mean duration of strikes in 1974, for instance, was 3.9 work days as compared to 10.2 in 1982... (and) ...the deepening recession in 1984 has **not** been accompanied by the expected decline in strike activity" (Sutcliffe and Wellings 1985:373).

Increasing worker militancy in the formal sector may underline the increasing interest of the state and capital in the informal sector.

Another advantage to the state is that informal sector house

Added

construction can move the costs of housing provision from the state to the individual. The cost of township housing has until now been borne by either local authorities or the central government. More recently lack of funds has increasingly impeded government plans with the result that:

"... in housing the concept of 'self-help' has won the day, where instead of state subsidised housing, employers can provide finance, or individuals can pay themselves ...the use of a 'free enterprise' ideology allows the state to shift the burden of payment onto individuals or industry" (Webster 1983:253).

Since the low incomes of many in the townships preclude their having houses built by large formal sector builders there is a clear advantage to the state in permitting informal sector builders and thus allowing the costs of township housing to be carried by the residents themselves.

#### 2.8.2 Promotion of the Informal Sector in South Africa

State and private sector organisations for the promotion of small businesses (formal and informal) have proliferated in recent years. Their mode of operation will be examined more closely in Chapter Six but here it is significant to note the interest by government and the formal sector in the conservation and development of the informal sector. State and private finance have been used to launch the Small Business Development Corporation;<sup>1</sup> the Government empowered the Manpower Commission to examine the problems facing small businesses (1984); and private sector finance launched the Urban Foundation, one of the interests of which is the promotion of the informal sector.

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1. First suggested in 1980, first annual general meeting 1982.

ignore leg

The political unrest <sup>of</sup> 1976 preceded the inception of these organisations indicating that the desire for political stability was a major factor in their formation.

### 2.8.3 Formal Sector Restrictions on the Informal Sector

The profile of the South African informal sector (1.6) showed that all South African studies found the manufacturing sector of informal activities to be small, particularly when compared to the situation elsewhere (Table 2). The development of formal sector manufacturing in South Africa may leave less space for the informal sector than in other Third World countries (see 2.6.3). The emergence of large monopolies serves further to restrict informal manufacturing.

The development of industrial monopolies has been ably documented by Innes (1984) in which he explores Anglo-American's monopoly initially in diamonds and gold and, since the 1960's, increasingly in industry and finance. By the 1970's:

"Gone was the era in which a multiplicity of small concerns, vying with one another for minute fractions of the local market, dominated South Africa's manufacturing sector; in its place had come the era of monopolies. Across the face of this new era, like a colossus, strode Anglo-American, concentrating ever greater areas of production and ever larger resources of capital under its single control" (Innes 1984:207; see also Innes 1983:171-183).

Leg.

Another example of large companies using their influence to limit the space available to the informal sector, was the curbing of mini-buses acting as taxis. Recently 14 mini-bus operators were arrested at a road block in Pietermaritzburg for operating illegally.<sup>1</sup> It is interesting that this action was strongly criticised by the Pietermaritzburg Chamber of Commerce. This illustrates perhaps the increasing support by capital for the informal sector but it also shows the confusion which still exists at all levels about the role of the informal sector.

#### 2.8.4 Legislative Restrictions on the Informal Sector

1. In South Africa legislation has favoured the large scale sector at the expense of the small scale sector. This was shown in a report by the National Manpower Commission (1984) where it was noted that "small businesses enterprises are often adversely affected by measures that were actually drafted with larger companies in mind" (National Manpower Commission 1984:28). This applies to formal small businesses but illustrates the still greater difficulties under which the informal sector labours.
2. Within black communities there is further legislation which impedes the development of black small formal businesses and so minimises the possibility of those in the informal sector making the transition into the formal sector. The reason for the imposition of such legislation pertaining solely to black

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1. Daily News 8th August 1985 p.3.



legislation

businesses was that blacks were held, by the Stallard Commission (1922), to be only temporary residents in white areas and were there solely to provide labour for white industry. Halse (1984) maintains that the purpose of such legislation "was to control business licensing of blacks in all spheres, but to hand them out more liberally in the reserves and severely curtail business activities in the townships" (Halse 1984:13). Thus in 1963 the Circular Minutes (Ro A 12/1 - A8/1) issued to local authorities by the Department of Bantu Administration and Development included the following provisions:

- a) that business rights were to be granted to blacks in black urban areas only where the needs of the residents of these areas could not be served by existing businesses in the central areas of towns since it was policy not to allow an increase in the number of Bantu residents in white areas (i.e. not bantustans) who are not employees. NB
- b) that trading rights should only be granted to people who qualified to reside in the areas under Section 10(1)(a) or (b) of the Urban Areas Act of 1945.<sup>1</sup> NB

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1. This states that a person has to have resided continuously in the area since birth or been in continuous lawful employment with lawful residence in the area for fifteen years (Chaskalson and Duncan 1984:5-6). Thus wives or children of those with Section 10(1)(a) or (b) rights who qualify to reside in urban areas could not start a business. Anyway residents with section 10(1)(c) rights (wives and children of those with section 10(1)(a) or (b) rights) have a very tenuous right to be in the city as "Upon divorce or separation or the death of her husband, a women living in the city by virtue of a section 10(1)(c) qualification loses that qualification and may be obliged to leave the city" (Chaskalson and Duncan 1984:11).

Legislation

- c) that the carrying on of more than one business by the same African was not to be allowed under any circumstances.
  - d) that only businesses dealing in the provision of daily essential domestic necessities were to be allowed. The only businesses that were thus recognised were those of grocer, butcher, fish frier, green grocer, eating house/restaurant, dairy, wood and coal dealer.
  - e) that the further establishment of African companies or partnerships was not to be allowed; and while traders were restricted to one site each under this ruling, they were able to hold more than one licence for businesses to be conducted on that stand.
  - f) Local authorities must themselves erect all buildings necessary for trading purposes... Bantu to whom trading rights had been allocated could not after 1963 under any circumstances erect their own buildings.
- (Nz) Africans were not to be allowed to trade as pedlars, hawkers or speculators in livestock and produce outside their residential areas (Kahn 1983:104-105).

Kahn emphasises that the reason for such legislation was that "expansion and development of business was discouraged in the hope that Black entrepreneurs wishing to expand their

1955-1968

(h)

businesses would be forced to establish themselves in the homelands" (Kahn 1983:104-105). Two further restrictions were added to the above in 1968.

- (h) the requirement that the trader had to run the business himself, with the risk of losing his licence if he was absent from the business for more than three months.
- i) the power of the Administration Board to terminate a trader's rights if he sold or delivered merchandise or produce to other population groups outside the township,<sup>1</sup> if he was thirty days in arrears with his rent or if he did not undertake repairs to the shop building within three months of the township manager's request to do so (Morris 1980:109).

Certain of these restrictions have now been lifted. In 1976 (Government Notice No R764) the range of businesses in urban black townships permitted was increased to twenty six from the original seven, and in November 1977 (Government Notice R2292) the number was increased to sixty six. It was stipulated in 1976 that in addition to fulfilling the requirements for residence in an urban area, the trader should also have a citizenship

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1. This is clearly one of the factors responsible for the virtual non-existence of sub-contracting.

certificate for his respective homeland<sup>1</sup> before he could be allotted a site. Following urgent representations from Nafcoc (the African Chamber of Commerce), however, in the wake of the political instability associated with the Soweto riots this was lifted in 1977 (Southall 1980:152).

Morris (1980:109) draws attention to the requirement that, since "no person can carry on any business other than that specified unless a site has been allotted to him for that purpose by the Board... the Board is the overriding authority for the approval of any trade or business, whether commercial, service industry or manufacturing".

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1. The danger of this seemingly innocuous provision is explained by Chaskalson and Duncan and should be borne in mind although it does not apply to KwaMashu which is within a bantustan. "Black citizens of the Transkei, Bophuthatswana, Venda and the Ciskei lost their South African citizenship when those territories became independent. Citizenship of such territories depends on ethnic origin and not necessarily on residence, domicile or choice of the individual concerned... The first generation of homeland citizens have retained the rights and privileges to which they were entitled, as South African citizens, and can qualify for urban residence, and employment in urban areas under Section 10 of the Urban Areas Act. But this right does not pass to their descendants and under existing legislation they will be classified as foreign blacks. This means that children of persons classified as citizens of, say, Bophuthatswana, who are born after independence and brought up in Soweto, may have no right to remain in Soweto" (Chaskalson and Duncan 1984:20 & 21). Thus by registering his citizenship of an 'independent' 'homeland' in order to qualify to operate a business a man jeopardises his children's right to remain in the area in which they were born and bred. The State President has very recently (September 1985) announced that citizens of the Bantustans will be permitted to retain their South African citizenship but the above gives some indication of the legal uncertainties which are part of life in the urban townships and which influence decisions regarding commercial undertakings.

see 10014

Other important changes include the decision in 1979 that partnerships in which Blacks hold at least 51 percent of the shares would be permitted. It was hoped that this would help to overcome the shortage of capital in black areas. The Riekert Commission (1979) recommended that a trader should be able to acquire more than one trading site, and that he should not be required, personally, to exercise supervision over his business.

94  
3.

The way in which the state controls the informal sector in South Africa is to be found not only in the explicit legislation pertaining to such activities but also in the fact that urban blacks are required to reside in rigidly controlled townships from which they may be summarily expelled. Urban residents, according to Section 29 of the Urban Areas Consolidation Act, if found to be 'idle and undesirable', may be sent to a prison farm for up to two years and be stripped of their urban rights. A criterion for determining 'idle and undesirable' is that the person is unemployed and has spent less than 122 days of the past year in lawful employment (Omond 1985:112). This makes it likely that the male head-of-household would prefer formal employment and consequently relegate informal activities to a subsidiary role.

4.

The Group Areas Act, a cornerstone of apartheid policy, is arguably the most important piece of legislation affecting the development of the black informal sector and its transition to small formal sector businesses. This Act, by dividing the

population into spatially separate 'racial' groups,<sup>1</sup> requires that black businesses are located only in black residential areas, despite the fact that the vast majority of blacks work in white areas and spend their money there. It also prevents their operating businesses that serve white, Indian or 'coloured' clientele in their segregated residential areas and limits the market of black informal sector operators to those in their vicinity, most of whom have very limited buying power<sup>2</sup>. The success of the recently introduced 'free trade areas', indeed the extent to which they will operate, has yet to be determined. Since whites were not free until 1985 to enter black townships without permission from the Township Manager, and since blacks selling in white areas would require licences, these areas formed virtually discrete universes. Furthermore, the whole ethos of apartheid has created an atmosphere in which most whites prefer to have as little contact with blacks as possible and social distance and racial stereotyping minimise the likelihood of whites going into black areas in order to shop.

5. Apart from the controls contained in legislation, there are further controls which have to do with town planning standards, the allocation of sites, licensing, and health by-laws. These

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1. This does not mean that socio-economic residential segregation does not exist elsewhere but, not being legally enforced, it does not have the same detrimental effect on marketing as in South Africa.
  2. The Survey of Race Relations (1985:126) gives the following average monthly household incomes for 1982: - white R1380; coloured R548, Asian R819 and African R204.

(B)

form part of the administrative controls and they, too, serve to impede the transition from the informal to the formal sector. A particular difficulty with such controls is that they:

"...were formulated for a highly urbanised society having a high standard of living. They are unrelated to the real needs and level of resources of a large proportion of Soweto's population. They are thus difficult to enforce and most of the informal activities are entirely uncontrolled. Their enforcement also inhibits the development of enterprise" (Morris 1980:111).

This applies equally to other townships such as KwaMashu.

A further point not considered when applying to poor areas town-planning norms developed for those with high living standards is that the quota of one grocer per 500 families is very different in a wealthy area compared to a poor area, where people generally lack their own transport and need to buy perishables daily because of the lack of refrigerators. The fact that a quota system limits the numbers of grocers, fish friers etc. means that those who have the potential to formalise may simply remain informal because of these difficulties. (Since town planning regulations determine where shops should be located, which is not necessarily where market forces would locate them (eg. close to the compounds or near stations) those trading illegally from their homes may well prefer to remain, illegally, on such a site rather than be allocated a less favourable one.)

6. The way in which laws are administered is an important aspect of the problems confronting the informal sector. The differing interpretation of laws by officials may result in uncertainty which may severely hamper the development of the informal sector

(see National Manpower Commission 1984:30; and Dewar & Watson 1981:76). The Riekert Commission (1979) found that the administration boards, when allocating a site, considered such things as the real need for such a business, the availability of a suitable site, and whether the applicant had sufficient capital and expertise. They thus had the scope to turn down applications on whim (Halse 1984:23). There are not clear cut criteria for any of these stipulations and so the decision is an arbitrary one which will certainly vary from one Community Council to the next and does allow for the possibility of favouring one applicant.

The application for a hawker's licence also involves the applicant in lengthy encounters with administrative red tape.<sup>1</sup>

### Summary

From this brief examination of the legal and administrative restrictions on independent economic activity of township residents it appears that such limitations serve two main functions:

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1. The procedure involved in obtaining a hawker's licence permitting sales in the white areas of Durban is still more complex. It is necessary to advertise in the English and Afrikaans Press, which costs about R65. The various application fees cost about R25. Licence fees vary from R1.65 to R82 depending on the merchandise for sale. If motor vehicles are used these have to be registered with the City Medical Officer of Health. The trader does not, however, gain much freedom by going through the licensing procedure and paying the costs involved. The hawker may not remain at one location for more than 15 minutes nor may he sell within 25 metres of a shop which sells similar goods (**The Daily News** February 5, 1985 : The Jobber p.1).



1. They prevented blacks establishing businesses which could in any way compete with white businesses (even for black trade) (see Southall 1980:38 & 41). (Thus a clear purpose of the legal and administrative machinery was to protect the interests of white capital: by preventing the development of black urban petty commodity production, creating a class of wage labourers dependent on wage employment, and making available to the capitalist sector a large pool of labour.)
2. They drove blacks with entrepreneurial ambitions to the bantustans. This was intended to serve the important ideological function of reversing the flow of blacks from rural to urban South Africa thus shoring up the bantustan political structures by developing a politically important homeland petty bourgeoisie (Southall 1980:43 and, Halse 1984:13 and Kahn 1983:104-105)

Within the past few years there have been important indications of changes in state policy which indicate the encouragement of an urban black bourgeoisie. This is indicated by the lifting of prohibitions on white capital in the townships,<sup>1</sup> permission for blacks to own

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1. This has two important implications. By providing capital for very successful informal sector enterprises it could provide a route whereby they could formalise. More importantly, however, by assisting in the success of certain enterprises it creates increased competition for the struggling informal enterprises who lack this access to capital, expertise and wholesale inputs.

bottle stores<sup>1</sup> and the general increase in the range of businesses open to blacks. It is essential here to bear in mind the temporal aspect, however. If this had been the position in the 'forties and the 'fifties, before white capital held the massive monopoly it now exercises over the economy, there might have been some possibility of black participation other than as a proletariat, perhaps particularly in trade. Today the extent of the monopoly stranglehold of capital, and the relegation of blacks firmly to the proletariat, make black embourgeoisment far less likely than it might have been forty years ago. South Africa has moved in the past forty years very largely from the competitive to the monopoly level of capitalism. An example of this is large supermarket chains phasing out corner cafes. Thus small traders, and petty-manufacturers, who could perhaps have participated on a competitive basis at the early stage of economic development are quite unable now to compete efficiently with those entrenched in the monopoly level of capitalism. In a sense, therefore, they may have 'missed the boat' and may never be able to redress the imbalance.

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1. An example of this is the 1980 decision that liquor licences could be issued to Blacks and also that the re-zoning of residential premises should be considered to allow for the legalising of a large number of shebeens. The private sector and state monopolies may well influence such government decisions. Thus part of the reason for the lack of opposition to the issue of liquor licences was that the administration boards no longer expected to raise much of their income from their monopoly of beer sales. In the past such sales had provided much of the motivation for the prohibition on liquor sales by blacks. Also significant may be the role played by the liquor industry in the amendment of the above legislation as they would probably see the increased liquor sales resulting from the legalising of shebeens as advantageous.

## Conclusion ✓

In the South African context it is evident that there has been a long history of repression of the informal sector by the state (particularly) but also by capital. There are some indications that this is now changing (see the National Manpower Commission 1984) but as Chapter Six will show this change may be more apparent than real.

## CHAPTER THREE

### METHODOLOGY

#### Summary

Initially this chapter focuses on KwaMashu, the township in which the fieldwork is conducted, in order both to locate the study historically and to show that social control militating against both informal settlement and informal economic activities was an important factor in its origin. The rest of the chapter is devoted to an in-depth exposition of the two research methods, case studies and random sample questionnaire surveys, on which this fieldwork is based. The main concern is to establish that insights are obtained from both methods: they are not mutually exclusive. Details of the methodology employed in both instances is then discussed briefly. The focus then falls on the problems encountered during the study. Problems of definition and accuracy are discussed, and comparisons are made with other studies where appropriate. Attention is also directed towards the difficulties inherent in the interviewer-interviewee relationship.

## CHAPTER THREE

### 3.1 The Origins of KwaMashu

KwaMashu, seventeen kilometres north of Durban,<sup>1</sup> was developed as a ~~relocation site~~ for those who had lived in the crowded 'shack farming' area of Cato Manor, only four kilometres from the centre of Durban, in the late 1950's. Maylam (1983) shows that these settlements resulted from rapid industrialisation in the war years which accelerated the need for labour, while the growing impoverishment of the reserves forced people out of the rural areas.

#### 3.1.1 Social Control

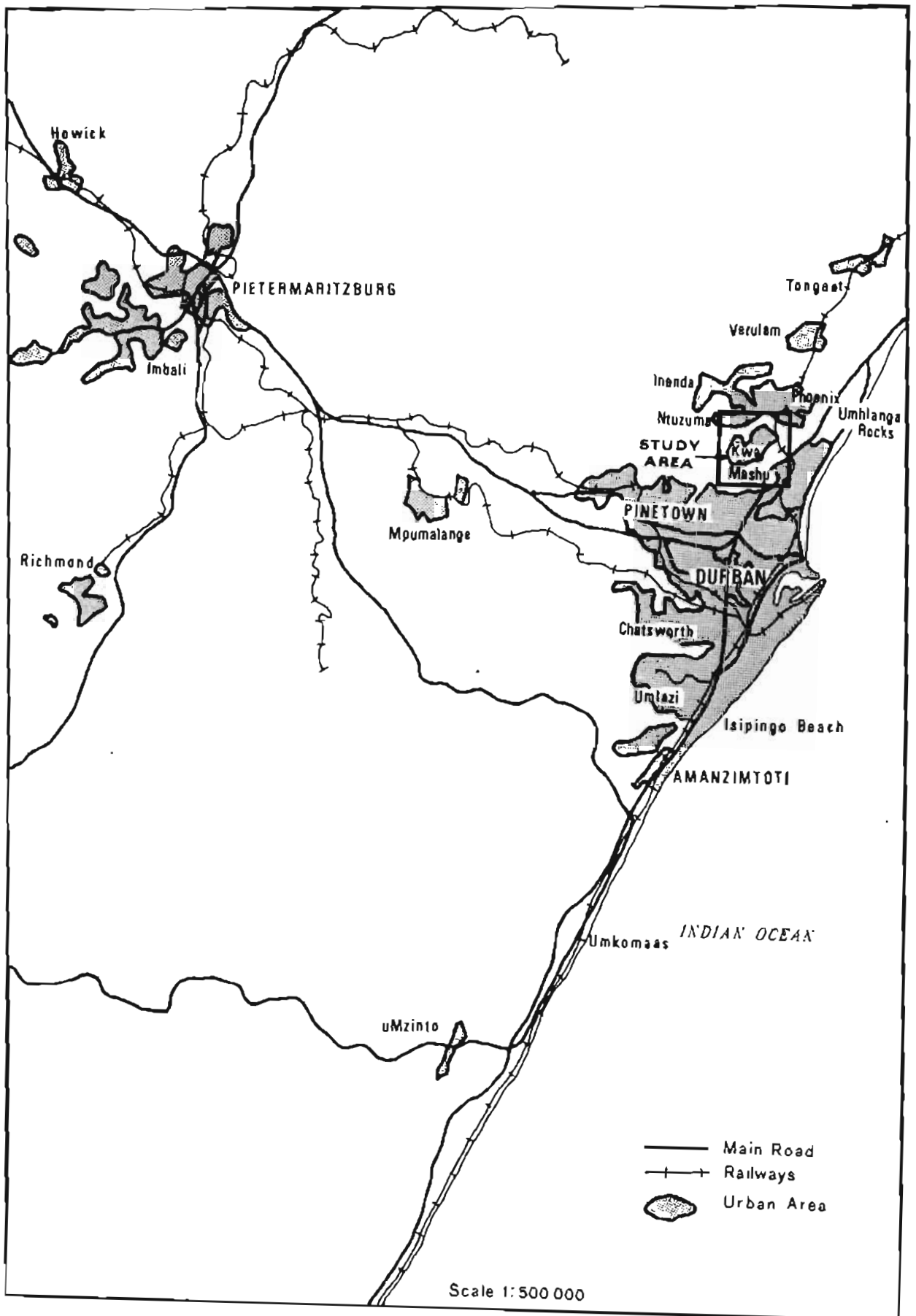
The expansion of shack settlements, while it had certain great advantages for the Durban municipality and for local industries in that it relieved them of providing housing and transport for their very necessary labour force, made it extremely difficult to exercise social and political control over this labour force. Herein lay a basic, and most vital, contradiction. But the fact that during the 1940's these areas mushroomed indicates that the demands of industry, and the importance of not burdening Durban rate-payers financially, took precedence over the need to maintain control.

The 1949 Durban riots drew attention to the aspect of control, and of the close proximity of Cato Manor to Durban. The passing of the Group Areas Act in 1950 further constrained the Durban municipality to provide a formal township. By 1958 the removals of Africans from Cato Manor to KwaMashu had begun. The process was rapidly accelerated in

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1. See map on page 99.

Map 1



Map Showing KwaMashu in Relation to Durban

✓

the wake of the unrest following Sharpeville in 1960. By 1966 almost all the shacks had been removed from Cato Manor.

Until the 1970's KwaMashu was under the direct control of the Durban municipality, and also, since it had to conform with the requirements of the Group Areas Act, under the indirect control of the central state. The desire of the central government to control black areas more directly resulted, in 1973, in the transfer of control from the Durban municipality to the Port Natal Administration Board, later called the Natalia Development Board. In 1977 KwaMashu was made part of KwaZulu.

((The removal of people from squatter areas to formal regulated) townships served the important function of increased social control.<sup>1</sup>

((Only people working in Durban had the right to a township house, and the right to remain was dependent on continued employment.<sup>2</sup>)) This

1. Squatter areas, because of the lack of roads and hence convenient access for vehicles, are much more difficult for the police to patrol than are townships. Further the fact that occupation of a township house is dependent on the township manager (unlike the situation in a squatter area) lessens the opportunity for unlicensed, possibly illegal, activities.
2. The use of the housing policy as an instrument of influx control is discussed by Chaskalson and Duncan (1984) as follows - "In 1968... regulations were passed which provided that occupation of houses in black townships in urban areas was to be subject to permit. Permits for family housing would be granted only to men qualified to be in the urban area in terms of section 10(1)(a) or (b) of the Urban Areas Act, who had work in the area and had dependents who lived with them. Others, who qualified in terms of Section 10 to be in the urban areas, had to find accommodation as lodgers or in hostels. Permits for family housing could be cancelled on 30 days notice for a number of reasons including, until 1979, the unemployment of the permit holder for a continuous period of 30 days" (Chaskalson and Duncan 1984:13 & 14). Further, although in 1979 the stipulation that the permit holder had to be in employment was rescinded, people continued to feel that their right to occupy a house depended on formal sector employment, since "The powers of the location superintendent are vast and could be exercised in an arbitrary fashion" (Chaskalson and Duncan 1984:17).

fulfilled the important ideological criteria, outlined years earlier by the Stallard Commission (1922), that blacks were in white areas only to supply labour to whites. It also meant that any black who did not conform to the norms of those in authority could be forced to return to the rural areas<sup>1</sup> - a sword of Damocles, indeed, considering the increasing poverty of rural South Africa.

### 3.1.2 Financing KwaMashu

The fact that Durban Corporation "adamantly refused to use rate payers' money to provide accommodation for Africans... (while) employers argued that the general borough fund should bear the burden," (Maylam 1983:418) meant that African housing was financed chiefly by funds from the sale of beer, and partly from rentals. The result was a gross shortage of formal housing for blacks in Durban as well as inferior infrastructure and social services. A further result, with considerable bearings on the development of the informal sector, was that the police hounded those involved in shebeens since they affected the Board's liquor sales. Since income for the administration of the township was also derived in part from the issue of trading licences the Board went to considerable lengths to stop

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1. This is confirmed by Bishop Tutu (1985). "All blacks live in a constant state of uncertainty. It is not just illegals - every black, even a 'section tenner', has no real security of tenure. Even I, a Bishop in the Church of God and General Secretary of the South African Council of Churches, have no security". Tutu in Giliomee and Schlemmer 1985:280).



sales by illegal hawkers and others involved in informal sector activities (Manson 1981:12). Township income continues to be derived in part from licences.

### **3.1.3 Shack Settlement versus Formal Township**

Despite the undoubtedly poor living conditions, there were certain "advantages and opportunities to the inhabitants" (Maylam 1983:418) of living in shack settlements. These were that:

1. residents were free from the strict regulation and control exercised by the authorities in municipal institutions.
2. accommodation was cheap and transport inexpensive.
3. informal settlements offered enormous scope for informal sector activity:

"Petty entrepreneurs operated as unlicensed traders, hawkers, painters, backyard motor mechanics or shack builders... The settlements themselves offered business opportunities and the proximity to central Durban enabled women in particular to take on work as domestic servants or washerwomen. But the biggest business of all was illicit liquor dealing. Although police raids were conducted, the relative absence of control allowed for both the manufacture and sale of liquor... There was also a small class of African landowners" (Maylam 1983:418-419).

Thus the removal to KwaMashu meant that :

"probably one of the most fundamental changes in the lives of most KwaMashu residents was that they were subject to a barrage of rules and regulations that controlled their everyday activities ... Thus the residents found KwaMashu very different from the informal and unstructured existence of Cato Manor. In addition the neighbourliness and familiarity of life in Cato Manor was replaced with alienation and unfriendliness" (Manson 1981:12-13).



Manson comes to the interesting conclusion that by depriving many in the informal sector of their livelihood (most especially beer brewers and shack landlords) "the imposition of official control forced many thousands into the labour force" (Manson 1981:14). He attributes the co-operation of organized business with the Durban City Council in the resettlement of Cato Manor residents to the knowledge that their labour supply would be augmented in this way.

### Summary

This brief discussion of the origins of KwaMashu illustrates very clearly that the Stallard Commission's (1922) principle that blacks are in urban areas only to provide labour for white industry (Manson 1981:11) was a basic factor underlying the need for formal regulated townships in the eyes of both state and capital. Since the function of urban blacks was solely to provide labour it followed that any other activities, such as self-employment, would not be tolerated as blacks not in wage employment were not meant to be in the townships at all. Yet an informal sector does exist in KwaMashu so the state's plans have been circumvented.

### 3.2 Fieldwork

The fieldwork in KwaZulu applied two rather different methodologies - a structured questionnaire, in the administration of which random sampling techniques were used, and case-studies using open-ended

interviewing techniques of people who, having been introduced, volunteered to be interviewed. The techniques used and reasons for using these approaches will be examined before proceeding to the problems encountered in the research.

### 3.2.1 Structured Questionnaire

The questionnaire<sup>1</sup> was divided into two sections dealing with:-

Section A: Household characteristics

Section B: The characteristics of informal sector activities.

Questions in Section A were asked of everyone interviewed in order to ascertain household characteristics of the entire sample (those not involved in informal sector activities as well as those who were involved). The first two questions relating to the time period the respondent had lived in KwaMashu and in a particular house were used to test Todaro's (1976) hypothesis that informal sector operators are largely recent migrants to the city.

Question 3, sought to establish a 'degree of affluence index' by establishing whether the respondent owned a car, fridge, freezer, T.V. set, or garage and operated a bank or building society account. Question 4 was closely allied to Question 3 since it was also used to establish a degree of affluence index based on types of housing tenure.

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1. See appendix

Question 6 obtained information on socio-economic variables for each adult household resident. Detailed information as to age, sex and education for dependent children was not felt to be relevant to this study and so Question 7 simply established the number of such children resident in the household and their relationship to the head of household.

Section B referred solely to informal sector earnings and the discussion in Question 6 regarding type of employment and income provided an entré to this section.

Question 1 in Section B referred to income obtained from renting out rooms to lodgers. Question 2 referred to production activities, question 3 to redistribution activities and question 4 to service activities. These questions were intended to elicit detailed information regarding the particular activities and covered the period of involvement, previous employment history, location of activities, family employment and employment of others, details of history of involvement, sources of capital, source of inputs, markets, transport, job preference, problems, possibilities of outside assistance and income.

The questionnaire was based on insights and understandings gained from the open-ended interviews (see 3.3) and from experience gained from the pilot survey.

During the first ten weeks of the survey all respondents (whether engaged in informal sector operations or not) were interviewed

regarding the demographic aspects of the survey.<sup>1</sup> In the eleventh week, in order to increase the number of interviews with the informal sector, people were asked at the outset whether or not they were involved in informal activities and only those so involved were interviewed. The response in this final week was not used to assess the extent of participation in the informal sector at KwaMashu.

### **3.2.2 The pilot study**

A pilot survey of 209 households in KwaMashu was undertaken in March 1983 and alterations were made to the initial questionnaire as a result (see Appendix for both questionnaires). Questions 1 - 5 were found to work satisfactorily and were retained, but alterations were made to Question Six.

The alterations included the following:

- (i) It was felt that detailed information regarding age, sex and level of education of dependent children was not required and so the question was altered to include simply the number of such children.
- (ii) In the questions relating to adults a question was added regarding place of birth since it had been found that people frequently return to their birth areas to sell goods. Thus the question was pertinent to marketing activities.

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1. These are questions which are relatively straightforward for respondents to answer. Answering them first made respondents more at ease with the interviewer.

- (iii) The two questions "Where do you work? Local/elsewhere" and "If not local: Daily commuter or long term migrant" were reduced to one question of "Where do you work? KwaMashu/Durban/Elsewhere (specify)" since it was found that most people in employment were working in Durban and this one question adequately covered the possibilities.
- (iv) In question 6 "How much time unemployed in 1982 or since leaving school" was eliminated as the response indicated that people clearly found this difficult to assess.

In Section B it was found necessary to make fairly substantial changes to the questionnaire.

- (i) The format of questions 2 and 3 (on 'production, repair, maintenance and transportation' and on 'redistribution') was altered as a result both of the pilot survey and the open questionnaire survey (see 3.3) since it was found that a pre-coded type response, as in the pilot study, restricted excessively the choice of answers.
- (ii) It was found to be unnecessary to allow for the possibility of ten informal sector operations per house as even when there was more than one activity these activities generally fell into different categories.
- (iii) A separate question page was provided for 'production', 'redistribution' and 'services' to facilitate ease of questioning.

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- (iv) In the pilot study the question "What kinds of things do you sell?" allowing for a response of 'foodstuffs, household utensils, household consumables, garments' was found to provide insufficient information. For example, under 'garments' it did not specify whether they were second hand or new, and under foodstuffs whether it covered liquor or only food. An open question of "What kind of things do you sell?" was therefore substituted.
  - (v) A question was added regarding assistance by family members since the pilot survey showed that this occurred though no provision had been made for it.
  - (vi) In all three sections questions were added on "Do you prefer working for yourself or would you work for someone if you were offered a job? Why?", "What are the biggest problems in this work?", "What could help you in your work?" since the changed format allowed for the possibility of 'opinion-expressing' replies and because the pilot survey interviewer mentioned people's readiness to respond to this type of question.
  - (vii) A question regarding the role of credit in both buying and selling and one regarding the source of capital was included in the questionnaire largely as a result of information obtained from the open questionnaire.

### 3.2.3 The sampling procedure

In order to generalise the findings of the sample survey to the entire KwaMashu area, the survey was based on a random probability sample.

A detailed 1:60 000 map of KwaMashu (see page 110 for a reduced copy of the map) showing the 11 areas (B to M excluding I which is commercial and A which is the contract workers' compound) was obtained from the Natalia Development Board. This showed streets and individual plots and gave house numbers. It was possible by using random sampling tables to draw 43 numbers from each of the 11 areas thus ensuring geographical coverage of KwaMashu. There are some 300 000 people living in KwaMashu (Manson 1981:10). If respondents were not at home repeated efforts were made to contact them, including evening visits, as otherwise people operating in both the formal sector and informal sector, or those with informal sector activities away from home, were likely to be overlooked. Wherever possible the head of household was interviewed, but if this was not possible an adult member of the household was the respondent.

Four hundred and seventy-nine addresses were drawn for KwaMashu. Of these it proved impossible to contact sixty-seven - largely because they were not residential addresses but sites set aside for schools or churches. In a few instances repeated attempts, at least three including evening visits, found nobody at home. In a very few instances people declined to be interviewed. In 248 cases, of the 412 interviews which took place, nobody in the household was involved in any kind of informal activity and in 164 cases a member of the household was involved in informal sector activity.



Map 2



MAP OF KWAMASHU SHOWING SECTIONS USED FOR RANDOM SAMPLING

### **3.2.4 The Interviewer**

The interviews were undertaken by a third year male university student who is resident in KwaMashu. This obviated any language difficulties and his knowledge of the community was regarded as an asset encouraging people to respond more freely. He had previously interviewed people in informal sector activities for Dr P. Wellings of the Development Studies Unit so had acquired experience in questionnaire methods and in understanding the informal sector.

The interviewer played a role in drawing up the questionnaire as he had participated in the earlier pilot study and his insights were felt to be valuable. This role helped to make him more closely involved in the research. For the duration of the project the author met him weekly in KwaMashu to discuss difficulties and probe for new angles; deal with problems in the questionnaire (so that when he needed to return to a respondent in order to clarify a point it could be done without delay); and in order to maintain a close working relationship between the researcher and the interviewer.

## **3.3 Open-Ended Questionnaire**

### **3.3.1 Reasons for Undertaking Qualitative Research**

Patton (1980:28) pointed out a major advantage of this technique:

"The purpose of gathering responses to open-ended questions is to

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enable the researcher to understand and capture the points of view of other people without pre-determining the points of view through prior selection of questionnaire categories" .... "The data are collected as open-ended narrative without attempting to fit program activities or people's experiences into pre-determined standardised categories such as the response choices that comprise typical questionnaires or tests" (Patton 1980:22).

Patton stresses that the debate focuses not on the superiority of either quantitative or qualitative methods but that "different methods are appropriate for different situations" (Patton 1980 p.19) and that

"the hypothetico-deductive, natural-science paradigm aims at prediction of social phenomena; the holistic-inductive-anthropological paradigm aims at understanding of social phenomena".

He regards it as a problem for research design that:

"the very dominance of the hypothetico-deductive paradigm with its quantitative experimental emphasis appears to have cut off the majority of its practitioners from serious consideration of any alternative research paradigm or methods. The label 'research' has come to mean the equivalent of employing 'the scientific method', of working within the dominant paradigm. There is, however, an alternative" (Patton 1980:19).

While this part of the research in KwaMashu was of the open-ended interview type, rather than participant-observation research, it had many of the advantages noted by Teilhet-Waldorf and Waldorf (1983) who point out that participant-observation techniques allow the interviewer to gain 'in-depth knowledge' and to 'look behind' statistical findings. Teilhet-Waldorf and Waldorf (1983:589) used both participant-observation and econometric methods in their study of Bangkok and elucidate the advantages of the former:

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"1. The quality of the data - especially on income - is a good deal more reliable than it would have been if we had used a survey questionnaire.

2. (Because of the in-depth knowledge gained from working closely with informants over a year, we can 'look-behind' our statistical findings in interpreting the results.

3. For the reasons just stated one learns how to ask questions. The primary cost of relying on participant-observation is that they are very time intensive and, consequently, our sample is much smaller than we would like. In effect we have traded off a lower response error for a higher sampling error; judging from our experience it was a necessary trade. Another obvious cost is that participant-observation studies are, by their nature, a purposive sample because the observed have to be willing to participate."

Other interesting examples of the case study methodology, with relevance to informal sector studies, are on artisanal bakeries in France (Berteaux and Berteaux-Wiame, 1981); street occupations in Cali (Bromley and Birbeck, 1984); a Jakarta street trader (Jellinek 1977); and an autobiography of a bottle-buyer (Rusque-Alccimo and Bromley 1979). A study with particular relevance for policy decisions is one by Mars (1977).

In the KwaMashu study both research paradigms were utilized as each complements the other. Qualitative methods were used initially to establish a basic understanding of the informal sector in KwaMashu as presented by the interviewees and without predetermining the response categories. The results of these open-ended questions played a vital role in structuring the later random-sample structured questionnaire (particularly, as noted in 3.2.2, in altering the format of the pilot survey questionnaire to facilitate a wider and more detailed response than is possible in a pre-coded questionnaire). The role of credit,

the source of capital, family involvement in informal sector activities and the importance of close rural ties in providing markets (both to avoid urban competition and because of greater ease in recovering money) were points raised by the open-ended questionnaire which were then included in the structured questionnaire.

### **3.3.2 The Translator**

In order to obviate language difficulties, particularly regarding fine nuances of meaning, a qualified nurse, who was at the time working on the third year of a nursing degree through Unisa, acted as translator. As she was resident at KwaMashu she was invaluable in establishing contact with informal sector operators as in this section of the fieldwork random sampling techniques were not used. As a qualified nurse and university student her English was of an extremely high standard and so she was able to express clearly fine shades of meaning in what she translated. Nursing experience together with experience in running her own household and looking after children as well as a deep and obvious interest in people enabled her to empathise with respondents (especially as a high proportion of respondents were women) and so elicit responses. The fact that the translator was familiar with the 'lived experience' of those being interviewed enabled her frequently to ask a question which the researcher would not have considered - at the same time the fact that the author was removed from the situation and had carefully surveyed the literature on the subject enabled the author to question things which the translator would have taken for granted.

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### 3.3.3 Establishment of Contact

Certain of the respondents were introduced by the translator since in this type of research it is necessary to establish relationships of trust based on personal relationships and introductions in order to elicit the information required.

✓ A major source of contacts was an elderly woman whom the researcher has known for over twenty years and who is involved in making clothes and selling second hand clothes. On being approached for an interview she volunteered to introduce friends and neighbours. These people responded openly and willingly as a result of her personal recommendation and because they had volunteered to be interviewed. It was clear, as it was from the later questionnaire survey, that people co-operated at least partly because they were pleased that somebody was taking note of the difficulties inherent in their situation and the hope that ultimately an exposure of their difficulties might lead to some amelioration of their problems.

The great majority of these thirty two respondents - largely because of the way in which they were chosen - were women involved particularly in sewing and handicrafts but also in the redistribution of clothes (new and second hand) and of fresh produce and groceries. It is interesting to note, however, that women in these occupations also formed the great majority of the randomly sampled research and so this method, in this instance, proved far more representative than the method of making contact would have indicated.

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### 3.3.4 The Open-Ended Questionnaire

A list of the questions covered is included in the Appendix but it should be noted that they were not necessarily followed in this order and the flow of the response was not interrupted. The duration of these interviews varied widely as no effort was made to expedite the proceedings and every effort was made to establish a leisurely, relaxed relationship rather than a brisk soliciting of information.

The tone of the interview was informal and stress was laid on encouraging the interviewee to talk thus recording replies in her/his own words and not on a pre-coded sheet. This type of interviewing proved to be stimulating as well as extremely demanding since all possible leads and statements which did not correspond had to be explored further.

### 3.3.5 The Time Perspective

The personal nature of these visits and the establishment of a friendly relationship permitted return visits to most of these respondents three months later in order to investigate and monitor changes in their informal sector activities.

The availability of loans from the Small Business Development Corporation (discussed in Chapter Six) was of great interest to many respondents according to both the open-ended interviews and the random, structured questionnaires. Putting these people into contact

with the SBDC and, over six months, monitoring the ways in which they utilised the loans, presented a useful opportunity to gain a time perspective of some of the informal sector activities and an indication of the development potential of the sector.

### **3.4 Interviews Other Than with Informal Sector Operators**

#### **3.4.1 Interviews with Tenants of KDC Small Factory Units**

These interviews were conducted in order to trace the progress and examine the difficulties of those who made the transition from successful informal sector operators to the lower rungs of the formal sector ladder. Questions were of the open-ended type, basically following the questionnaire in the Appendix, but the schedule also included questions concerning their involvement in the small factory units and the advantages and disadvantages of the transition.

#### **3.4.2 Interviews with Government Officials**

These interviews were with an official at Natalia Development Board headquarters in Pinetown in order to obtain a map of KwaMashu, and also with the township manager of KwaMashu in order to obtain written permission to conduct research in the area for a year. The interviews were valuable in providing insights into the perceptions of the informal sector of those in positions of authority. At this stage it will suffice to note that the township manager was certain that there were virtually no informal sector activities and that those 'few' people involved in sewing and knitting activities were being assisted





by the KDC to expand and formalise these activities. An interview with the KwaMashu police station commander was undertaken in order to establish the attitude of the police to unlicensed economic activities and the circumstances in which people were charged or simply warned.

#### **3.4.3 Interviews with the Small Business Development Corporation Officials**

The SBDC initiated in 1982 a 'revolving loan scheme' which makes loans of up to R2 000 available for a maximum of a year at one percent interest a month. These were initially to be administered by the local Chambers of Commerce (see 3.4.4). In April, 1984 however, the SBDC established an 'Infant Enterprises Unit' specifically for these small loans. Interviews with the officials involved in administering these loans, as well as actual involvement in contacts established between KwaMashu informal sector operators and SBDC officials, provided a valuable perspective on the officials' understanding of the informal sector.

#### **3.4.4 Interviews with the Chairman and a Member of the KwaMashu Chamber of Commerce**

Since the chairman was involved in administering the SBDC 'revolving loan fund' it was necessary to interview him. This was of great value in clarifying the way in which those who were involved in more lucrative formal sector operations perceived the informal sector operators.

### **3.5 Problems Encountered in the Research**

#### **3.5.1. Problems Encountered in Sampling**

Repeated visits to houses drawn in the random sample, if the householder was not at home initially, was rewarded by a high response rate. However 12,5 percent of the sample initially drawn could not be used since they included vacant or church sites, or three return visits failed to find anyone at home. Additional sample numbers had then to be drawn. Only three respondents totally refused to give information, a further two gave information of limited value and two said they had already answered similar questions and saw no point in co-operating.

#### **3.5.2 Difficulties in Comparing Results with Other Studies**

Since a major purpose of empirical research is to increase the data available to all researchers and theorists concerned, it is vital that such data should be comparable from study to study. Differences in the estimated size of the informal sector by different researchers may result from differences in method of sampling, the definition of the term 'informal sector' and of the interviewing technique and may seriously affect the theoretical conclusions drawn from the empirical findings. Decisions regarding sampling, definitions and interviewing techniques require, therefore, thorough awareness of the decisions of other researchers.

### 3.5.2.1 The Size of the Informal Sector

This survey found that 41 percent of those interviewed were involved in informal sector activities while Wellings and Sutcliffe (1984:521) estimated 50-60 percent of households in KwaMashu had at least one member in the informal sector and Morris (1980:114) in Soweto estimated that 1 in 10 households participate in the informal sector.

### 3.5.2.2 Problems of Definition

#### (a) Definition of 'informal sector activities'

In questioning respondents the actual question used to ascertain informal sector involvement was "Apart from regular employment, do you or any member of your household earn money by renting out rooms; making, repairing or transporting things; buying and selling goods?" The wording therefore might fail to identify individuals actually **employed** in informal sector activities. However in Section A Question 6 of the questionnaire a question was asked regarding the employment of each adult member of the family and since this too failed to reveal informal sector employment, it indicated that wage employment in the informal sector is in fact extremely low in KwaMashu.

Other studies of the informal sector do not give the exact wording of the question asked to determine whether or not people are involved in such activities and this difficulty of precise meaning of terms may well affect the estimate of the size of the sector. This difficulty

was unintentionally demonstrated empirically during the course of the survey. In the final week when the question regarding informal sector involvement was asked at the very outset (instead of after much information about the family and work involvement had already been elicited) it was found that the percentage of informal sector involvement dropped to 31,5 percent. Experience in the field indicates that respondents frequently do not fully appreciate what is meant by "apart from regular employment do you or any member of the family earn money from other activities", or they regard such activities as too minor to be of interest. Frequently a knowledge of the family, their ages and occupations, permitted a probe to uncover an informal sector activity whereas a direct question before any interviewer-interviewee rapport had been established was more likely to be answered in the negative. It is also likely that respondents became more trusting towards the end of the interview.

(b) Definition of the terms 'production', 'services' and 'trade'

Activities within the informal sector are frequently disaggregated in the literature into 'production' or manufacturing, 'trade' or redistribution and 'services'. These terms, however, are taken to be self-explanatory and researchers seldom define their terms and this leads to difficulties in comparison of results.

Dewar and Watson, (1981:58) working in the vicinity of Cape Town, estimate "66 percent in retailing, 26 percent in production and 8 percent in services" without giving the criteria for this breakdown. Rogerson and Beavon (1982:256-257) in Soweto stress "the greater importance of activities concerned with services and distribution



rather than those with direct production". They include 'shebeens' in 'services' together with 'barbers, pirate taxis, photographers, traditional healers and garbage pickers'. They see production as including 'building construction, artisans, shoemakers, tailors, wood carvers, garment makers and beer brewers'. 'Distribution' includes processed and unprocessed food together with soft goods. Fowler (1981), on the other hand, in his Freetown study includes restaurants and hotels in 'trade', and repair services under 'services', while 'manufacturing' includes food.

Thus Rogerson and Beavon (1982) would include processed food as 'distribution', while Fowler (1981) would class it as 'manufacturing', and they regard shebeens as a service while in the KwaMashu survey this has been classified as 'distribution' since the inputs are bought and then re-sold.

### 3.5.3 Problems of Accuracy



#### 3.5.3.1 Income

Difficulties were encountered in obtaining reliable figures for the monthly salary of each member of the household. This was partly because the interviewee (seldom the male head of the household) did not know the exact figure and gave an approximation but also because the information was frequently regarded as sensitive (see 3.5.3.4). This was because the respondent either did not wish the interviewer (a well spoken, assured young man) to know how low a salary he/she was able to command or, at the other extreme, was hoping to draw attention

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to his impoverishment in anticipation of its being ameliorated. To facilitate ease of response, respondents were given a range of income levels to choose from and they generally appeared to respond better to this approach.

#### **3.5.3.2. Contributions to Household Income**

It was felt that apart from the head of household and his spouse, it was unlikely that other members of the household would contribute their entire income to the household budget. An attempt was made therefore to estimate how much of their incomes other household residents contributed. Although a figure was generally given here it was clearly difficult for the respondent and was at best a very arbitrary estimate. It emerged in discussion that a regular sum is very seldom handed over for the household budget but that the amount differs depending on the particular needs of the household and the individual at a particular point in time and so generalisations cannot be made.

#### **3.5.3.3 Urban-Rural Remittances, and Vice Versa**

No question was specifically asked about contributions to the household budget received from family members working elsewhere, or on the other hand about remittances from the head of household (or other members resident in the household) to support rural households. However, the open-ended interviews conducted prior to this survey, while revealing close ties and frequent visiting between rural and

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urban areas, gave no indication of regular money transfers from urban to rural areas, or vice versa. This does not mean that such transfers never occur but rather indicates that they do not occur on anything like the scale or with the regularity of those from migrants living in compounds and supporting a rural family. A pre-condition for renting a township house is the marriage certificate of the head of household (and for a widow, the production of the death certificate of her spouse) since this is taken by the authorities to indicate a stable economic unit rather than a temporary liaison of a man whose economic commitment is in the rural areas. This is further indicated by the fact that residents have on average lived in the same house for twenty-two years. This does not preclude the possibility of a man having both a rural and urban family, and thus reducing considerably the income available to his urban family, but there was evidence of this in the survey in only two instances out of 412.

#### 3.5.3.4 Profit

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Informal sector operators generally appeared to find it extremely difficult to estimate their average profit each month. Again, as in Section 3.5.3.3 this may be because they considered it sensitive information and hesitated to reveal it. It appeared in the interviews, however, that the problem in estimating profit was a genuine difficulty, given the frequent absence of any records. People often used money as it became available, e.g. on pay day or on pension day, to buy inputs necessary for informal sector activities, and then used money obtained from informal sector sales directly for household subsistence purposes. Thus not only were they unable to accumulate



capital for re-investment but they were generally unable to estimate their profits.

Much time was spent by the interviewer endeavouring to establish costs of inputs and prices of outputs and allowing for costs such as transport in order to establish the profit margin. In many instances it was clearly the first time people had undertaken such an exercise and return visits to the open-ended interview group showed it had prompted some respondents to keep records for themselves. It is possible, though only once in the questionnaire responses was it mentioned, that fear of becoming liable for tax also made people reticent about disclosing their profit.

#### **3.5.4. Interviewer-Interviewee Separation**

It had been anticipated that interviewees would respond more readily to the interviewer alone, rather than with the researcher present, as they would not perceive him as being far removed from their situation. Skin colour was felt to be a highly visible interviewer characteristic which in a racially structured society such as South Africa would affect the establishment of interviewer-interviewee rapport. It was felt that the interviewees might perceive the white researcher as being so far outside the township situation that she would be unable to appreciate the realities. Furthermore, a desire to impress one of differing skin colour with one's ability to achieve could lead to exaggeration. Conversely, the desire to describe situations and problems to one whom, after long years of domination, is seen as more



likely to be able to effect change could lead to a distorted picture of the difficulties. On the other hand, the fact that many who seldom leave the township know whites only in the role of officials or the police, and even those who do work outside know them chiefly as employers, could well influence their decision as to whether to confide in such people.

The extent of the strangeness of inter-racial contact may be gauged by the fact that a number of people remarked that it was the first time a white had ever sat down in their house. There is no reason why township residents should readily and unhesitatingly attribute a benevolent rather than malevolent motive to such a visitor. Social distance between blacks and whites, a feature of South African life since the arrival of the first white settlers, has been heightened and manipulated during the past forty years by measures such as the Group Areas Act, Job Reservation and the Immorality Act among others.

A decision taken in the final week of interviewing, however, for the white researcher to accompany the black interviewer shed some light on this difficulty. The interviewer observed that respondents were in fact more, rather than less, co-operative. This was interpreted as being the result of the fact that respondents desperately wanted recognition of the levels of their poverty and the extent of their difficulties from one whom experience had taught them belonged to the 'power elite'. It was evident, however, that they were noticeably more reticent on questions with political implications in the presence of the white researcher.

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Some evidence of class rather than racial distance was observed in the reactions of respondents to a young, well-educated, apparently affluent black man granting loans on behalf of the SBDC. Respondents clearly felt his perspective was that of someone far removed from the exigencies of township life and in fact remarked that the very fact of his blackness made his lack of empathy far worse than that of his white colleague.

It had been anticipated that language difficulties might constitute a barrier between township residents and the researcher. Many township residents have a good command of English but this is frequently far better on topics in which they are in frequent verbal communication with whites and less fluent in areas such as personal aspirations and attitudes. This, too, is a reflection on the areas in which blacks and whites regularly interact in South Africa. Other township residents, however, particularly women who spend most of their time within the township (especially if their education was limited) were not able to communicate with a non-Zulu speaker. The black interviewer proved to be extremely competent as his mother-tongue is Zulu but his education, and particularly his university education, has made his English fluent.

### **3.5.5 Problem of Undertaking Participant-Observation**

Many of the difficulties discussed in 3.5.4 could have been overcome by participant-observation research techniques in which the researcher is fully accepted by the respondents as one of themselves. An example

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of such research would be a black academic undertaking employment as a labourer on a gold mine without his peers or employers being aware of his qualifications. (This method would allow insights from the perspective of the participants which cannot be adequately attained by any other method.) This kind of research is precluded in the KwaMashu survey by the skin colour, language and place of residence of the researcher. Without large-scale financial backing participant-observation research, using a paid interviewer, would be impossible: the length of time necessary to gain full acceptance would make it extremely expensive.

### **3.5.6 Problems Regarding 'Illegal' Activities**

In a very real sense many of the informal activities examined were illegal in that they required licences which the practitioners did not possess. The 'shack shop' operators, hawkers and particularly shebeen-keepers were regularly harassed by the police yet they consented to participate in the survey. Only one respondent admitted to dealing in dagga, but would not allow the interviewer to record details of the interview, and no-one admitted to earning money through prostitution or related activities although these are known to exist in the township. Similarly, no-one admitted to dealing in stolen goods. If these had been included the participation rate of households in informal sector activities and the profit level would have been higher than the 40 percent of households estimated. There is clearly a degree of illegality of activities beyond which it is extremely difficult, in the absence perhaps of such techniques as full participant-observation, to obtain information.

### 3.5.7 Problems Regarding the Time Perspective

An intrinsic problem in survey-based research is that it records events at a particular instant in time and so lacks an in-depth analysis of how the informal sector has changed over time. The questionnaire included such questions as "Have you done any other kind of work for yourself; what made you change?" and "How did you become involved in working for yourself?", but these do not record the detailed evolution and transformation of the activities.

Both the questionnaire survey and the open-ended question survey selected for interviews those involved in informal sector activities and so overlooked those who had failed in such activities. This problem was recognised by Teilhet-Waldorf and Waldorf who point out :

"Perhaps the major pitfall in this study, as in all similar empirical studies on urban labour markets, is that it omits individuals who failed" (Teilhet-Waldorf and Waldorf 1983:589).

A question in the questionnaire survey at the end of Section A, prior to proceeding to the detailed questions on informal sector activities, could have obtained information on previous, now discontinued, activities.

Long-term research, such as that of many anthropologists, would provide valuable information detailing the development of the informal sector. The costs of such research both in money terms, as the

services of a translator are essential, and in terms of time spent are extremely high. Here, as in other decisions regarding research, it is necessary to examine the advantages and disadvantages of the various possibilities and make a choice which maximises the advantages within the limits of the available resources. In this instance the case study interviews undertaken with the nursing sister as translator overcame this obstacle to a certain extent.

Many of the respondents in the open-ended question survey were re-interviewed during the year following the original interview in order to lessen the disadvantages of 'snapshot' research. The availability of loans from the Small Business Development Corporation provided a further opportunity for the researcher to maintain contact with respondents from both types of surveys undertaken and to update the picture and assess evolutionary developments a year after the initial research. Long term participant-observation would present the ideal solution, but the difficulties outlined in 3.5.5 precluded its use in the KwaMashu survey.

### **3.5.8 Ethical Problems**

A difficulty in all research is that involvement, questioning and probing may result in a deterioration of the situation for those involved. The unsettling, detrimental effects of research are seldom visible to the researcher because of the 'snapshot' nature of survey research. An incident in the course of the research demonstrated clearly that, though frequently unrecognised, it is a very real problem which must be constantly under consideration.

An elderly woman was interviewed who crocheted blankets and hawked them around KwaMashu for less than the cost of her yarn. She appeared to realise without much probing that she was suffering a loss but rationalised it by saying that people in KwaMashu were too poor to pay more. Her adult daughter was present and was clearly annoyed with her mother for being induced to lower her price. This raised a problem. Was the elderly woman involved in crocheting as a hobby which enabled her to get out and see people? Had strife been introduced into the household by the daughter's sudden realisation that the crocheting did not bring in a profit? Perhaps the woman was hiding from her daughter the profit she was in fact making ... had the survey made that impossible for the future? Does research in fact, more often than is realised, by the seemingly innocuous process of asking a few questions, upset a delicate situation and leave in its wake a conflict situation? A more important ethical problem, found in all social research, is that the respondent spends time (vitally needed for her economic activities) answering questions. This is usually done in the hope of obtaining assistance which it is very unlikely that any researcher can in fact offer.

## **CHAPTER FOUR**

### **SURVEY OF THE INFORMAL SECTOR IN KWAMASHU**

#### **Summary**

This chapter opens with three detailed case-studies in KwaMashu. This permits the following section to be conceptualised more vividly. The remainder of the chapter is devoted to an analysis of the findings of the questionnaire survey in order to describe the characteristics of the informal sector in KwaMashu. A major concern here is to determine the magnitude of income inequalities within the sector and to attempt to establish causal factors underpinning such inequalities. This is necessary in order to assess the factors which are important in the development of a successful informal sector business, and hence the factors which could be manipulated by planners.

## CHAPTER FOUR

### 4.1 Case Studies

These three descriptive case studies taken from the qualitative study using open ended questions are included to set the scene for the following analytical section based on the questionnaire survey. They are intended to put flesh on the bones so to speak and form an introduction, but they are also useful in developing an understanding of the informal sector.

#### Case Study 1

Mrs S. lives in a four roomed house, largely obscured from the road by a high hedge. The house has a wire gate outside the front door which is always locked. The yard, though neat, is dusty and bare. One enters the house directly into the living room which is furnished with a lounge suite and coffee table. Curtained doorways open into the two bedrooms. The kitchen, opening off the lounge, has numerous cupboards but no refrigerator or running water. Water is available from a tap in the back yard.

Mrs S. and her husband are both pensioners. Until Mr S. retired he was employed at a chicken processing factory. She was born on a farm in the Escourt area where her mother was employed to do washing - her father died when she was young. She attended school in Ladysmith as



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far as Std I. They have only one child, a matriculated woman of twenty nine, unmarried with five children (three at school and two pre-schoolers), all of whom live with them. The daughter would very much like to be employed (but never has been), and has made many applications for employment.

On first moving to KwaMashu from Cato Manor Mrs S. (in order to supplement her husband's income) started baking doughnuts and meat pies daily to sell to commuters at Maydon Wharf. Every morning an apple box full of each was prepared (a task taking over one and a half hours). She left KwaMashu at 3.15 am to sell from 5 - 8 am. The police interrupted her sales regularly : she was thankful if a whole week passed without a visit from them. Frequently her goods were confiscated and she was fined. Sometimes she had to appear before a magistrate.

In 1972, after ten years of baking and selling, she decided to sell paraffin and candles from home instead. Gradually she added cool-drinks, mealie meal, sugar, maas, sterilized milk, mealie rice, sweets, margarine and bread to her merchandise. Her husband's car was used when purchasing these items from Avoca. In 1982 the car broke down and, as her husband is no longer employed, they have been unable to complete the repairs. They saved for eight months for a new engine, and are now saving to have it installed. She hires a car at least once a week (at a cost of R10) to buy from Avoca, as well as hiring a car daily (at a cost of between R2 and R5) to buy bread (four dozen loaves daily, increasing to six dozen daily over weekends). If

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stocks are depleted between car trips she buys from O.K. Bazaars (a fairly long walk): this leaves her with barely any profit but it helps her to retain customers. Previously the bakery used to deliver bread but it has recently stopped doing so. Coca-Cola also used to deliver but stopped in 1983. She feels that the bakery may have stopped deliveries because of complaints from the larger stores.

Her main problems, however, are the police and competition from a neighbour. She reports that when the Port Natal Administration Board administered the township the police never bothered her, but since the area has fallen under KwaZulu they have harassed her all the time.<sup>1</sup> Worrying about the police, as she had done previously at Maydon Wharf, is a new problem in KwaMashu. She has paid many R50 admission of guilt fines, and even more often handed over smaller sums without getting a receipt. However, the regular loss of revenue is only one of the detrimental effects of police activities: in addition, the threat of police action discourages customers and prevents her displaying her goods attractively. Merchandise has to be locked in kitchen cupboards or kept in the bedroom, and the wire gate is always locked to enable goods to be hidden quickly. She also resorts to the tactic of locking one of the rooms when the police arrive and saying it is a lodger's room and she does not have a key.

Mrs S's second major problem is the informal shop which has very recently opened (just opposite her.) Children are used to harass her customers and persuade them to buy from the other shop while the

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1. This could be co-incidence since she may only have come to their attention then.

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neighbour undercuts her prices to attract customers. Mrs S. feels that if they co-operated they could agree on prices and both stay in business. Her sales have dropped since the new shop started but, as she keeps no records, it is impossible to say by how much. She has noted that the police only visit her, and not her neighbour, but this may be because they know her business exists but are not yet aware of the neighbour's. It may also indicate higher bribes paid by the neighbour, however.

The reason customers come to her, she feels, even if her prices are higher than the O.K. Bazaar's (and she has constantly to watch their prices to make sure she is neither too expensive nor cutting her prices unnecessarily) is that they are a long distance from the formal shops and she is open earlier and later than those shops (from 6.30 am to 9 pm). Members of her family, her husband, daughter or the older children assist in working long hours. The researcher became aware of the advantages a 'shack' shop offers when a little tot of three arrived to buy two eggs - mothers send very young children on shopping errands. A further advantage is that Mrs. S. is prepared to break bulk - to sell individual eggs, fruit, candles, cigarettes, and half loaves of bread. For these reasons there are no complaints when her prices are a cent or two higher than the O.K. Bazaars.

(Because she keeps no records it is impossible for her to estimate her monthly profit.) Apart from the two pensions, however, the shop is the sole source of income for three adults and five children.

## Case Study 2

The comparisons between the shack shop of Mrs S. and that of Mr M. are interesting indeed. It is immediately obvious, despite the pre-cast wall around his yard, that his is a shop. The crates of empty cool-drink bottles piled next to his Combi tell part of the story. The fact that a window on the side of the house facing the gate has been converted into a counter through which one can see the electric till and the neatly packed shelves of groceries all around the walls, is another.

Mr M., a charming, assured, erudite man in his late forties with an excellent command of English worked as a salesman for Lever Brothers and then for a furniture business until 1977.<sup>1</sup> He then decided that instead of making money for others he would make it for himself. As he put it, it was a question of getting away from being an underdog "even if it means going out into the sun" (i.e. working hard). He points out that as a salesman he had worked hard while his employers sat in comfort. He started peddling vegetables around KwaMashu in 1977, using the vehicle he had saved for during his years in employment. Immediately he did well. He had intended to sell only vegetables but added other goods as people asked for them. In 1980 he decided to sell from his house, which is ideally situated next door to a men's compound. He recognises this as a significant factor in his subsequent success since the nearest shop is thirty minutes walk away. At first his takings were only R12 a day but they are now far more (he

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1. He values highly the skills he learned as a salesman in the formal sector.

✓ 18.10.19  
18.10.19

avoided the question of profits neatly), and he feels there is room for expansion.

The shop is open from 6 am to 8 pm (which he regards as the second major factor in his success) and he employs two assistants, one on the early and one on the late shift. \* During the hour the author was there, from 8.30 to 9.30 am, there was a continuous queue at the counter.

He buys from Avoca wholesalers but because he has no license he pays sales tax and includes it in the price to his customers. His bread was previously delivered but is not any longer, so he fetches it himself from the bakery. Unlike Mrs S. he does not break bulk, apart from selling half loaves of bread and individual eggs. He does not sell paraffin since it is messy. He sells bread, milk, maas, sugar, flour, mealie meal, minerals, eggs, oil, rice, beans, vegetables, tinned fish, tea, curry, coffee, condensed milk, six kinds of biscuits, and cigarettes. Many of these are sold in very small (though prepacked) quantities, not usually obtainable from the supermarkets. He believes that goods which are not prepacked are unhealthy. Since he has a refrigerator, and most customers do not, they buy meat from him in small quantities. He buys the meat in Durban and it is divided into 250g portions which he then sells for a rand. His customers are not interested in the cheaper cuts of meat. He also sells chicken pieces bought from Avoca. He knows his demand exactly and he takes care of all the buying, leaving much of the selling to his assistants. All his sales are for cash apart from one

3

crippled customer who relies on his pension and pays when he has money.

Mr M. does not find competition from shack shops or other shops a problem because his overheads are very low. His selling price is similar to that of the O.K. Bazaars: although his cost price is higher, his mark-up is lower.

He does find the police a problem periodically, and he has occasionally had to pay an admission of guilt fine and has sometimes appeared before the magistrate. Generally his relationship with the police is good which he realises is an important asset. He has applied for a licence for his shop but is not at all hopeful that his residential site will be re-zoned commercial. He would not consider it acceptable to be allocated another site unless it was right next door to the compound. He feels strongly that being legalised and licensed would be a definite advantage to him.

But he also feels that the Community Council, many of whom are members of the Chamber of Commerce with their own licenced businesses, will ensure that he does not get trading rights in his converted house, in order to protect their own interests. An indication to him that the syndicate of shop keepers in KwaMashu are antagonistic to his type of business, he feels, is that the bakery has stopped delivering bread because of pressure from the KwaMashu Chamber of Commerce. Therefore he feels that his potential to expand, though excellent, is restricted by the formal shops who have the means to clamp down on his business should he take steps to extend his premises.

### Case Study 3



The questionnaire study showed that the most common informal activity in KwaMashu was the selling of groceries, and the second most common activity was the production and selling of clothes. As was the case with grocery selling there is tremendous diversity within garment production, and the following case study illustrates one of the more successful participants.

Mrs M., an elderly women drawing a pension and working as a domestic servant in Durban two days a week (as she has, for the same employer, for the past twenty five years), supplements the family income by sewing, selling second hand clothes, making traditional mats and growing sweet potatoes. This diversity is typical of much of the informal sector and reflects the way in which people make sure of a market and spread the risk by involvement in a range of activities. Her husband is in a secure job in a garage in Merewent and her three daughters still living at home are all in regular employment, two at a large discount store. She also has a son still at school who lives at home and two married daughters who do not live with her. The house is as described for Mrs S. but the garden is carefully kept with a large tree giving shade and colourful plants given by her employer. The lounge suite is new and in excellent condition and there are pretty doilies and ornaments on the wooden coffee table and a display cupboard with ornaments and glasses in the corner. If visitors arrive unexpectedly the chairs will be found covered with plastic. There is

no electricity or running water in the house itself though there is a tap in the back yard.

Mrs M. was born on a farm near Dundee, had no education and worked there until she came to Durban, to Cato Manor, in 1947. Prior to her marriage her mother had taught her to sew. She also made grass mats (a skill learned from the people around her) and bartered them for old clothes. When she arrived in Durban, fairly newly married with young children, she bought a sewing machine (using her husband's money) to make clothes both for her own children and for sale. She sold clothes by going from house to house but she soon became known and people came to her as well. She finds it very easy to sell her garments because, she feels, her clothes are well made and attractive. She sews far more now than when the children were young as she does not have to spend time caring for them. Now she sews particularly for pensioners (selling pinafores for R15 each having spent R6 on the material) and generally makes twelve a month. She takes them to Ntuzuma and 'tent town' to sell but does not, in fact, need to go outside KwaMashu. Her brother who has a car sometimes buys from her and sells in the rural areas. Her children do not help in her activities at all apart from the son who helps her buy material in Durban. Some of her customers pay cash and others pay half and the rest at the end of the month. She only sells on credit to people she knows and from whom she experiences no problems.

She also buys net curtaining in Umgeni Road, Durban, and makes it up into curtains for orders, making a profit of R30 on a set of curtains. Neighbours attend Church meetings at her house and when they see items



they like they place orders. She occasionally buys towelling at Hammarsdale, when it is available, and uses it to make towels and napkins - purchasing the material for R20 and selling a set of towels for R50. She also makes traditional mats, buying grass delivered from Dundee, and there is a steady demand as brides require them for their new homes and not many people know how to make them any longer. On large mats she makes a profit of R7 per mat and on small mats R5. She has constructed a wooden frame to use when making mats but needs to remove the settee from the lounge to give sufficient space when she is making them. This is the chief problem she experiences - a lack of space - so when she and her husband have obtained the deed of grant for the house they would like to enlarge it to give her space to leave her equipment set up. She would also like, if she had the space, to employ others to sew for her. She is thinking particularly of a niece who is prevented by influx control from working in Durban.


A further activity Mrs M. is involved in is buying second hand clothes from shops in Umgeni Road and from her employer and selling them, particularly men's suits, at the compound. In season she grows vegetables, particularly mdumbes, on a piece of open land a fifteen minute walk from her house. She tends them daily and sells them to neighbours. Whenever one visits she is busily involved in one activity or another which will bring extra income to her household. Her husband's money is used for day to day expenses: hers is kept for such things as her daughters' weddings and for Christmas. She does not keep a written record of expenses but knows what she bought and sold items for, and her profit. She feels that it is better to work

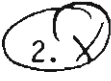
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for herself than to work as a domestic servant - the money is better and she prefers the work itself. It appears that she continues to work the two days a week in town as a favour for someone she has known well for a long time and who relies on her rather than as her choice because it is more lucrative. She has not found the police to be a problem at all - in fact they buy mats from her sometimes. When asked whether a loan would improve the viability of her business she replied that it would not. The four wage earners in the household ensure that she has sufficient working capital and one daughter recently gave her a new sewing machine as a gift.

## Conclusion

These case studies illustrate the workings of the informal sector and emphasise points which, while evident in the questionnaire study, are useful to highlight:

1.  The case studies of Mrs S. and Mrs M. give a better picture than does the questionnaire survey of the difficulties of overcrowding and the particular problems this has caused for informal sector activities where equipment is required. The lack of running water inside the house and the absence of electricity were also emphasized.

2.  The diverse scale of activities found in the informal sector was highlighted by comparing Mrs S. and Mr M.'s shack shops. The very different picture of the one with the merchandise hidden in cupboards and a tin containing the day's takings and the other

with well stocked shelves and an electric till cannot be conveyed by remote statistical analysis.

3. An understanding of the fear operators felt of the police was clearly conveyed by the locked gate of Mrs S.'s house and the elaborate efforts to disguise her activities. The possibility of police corruption was touched on in Mrs S.'s case study though not mentioned in the questionnaire study.
4. The three case studies portray graphically the long hours worked by those in the informal sector, particularly Mrs S. when she used to make and sell doughnuts. The diversity and range of activities undertaken by Mrs M. show clearly that she relaxed only by substituting one kind of informal sector activity for another.
5. The differing degree of competition experienced under different circumstances was evident from the three case studies. Mrs S.'s shack shop, because of its location, suffered greatly from competition whereas Mr M.'s next to the compound did not.

Apart from illustrating more clearly and more thoroughly certain points that can be gauged from the questionnaire study, the case studies also raised issues which would not have been realised from the household survey:

1. The most important point, perhaps, is that the case studies,

✓  
(yes)

because of the time spent with the interviewee and because the questions were open-ended, allowed people's own perceptions of their activities, and the constraints on these activities, to be voiced. It was valuable, for example, to obtain Mr M.'s unsolicited opinion on the effect of the Councillors' own business activities on the Community Council's decisions regarding granting of licences.

2. In the case studies people described their activities at length. This helped to retrieve certain details, such as the high costs of transport to Mrs S. because of her lack of a motor vehicle. In a questionnaire study such vital information could well have been overlooked. Mrs S.'s case study alerted the researcher to the need to probe such aspects more closely.
3. Mrs M. mentioned, in the course of describing her involvement in the informal sector over many years, the changes brought about by her changing family responsibilities. Adult children made it possible for her to spend far more time on such activities than was possible when her children were younger. Thus there may be a 'developmental cycle' of informal sector activities, changing with family circumstances. This is a point that would not have emerged as clearly (if at all) from the questionnaire study.
4. The fact that the researcher spent a long period in people's homes while doing the case studies enabled her to observe the actual operation of Mrs S. and Mr M.'s shack shops. The very real advantages to the customers of children doing the shopping,

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of the breaking of bulk (e.g. selling two eggs) and of Mr M.'s refrigerator (so items could be bought cold as they were needed) became very evident.

## **4.2 Random-Sample Interviews**

This section analyses the results obtained from random sample interviews in KwaMashu.<sup>1</sup> The results will be examined under the following headings:-

- 4.2.1 Comparison of incomes between households with informal sector incomes and those without.
- 4.2.2 Characteristics of the informal sector
  - 4.2.2.1 Individuals
  - 4.2.2.2 Factors associated with informal sector incomes
  - 4.2.2.3 Types of informal sector activity
  - 4.2.2.4 Formal sector linkages
  - 4.2.2.5 Problems encountered in the informal sector
- 4.2.3 Summary of findings and associated implications

### **4.2.1 Comparison Between Households with Informal Sector Income and Those Without Such Income**

In all cases data on formal sector employment and income, number of persons in the household and information to construct a wealth index were obtained. This enabled an assessment to be made of whether poorer households (most in need of extra income) and relatively wealthier households (with more opportunity to acquire capital to invest) became involved in the informal sector to different degrees.

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1. See Chapter Three for details of the methodology.

Table 3<sup>1</sup>

**Comparison of Incomes of Households without Informal Sector  
Activities with those with such Activities**

Monthly Income in Rands	Households without Informal Sector Activities		Households with Informal Sector Activities Discounting such Activities		Total Income of Households with Informal Sector Activities	
	Percentage	Number	Percentage	Number	Percentage	Number
Columns	1	2	3	4	5	6
0 - 270	25%	53	47%	77	15%	24
271 - 540	45%	95	31%	50	41%	67
541 - 810	18%	37	14%	23	28%	46
811 +	12%	24	8%	14	16%	26
	n = 209		n = 164		n = 163	

In 1983, when this fieldwork was undertaken, the Institute for Planning Research of the University of Port Elizabeth calculated the

1. The results of Table 3 were tested using chi-square statistics to see if there was a significant difference in the numbers falling into the different income groups in households with and without informal sector activities. The Null Hypothesis was that informal sector income made no difference to the numbers in the two samples falling into lower, middle (upper and lower) and upper income groups. Comparing columns 2 and 4 (households without informal sector and those with but discounting such activities) it was found that  $\chi^2 = 18,81$  which, with  $df = 3$ , is statistically significant at the ,001 level (using the 2 tailed test). Comparing columns 2 and 6 (households without informal sector, and the total income of those with informal sector, income)  $\chi^2 = 11,25$  which, with  $df = 3$ , is significant at the ,02 (using the 2 tailed test). Thus the Null hypothesis can be rejected in both instances as there is a statistically significant difference between samples with and those without informal sector income. If such informal income is excluded then this sample has lower incomes than those not involved in the informal sector; if it is included the incomes are significantly higher.

monthly Household Subsistence Level (HSL)<sup>1</sup> for an African family of six persons in Durban at R270 per month (Potgieter 1983). From Table 3 (columns 1 and 3) it can be seen that while 25 percent of the households interviewed without informal sector income were living below the HSL, 47 percent of those with informal sector activities had an income below the HSL (excluding income from their informal sector activity).<sup>2</sup>

When income from informal sector activities was added to that from formal sector activities for the relevant households (columns 5 and 6 of Table 3) it altered the percentage in the different categories considerably. When this additional income was taken into account the percentage with an income below the HSL (i.e. R270 p.m.) dropped to 15 percent, a figure far smaller than those with an income of less than R270 p.m. who were totally reliant on formal sector income. It is

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1. The HSL is criticised since it is based on bulk buying at the cheapest prices available; many blacks earning a weekly wage, using public transport and lacking refrigerating facilities, cannot take advantage of these prices. No provision is made for the costs of schooling such as uniforms, books or secondary education and the allowance for medical expenses is minimal. No provision is made for contingencies. (D. Budlender of Southern Africa Labour and Development Research Unit at Cape Town University, quoted in the *Weekly Mail*, October 18, 1985;p.14).
  2. A factor influencing this figure is that while households without informal sector involvement have an average of 1.7 wage earners per household, those with such involvement have an average of only 1.3 wage earners per household. This lower rate of employment corresponds with the fact that in the households with informal sector involvement 88 percent have an unemployed housewife present, whereas for those households without informal sector involvement the percentage of unemployed housewives drops to 56 percent. These figures do not necessarily indicate a causal relationship, however. Women may become involved in the informal sector because of a shortage of formal sector employment. Equally, they may not be in formal sector employment because they choose to be in the informal sector.

also evident that it is not only the very poor whose incomes are significantly affected by the addition of informal sector income - the addition of informal sector income also increases the numbers in the highest income category when compared with those with formal sector incomes only.<sup>1</sup>

These comparisons of monthly household income with the HSL do not take into account the actual size of particular households.<sup>2</sup> In order to do this the percentage of households (with informal sector involvement) in each of four categories of per capita income (obtained by dividing total household income by number of persons in the household) was compared with percentages of households per category for those without informal sector income. This was intended to give some indication of the effect of family size on informal sector involvement but it is understood to be of limited value because it does not take into account economies of scale associated with increased family size. In fact, the per capita calculations, when compared to calculations per household (see columns 1 and 5 of Table 3), made very little difference regarding the percentages in each of the four income categories.

- 
1. The mean monthly income of households with incomes from the formal sector only was R508, while for those with involvement in the informal sector but counting only their formal sector income it was R365. If the informal sector income was added the mean income rose to R566 p.m. Since all these averages are well above the HSL (despite the fact that it has been shown that many families in fact live below the HSL) this shows that measurements of central tendency cloak a wide range of income disparities.
  2. In KwaMashu households ranged in size from 1 to 14 but the median and mode were 6 and the mean 6.6.



The possibility that large family size alone (i.e. without relating it to total household income as well) might be a factor pushing people into the informal sector was examined further by comparing the family sizes of those with and those without informal sector income (see Table 4).

**Table 4**  
**Relationship Between Size of Household and Engagement**  
**in Informal Sector Activity**

Numbers in Household	Households Without Informal Sector Percentage	Number	Households With Informal Sector Percentage	Number
		n		n
1 - 3	15 %	31	8 %	13
4 - 6	42 %	87	44 %	71
7 - 9	36 %	73	39 %	63
10+	7 %	15	9 %	15
n = 209			n = 162	

The chi square statistical analysis of Table 4 showed no apparent correlation between household size and informal sector involvement.<sup>1</sup>

The most important information to be obtained from Table 3 is that poverty is an important reason for the existence of the informal sector in KwaMashu since 47 percent of the households so involved have formal sector incomes below the HSL while only 25 percent of those

1. The Null Hypothesis was that there was no difference in family size between those with and those without informal sector activity. The result of the chi square test was  $\chi^2 = 4.46$  which, with  $df = 3$ , was not statistically significant and meant the Null Hypothesis could not be rejected.

not involved had so low an income. It is important to note at this juncture that the HSL is assessed as a bare minimum for survival and an income below this indicates a very real struggle for survival. Since the percentage of households with an income lower than the HSL fell from 47 percent to 15 percent when informal sector income was included it would appear that, for those with extremely low incomes, informal income means the difference between a tolerable existence and stark poverty for many in KwaMashu.

The reasons people gave for informal sector activities further illustrated the role of poverty in initiating informal sector activities (see Table 5).

**Table 5**  
**Reasons for Informal Sector Involvement**

Reasons	Percentage of Operators
Choice	35
Supplement husband's salary	34.5
Poverty	19
Ill health	6.5
Retrenchment	3
Other	2

n = 164

Ten percent of the households involved in the informal sector are totally dependent on informal incomes. This further indicates the primarily supplementary role of the informal sector for the majority.

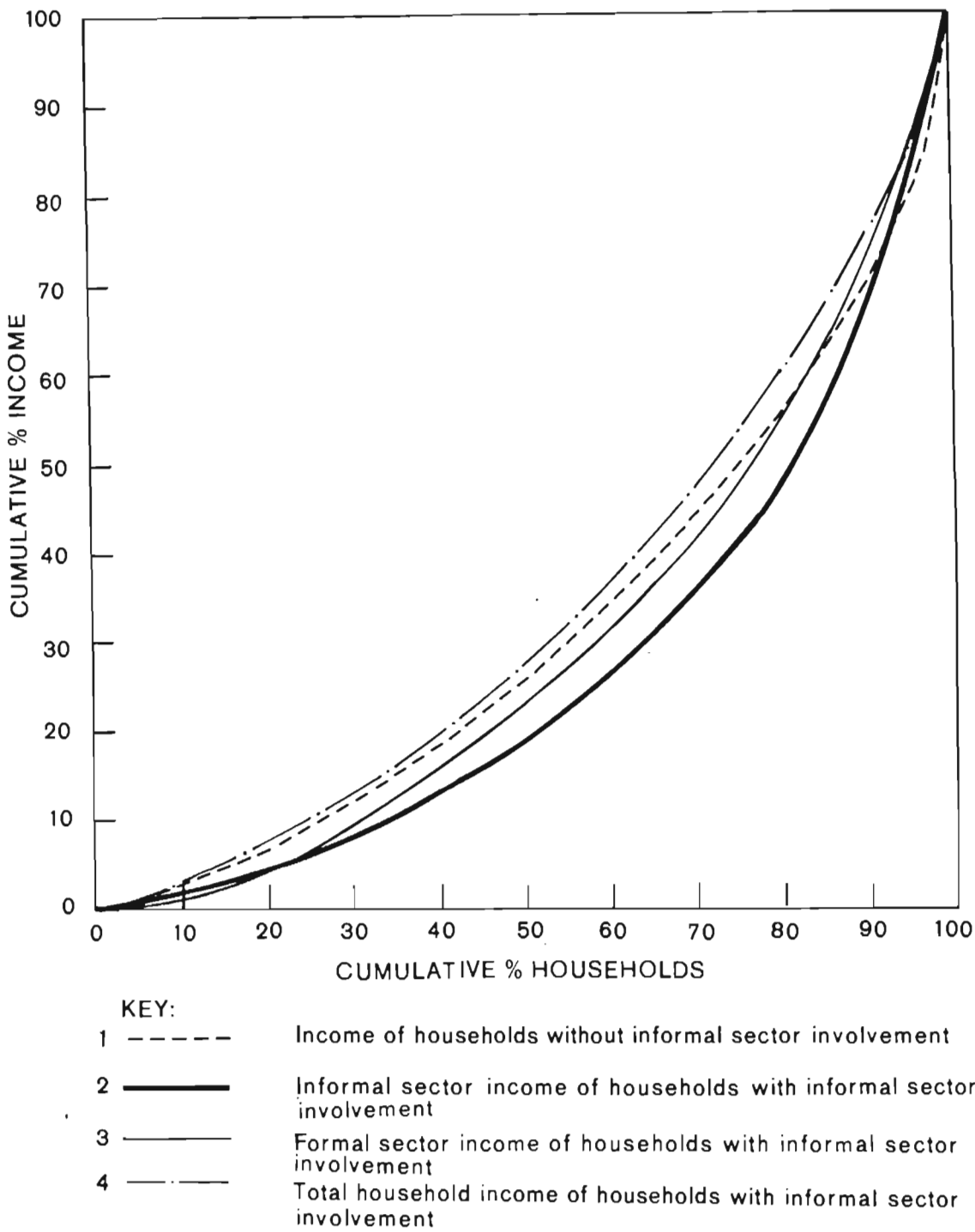
It is apparent from Table 3 that the income inequalities in KwaMashu are not insubstantial and are not confined either to those with, or those without, access to the informal sector. (Eighteen percent of households without involvement in the informal sector had a monthly income of at least three times the HSL (R810).<sup>1</sup> Thirteen percent of households with such involvement (but excluding their informal sector income) had this income, while the figure rose to 28.5 percent if their informal sector income was included. These figures indicate a high degree of income inequality and also show that it is not only the destitute who become involved in the informal sector.

This income inequality is further evidenced by Lorenz curves of household incomes in KwaMashu (Figure 1, p.153). The Lorenz curve of total household incomes for those with informal sector incomes lies, in its entirety, inside the Lorenz curves for both households without access to informal sector income, and households with such income but excluding it. From this it is evident that informal sector income served to lessen income inequalities in KwaMashu.<sup>2</sup>

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1. In fact 2.5 percent of households without informal sector involvement had a monthly income of over R2000.
  2. Since the curves (1 and 4, and 2 and 4) do not cross (which would invalidate the Gini co-efficient (see Atkinson, 1980:40)) the Gini co-efficient is applicable for these pairs. The Gini co-efficient of the total income of households with informal sector incomes (.325623) is closer to zero than that for households without informal sector income (.403765). Similarly the Gini co-efficient of the total incomes of households with informal sector incomes (.325623) is closer to zero than that for households with informal sector incomes when this is not taken into consideration (.457728). This shows that there is less income inequality in the total incomes of those with informal sector activity.

FIGURE 1

LORENZ CURVES SHOWING INCOME DISTRIBUTIONS IN KWAMASHU



Also of great significance is that the Lorenz curve for informal sector incomes shows considerable inequality among informal sector earners and thus also informal sector businesses have very diverse earning potentials. This is illustrated by the fact that the poorest 10 percent earned only 1 percent of the income of the sector, and the poorest 25 percent earned only 6 percent of the income. The highest earning 25 percent, however, earned 59 percent of the income and the highest earning 10 percent earned 31 percent.

An attempt was also made to construct a wealth index<sup>1</sup> in order to compare the standards of living (based on consumption rather than income) in households with and without informal sector involvement (Table 6). The Null Hypothesis was that there would be no significant difference in standards of living, as reflected in the wealth indicator, between households with and without informal sector incomes.<sup>2</sup> The chi-square test showed no statistically significant difference in the standards of living between households with and without informal sector incomes.

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1. This was scored from 0-10. House-ownership scored 2 points and having an owner-built house scored 2 more points. Possession of a garage, T.V., fridge, freezer, car or savings account each scored one point. 0-1 falls into Category 1; 2-3 into Category 2 and 4-10 into Category 3.
  2. The chi-square test gave a value of  $\chi^2 = 3,34$  which, with  $df = 3$ , meant that the Null Hypothesis could not be rejected.

**Table 6**  
**Relationship Between Wealth and Involvement**  
**in Informal Sector Activity**

Wealth Indicator	Households without informal sector involvement		Households with informal sector involvement	
	Percentage	Number	Percentage	Number
1	16,5 %	34	23 %	38
2	61,5 %	127	53 %	87
3	22 %	46	24 %	39
n = 207			n = 164	

There was, on the basis of this wealth indicator, very little difference between those households with, and those without, informal sector involvement. Since the examination of incomes has already indicated that informal sector income decreases considerably the percentage of people with an extremely low income it would appear that access to an informal sector income had enabled those in this category to improve their material well being so that it was very similar to those in a wealthier bracket without access to such income. Thus the informal sector serves as a leveller : it raises the incomes of those who would be much worse off if reliant on formal sector earnings only. This does not necessarily prove, however, that individuals were forced into the informal sector. They may have preferred the informal to the formal sector.

Again it must be noted that a very high percentage of those in both sectors are extremely poor, over 75 percent scoring 3 or less points out of 10 on the wealth indicator. The fact that 9 - 13 percent scored 6 to 10 points (not shown in Table 6) shows that a fairly

substantial number in both categories are relatively wealthy.

The comparison of households with and those without informal sector incomes shows that households with informal sector involvement experienced greater poverty than those without such activities when their informal income was excluded. This did not mean, however, that all persons in this sector were poor. Informal sector income, when added to formal sector income, served to lessen income inequalities to the extent that the two sectors cannot be statistically differentiated on the basis of a wealth index.

#### **4.2.2 Characteristics of Operators**

##### **Sex**

The most striking demographic feature of informal sector operators was that of the sex ratio. Eighty seven percent of the operators were women. This finding was very different to the findings of certain other research.<sup>1</sup> Women predominated in certain kinds of informal activities as will be examined in 4.2.2.3.

##### **Age**

Table 7 shows that there was a fairly even age distribution among the operators but with the highest percentage, 41 percent, falling in the 41-50 age group. None were younger than 21.<sup>2</sup>

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1. See 1.5.1 and Sethuraman (1981)

2. It was unfortunately not possible to compare these demographic characteristics with the characteristics of those not in the informal sector since it could not be determined with whom in the household without informal sector activities such a comparison could be made.



**Table 7**

**Age Categories of Informal Sector Operators**

Age	Percentage
21 - 30	16.9
31 - 40	23.1
41 - 50	40.6
51 - 60	11.2
61 +	8.1

n = 162

Thus informal sector operators fell largely into the economically active age groups and were not those excluded from the formal sector since they were either too young or too old. Hence they do not appear to be predominantly people who have become involved because of a lack of social welfare e.g. pensions, or who have left school and are battling to secure their first job.

**Education**

**Table 8**

**Educational Qualifications of Informal Sector Operators**

Education Levels	Percentage of Operators
0 - Std 1	11.9
Std 2 - Std 4	25.2
Std 5 - Std 6	27.0
Std 7 - Std 10	32.7
Post School	3.1

n = 162

Only 12 percent of informal sector operators had so low an education as to be functionally illiterate while over a third had at least a



secondary education. This appears to indicate that it was not a lack of formal education that was forcing people into the informal sector, contrary to evidence from elsewhere in the world.<sup>1</sup>

### **Period of Residence in KwaMashu**

Once people have the right to a township house in South Africa they are unlikely to relinquish such rights by leaving the township.<sup>2</sup> Because few houses have been built recently there have been few new arrivals and one finds that most people have been resident for over twenty years.<sup>3</sup> It was found that 73 percent of those in the informal sector had lived longer than twenty-one years in KwaMashu, 26 percent between eleven and twenty years and a mere 1 percent fewer than ten years.

### **Formal Sector Employment**

In the KwaMashu study it was found that 54 percent of informal sector operators had never been employed in the formal sector, that 19 percent of informal sector operators were simultaneously in formal sector employment, and that 28 percent of informal sector operators had previously been in wage employment.

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1. See 1.5.3

2. See Chapter Three.

3. Since 1968 government policy has greatly tightened influx control making it virtually impossible for blacks from rural areas to move to town (see Chaskalson & Duncan 1984:12-13).

**Period with the Informal Sector, Preference  
and Reasons for Preference**

Less than 25 percent of those in the informal sector had been involved for under two years, while, as Table 9 illustrates, over 50 percent have been involved for five years and more. When people were asked what kind of employment they preferred a mere 3 percent gave their preference as being formal sector employment.<sup>1</sup> A massive 75 percent gave their preference as being for informal sector involvement; 11 percent opted for either, depending on which was the more remunerative at the time; and 11 percent opted for both since they felt that both kinds of occupation simultaneously were necessary to achieve an acceptable standard of living. In fact, of those who said they preferred to be involved in both sectors, only 50 percent were so employed.

**Table 9**  
**Number of Years in the Informal Sector**

Years	Percentage of Informal Sector Operators
1 and less	14
2	10.5
3	12
4	12
5	10.5
6	9
7 and 8	11
9 and 10	8
11 to 19	6
20 plus	7

n = 164

1. This may of course be a rationalisation to explain their lack of formal sector employment.

Those who preferred working in the informal sector gave a variety of reasons for their choice.<sup>1</sup> Well over a quarter of the respondents chose the informal sector as it was more remunerative than the formal sector, while under a quarter chose it because of inadequate social welfare in South Africa. There was a considerable range of other reasons illustrating once again the diversity within the informal sector.

**Table 10**  
**Reasons for Preferring Informal Sector Activities**

Reason	Percentage of Sector
Higher income	29
Ill health and old age	21
Work at own pace	13
Never worked	10
Does not want to work for whites	8
Does not want to work with Indians	4
Can see progress	4
Afraid of retrenchment	3
Miscellaneous	8

n = 164

The miscellaneous reasons included such things as husbands not allowing wives to work in town; that they were tired of working for others; that no tax was deducted; and the need to look after children.

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1. Attitude surveys of this kind do present very real problems. In accounting for their present position interviewees may rationalise a situation not of their making and therefore explain it as choice.

## **Employment Creation**

Contradicting the notion that the informal sector in KwaMashu is a major source of employment was the fact that only 3 percent of informal sector operators in KwaMashu employed others on a wage basis.

While there was little reliance on wage labour, there was a high degree of reliance on family labour. Thirty-five percent of those interviewed reported that they had assistance from their family, in some cases intermittently, in others regularly. In many instances the informal sector activity was seen not as the sole preserve of a particular individual but as a means of supplementing family income to enable the family to survive.

### **4.2.2.2 Factors Associated with Informal Sector Incomes**

There was a considerable range in the incomes obtained from informal sector activity in KwaMashu, but most were low. The majority (79 percent) of informal sector operators earned less than R270 per month (the HSL) from their informal sector activities. However, a mere 4 percent of these were totally dependent on this source of income : for the low earners it is a supplement rather than the sole source of income. Forty percent of those involved earned less than R100 per month while 10 percent earned more than R500. Figure 1 similarly illustrates this wide income disparity within the informal sector. Dividing informal sector earnings into quintiles gives the distribution shown in Table 11.

**Table 11**  
**Informal Sector Incomes by Quintiles**

	Income per month in rands
1st Quintile	Under 80
2nd Quintile	81 - 100
3rd Quintile	101 - 150
4th Quintile	151 - 280
5th Quintile	Over 281

An analysis of the factors which might determine the level of informal sector income was undertaken in order to see if the most successful operators could be identified on the basis of certain characteristics.

Theory suggests that there are many factors which might affect the success of informal sector undertakings. One of these factors is the sex of the proprietor (see 1.5.1). The difference in numbers of males and of females with informal sector earnings of under R100, R101 to R280 and R281 and over were investigated using a Chi-square test. The null hypothesis was that there was no statistically significant difference in income levels between males and females.<sup>1</sup> The Chi-square test showed that although the null hypothesis cannot be accepted it almost reaches significance, and so cannot be fully rejected either.

Experience gained in operating a business may be expected to make it financially more viable than those where the proprietor lacks

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1. The result was  $\chi^2 = 5,818$ , which, with  $df = 2$ , is almost a statistically significant difference at the ,05 level.

✓

experience. Similarly, the people who remain in the informal sector after many years<sup>1</sup> may be expected to be those who find it economically worthwhile. However, in this study the correlation between informal sector income and number of years in the informal sector was weak.<sup>2</sup> Likewise, there was virtually no correlation between informal sector income and age.<sup>3</sup> Since access to working capital is a limiting factor (see 4.2.2.5) and most such capital is drawn from the household income it seemed possible that household formal sector income would affect income levels in the informal sector. However, the correlation between formal sector income and informal sector income<sup>4</sup> was found to be very weak.

There is much research on education levels in the informal sector (see 1.5.3) but little that compares education levels and informal sector income. This study found a negligible correlation between levels of education and informal sector income.<sup>5</sup>

Since regressions are a far better means of addressing determinants of informal sector income than are Pearson's 'r' tests, the data was further analysed by linear regression. Analysis was undertaken using

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1. As might be anticipated a statistically significant, though moderate correlation (Pearson's correlation coefficient ( $r$ ) = 0,38) at the ,001 level, was found between age and years in the informal sector.
  2. Pearson's correlation coefficient ( $r$ ) = 0,32; significant at the ,0001 level.
  3. Pearson's correlation coefficient ( $r$ ) = -0,02 significant at the ,05 level.
  4. Pearson's correlation coefficient ( $r$ ) = 0,21 significant at the ,0001 level.
  5. Pearson's correlation coefficient ( $r$ ) = 0,18 significant at the ,01 level.

informal sector income as the dependent variable and years in the informal sector, household formal sector income, age, education, number of formal sector employees per household and number of persons per household<sup>1</sup> as the independent variables. In this equation years in the informal sector constituted 10 percent of the coefficient of determination (adjusted R square), household formal sector income a further 5 percent, number of formal sector employees a further 4 percent and age another 2 percent. Thus these four variables accounted for only 21 percent of the variation in informal sector incomes, while education of the proprietor and number of persons per household were not determinants. The regression was not significant.<sup>2</sup> It is suggested, therefore that in view of this analysis and in the light of other findings of this chapter, that the determinants of informal sector income are probably more structural than personal.

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1. These latter two variables were added since it was felt that the number of formal sector employees per household might contribute towards working capital and so economic viability. The number of persons in the household might affect viability by restricting the availability of working capital.
  2. It was decided to repeat the above regression, using the same variables, but examining first males and then females. In the equation for the male informal sector operators the number of years in the informal sector constituted 38 percent of the coefficient of determination (adjusted R square), while the other variables were not determinants. When the regression analysis was repeated for female informal sector operators household formal sector incomes constituted 13 percent of the coefficient of determination and the number of formal sector employees constituted 5 percent thus together accounting for 18 percent. Whilst the coefficients of determination of informal sector income are seen to be different for males and females they are not significant in either instance, confirming the above analysis. In neither instance do the variables included in the analysis constitute major determinants of informal sector income levels - such determinants therefore must lie outside what has been included here.

Start

**4.2.2.3 Types of Informal Sector Activity**

In the majority of cases operators in the informal sector were engaged in one informal sector activity only but in nineteen instances out of the 164 studied, i.e. 9,5 percent, a person was engaged in more than one activity. In this section the income referred to is that from a particular activity whereas in the previous section it was that accruing to a particular informal sector operator, thus the number of cases here is 183 not 164 as previously.

The first point to note from Table 12 is that a far higher percentage of the informal sector is involved in distributive activities (55 percent) than in either production (34 percent) or services (11 percent).

Although production has the highest average income for a sub-group (R226 as compared to R151 for distribution and R210 for services) the vast majority of those in this sub group (81 percent) were women sewing and knitting for a living and they will (as discussed in Chapter 1) increasingly come into very stiff competition from the formal sector. The potential for those males involved in enlarging windows and making houseblocks, burglar guards and awnings appears far better; both because they earned a better income (average R575) and because there was less competition. The numbers involved in this group were extremely low, however (2 percent).





yes

Table 12  
Types of Informal Sector Activity

Activity	Incidence of activity		Mean income per month in rands	Range of income in rands
	Number	percentage		
<b>Distribution</b>				
Food and groceries from house	26	14,5	89	25-300
Food and groceries, hawking	28	15,5	129	60-280
Popsicles	7	4	101	24-260
Meat	5	3,5	100	70-150
Liquor	17	7	219	30-500
Selling clothes	11	6	271	80-700
Selling second hand clothes	6	6,5	249	50-525
<b>Production</b>				
Sewing and knitting	51	28,5	209	0-900
Cooked food	8	4,5	156	30-320
Houseblocks, burglar guards, enlarging windows, awnings	4	2	575	110-800
<b>Services</b>				
Renting Rooms	5	3,5	33	12- 72
Child care	4	2,5	65	20-140
Faith healer and herbalist	2	1	375	350-400
Battery charger, shoe repairs, photographer	4	2	69	15-100
Disc jockey	1	0,5	500	500
Taxi	1	0,5	120	120
Panel beating and mechanic	3	1,5	716	500-850

n-183

The second point to note is that the most important single activity in Kwamashu, numerically, was the selling of groceries, including food, (almost half the selling being done from the home and half by hawkers). This accounted for 30 percent of those in the informal sector. If the selling of popsicles and meat is included in this figure the percentage rises to 37 percent. (The economic conditions of the area ensure that grocery selling from home and by hawking provides a livelihood for many in Kwamashu (albeit a minimally remunerative one with a mean of R110 per month and a range of incomes between R25 and

100  
107

(28)

R300 per month).<sup>1</sup> This is because many township residents do not have easy access to shops, work long hours, lack refrigeration and buy in small quantities. The second most numerous activity is that of women knitting and sewing at home (28 percent).

An examination of the top earners in the informal sector - the 10 percent earning over R500 - shows that they fall into very clear groups with marked occupational differences between males and females.

Of the women earning informal sector incomes over R500 the majority made and sold garments. A further 25 percent sold bought garments, 25 percent sold liquor and 8 percent sold second hand clothing. Thus 42 percent were involved in manufacturing and 58 percent in distribution.<sup>2</sup>

Males constituted just over a third of the top earners in the informal sector (although only 13 percent of the sector as a whole). None of these men were in formal sector employment and only one had reached retirement age.<sup>3</sup> Their occupations (with the exception of the disc

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1. There are certainly some involved in shack shops who earn more, (one was the second case study at the beginning of this chapter) but none fell into this random sample.
  2. Two thirds of these women were not employed in the formal sector and one third were so employed. This distribution is not too different from that of women in the informal sector as a whole where 75 percent were unemployed, 18 percent employed and 7 percent retired.
  3. Whereas only 36 percent of the men in the informal sector were unemployed, 36 percent were employed and 28 percent were retired.

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jockey) included panel beating, burglar guard and awning manufacture, window enlargement and car maintenance. All of these required more equipment than most in the informal sector and a higher skill level (which over half acquired in their previous, formal sector, job). The disc jockey required capital but rather less skill. Almost half of these men, because of the kind of work they did, employed assistants to help them. In fact, this group of high earning men accounted for half the paid employment in the informal sector. Over half of the male high earners had obtained the necessary capital from savings accumulated while in the formal sector and one man had sold beer until he had saved sufficient money. The remainder did not not give information as to where they had obtained capital.

Examination of the top earning decile showed that nobody in this group was involved in selling groceries (whether hawking or from home) nor in selling prepared food, in ~~taking in lodgers or caring for children~~. Whereas women in this group were predominantly involved in retail distribution and only secondly in manufacturing (entirely that of clothing), men were all in manufacturing and services. Thus, services were greatly overrepresented in the top earning decile, as was manufacturing, whereas distribution formed a much larger percentage of the sector as a whole than it did of the top earning decile.

Many informal sector activities seem to provide an income sufficient only to supplement a wage earner's salary and offer no potential for providing an income sufficient to support a family. The activities which do offer the potential of providing a living wage constitute a very small proportion of informal sector activity. Ninety percent of

the families in the informal sector are not entirely dependent on their informal sector income, however.

**4.2.2.4 Linkages with the Formal Sector**

The development of the informal sector will have a greater impact if there is vertical integration because there will be substantial multiplier effects. If most inputs come directly from the formal sector,<sup>1</sup> then the informal sector is primarily stimulating production in the formal sector (and providing channels for the sale of such goods) and is dependent upon it. Table 13 shows the origin of informal sector inputs.

**Table 13**  
**Informal Sector Inputs**

Source	Percentage of Sector
Durban factories and shops	38.5
KwaMashu shops	22
Indian shops	14
Durban market	16.5
Other	4
Not applicable	5

n = 164

Thus almost 40 percent of inputs are obtained directly from the formal sector in Durban and have no ripple effects upon the KwaMashu economy.

1. For example, either as formal sector products for distribution, such as groceries and clothes, or as capital equipment such as knitting machines and cameras, and raw materials, such as fabrics and yarns.

The 30 percent of inputs obtained from Indian shops and the Durban Indian market, while not directly benefiting the large-scale formal sector (since many shops are small family businesses), does benefit it ultimately. Many of the goods bought from these shops, e.g. fabrics and clothing, originate in large formal sector businesses. The 22 percent of inputs obtained from KwaMashu shops derives mostly from the O.K. Bazaars, KwaMashu bottle stores<sup>1</sup> and the local bakery. Almost none came from small KwaMashu licensed stores as the goods then become too expensive once profit is added on. Since only a portion of O.K. Bazaars shares are locally owned (the remainder are owned by KFC and OK Bazaars), only a portion of the increased sales resulting from informal sector activity accrues to those in KwaMashu. Liquor sellers increase the distributive network of the bottle stores thereby increasing their profit, but all their liquor ultimately comes from large formal sector monopolies who thus benefit as much as the bottle stores. It appears that, probably because of the organised nature of the township and the fear of police raids, home brewed beer is virtually non-existent now (unlike the situation earlier in Cato Manor). Certainly, of all those who sold beer only one admitted to brewing it and she also sold bought beer. The category 'other' includes grass for mats and some fresh produce from rural KwaZulu. Almost all inputs, therefore, originated in the formal sector which consequently controls price and availability.

Almost no capital is drawn into KwaMashu by the informal sector as Table 14 shows. Overwhelmingly goods sold by the informal sector are

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1. All the liquor sellers interviewed obtained their liquor locally in KwaMashu.

sold in KwaMashu with a small percentage being sold in rural KwaZulu. However, women who sold homemade garments and experienced difficulties in the townships because of competition from the formal sector did not sell as much of their produce there. Half the women selling homemade garments sell in KwaMashu but 14 percent sold entirely in rural areas, 22 percent in rural areas and KwaMashu, 10 percent to work colleagues, and 4 percent as far afield as the Transkei and Johannesburg. A negligible percentage of their goods is sold to whites.

**Table 14**  
**Informal Sector Sales**

Where sold	Percentages of Sector
KwaMashu	82.5
Rural KwaZulu	6
KwaMashu and rural	6
White areas	1
Other (1)	4.5

n = 164

Clearly goods and services sold by the informal sector in KwaMashu were bought by blacks using money earned in formal sector employment. Thus the size of the market is limited by the extent of wage employment and varies with it. If the formal sector is in recession then the informal sector market, being almost entirely dependent on income earned in the formal sector, must decline.

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1. The group 'other' includes sales in Soweto, in urban centres in Natal and KwaZulu and in the Transkei.

#### 4.2.2.5 Problems Encountered in the Informal Sector

Informal sector operators were questioned about the most serious problems they faced in running their businesses in order to determine the factors limiting informal sector activity and the form that assistance to overcome these limitations should take.

**Table 15**  
**Problems**

Problem	Percentage of Informal Sector Experiencing Problem
Shortage of capital	19
Police harassment	17
None	16
Transport difficulties	7
Bad debts	6
Demand varies	6
Ill health	6
Shortage of time	5
Profits disappear in business	4
Excess competition	4
Requires a licence	2
Other	8 (1)

n = 164

Most (84 percent) informal sector operators reported experiencing problems so that despite the preference for informal sector activity over wage employment it was not perceived as being an easy option.

1. "Other" problems include the need for a trading centre, witchcraft because of jealousy, unavailability of reject fabrics, lack of experience, need for an assistant, working away from home and the fact that a business cannot prosper because of South Africa's laws.

The two most common problems mentioned were shortages of capital<sup>1</sup> and police harassment. Awareness of police harassment and the discernment of this as limiting the expansion of an individual's informal sector activity was frequently mentioned even when not listed as a problem. Very often it was accepted as part of the unchangeable reality of township life and not listed as a difficulty per se. Unless they themselves were constantly fined or had goods confiscated it was not specifically mentioned as a problem. At the same time the awareness of police activity certainly limits how and where goods are marketed and may prevent advertising the business by a notice outside the house.

It was also interesting that only one person mentioned repressive legislation directed at blacks as a problem and only 2 percent mentioned the difficulty of getting a licence. Many, in conversation, were aware of the advantages of being licenced but they knew that the requirements were such that there was no possibility of their getting a licence and so they stressed more concrete problems. Certain difficulties were accepted as part of the 'taken for granted' reality of township life.

The issues that worried people were those that they regularly found themselves confronting - the limitations of space, time, expensive transport, ill health, bad debts, erratic demand, and competition. Some of these are matters that access to loans at low interest rates

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1. Almost all the capital available came from either personal formal sector earnings or those of household members. Considering the low household incomes of much of the sector this constitutes a very real problem.



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might help alleviate eg. by enabling operators to survive non-payment of debts, build on an extra room or buy their own transport. This survey showed that 56 percent of informal sector operators would like a loan. The amounts required, as shown in Table 16, are very small.

**Table 16**  
**Loans Desired**

Extent of loan required	Percentage of those wanting a loan
Under R200	33
201 - 500	49
501 - 1000	7
+ 1000	11

n = 164

Eighty two percent of those wanting a loan wanted less than R500. The main reason given for the low figure was that they felt they would have difficulty in repaying more.<sup>1</sup>

#### 4.2.3 Summary of Findings and Associated Implications ✓

1. A major finding and one with important implications for the existence of the informal sector is the extent of poverty in KwaMashu.<sup>2</sup> Forty seven percent of those involved in the informal

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1. It should be noted that the 56 percent who would have liked a loan was much higher than the 19 percent who listed shortage of capital specifically as a problem.
  2. This finding was confirmed for other urban areas in South Africa by the work of Keenan (1983) in Soweto. Surveys there revealed that the number of households below the poverty level increased in each year between 1978-1983. Keenan found that the main reason for this was increased unemployment and a decrease in the number of earners per household.

sector had a formal sector income of less than the HSL, while if their informal sector income was added the percentage declined to 15 percent; and of those without an informal sector income 25 percent had household incomes of less than the HSL.

2. The percentage (40 percent) of households involved in informal sector activities may be considered high when compared with that found in other South African studies (see 1.6) but not when compared with that in other developing countries (see 1.3).
3. Women comprised 87 percent of those involved in the informal sector in the KwaMashu survey, whereas in many other studies a majority were males (see 1.4.1). A study by Sanchez (1981) showed that if a distinction was made between informal and quasi-formal activities there were more women in the former. The KwaMashu study found that male participation increased greatly in the more capital intensive, skilled and labour-employing sectors. The higher percentage of women in this study may reflect the influence of apartheid legislation since influx control has limited males in the formal townships to those in wage employment. Consequently women, who may have the right to be in the townships because of marriage to a man who qualified, may become involved in the informal sector. If changes in influx control were to allow more unemployed men into the towns it is possible that the sex ratio might change but the following point indicates that this might not be so.

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4. This survey found that only 17 percent of those in the informal sector were under thirty years of age. In contrast, Mpanza (1984:4) has found that in Durban 67 percent of the registered unemployed are under thirty years of age.<sup>1</sup> Thus despite a high percentage of unemployment among the young not many of them appear to move into the informal sector. This may reflect a lack of inclination or insufficient skills or capital to initiate a small business. This is similar to a finding from Colombo (see 1.5.2. footnote 1).
5. Many studies in developing countries have indicated that a high percentage of those in the informal sector were recent migrants to the city (see 1.4.8). In this survey, however, a mere 1 percent had lived in KwaMashu for less than ten years. This indicates a crucial difference between South African formal townships and other developing countries. In squatter settlements the numbers of recent migrants working in the informal sector may be worthy of note (see Maasdorp 1983), but influx control has ensured that there are comparatively few recent migrants residing in the established townships.
6. A further difference between this study and those of the informal sector in other parts of the world is that it does not appear to be a lack of formal education which is forcing people in KwaMashu into the informal sector. Almost 90 percent of those in the informal sector had Standard 2 or higher education and over 60

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1. 80 percent of the registered unemployed under 30 years of age had permanent urban rights.

percent had Standard 5 or more. These percentages compare favourably with a literacy rate of between 50 and 60 percent for South African blacks quoted in the Survey of Race Relations (1984:436-437). In many other countries, however, much of the informal sector had a very low level of education (see 1.5.3).

7. In the KwaMashu study 53<sup>1</sup> percent of the informal sector had never been employed in the formal sector and seem to fall into Quijano's (1974) permanently excluded, marginalised labour force - those who, because of increasing mechanization and consequent structural unemployment, are unable to obtain formal sector employment.<sup>2</sup> Since a mere 3 percent expressed a preference for formal sector employment while a massive 75 percent preferred the informal sector it would appear that these people are in the informal sector through choice. But it is impossible to establish the extent to which this is a rationalisation of circumstances they cannot alter.
8. The theory that the informal sector enables the formal sector to pay lower wages than they would otherwise be compelled to (see 2.3.1) was borne out by the reasons people gave for preferring the informal sector (see Table 10). For almost half of those in the informal sector the sector appears to be subsidising formal

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1. This figure compares well with other South African studies (see 1.6).

2. In South Africa, however, legislation such as the Environmental Planning Act and restrictions on Black women working in town also affect the level of unemployment (see Beavon and Rogerson 1982:110; Cock et al 1983:279).

sector wages insufficient for the maintenance of the family<sup>1</sup>. The subsidy by the informal sector of formal sector wages was further confirmed by the fact that 47 percent of those in the informal sector have, counting formal sector wages only, an income below the HSL.

9. A further argument that the informal sector subsidises capital was the fact that 7 percent of those in the informal sector gave ill-health as their reason for informal sector employment. These were people who found that their health did not permit them to work on a regular basis at the level of productivity expected for formal sector employment but who were able to work at their own pace in the informal sector with assistance when necessary from family members. In the event of adequate provision by capital for sick benefits for blacks and paid sick leave these people may have remained in wage employment. By finding an alternative they lessen the possible pressure exerted through trade unions on capital for more adequate provision of sick benefits.
  10. The 29 percent (see Table 10) who preferred the informal sector because they could realise greater profits in this sector would include the incipient entrepreneurs, those who saw the possibility of accumulating capital by working for themselves. It would also include those who had looked at the wages paid in
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1. 35 percent stated they were in the informal sector because it was necessary to supplement the husband's salary and 19 percent because of poverty.

the formal sector and, taking into account costs such as transport, had found them to be insufficient for the maintenance of a family: they had opted for a more remunerative alternative. The preference for the informal sector may reflect on the low wages paid in the formal sector. Most of the other reasons for a preference for the informal sector pertained to a dislike of wage employment in the capitalist sector. Reasons that at first glance appear racist (not wanting to work for whites or with Indians) could also be viewed as part of the foreman-labourer relationship inherent in wage employment. Similarly, the desire to work at one's own pace and to see the results of one's labour are part of the alienation of industrial wage employment where the machine sets the pace and the job is so segmented that one sees only a portion, never the whole, and is never paid proportionately to the product of one's labour. The fear of retrenchment is a constant threat hanging over the head of a wage employee who does not conform totally to the demands of wage employment.<sup>1</sup> The lack of adequate provision for illness and old age are very important considerations in a situation such as South Africa's where, until recently, the absence of unions has meant that capital has been in a position to impose its conditions without opposition on the terms under which labour is employed.

The fact that so many in the informal sector prefer to be in this sector should not, therefore, give rise to the interpretation

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1. Furthermore, the present recession and the associated retrenchments mean that even the most disciplined and conscientious worker is aware of the possibility of retrenchment.

that KwaMashu has a large proportion of incipient mini-capitalists but rather that the conditions under which formal sector workers are employed leads many of them to prefer working in the informal sector.

11. An important finding of the KwaMashu survey is that only 3 percent of informal sector participants employed others. The machinery used was, with a small number of exceptions, manipulated by the informal sector operator himself. There appeared to be very little of the separation between labour and ownership of capital inherent in the development of a capitalist enterprise. This contrasted with Leys (1975:266) finding that, in Kenya, the informal sector consisted predominantly of wage workers (see also 1.5.6). Leys did not give figures to enable a comparison to be made, but there are reasons why informal sector enterprises may be larger and offer more employment in Kenya than in South Africa. The greater level of manufacturing development in South Africa leaves less space for informal sector manufacturing (see 2.6.3), and the tighter control over informal enterprises in South Africa has given such enterprises less scope to develop to the point where they can employ labour.
12. Backward and forward linkages in the KwaMashu survey indicate a high level of dependence on the formal sector for inputs and on township residents for markets (see Tables 13 and 14). The lack of markets in white areas puts a very real limit on the growth of the informal sector since the only market available is that

already present in KwaMashu where household incomes are generally low. The almost total lack of sub-contracting in KwaMashu means that the risk of exploitation which many researchers feel to be a danger of the sub-contracting relationship is of little significance.

Since the informal sector in KwaMashu relies almost entirely, directly or indirectly, on formal sector inputs, informal activities do not generate major multiplier effects within the informal economy. Thus , there is no reason to expect a snowballing effect since the linkages serve the purpose only of increasing the distribution of formal sector goods.

13. In sum, it appears that the major function of the informal sector is to re-distribute formal sector wages towards the poorer section of the KwaMashu community.<sup>1</sup> As such, the informal sector primarily serves a survival function. This was clearly shown by the Lorenz curves. Income inequalities were found to be reduced when informal sector incomes were included: income inequalities were greater for households without informal sector activities than for those with such activities.

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1. This is what the ILO report on Kenya referred to as 'involutionary growth' - "growth that turns in on itself. The informal sector has the potential of absorbing labour even if incomes do not rise because of the family ownership of enterprises. If the growth of output of a sector is inhibited, the result is to spread a slowly growing income over a rapidly growing population" (ILO 1972:94).



14. Considerable income inequalities exist within the informal sector illustrating the fact that the sector is not at all homogeneous. Those earning the highest incomes in the informal sector consist of women making and selling garments, selling bought and second hand clothes or liquor, and men involved in vehicle repair, house alterations and renovations, and entertainment. These are the occupations with the highest entry requirements of skill or capital and the greatest employment-creation potential and separate these people from the majority of the informal sector where occupations such as vegetable hawking require little skill or capital. This division into two sectors corresponds to House's (1984) 'intermediate sector' and 'community of the poor'. In this study of KwaMashu it was, however, found to be impossible to predict which operators would fall into which sector on the basis of personal factors such as age, sex, education, period in the informal sector, formal sector income or household size. Policies aimed at developing this sector need to take cognisance of the inequalities in the sector (see Chapter 7). This may be regarded as one of the most significant findings of this survey.
15. Numerically, the most important sector of informal activities is distribution (55 percent) while production involved only 34 percent and services 11 percent of operators. Yet it is in services that many researchers see the future of the informal sector as lying since goods produced cheaply in the formal sector can be repaired in the informal sector (Tokman 1978a) and since formal sector goods, partly as a result of extensive

advertising, have greater mass appeal (see taste transfer 2.6.2). In KwaMashu, however, the reasons for the importance of distribution (37 percent of informal sector activity consisted of retail food distribution), are the lack of access to transport and to storage facilities particularly refrigeration. People who are weekly paid cannot bulk-buy and long working hours and commuting means that many township residents cannot shop during normal shopping hours. However, increased income, better transport and improved storage would sound the death knell of many of these little shack shops since supermarkets are cheaper.

Home made garments (28 percent of informal sector activity in KwaMashu) provide a similar example. People buy locally made clothes, many of them pinafore dresses or simple jerseys, because they are slightly cheaper than formal sector clothes. The fact that they are hawked around the townships, or made by a neighbour, also makes them accessible to those without transport. If formal sector incomes improve, it seems likely that the market for these garments will deteriorate as people opt for more fashionable and only marginally more expensive formal sector clothes.

## CHAPTER FIVE

### ANALYSIS OF GARMENT-MAKING AND RETAILING

#### CASE STUDIES IN KWAMASHU

##### Summary

In this chapter attention is focused initially on the differing responses of those who make garments, those who sell retail garments, and those who sell second hand garments. This highlights the different constraints affecting the three subsectors of the garment industry. The importance of this lies in the implications for the relative potential of manufacturing and of retailing with broader significance for the informal sector as a whole. The discussion then turns to the advantages and problems of informal sector activities. These aspects are frequently unsuspected by researchers because of the alienation inherent in questionnaire surveys. The emphasis in this chapter is on the value of utilizing a variety of research methods in order to attain the broader understanding vital for developing policy.

## CHAPTER FIVE

These case studies<sup>1</sup> were undertaken in KwaMashu in order to obtain a deeper understanding of the workings and potential of the informal sector than, it was felt, would be reflected in the questionnaire study alone. People working for themselves were interviewed without attempting to seek out particular informal sector activities but the majority of the case studies happened to relate to garment making or retail distribution of clothes. The subsequent random sample research showed that this accurately reflected the relative dominance of garment making and distribution in the informal sector. This subsector was considered to be particularly significant since it included both manufacturing and retail distribution. Analysis of these case studies could therefore provide information on the relative potential of these two aspects of the garment industry in the informal sector. For these reasons the case studies on the garment industry were the ones analysed in detail.

These interviews revealed, to a greater extent than had those in the questionnaire survey, that a critical element in informal sector activities is the high degree of competition. So many people are trying to earn a living in the same way. The ways in which people evolved strategies to overcome this difficulty reveals much regarding their problems and difficulties.

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1. See Chapter Three for methodology.

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## 5.1 Marketing Strategies

### 5.1.1 Home-made Clothing

Of the twelve women<sup>1</sup> interviewed who made clothes (mostly sewing but one knitting) all but two had combatted the very serious problem of competition in KwaMashu by selling their wares (generally with the help of family members) predominantly in rural KwaZulu.<sup>2</sup>

Of the two who do not sell in rural areas one has turned her attention, after making clothes since 1975, increasingly to her shack shop and small fish-frying business.<sup>3</sup> The other, who sells predominantly in KwaMashu, maintains, with just a hint of superiority, that there is no need for her to sell in rural KwaZulu as the quality and variety of her sewing ensures that her wares find a ready market

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1. Only women were involved in the making and selling of garments in the random sample as well as in the case studies. Men occasionally assisted their wives by selling clothing at work.
  2. Paradoxically although these women moved into rural areas to sell, in another study rural women ... "who go outside the local community to sell are ... amongst the most successful in terms of the amount of money they earn" (Preston-Whyte and Nene 1984:13). It is not the movement from urban to rural areas which is conducive to increased sales, therefore, but finding a particular market with good sales potential.
  3. She estimates that these two bring her a profit of R400 per month, compared to only R40 for sewing. As she points out (and as most other women mention) when selling clothes in KwaMashu she is constantly badgered to allow credit payment and the money is difficult to recover. People pay cash for fried fish. She is not confronted by competition in her fish-frying business as, she says, she knows secrets of fish frying unknown to aspiring competitors (she worked for seventeen years as a domestic servant for a family who ate a wide variety of fish dishes). Although she spends hours cooking it is remunerative.

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among those who place orders for her garments in KwaMashu.<sup>1</sup> She was the woman discussed as Case Study Two of Chapter Four.

For the other women, however, marketing is one of their major problems and they all stress the difficulties imposed on them by the degree of competition they face. A further difficulty encountered in selling in the township is that township buyers press them to sell on terms. Given the anonymity of the township and the transient nature of a hostel dweller's residence, this is hazardous. (Credit is frequently given but only to people they know.) They are pressured into giving credit since this enables them to retain customers and gives them an advantage over competitors.

Women who sell in the rural areas, on the other hand, extend credit more readily since it is to people they know (as they return to sell in their 'home districts' or otherwise the clothes are given to close relatives to sell for them).<sup>2</sup>

While it may appear that the transport costs involved in selling in rural areas add to the costs and decrease profits it is clear that in

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1. There is probably a good deal of truth in her assessment as her clothes were well made. She was observed meticulously to press the garment at each stage giving a very professional finish. This would certainly diminish competition. She makes a wide range of articles which facilitates easier marketing.
  2. One woman's sister sells 40 - 60 children's dresses every two months at Tugela Ferry. Others have relatives who sell for them at Ndwedwe, Eshowe, Mahlabatini, Muden, Mondlo, Vryheid and Port Shepstone every two to three months. Another woman's sister-in-law (in Orlando) collects garments to sell every few months. She reports that bedspreads sell only in Johannesburg (not Durban) and pinafores fetch a better price there.

many instances the visits were in part family visits which would have occurred anyway. Where relatives sell for urban dressmakers they do not receive payment. As family they do it to help (an example of use rather than exchange values). The clothes they frequently receive for their families are not regarded as payment.

There is a very marked tendency for rural sales to take place on pension day<sup>1</sup> (every two months). Seven of the ten women mentioned this point specifically. One woman also went all the way to Ingwavuma to sell on cattle auctions days when people had the cash to buy clothes.<sup>2</sup>

Speaking to these women and exploring the methods they have devised to sell their wares it is clearly evident that they find it difficult (with the one exception) to sell in KwaMashu. This is not only because of competition from women such as themselves but, more importantly, because of the availability and comparative cheapness of formal sector garments in shops in KwaMashu and Durban.

Furthermore, KwaMashu residents, although extremely poor, do have higher incomes than people living in rural areas and this could indicate a change in consumer preference, and taste, at slightly

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1. This was also observed by Preston Whyte and Nene (1984:15).

2. According to the respondent Ingwavuma is one of the few areas where the magistrate is prepared to give a licence for hawkers to sell home made clothes. According to her the police tried, unsuccessfully, to stop the issue of such licences on the grounds that it interfered with the sales of the licensed trading stores and also as the police regarded the crowds gathered around the hawkers as potentially unruly. The magistrate, however, insisted that the women had the right to sell their home made articles.

higher income levels. Thus rural women find home-made dresses more acceptable than do many urban women. This would have implications for the long-term potential of informal sector garment manufacture. Where KwaMashu residents do buy from women who make garments themselves one of the factors persuading them to do so is the availability of credit.

### 5.1.2 Retail Clothing

The target market for those selling formal sector clothing is quite different. Since such clothing is at least twice the price of home-made clothing it appeals to women with more money - typically to working women - and it is to such women that the sales are directed. Three women interviewed sold to quite different groups of women but in each case there was a very specific target group.

One woman had previously been a hotel employee and had made extra money by buying sheets wholesale and selling them to her fellow employees. She decided, after being retrenched, to sell sheets and clothing for a living. She sells to hotel employees in Durban during their lunch breaks and after work since she knows, from her previous job, the kind of clothes they like as well as the fact that the hours they work makes shopping difficult for them. Customers pay a deposit on purchase and she returns on pay day for the balance.

Another woman has found that the best markets for her dresses are schools and polyclinics in KwaMashu. Her market is women earning relatively good salaries who consider it important to dress well but who find it difficult and time consuming to shop in Durban. She did



not mention finding competition a problem, possibly because of her willingness to give credit. (By allowing credit and accepting small repayments of under R10 at a time she risks not getting paid but she accepts the risk since it increases her sales.)

The third woman in this category is still employed as a nursing sister. She uses her job as an opportunity to sell to an almost captive market. The nurses are women with whose tastes, and sizes, she is familiar. She has no problem getting money from her customers since she knows them well and they pay the dresses off R10 at a time at the month's end. Her husband helps her purchase stock and uses his car to transport dresses. Like the two previous women she buys her stocks from Indian shops in the Grey Street area in Durban. Since she has no children, and a relative living with her gives assistance around the house, she does not find her 'moonlighting' too difficult. She is sure the business would expand greatly if she devoted all her time to it and is seriously considering leaving nursing to do so. The only woman in this category (of these who sell formal sector clothing) who sells in rural KwaZulu is a woman who sells bought clothes and machine knitted articles at Harrismith and Hammersdale.

The chief problem encountered by these women is a shortage of cash to buy sufficient stocks. This cash shortage certainly applies to all women, whether they make clothing or sell new or second hand, but is felt most particularly in this category since the outlay is much higher. It is interesting to note here that retail clothing is generally marked-up 100 percent. Women who sew also expect this

profit but they have in addition to expend much labour actually making the garments.

### 5.1.3. Second Hand Clothing

The seven women selling second-hand clothing use other marketing techniques. Since the clothes they sell are much cheaper than clothes being sold new they can be sold to a far wider range of KwaMashu women and are much in demand. This clothing tends to be more varied, and rather more fashionable, than the clothing sold by women who made garments. These women do not find it necessary therefore to sell in the rural areas. Mostly these sellers of second-hand clothing sell house to house around KwaMashu.

A regular route enables them to sell to people they know; this is essential if they are to give credit (which they all do to known customers). Instalments are called for at the end of the month and they accept even a rand or two. One women's husband assisted by selling clothes at work and another's mother sells in KwaZulu on pension day. The best place in all Kwa Mashu to sell is said to be at the men's compound on pay day because the men buy garments to send home.<sup>1</sup> However, the police made this difficult since they regard it as unsafe and move hawkers on.<sup>2</sup>

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1. A woman who made children's clothing had also reported this.
  2. All the women obtained the clothing in the same way as they sold it, by going from house to house along an established route in Durban where they were known. They bought especially in Westville and Durban North. This buying was supplemented by visits to jumble sales, and also to auctions although these were considered rather expensive.

The selling strategies adopted by the different groups involved in selling clothing - those who make the clothes themselves, those who sell formal sector clothing, and those who sell second hand clothing - thus vary markedly depending on the kind of competition they face and the buying power and preferences of their market.

## 5.2 Survival Strategies

The women who make clothing to sell, despite having found a way of selling all they can make and despite the fact that they, in most cases, spend every available moment sewing or knitting (as long as there is sufficient money available to buy the necessary inputs that is) still do not in many cases make enough money to cover their needs. As part of their total survival strategy many of the women who make clothes<sup>1</sup> are involved in still other income-earning activities.

Six of the twelve women who make garments are, and one was previously, involved in supplementary money-making activities. A further two, as well as making clothes, sell either second-hand clothing or new clothing (as mentioned earlier) thus supplementing their sewing activities. One woman is thinking very seriously of adding bought clothes to the range of home-made articles she sells in the rural areas.<sup>2</sup>

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1. The women selling new and second hand clothing, possibly because of the rather higher profits they make, scarcely participate in such additional activities at all.
  2. Of the remaining two women without supplementary activities one lives alone in Kwa Mashu and sends most of the money she earns to her mother in rural KwaZulu to support her three children. She finds her income sufficient for her needs. The other woman who does not supplement her income receives money from the pension of her husband who was paralysed in a bus accident and from one of her children who is working.

The supplementary activities undertaken by the women are sometimes many pronged attacks on poverty - as in the case of the woman who, besides sewing, makes grass mats and trays covered with plastic, grows vegetables, and whose husband runs a small second-hand furniture business to supplement his salary as a minister. Another woman bakes two dozen doughnuts every day and sells them with cool drinks (kept cool in her refrigerator). A woman who has sewed clothes since 1960, has for the past six months added to her sewing activities a small shack shop selling vegetables, paraffin, sweets and matches. Yet another woman who also made clothes to sell since 1960 recently added the selling of paraffin to her activities. A third sells paraffin, sweets and popsicles as well as making dresses. The woman who probably earns the most from her sewing activities - over R400 p.m. - (the one who makes dresses, pinafores, curtains and traditional mats as well as selling second hand clothing when she has the chance) also cultivates vegetables on an open plot of land and sells these.<sup>1</sup> A woman who is now only sewing, as she had done since 1964, had until 1978 another business as well. She sold fruit and vegetables from a van in KwaMashu and employed her son and an assistant to help her. When the van was wrecked in an accident she was unable to continue selling vegetables. For many of the women earning money by sewing it

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1. It must be noted that these women regard sewing as an important income-earner. Three of the twelve women set aside a regular time for sewing. Either the full morning from 7-1 or the afternoon from 1-5 and attended to their domestic responsibilities for the rest of the day. Four of the women reported, and it was evident when visiting them, that they sewed daily and for as much of the day as was possible. The remaining five did not give information about when they worked. It was evident from the discussions that sewing was not a minor activity carried on part-time. Apart from the woman who spent most of her day frying fish, sewing occupied a major portion of their time.

is apparently necessary that they supplement their income in some way - this despite the fact that most are not the family's sole breadwinner.

Conversely, among the women selling second hand and new clothing only one is involved in supplementary activities. She sells new clothes on credit and the money only comes in (slowly) at the end of the month. In order to have a constant cash income she has a small vegetable stall outside her house which she employs someone to run, though she does the buying for it daily. This brings in about R15 profit a day. She needs this money as her husband is unemployed, she has three young children (her main reason for leaving formal sector factory employment) and her uncle and mother, who are unemployed and receive no pension, live with them. The financial pressures, particularly the day to day ones, are thus greater for her than for either of the other women selling new clothes.<sup>1</sup>

Of the women who sell second hand clothes none are involved in any supplementary activities though one expressed a desire to add home made clothing to her second-hand sales as she feels there is a demand for new clothing.

The difference in supplementary activities between those making garments and those retailing them, together with the marketing strategies adopted by the women making clothing, suggests that there is more competition in sewing than in retailing activities. It is

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1. One of these women has a job as a nurse and her husband is in employment. The other lives at home with her employed parents though she does support her three children growing up in rural areas on her income.

(20) 100 yes

probable, though difficult to substantiate, that this competition is not simply because there are so many women making clothes but because there is considerable competition from the factory-made clothing available which appeals particularly to urban residents (see 'taste transfer' 2.6.2).

### 5.3 Hidden Profits

It may seem at this point that the dice are heavily loaded against women making and selling clothes. However, it is important to bear in mind the aspect of 'hidden profits' which researchers tend to overlook. Cognisance is often taken, by researchers, of 'hidden costs' but 'hidden profits' also play an important role. A woman who sold second-hand clothes pointed out a great advantage: it enabled her to dress her entire family smartly on the clothes she bought - she then added their used clothing to the clothes being sold. This did not appear in the profit she estimated from the business but it meant that she, her husband and her three growing children were well dressed as a 'perk' of her business. She lived in an expensive owner-built house and it was important to her to dress her family well. This perspective on 'hidden profits' could only be gained from this case-study approach, it would not have arisen during a questionnaire survey (particularly a pre-coded questionnaire).

Similarly, women who make clothes to sell will include material to make clothes for their families (and of the family members who assist them). (Those who buy fruit and vegetables, paraffin and other groceries will draw their household supply from the goods they sell. Paraffin, for instance, is bought in bulk and by rebottling most of

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the container and selling it at the accepted price their paraffin is effectively free. This may decrease profit from a bookkeeping point of view but it is a very real advantage.

Lipton's argument regarding the merging of consumption and production in such small scale operations - what he calls the 'fungibility' of production costs - is relevant here. He feels this is an important, positive, and much neglected aspect of these businesses (cited by Schmitz [1982a:432]).

#### 5.4 Life-History Differences Between Those Who Sew and Those Who Sell

The considerable differences in age and employment history between the women involved in sewing and those in retailing suggest fundamental differences in outlook between the two groups. The women involved in making clothes are older and more traditional than those involved in retailing. Of the twelve women making clothes only two were under forty five years of age.<sup>1</sup> The majority of those women were either

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1. One of these was the only woman among the group who was knitting garments on a knitting machine - an activity more attractive to younger women. The other was the only woman amongst all those in the case studies who preferred formal sector employment. She had tried unsuccessfully for the past three years to find a job and was in the informal sector more from necessity than choice.

The oldest woman in this group (see Case Study Two, Chapter Four), certainly over sixty five, is also the one making the highest profit (well over R400 per month). She has been sewing to sell for thirty seven years. Part of the reason for her success she attributes to her children being adult: she can devote herself to her sewing and mat making. Three wage earners in the household, and her own part time employment, obviate the cash-flow bottleneck which almost all the other women experience.

Although the three women earning the most were aged over fifty and had been sewing for over fifteen years, and the youngest two earned the least, there was not a perfect correlation between age and earning capacity.

previously in domestic employment (six instances) or not employed (three instances). Of the remainder one had worked in a factory, one had been a teacher and one a nurse.

The women who sold new and second hand clothing were all under forty years of age and were confident, well dressed and attractive women. Those selling new clothing had worked, or still worked, in hotels, factories or as nurses.<sup>1</sup> Those selling second-hand clothing had a similar employment history.<sup>2</sup>

There is therefore a fairly clear division between the older more traditional women and the younger, more confident, sophisticated and fashionable women.

### **5.5 Problems Facing Garment Makers and Retailers**

The women involved in garment making and retailing confronted serious problems. Almost all of them mentioned the availability of working capital as a constant problem which limited their growth and viability. Allied to this, many mentioned the problems associated with, and the tremendous difficulties involved in, obtaining a hawker's licence. In the first place, the lack of a licence

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1. With the exception of one woman who sold retail clothing and her own knitted articles in the rural areas. She had never been employed and was, in many ways, more like the women who made garments.
  2. Apart from two women who had never been employed but had the confidence and sophistication of the women in the group and one who had been in domestic employment and was more like the women selling home-made clothing in most respects.




restricted them to purchasing stocks at retail shops and so prevented their gaining access to cheap inputs. In the second place, the lack of a licence increased the problems of police harassment (a smaller number mentioned this, however, than mentioned the previous difficulty). Only four women had had actual problems with the police and found that this limited their opportunities to sell where the demand was greatest. A further four were constantly aware of the possibilities of police interference and so were psychologically affected.

Finding sufficient time to work was mentioned by some of the women as a difficulty because working from home meant that domestic responsibilities interfered with remunerative activities. This point was specifically mentioned by two young women. An older woman (see Case Study Two of Chapter Four) mentioned her diminishing domestic responsibilities as a major advantage to her economic activities. This woman, however, found that the lack of space resulting from five adults living in a small house limited her work. She sewed in the kitchen and had to clear away to cook. The frame used for making mats necessitated moving the settee out of the lounge - so when she made mats she had to concentrate on that activity alone in order to restore the lounge to its normal appearance as quickly as possible.

These every-day type of problems although not revealed in the questionnaire survey<sup>1</sup> do much to clarify the difficulties under which those in the informal sector operate. Market competition was found

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1. The researcher had necessarily to be present in the area where the activities were undertaken in order to ask pertinent questions.



to be the overriding determinant of the future of garment making and retailing. A small number of highly committed garment makers devised strategies which were based either on extremely efficient marketing in rural areas or on producing a wide variety of high quality articles. Apart from these few women the possibility of earning a good income in this sector appears to be best for those in the retailing of new garments. This market is limited, however, to the relatively small number of women earning a high enough income to be able to afford these more expensive items. The market is also limited to those women who lack the time to visit retail shops in Durban and KwaMashu. There appears to be some potential for the sale of second-hand clothing, so long as such selling is undertaken on a full time basis since obtaining the inputs is time consuming.<sup>1</sup>

### **Conclusion**

This detailed analysis of garment manufacture and retailing based on case studies illustrates the perspectives gained on these activities which are not possible with questionnaire surveys and shows the importance of using both approaches. The survival strategies necessary to the garment makers, the hidden profits in informal activities, the participants problems which have not been anticipated by researchers and the differences in both marketing strategies and life histories among the three groups, were clarified by using the case study approach.

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1. The only woman whose profits in the second hand sector were as high as those selling new clothing, and those of the three most successful garment makers, worked particularly industriously on a full time basis.

## CHAPTER SIX

### ATTITUDES OF DECISION-MAKERS AND OFFICIALS REGARDING THE INFORMAL SECTOR

#### Summary

Encouragement and promotion of the informal sector is a policy both the Government and the private sector in South Africa profess to favour. The aim of this chapter is to show that this rhetoric has little basis in reality. After briefly considering the perceptions of government officials (including the police) and local businessmen, attention is directed towards the practical management of a lending agency. The main concern here is with establishing which people are to be granted loans. It appears that there is a mechanism at work sorting the few with some potential for accumulation from the many who function at a subsistence level. The chapter concludes by suggesting that present policies hold little possibility for ameliorating widespread poverty.

## CHAPTER SIX

The destruction, survival or growth of the informal sector is dependent to a large extent on the attitudes, perceptions and decisions of local authorities and development agencies. It is a particularly interesting period for an investigation into these attitudes because the traditional bureaucratic view - that the informal sector is an unsightly, untidy, health hazard - is in some circles gradually giving way to the idea that it could be promoted to provide further employment opportunities and supply welfare needs. Thus it is a period of conflicting ideas and opinions. This is well illustrated in our interviews with those whose decisions affect the day to day running of the informal sector in KwaMashu.

### 6.1 Antipathy

The strongest antipathy to the sector was found, as might be expected, among government officials and amongst fairly small black businessmen.

An official of the Natalia Development Board employed at Pinetown criticised the informal sector because it competes with those who are licensed and established. Much of his antipathy was based on a dislike of anything which could not be carefully regulated and controlled. He felt that African hawkers copied the idea of trading from Indian hawkers around Durban station, but that the Indian hawkers were permissible because they were licensed and regulated. However,

the African hawkers around KwaMashu station were considered a nuisance because no control was exercised over them. He did not explain why they could not have been licensed.

The KwaMashu Township Manager did not express strong feelings on the matter of the informal sector but simply carried out instructions as laid down. He noted that trading from houses was illegal but that sewing and knitting from home, which did not require licensing, were permitted. An investigation of licences approved by the KwaMashu Township Licensing Board (consisting of four councillors, the Township Manager, the Senior Health Inspector and the the Clerk of the Board) showed that a licence had been granted to a hawker enabling him to store up to R200 worth of goods (clothing) in his home. The Township Manager opposed the application, as did the police, but the majority of the Board were in favour and it was approved. The Board generally forbade the use of domestic residences for commercial storage but this application was approved on the grounds that the hawker was an itinerant and did not sell from the house, and on condition that the Senior Health Inspector inspected the premises regularly.

Stronger opposition was displayed by owners of businesses in KwaMashu. The owner of a KwaMashu bottle store, and chairman of the Nyanda Chamber of Commerce, objected to trading from residential dwellings. He argued that it was not the small people barely subsisting who constituted a threat but the more established unlicensed operators. Thus his antipathy was clearly based on a perception of the sector as a threat to him and his peers. He did point out that the Township Community Council had requested that the police refrain from harassing

informal sector operators, but he was clearly referring to producers rather than traders. It is interesting to recall that all the shebeens included in the questionnaire survey bought their liquor from KwaMashu bottle stores and so were acting as a distributive network for these stores. He appeared not to be aware of these benefits.

A Rotunda member who owns a shop selling plastic-ware in the O.K. Bazaars complex felt that the community council should never have allowed the hawkers to remain around the station. He stressed that when he had been on the community council, prior to the incorporation of KwaMashu into KwaZulu, it had not been policy to licence businesses which were initially informal operations. It is interesting that, unlike those actually in the informal sector, he felt that it was not difficult to obtain a licence: 'you just have to apply for a site and show you have the capital and ability to develop it'. For those in the informal sector these would, in fact, be insurmountable difficulties. Ironically his wife, prior to the opening of the shop, had hawked plastic goods around KwaMashu without a licence.

## **6.2 The Cinderella Complex**

Even those emphatically against the informal sector seem able to bury their qualms and become enthusiastic when confronted by someone who started off in the informal sector but achieved resounding success in business. It would seem that they object only to those who barely eke out an existence.

An official of the Natalia Development Board opposed the informal sector yet reported with evident admiration the story of Mr Z.. Mr Z. started a business with his wife in Cato Manor selling hot scones, at three and four in the morning, at the bus rank. When Cato Manor was cleared he requested permission to start a business in KwaMashu. He died a millionaire in 1980, owning numerous shops, and had been taken on an overseas tour by Coca-Cola as one of their hundred top distributors. This story could not be verified from any other source but even if it were exaggerated, or possibly apocryphal, it illustrates the argument that officials who oppose the informal sector when it consists of failure and grinding poverty become enthusiastic when they see success.

### **6.3 Containment or Eradication?**

The police, according to the KwaMashu police station commander, did not interfere with informal knitting or sewing activities or with panelbeaters and mechanics, and they seldom acted against those trading without a licence. However, he pointed out that meat sellers are fined because they constitute a health hazard, and, since meat hawkers cannot be fined while other hawkers are ignored, all hawkers must expect to be fined. The fines are between R10 - R20 and only goods necessary for evidence are confiscated. Shack shops are raided because the majority, according to the commander, sell 'juba' (i.e. beer).

Fieldwork in KwaMashu uncovered the fact that a shack shop owner, Mrs

S.<sup>1</sup> (see Chapter Four), had received a fine of R50, and had also had a fine of R30 only three months previously. When the amount of the fine was queried with the police it transpired that the fine for hawkers is R10 - R20 but for enterprises run from the house it is R50.<sup>2</sup> It appears probable that by regularly fining R50 the police do not seek to eliminate shack shops. They make no real effort to force them to close by fining daily or by more substantial fines. The purpose appears to be to limit the shops both in number (by frightening off prospective entrepreneurs) and in size (by preventing those in business advertising to attract customers). Capital accumulation and growth are rendered problematic since fines regularly drain off the profits.

#### **6.4 Lack of Perception or a Hidden Sorting Mechanism?**

Many of the officials working with small entrepreneurs (those employed by organisations such as the Small Business Development Corporation, as well as Government officials), appear to lack any real understanding of conditions in the townships. This is the result, in part, of social distance and of an inability to perceive conditions in the township (ignoring for example the difficulties of travel and the

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1. It seems almost certain that no juba was being sold from Mrs S's shack shop. The length of time spent by the researcher at the shop during the case-study and the fact that Mrs S was introduced to the researcher, by a woman who knew them both well, as simply a shack shop owner (although an interest had been expressed in shebeens) indicated this.
  2. This was not mentioned by the station commander in the first interview and was revealed only later during in-depth research in KwaMashu.



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limitations imposed by poverty). Office interviews (of the "I ask, you answer", variety) result in officials lacking the opportunity personally to experience township conditions. An example of such a lack of understanding was the suggestion by the head of the Infant Enterprises Unit that informal sector operators make their monthly repayments by cheque. He further suggested that direct payment could be made to a KwaMashu bank - but the Small Business Development Corporation deals with Nedbank which does not operate in the townships. The interesting point here is that two months after the formation of the Infant Enterprises Unit, and after at least a year of the Revolving Loan Scheme,<sup>1</sup> a system had not been evolved to simplify repayments. The suggestion that it was a long way to travel by train from KwaMashu to Durban to make a monthly repayment (an entire morning away from business), elicited the response from a SBDC official that "Where there's a will there's a way". It is not easy for the affluent and privileged to conceptualise the problems of poverty.

The unsympathetic attitude of officials may, perhaps subconsciously, be a means of separating the applicants with capitalist potential and entrepreneurial drive from those simply striving to survive. It is more difficult for the less affluent, less erudite, and less self-assured to present their loan applications in a manner conducive to a favourable official response. These may be the very people less capable of operating a highly successful business or they may simply

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1. Under this scheme loans of up to a maximum of R2000 are available for a period of one year with an interest rate of twelve percent per annum.

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appear so to the lending agencies. It was apparent while visiting loan applicants with an SBDC official that she was looking for a well developed business motivation - difficult for those who used their profits for subsistence and had to wait until pay day or pension day to obtain inputs.<sup>1</sup>

The overriding emphasis on rational economic behaviour was well illustrated by an interview with Mrs S. (see Case Study One of Chapter Four) who runs a small shack shop. Assistance was requested from the SBDC in order to repair the family Combi to save money spent on taxis and enable the money to be used to purchase groceries. Mrs. S. produced receipts and her savings book in order to demonstrate the money flow engendered by the business. The official was clearly shocked to find R1000 in the savings book and enquired why, in the circumstances, money was required to repair the vehicle. It transpired that the money saved was **only** for emergencies since with five children and two elderly persons in the house it was necessary to have security in the event of an unforeseen crisis. The official was

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1. She argued that when a cone of yarn costs only R3.50 cash flow problems do not exist. In fact a cone costs R5 unless bought at sales (which results in delays and requires foreknowledge of sales), or from a factory (which requires a licence). Thus the extent and limitations of poverty are overlooked. The time available to the women is also underestimated since it is suggested that they can make two jerseys a day (and sew together four on the third day): this does not allow for time spent running a household, caring for young children, without electricity or hot water and with long journeys on foot (or by taxi) to buy consumables. In fact it would appear unlikely that a jersey could be completed in much less than a day. Changing colours or introducing patterns would take even more time. A child's jersey (although using less yarn) would be almost as time consuming as an adult's.

totally unable to understand this and insisted, both to Mrs S. and to the researcher, that it was not economically rational to spend well over R20 a week on taxis when money was available to repair the vehicle: she had no conception of a world where social security is very limited. She also stressed that with two pensions the family should have had enough money anyway to repair the vehicle without a loan, but she was under the impression that the pension was R260 per month whereas in fact it is R57 per month each **paid every second month**. This again indicates a basic lack of knowledge of the circumstances of the people she deals with and ignores the extreme difficulties a family of three adults and five children would have living on R100 per month far less attempting to save money out of it. Thus what is interpreted as a lack of profit motivation is in fact an accurate and realistic assessment by Mrs S. of the situation in which she finds herself. Paradoxically, in other cases, welfare criteria and not simply profit orientation were regarded as important - perhaps desperation is thought to engender a profit motivation.

It is perhaps a reflection of the degree of commitment to development of this sector by the SBDC that ~~those~~ assessing loan applications are often unable to speak Zulu and do not have a full time interpreter. They cannot communicate freely on those issues vital to a wider understanding of the informal sector.

It is apparent that the SBDC is not actively searching for small enterprises to assist. An official pointed out that there is such a

demand for their services (and being non-racial it is from all race groups and so particularly from those that do not have difficulty, language or otherwise, in approaching the SBDC) that they do not need to search for applicants. This might explain why the SBDC does not perceive a need to open branches in the townships or to follow up initial applications. Of five introductions made by the author, in which details were taken, none of the applicants was contacted. The official later said it was up to them to contact her but this was not the impression given in the interview. This was found to be the case with two other staff members as well.

The choice of loan assessors by the SBDC is significant. The official mentioned earlier is more interested in production (eg sewing, knitting and perhaps food preparation) than in redistribution. She sees her role as that of developing skills, rather than simply in assisting enterprises, but the result is that it encourages manufacturing enterprises rather than encouraging those involved in distribution and services. Theory suggests, however, that production is likely to be increasingly limited by the capitalist sector. The official felt that production of clothing offered the best opportunities: the women know that the same profit is more easily obtained by selling ready made clothing. Because of her position regarding loans the official has the power to direct people into one field rather than another. One recipient was at least as interested in selling second hand (particularly men's) clothes as she was in sewing, and she found that the two activities balanced one another giving her a wide variety of clothes to sell in the rural areas. But the official's interest in the manufacture of clothes pushed the loan

recipient into accepting a sewing machine<sup>1</sup> as part of her loan (her old one was giving trouble but this was not her first priority) and in accepting much of the rest in the form of dress fabrics rather than ready-made clothes .

It is pertinent to the argument in this section that in a recent radio interview<sup>2</sup> an official of the SBDC stated that the cut off point for those eligible for assistance from the 'infant enterprises unit' was capital assets of R750 000. This was the upper limit but it indicates the scale of enterprises under consideration by the SBDC - certainly no enterprise in this entire survey of KwaMashu had anything approaching this level of capital assets.

The attitudes and perceptions of a particular staff member of SBDC have been dealt with in considerable detail since she was involved in loans in KwaMashu. Four other members of the staff, of all racial groups, were also interviewed and it was quite clear that their perceptions were similar to hers (or even less empathetic). This is not a critical assessment of her personally, but of the lending procedure of the SBDC in general. It appears highly likely that the

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1. This is probably related to the widespread bias against supplying working capital to small businesses (see Anderson 1982:938). In fact the global experience is that services and retailing have more growth potential than manufacturing. The SBDC Annual Report (1984:5) lists the businesses financed by the mini loan scheme in the previous year. They included manufacturing of beadwork and woollen items, vendors, tailors, welders, sewing and knitting circles, shoemakers, photographers, upholsterers and other cottage industries. Thus all except vendors are in manufacturing which is not where the long term potential, in a country such as South Africa, appears to lie.
  2. On Springbok radio on 8 August 1985 at 1.45 pm.

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policy reflects not simply a lack of understanding of the township poor but rather a means of sorting those with potential for accumulation from those at the subsistence level.

## **6.5 Bureaucratic Difficulties**

Many in the informal sector require relatively small loans - 82 percent of those in the KwaMashu sample in this study requiring loans wanted under R500. SBDC loan procedures (a committee of four has to approve the loan after it has been thoroughly researched by the investigator) make it more practicable to offer large (over R1000) than small (under R200) loans. This problem would be difficult to overcome with the administrative structure as it is, but the point is that the SBDC clearly does not recognise it as a problem. There is some disagreement in policy: one official felt that as small an amount as R100 could be lent, whereas another would not consider less than R500. The desire for simplified loan-monitoring results in a tendency to award loans for the purchase of capital equipment rather than for working capital. This may have the danger of pushing people into increasing their expenditure on capital equipment unnecessarily rather than ameliorating their cash flow problems. Although the difficulty appears to be simply an administrative one associated with the costs involved in granting small loans, it has the effect of reinforcing the mechanism discussed in 6.4 and of assisting the profitable elements of the informal sector to the detriment of those at the subsistence level.

## 6.6 The Question of Personal Interest

A disadvantage of many loan administrators is their distance from the life-situation of the loan applicants. However, this is not simply the result of skin colour. It is quite possible for a black, with a life experience far removed from that of the poorer township resident (though resident himself in KwaMashu), to be unable to understand the position of the very small operator. Or it is possible that he may perceive the applicant as a threat to his personal interest.

This was illustrated in two instances. The chairman of the Nyanda Chamber of Commerce was in charge of granting loans from the SBDC for the revolving loan scheme. In fact only two loans were granted before the scheme was frozen. The SBDC would not comment on the difficulties encountered but the chairman reported that part of the problem was that in awarding the loan he had to become co-debtor and this placed a great responsibility on him. From our conversation, however, it is quite evident that, as a small businessmen himself, he is not sufficiently impartial to grant loans to very small unlicensed operators whom he sees as competitors.

An employee of the SBDC in the Infant Enterprises Unit was put in charge of a loan to a Mrs B.<sup>1</sup> after it had been partly processed by another official who had suggested that in order to create a viable business the loan should be R1000. The first official had been very

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1. She was the translator employed for the case study survey. Although she did want a loan this was in part a test case to monitor a loan application.

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positive about the loan's being granted. The second official refused the loan on the grounds that there was excessive competition (he had friends using the same marketing strategy at the same hospital). It is interesting to speculate whether he was in fact protecting his friends' business interests, seen as legitimate perhaps in an economy with large monopolies, or simply taking it upon himself to decide upon a business's market potential when in fact Mrs B. knew her market well.

#### 6.7 Who is Being Helped?

Recently the SBDC moved from its offices in the Trust Bank Building in Smith Street to a new building specially designed for it at Westville. It is difficult for those in the townships to get to the middle of town<sup>1</sup> (but such a visit could be arranged to coincide with a trip to buy inputs for the business). A trip to Westville is far more difficult. This move would appear to suit the needs of formal sector small businessmen and of SBDC staff, all of whom are likely to own cars, rather than those it is most meant to help.

#### Conclusion

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These interviews made it evident that it is not only government officials and complex state regulations which impede progress in the

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1. A once-a-week visit by an official to a small office in the township centre would have shown a real interest on the SBDC's part in promoting infant enterprises in the townships.



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informal sector. Those who profess to offer assistance, including corporations specially set up to help small businesses, in fact do little to promote the interests of the informal sector. By raising hopes and then dashing them such organisations cause people to lose heart, a fact the author was very aware of, having seen many applicants refused loans.

It appears that the rhetoric of assisting the unemployed by providing assistance through organisations such as the SBDC has the real result of withholding assistance where it is most needed. The questionnaire survey in this study has shown that the majority of those in the informal sector operate at the subsistence level. The examination of the lending policy of the SBDC indicates that it is those with potential for accumulation who are being selected for assistance.<sup>1</sup> The assistance also appears to be directed towards the manufacturing sector (where it has least chance of long term success) and towards providing equipment (whereas it is working capital which is most necessary). There is clearly antipathy towards the informal sector on the part of small licenced businesses (who see it as competition), certain government officials (perhaps because state policy has long regarded the informal sector as undesirable), and the police (who do not seem quite sure about what is allowed and what not but in effect, by the uncertainty they engender, they certainly limit the sector). An effective official policy of encouraging the informal sector will clearly need to overcome much opposition from many quarters.

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1. If this is not the reason then the alternative seems to be a pronounced inability to empathise with the very poor on the part of officials.

## CHAPTER SEVEN

### POLICY OPTIONS FOR THE INFORMAL SECTOR

#### Summary

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This chapter begins by assessing, with reference to the literature survey, the parameters within which the informal sector has potential for development and the limitations of projects designed to advance the sector. This potential and these limitations are then examined in the South African context with specific reference to the empirical findings of this thesis. Attention is also drawn to the diversity within the sector. It is recognised that some assistance is best directed towards those with potential for accumulation, but it is suggested that there are ways in which the less profitable level could be promoted. Such assistance can only ameliorate the problems of poverty not eradicate them, but it is felt nevertheless that the situation is such that urgent policy changes should be implemented.

## CHAPTER SEVEN

### 7.1 Determinants of Informal Sector Expansion

The theoretical survey offered in Chapters One and Two showed that, while some analysts (for example, Oyeneye 1984 and Sethuraman 1977) see the informal sector as a growth-pole important for employment generation, others see its development as problematic and limited by circumstances beyond its control. These limitations are said to operate in the following way:

1. Davies' (1979) contention that capital and the state together control the informal sector at an optimum size was explored in Chapter Two. It was argued to be in the state's interests to develop the informal sector since this is thought to lessen unemployment, suppress the development of trade union activity, effect fiscal savings for the state and help create a capitalist oriented middle class. However, the state's encouragement of informal sector development would be counter-balanced by its antipathy towards uncontrolled settlements which are more difficult to supervise, visually unattractive especially for tourists, and thought to be hazardous from a health perspective. Since informal sector growth is considered to attract rural migrants to urban areas in that it makes available urban employment, controlling the informal sector is considered a means of controlling squatter development (see Truu and Black 1980:26). It can be argued that the capitalist sector conserves the informal sector because this sector depresses formal sector wages

(by supplementing incomes and lowering the cost of living); widens the distribution of formal sector merchandise; minimises the effect of trade unions (by providing an alternate income source and employment in non-unionised businesses); and bears many of the risks of new entrepreneurial activity prior to the formal sector taking over successful operations. However, the capitalist sector only encourages the informal sector to a certain point and acts to suppress it once it offers serious competition as a result of its lower overheads and non-compliance with wage, industrial and tax legislation.

2. The above may imply a somewhat contrived control by the state and capital, but it is clear that the same result may be obtained in a more spontaneous manner. The economic space within which the informal sector operates is governed by the capitalist sector (see Chapter Two) since:

- i) growth in formal sector production (by increasing the availability of relatively low cost, mass produced, attractively packaged and extensively advertised consumer goods) decreases the market for informal sector goods.<sup>1</sup>

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1. A similar conclusion was reached in research into the continued viability of the production of cotton cloth in India using hand looms. This cloth is bought solely by the poor. It was concluded that "... the results show that an income redistribution aimed at eliminating poverty would, by reducing the hand loom share of employment, substantially reduce employment ... The hand loom sector is to some extent predicated upon poverty" (James 1976:149).

ii) the circulation of money within the sector is chiefly dependent on the wages of those in formal sector employment. If formal sector wages decline, and there is no alternate market such as direct sales to whites or sub-contracting to the formal sector,<sup>1</sup> there can be no increase in the informal sector unless it is involutionary (ILO Kenya, 1972:94).

iii) capitalist sector technology and the media encouragement of changing fashion in order to stimulate demand, are further obstacles to the development of informal sector.

3. Development of the informal sector will not benefit all participants, or the whole society, in the same way. What benefits one will detrimentally affect the interests of another and, since development policies are open to manipulation the power relations within a society will ensure that it is those with political or economic power who will benefit. The major problem seen by those who have no real hope of the informal sector's developing as a major growth pole can be summed up in the words of Robertson - "entrenched local and international

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1. This is contrary to Truu and Black's (1980:23) assertion that the informal sector acts as an "... anti-cyclical stabilizer, expanding during slumps and contracting during boom conditions". But it is supported by Webster's (1984:12) contention that the informal sector provides "...a redistributive network but this does not generate 'new' income, but merely redistributes the income which filters from formal wage employment". From Webster's argument it would follow that the expansion and contraction of the informal sector is dependent on that of the formal sector.

interests will probably prevent such massive reforms" (Robertson 1983:487). There is no reason why those who have the power, and can pressure government to assist them, should relinquish such rights in favour of the informal sector (when it brings them no real benefits). That there are benefits to the state and to capital of assisting the informal sector was argued in 2.2 and 2.3 but there are obvious limits to how much freedom will be allowed the informal sector.

4. Perhaps the major argument suggesting that informal sector growth possibilities are limited is an empirical rather than theoretical one. As Nihan (1979:639) notes: "The optimism currently displayed by the evolutionist school of thought is supported by very few if any successful programmes in this field". This observation is certainly true of the South African situation where, contrary to the rhetoric of the Small Business Development Corporation, nothing is being done to assist the really small informal operator (see 6.4 and 6.5). The SBDC's lack of success in developing the informal sector, in South Africa (as is the case with similar organisations elsewhere), is attributable to the fact that, in most cases, the assistance is directed to the wrong level.

Dewar and Watson (1981) pleaded, a number of years ago, in a book specifically written to suggest policy proposals for South African informal sector development that:

"There must be no hangover of the lending practices of existing development agencies which have strongly tended to

favour larger formal businesses, which have imposed unreasonably stringent vetting procedures and which have been strongly geared to profit-based criteria of success. Success ... is dependent upon catering to the needs of the weakest section of the economic continuum" (Dewar and Watson 1981:111).

Chapter Five suggests that these warnings were to no avail.

## 7.2 Critique of Possible Policy Options

Policy options for the development of the informal sector in South Africa require critical analysis in the light of the limitations summarised above.

1. A frequently proposed method to 'develop' the informal sector is the provision of infrastructure in the form of buildings either as market stalls or small factory units. This is a form of 'help' to which the 'helper' can point proudly, but is it the informal sector operator who benefits?<sup>1</sup> Werlin (1974), writing about Kenya, notes "The City Council's insistence that all small businesses work within approved market stalls is unrealistic in as much as it fails to take into account the nature of the informal sector. Many Africans simply cannot afford to pay sufficient rent to cover costs of stalls and plots" (Werlin 1974:207).

In Lebowa there are numerous brick structures, built by the Lebowa government, each containing some six to twelve stalls. Roadside hawkers are fined by the authorities. The result is

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1. Thus Wellings and Sutcliffe's (1984:543) contend "what is most important among white reformist planners is not that it 'works' but that it is seen to take place".

that the roadside activities of women who sold food (raw and cooked), clothing and craft articles have died away. Most of these women sold for only the few days of the month that they had produce available. They are unable to afford the high rental of the brick stalls which can be rented by the month only. Somebody was helped, by getting the contract to build all the brick stalls, but it was not the people in the informal sector.

This does not mean that there is never a need for such stalls. Possibly, for example, at the KwaMashu station, where people who have not eaten a proper breakfast queue for trains early in the morning, there may be a need for stalls where some cooking could be done. This, however, can be determined only by the people involved, and the stalls need to be correctly positioned. Consultation is what is needed, not decisions made by a remote committee of 'experts'.

2. It has often been suggested, following the ILO (1972) suggestion, that licences be abolished. According to Jacobs (1982:399), for example, "... licensing procedures are actually used as a restrictive practice to protect the formal sector against competition ... (and)... serious consideration should be given to the abolition of trading licences except when dealing with perishable foodstuffs and liquor". In fact what often happens is that instead of abolishing licences they are made more easily available, or previously illegal activities such as shebeens are licensed. This means that only those who can afford the cost of



obtaining a licence, and understand the red-tape involved, will be protected from official harassment and be able to advertise, thus operating in a far more favourable environment than their erstwhile competitors whose situation will deteriorate. Such policy changes can be seen as part of the authorities' desire to co-opt a politically stable black middle class albeit at the expense of others who are pushed further into poverty (see Southall 1980).

3. Likewise, making capital more easily available can have unexpected consequences. As Nihan (1979:637) explains: "a sudden injection of capital... would probably encourage the acceleration of a few priveleged enterprises; it would penalise the other small undertakings". The fact that it is difficult for lending agencies to monitor the use made of working capital leads to a preference for lending for capital equipment which:

"... provides an incentive for small scale firms to move away from the labour intensive methods that constitute an important argument in favour of their promotion... Programmes of general credit subsidies may give rise to the perverse phenomenon of capital intensive small enterprises" (World Bank 1979:35).

This would in turn diminish their labour intensity and employment potential - one of the major reasons for promoting the sector. It would divide the informal sector, moreover, into those with the makings of a petty bourgeoisie and those who will continue in poverty. Of course, the creation of an urban petty bourgeoisie in South Africa is consistent with recent government policy (see Southall 1980).

4. It would appear that many suggestions, made ostensibly to help develop the informal sector, would in fact have greater benefits for the formal sector. One such issue is sub-contracting. This is often put forward as a means of assisting the informal sector by providing markets. The ILO report on Kenya, for instance, recommends "measures... to induce formal sector firms to sub-contract labour intensive processes" (ILO 1972:230). Those who are pessimistic about the future of the informal sector, on the other hand (especially when it is closely connected to the formal sector because of the increasing opportunities for 'exploitative linkages'), view suggestions regarding sub-contracting with marked disfavour. Through subcontracting, informal businesses are brought into production only in times of boom, and the workers have no recourse to labour legislation or access to social service benefits. The latter are therefore wide open to exploitation. Sub-contractors also lack the worker solidarity to engage in strike action. For these reasons, Gerry argues that, "chain sub-contracting... permits a succession of unproductive middlemen to appropriate large portions of the aggregate remuneration whilst those actually performing the work earn little" (Gerry 1978:1156; also see 2.3.2)
5. A suggestion regarding the financing of the informal sector (made inter-alia by Ian Hetherington, Director of Small Business Advisory Services Pty Ltd (Hetherington 1984 a and b)) is that money lending be freed from the stringent controls currently

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imposed on the charging of interest. This should allow the development of informal sector money lending. There have been examples of this being successful in Third World countries. However, such suggestions overlook the reasons for introducing such legislation in the first place. Exorbitant and uncontrolled interest rates could well have the effect of further impoverishing the poor, while providing a means whereby those who have accumulated capital can continue to improve their position. This does not mean that there is no place for controlled short term, small loans with high interest rates, but opening the field to loan sharks in the manner suggested by the more extreme free-marketeers would seem to have little to recommend it.

6. The Ciskei in 1984 passed a Small Business Deregulation Act which abolished a hundred statutes inherited from South Africa. This was part of a package which did away with company tax, slashed private tax and privatised many state-owned assets. Some of the results are held to be promising - "the bus boycott, Ciskei's major political problem, ceased forthwith; economic growth is a projected 6 percent against South Africa's 2 percent; and more than 16 000 new jobs have been created in the past year ... a government spokesman reports an influx of labour into Ciskei from South Africa".<sup>1</sup> It is possible that South Africa will follow suit and deregulate businesses employing less than twenty people. One analyst comments that: "Pretoria's concern over deregulation stems from South Africa's 4 500 statutes, and the passing of more

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1. 'Small Business Bonanza' **Financial Mail**, October 4 1985, p.49.

than a hundred statutes in each of the past three Parliamentary years. Small business does not have the time or expertise to cope with all the red tape".<sup>1</sup>

However, new legislation in the Ciskei which "permits the employment of children provided the parent or guardian agrees, thus putting the decision back where it belongs, to those who care most for the child and its welfare and development" (Hetherington 1984b :3-4), appears to have forgotten the experience of Britain during the Industrial Revolution. It cannot be assumed that parents **always** act with their children's best interest uppermost in their minds. Certainly the exploitation of child labour during that period was a form of abuse we would not want to repeat. The informal sector does, illegally, use and exploit child labour; this would not appear to be a reason for legalising child labour. At the same time, if sub-contracting increased, this would provide an opportunity for the formal sector to benefit from the very low wages paid to grossly underpaid, grossly exploited child-labour. Third World countries are seeking a solution to unemployment, not seeking to make still more labour available at the expense of the labourer's chance to obtain an education.

The incorporation of child labour into the production process is just one, relatively minor, implication of deregulation in the Ciskei. Other important aspects include safety regulations,

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1. 'Small Business Bonanza' **Financial Mail**, October 4 1985, p.49.

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sickness and holiday benefits, workers rights and trade unions. Deregulation may in this way increase the possibility for exploitation of the informal by the formal sector and would need, at the very least, to be carefully monitored.

### 7.3 South Africa - A Special Case

Apart from the limitations imposed on the development of the informal sector by the formal sector and the legislative controls exercised by governments all over the world, there are in South Africa the additional constraints imposed by apartheid legislation as discussed in Chapter Two. The specific impact of apartheid upon the informal sector includes the following:

1. Legislation, particularly that of 1963 and 1968 (Circular Minutes (RoA 12/1-A 8/1) issued to local authorities by the Department of Bantu Administration and Development), limits the growth potential of small formal urban businesses and counters any ambition on the part of informal sector operators to accumulate capital in order to formalise (see Chapter Two). This included (among other things) that a businessman could not operate more than one business, could only deal in daily essential requirements and could not operate outside his residential area.
2. The Group Areas Act restricts the market of the black informal sector to the 'racial' group with the lowest buying power. The buying power of black South Africans is severely limited by

low formal sector wages, the result in part of poor education and racially differentiated salary scales.

3. Town planning controls, health by-laws and licensing requirements which do not take into account the socio-economic reality of township life impede the informal sector and prevent its formalisation.
4. Job reservation legislation has historically hindered blacks from acquiring the expertise necessary to run their own enterprises and made it difficult for them, whilst in the formal sector, to accumulate capital to acquire their own businesses. The phasing out of job reservation does not immediately rectify the situation. A legacy of skill and capital shortages remains.
5. Access to capital has been greatly restricted since the inability to own property in the townships until recently has prevented the mortgaging of such assets (see 2.8.4).
6. More difficult to quantify than any of the above factors is the effect of racism which influences the interaction of most whites with blacks and is particularly detrimental to the informal sector when it affects the attitudes of white officials and policy makers. Racial stereotyping, consequent on social and spatial separation, has an influence on most black/white interactions in South Africa and so has significant, if undetermined, effects on the black informal sector since it limits the penetration of the informal sector into white markets.

#### 7.4 The Dichotomy within the Sector

Many writers emphasize that a dichotomy of the urban economy into formal and informal sectors masks the inequalities within the informal sector. House (1984:298) argued for Nairobi for instance, that the informal sector could be divided into 'the community of the poor' and 'the intermediate sector', with a residual sector between them, on the basis of "productivity and income levels generated and in the motivation of participants involved". (See also Dewar and Watson 1981, 1982; Bienefeld 1975:59; and, Preston-Whyte and Nene 1984 for divisions in the informal sector).

The research in KwaMashu similarly revealed a division between the operators with some accumulation potential, on the one hand, and the majority of the sector, on the other. The latter were involved in the informal sector in order to survive and were unable to accumulate sufficient capital to develop a viable business. The following points support this contention:

1. The operators with some accumulation potential (the 10% with a profit of over R500 per month) have, since the HSL is R270 per month, a narrow margin for re-investment and capital accumulation. Eighty percent of those in the informal sector, however, have a profit of less than R270 per month. If this was their sole source of livelihood they would not have any capital to re-invest. However, only 10 percent of those in the informal sector are solely dependent on informal sector activities which, together with the high proportion giving poverty as their reason

for informal sector involvement, indicates that these activities serve as a supplement to formal sector income rather than as a primary income source for most operators.

2. The activities which produce a profit of over R500 a month are limited to vehicle repairs, house construction and entertainment (in the case of men) and garment manufacture and sales and liquor sales (in the case of women). The large percentage of the sector involved in grocery sales (itinerant and non-itinerant) earn an income too low to produce capital accumulation sufficient for growth.<sup>1</sup> Garment manufacturers and retailers, as discussed in Chapter Five, exhibit great income disparities, thus falling partly into the subsistence and partly into the 'intermediate' sector.
3. The low employment generating potential of most of the informal sector is shown by the fact that only 3 percent of those in the survey employed others on a wage basis. Half of these wage earners were employed by the top 10 percent of income earners again illustrating that it is with this group, if any, that the growth potential lies.

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1. Supporting this contention, research in Windhoek shows that "... recent informal sector growth is primarily a survival mechanism in the face of rising unemployment and falling real incomes for unskilled workers" ... (since)... "... most activities are geared towards low income supplementation and have low growth potential" (Simon 1984:568-569). And, similarly, "...whilst in principle the profit-incentive exists among commercial activities in the lowest levels of the lower circuit, in reality the prime pre-occupation is survival" (Santos 1979:125).



4. An analysis of the characteristics of the most successful informal sector operators showed that it is not possible to predict successful entrepreneurs on the basis of age, sex, education or type of activity. Certain subsectors (eg. hawking) had no really successful members; however, in the subsectors where some were successful (eg. selling clothing) there were still a large number of unsuccessful operators. There does not seem to be any very useful method of identifying successful entrepreneurs other than by the income of the business; hence it is difficult to identify people who are **likely to become** successful on the basis of indicators such as age, sex and education.

### 7.5 Promoting the Informal Sector

Once the different parts of the informal sector have been identified the question remains how to "...maximise the development potential of the intermediate sector and, at the same time, minimise the size of the community of the poor" (House 1984:298). Thus different development policies will need to be applied to the different subsectors (see Dewar and Watson 1981, 1982). On the other hand, House implies that those in the 'intermediate sector' who have demonstrated their potential for accumulation and their motivation will have little difficulty in taking the step into the formal sector. But this minimises the magnitude of this step. Formal sector participation requires conformity with a large number of legal requirements and minimum wage laws, registration for income tax, and

probably the move to special premises. Thus there is a great increase in costs, and a business which was viable in the informal sector may well show a loss in the formal sector<sup>1</sup> (see Nattrass N., 1985). It is probable also that formalising businesses will have to change product lines and enter an entirely different market, far removed from the one to which they are accustomed. They will increasingly come into competition with well established formal sector businesses.

In South Africa the Small Business Development Corporation and the KFC hope to create jobs by giving assistance to that section of the informal sector able to accumulate capital. Much of the apparent encouragement for the informal sector comes from the SBDC, but as this research shows (see 6.4), and as Dewar and Watson (1982) point out, they appear to be directing their efforts at relatively larger enterprises. The provision of fairly large loans, factory units, and managerial training is not in keeping with the needs of the smallest operators who require very small loans. In the KwaMashu research over 80 percent required under R500. Likewise in Dewar and Watson's (1982) study most loans required were between R50 - R100. Dewar and Watson (1982:141) also note that the effect of SBDC policy is likely to be negative since it "creates the impression that social and economic reforms are taking place when, in fact, they are not", and increases the black middle class while worsening the position of small manufacturers and traders.

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1. This was also confirmed in discussion with many occupants of KFC small-factory units in KwaMashu.

The needs of those with some potential for accumulation<sup>1</sup> are to an extent taken care of by organisations such as the SBDC and KFC although there are serious problems regarding the erection of small factory units—a popular component of planning policy (see Nattrass N. 1985). The repayment of loans and payment of rent (as mentioned by those in the KwaMashu small factory units), cause immense difficulties since operators are coming into competition with formal businesses (which can produce goods more cheaply and market them more efficiently) for the first time. The literature from elsewhere in the world shows clearly that the manufacturing section of the informal sector has a limited and decreasing market (especially in countries such as South Africa which, by Third World standards has a relatively strong and developed manufacturing sector). Garment manufacturing, for example, a major activity in KwaMashu, will, as incomes increase, come into competition with the formal sector as taste transfer occurs and awareness of fashion develops. Thus, this does not offer a major avenue for expansion.

There is, however, as the KwaMashu research showed, some potential for expansion in fields such as construction (building, block making,

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1. The rationale that this is the level which requires assistance is borne out by the suggestion of Jacobs, chief economist of Benso, seconded to the Ciskei Government, when he says that

"The fact that the informal sector consists of various types of economic activities, will necessitate the selection of those activities with the greatest potential for inclusion in the development strategy. A general guideline for inclusion could be those activities with the highest employment and/or those with the highest growth potential". (Jacobs 1982:400).

awnings and burglar-guard making) and services (panel-beating and vehicle maintenance). Although these constitute a very small section of the informal sector in KwaMashu at present it seems likely that as people develop skills in the formal sector (a fairly recent development resulting from the lifting of job reservation) they will choose to apply them in the informal sector. Since residents have only recently been allowed to buy their homes in KwaMashu and can therefore extend and improve them there seems to be some potential in this field too. Construction, panel beating and car repairs are all expensive services in the formal sector of Durban and it seems likely that the informal sector may be able to undercut formal sector prices and remain in business (particularly if they are permitted to work in their back-yards as they are at present). The capital requirements of these operations are much greater than any others in the informal sector and, although the survey indicated that people had used their savings to meet them, the availability of small loans would be a real advantage to those involved. These are really the only businesses that have any potential for employment generation and for training. It would seem that the SBDC could play a role by making people aware of their services, having an accessible office in the townships staffed by Zulu speaking officials and, above all, by really trying to understand the conditions under which the informal sector operates.

It must be re-iterated that although there are some possibilities in this sector it forms at present a very small section of the informal sector. Considering the general level of incomes in KwaMashu, and the fact that home improvements and vehicle repairs provide something of a luxury service, their market is limited. Unless formal sector incomes

increase greatly, demand, which is directed towards the more wealthy, will level off at a certain point. These businesses (since they do not include retail distribution) would be little affected by changes in the licensing laws. Changes in zoning restrictions, however, would benefit them since a well positioned backyard business could then formalise without changing site.

The vast majority of those in the informal sector, on the other hand, earn only enough to supplement a formal sector income. This, as the KwaMashu study shows, is the supplementary, survival or subsistence sector where people take a little money from their (or their spouses) formal sector earnings each pay day and use it to buy inputs for a small business. Long before the next pay-day, however, they will have sold their produce and used the proceeds for household needs (but made it last a little longer than it would otherwise have done), and be awaiting the next pay-day. There is no question of accumulation and investment. Their motivation is survival, their driving force is poverty. As long as poverty exists in the townships they will have a (limited) market.<sup>1</sup>

In 40 percent of the homes of KwaMashu informal sector operators make a difference, sometimes a vital difference, to the standard of living

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1. If formal sector incomes rise they will lose much of their market as their neighbours choose to buy from supermarkets and store food in their own refrigerators. Political factors, including consumer boycotts of white shops, could have an effect, however. Similarly, if formal sector incomes rise, so too will operators own incomes (since 90 percent of the households in this study do have a formal income), and they may come to depend less on their informal sector earnings. It must be remembered that this study is of a formal township. This finding would probably not apply fully to a squatter settlement.

of their particular household. As we pointed out earlier the money circulating in the informal sector comes largely from the formal sector earnings of blacks. Almost none of it comes directly from the informal sector. However, there is no reason why income earned in the formal sector could not be circulated more widely and intensively throughout the informal sector: no reason why money should be spent in Durban or formal sector shops when it could be spent in the informal sector.

The incomes of those living at the subsistence level could, therefore, be improved in the following ways:

1. If trading licences were abolished people would be able to sell from their homes. More importantly they could advertise and display their wares (instead of hiding them in boxes beneath the bed), and the money saved on fines for unlicensed trading could be productively spent on stocks. Even more importantly, informal traders would then be able to buy wholesale and compete more effectively with formal sector shops.<sup>1</sup>
2. A most important form of assistance would be rendered by a wholesale co-operative selling groceries, fabrics and yarns to members and would need to be situated in KwaMashu thereby cutting operators' transport costs.<sup>2</sup>

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1. Since they would be unregistered their sales tax might well go unpaid but much of what they sell is foodstuffs and is exempt anyway. Perhaps the authorities could come to look at sales tax evasion as a fairly inexpensive form of social welfare.
  2. A very real difficulty would be the objections from existing wholesalers, eg. at Phoenix, and from formal grocery stores. But if there is any real intention of assisting the informal sector a co-operative must be considered.

3. Apart from the lifting of restrictions and removal of harassment, the marketing of informal sector produce could also be made easier by an institution as simple as a regular Sunday flea-market. Home-made garments, cooked food, and craft items could be well displayed at such a flea market and KwaMashu residents, on their one leisure day a week (when the formal sector shops are closed), could be encouraged to spend their money in KwaMashu instead of in Durban. The study of garment-makers, in particular, illustrated the problems in marketing their goods that informal sector operators in KwaMashu have.
4. Capital is required in this sector - working capital in small amounts of R50 - R500 for short periods of time. People cannot be expected to make three trips to Westville to the SBDC offices in order to obtain these small sums. A small office in KwaMashu, perhaps manned only once a week by an official empowered to grant the loan himself (not only after it has been approved by a panel of four) or a loan system operating as part of the fore-mentioned co-operative (perhaps in the form of credit rather than a loan) needs to be considered urgently. Also important are attitude changes on the part of the lending authorities (see 6.4).
5. There may be advantages to the sector in linking it more closely into the external economy, possibly through marketing co-operatives, flea-markets outside the township and even exporting co-operatives.

These are the steps that could be taken to assist the informal sector

at the 'supplementary level', but it is essential to remember that the operators would remain at a supplementary level - more viable perhaps but with no major potential to solve problems of unemployment and no pretence to be a major new 'growth pole'. The limitations on the growth of the informal sector, discussed earlier, still remain an insurmountable obstacle to autonomous growth. But autonomous growth is not what is under consideration in this portfolio of policy proposals - the alleviation of poverty is the objective.<sup>1</sup>

## Conclusion

It should be stressed that petty commodity production is in a constant state of change. "As the space available to the sector decreases because of capitalist penetration, informal sector activities in another sphere expand in response to a need which the capitalist sector has not yet recognised" (Moser 1978:1057). Bechofer and Elliott (1981:184-185) hold a similar opinion but they point out, in addition, that the sector is open to manipulation: "... both politically and economically it is kept alive and continuously reproduced in slightly different forms over long periods of time... Survival has rested upon continuous adaption - not always at the level of the individual... but at the level of the stratum as a whole". The problem here is that although the informal sector survives, growth may be 'involutionary' rather than 'evolutionary' and despite an increase

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1. Dewar and Watson (1982) came to a similar conclusion as a result of their Cape Town study and maintain that it is essential that "the emphasis is on the creation of opportunities at the lowest level so as to allow those most in need to supplement incomes" (Dewar and Watson 1982:140).



in numbers the income level per capita may decrease (ILO 1972:94).

It is suggested, as a result of field work in KwaMashu and in the light of the extensive literature on the informal sector, that the view that the informal sector is the seedbed of entrepreneurship and generator of employment opportunities is true of only a very minor section of the sector. But it was found to be impossible, in this study, to create a profile of incipient entrepreneurs which would allow lending agencies to determine whom to assist. Extensive income inequality in the informal sector, as revealed in this study, highlights the lack of homogeneity of the sector and the need for widely differing policies when attempting to assist those in the informal sector. In the informal sector there is a stratum with the potential to accumulate capital and it requires tailor made policies if it is to grow and develop. Much more important, however, (as the data gathered in KwaMashu clearly indicates) both numerically and in terms of its role in the lives of KwaMashu residents, is the subsistence level of the informal sector. This level also requires a certain policy for its development, a very different one to the first and, as Chapter Six suggests, far removed from policies operating at present. Our research also illustrated the problems arising from the attitudes and incorrect conceptualisations of those in authority and those administering loans. The limitation of poverty was highlighted as were the pitfalls of selectively developing parts of the informal sector (with assistance given predominantly for equipment rather than for working capital).

While the informal sector will probably always be in a state of flux

and of constant restructuring, it is likely ultimately to diminish only if wages in the formal sector are substantially increased and if the number of people finding employment in the formal sector increases as well. In this event people will buy more from the formal sector. The case studies<sup>1</sup> of garment retailing in KwaMashu strongly support this contention since the more affluent clearly preferred formal sector garments.

The informal/petty capitalist sector is the dependent stratum of capitalism, operating only in the space which capital and the authorities concede to it. Within these constraints, however, it is flexible, adaptable and vital and will continue to exist (legally or otherwise) as long as poverty provides a reason for its existence.

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1. The strategy of using two research methodologies (questionnaire and case studies) provided both breadth of perspective and a depth that could illuminate factors normally difficult to measure e.g. the advantages of retailing compared to manufacturing, marketing difficulties, hidden profits and survival strategies.

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# APPENDIX

## PILOT STUDY QUESTIONNAIRE

Date: \_\_\_\_\_

Who is being interviewed: \_\_\_\_\_

Location of House: \_\_\_\_\_

### A. HOUSEHOLD CHARACTERISTICS

1. How long have you lived in this residence? Years \_\_\_\_\_
2. How long have you lived in KwaMashu? Years \_\_\_\_\_
3. Do you or any other household member have....

	Yes	No	If yes, how many	Company or Private Car
Car/vehicle				
Fridge				
Deep freeze				
Garage				
TV set				
Bank or Building Society Account				

\*

\*Write total for household.

4. Home ownership ....

\* tick one

Rented Township house		Rent per month		
Bought Township house		House price		Instalments p.m.
KDC assisted		House price		Instalments p.m.
Owner-built		Cost		

5. Number of rooms? \_\_\_\_\_

		Household Member	Marital Status M/S	Sex M/F	Age Years	Level of Education	Job Type/ Unemployed/ * Retired	Salary or Pension per month S/P	Contribution to Household Budget	Job Continuity <i>Casual/ Part-time/ Permanent</i>	Where do you work <i>Local/ Elsewhere</i>	If not local: Daily commuter or long-term migrant	How much time unemployed in 1982 or since leaving school ** months
↑ A ↓ Adults	1												
	2												
	3												
	4												
↑ WC ↓ Working Children	1												
	2												
	3												
	4												
	5												
↑ DC ↓ Dependent children	1												
	2												
	3												
	4												
	5												
	6												
	7												
	8												

\* Only formal jobs with a regular wage (write a full description).

\*\* If school leaver, give date left school as well.

B. INFORMAL SECTOR EARNINGS

Apart from regular employment, do you or any member of your household earn money by renting out rooms; making, repairing or transporting things; buying and selling goods?

1. Renting Rooms

(i) Do you rent out room(s) to lodgers \_\_\_\_\_

If no, turn to 2.

(ii) If yes, how many rooms \_\_\_\_\_

(iii) If yes to (i), how many lodgers \_\_\_\_\_

(iv) How much rent do you receive from your  
lodgers, in total, per month R \_\_\_\_\_

(v) How long have you been renting out rooms in your  
present residence Years \_\_\_\_\_ Months \_\_\_\_\_

(vi) How long have you been renting out rooms in any  
residence Years \_\_\_\_\_ Months \_\_\_\_\_



PRODUCTION, REPAIR, MAINTENANCE AND TRANSPORTATION.

← If  $-7$   
person has to  
buy, collect  
materials,  
equipment,  
etc.  
Probe  
a. local  
b. Durban  
etc.

- \* Probe
- 1. More profit
- 2. Business connections
- 3. No competition.

\* Include public & private transport of all kinds

Type(s) of activity

Average total income p.m. *	
--------------------------------	--

involved in  
this (these)  
activities  
★

Why did  
you choose  
this (these)  
specific types  
of activities  
★

Do you  
conduct  
business  
from  
this  
house

If no,  
from  
where

How many part-  
ners, if any

How many different types of activity in last 2 years

Where do you  
buy/collect  
material from

Why there?

Where/to whom  
do you sell  
your goods

Why there?

Do you use vehicle to move goods	
----------------------------------	--

Is it your own vehicle?

If 71, list 8 months; 1 year.

### 3. REDISTRIBUTION

Household Member *	What kinds of things do you sell?					How much do you make per month ?	Why involved in this (these) activities? **	How long have you been doing this ?	How do you conduct your business?					Where do you buy from?	Why there?	Where and to whom do you sell?	Why there?	Do you use a vehicle to transport your goods?	Is it your own vehicle ? ***
	Foodstuffs	Household utensils	Household Consumables	Garments	From house				Door to door	Stall	Shack Shop	On roadside							

\* Coding schedule in A6.

\*\* Probe:  
 1. Choice  
 2. Retrenchment  
 3. Supplement a regular salary.

\*\*\* Include public and private transport of all kinds (buses, trains, taxis).

# RANDOM-SAMPLE QUESTIONNAIRE

Date: \_\_\_\_\_

Location of House: \_\_\_\_\_

## A. HOUSEHOLD CHARACTERISTICS

1. How long have you lived in this residence? Years \_\_\_\_\_
2. How long have you lived in KwaMashu? Years \_\_\_\_\_
3. Do you or any other household member have ...

	Yes	No	If yes, how many	Company or Private Car
Car/vehicle				
Fridge				
Deep Freeze				
Garage				
TV set				
Bank or Building Society Account				

\*Write total for household

4. Home ownership ...

Rented Township house		Rent per month		
Bought Township house		House price		Instalments p.m.
KDC assisted		House price		Instalments p.m.
Owner-built		Cost		

5. Number of rooms? \_\_\_\_\_

← FORMAL OCCUPATIONS ONLY →													
		Household Member	Sex M/F	Age Years	Level of Education	Where born (specify)	Where Educated (specify)	Job Type (specify)/ Unemployed/ Retired	Salary or Pension per month S/P	Contribution to Household Budget (apart from H of H)	Job Continuity Casual/ Part-time Permanent	Where do you work? Kwa Mashu/ Durban/ Elsewhere (specify)	If not Kwa Mashu Daily commuter or long term migrant
← Adults →	1												
	2												
	3												
	4												
Working Children →	1												
	2												
	3												
	4												
	5												

7. How many dependent children live in the house - indicate relationship to head of household

#### B. INFORMAL SECTOR EARNINGS

Apart from regular employment, do you or any member of your household earn money by renting out rooms; making, repairing or transporting things; buying and selling goods?

- (i) Do you rent out rooms to lodgers -
- (ii) If yes, how many rooms -
- (iii) If yes to (i), how many lodgers -
- (iv) How long have you been renting out rooms in your present residence - Years \_\_\_\_\_ Months \_\_\_\_\_
- (v) How long have you been renting out rooms in any residence - Years \_\_\_\_\_ Months \_\_\_\_\_
- (vi) How much rent do you receive from lodgers, in total, per month R \_\_\_\_\_

2. Production (including production and sales)

- (i) Household Member .....
- (ii) Type(s) of Activities .....
- (iii) How long involved in this/these activities? .....  
.....
- (iv) Have you ever worked for anyone else (specify)? .....  
.....
- (v) Do you work from your house or elsewhere (specify)? .....  
.....
- (vi) Do members of the family help you with the thing(s) you  
make (or the selling) .....  
.....
- (vii) Do you employ anyone or have any partners? .....  
.....
- (viii) Have you done any other kind of work for yourself; what  
made you change? .....  
.....  
.....
- (ix) How did you become involved in working for yourself (possibly  
choice, retrenchment, supplement salary, ill-health, other)? .....  
.....  
.....
- (x) What made you decide to make (name it)? .....  
.....  
.....
- (xi) How did you get the money to buy (name equipment eg machine)? .....  
.....  
.....

- (xii) Where do you buy/collect materials from (possibly Kwa Mashu Shops, White areas, Indian areas, other)? .....
- .....
- .....
- (xiii) Why do you get it from there? .....
- .....
- (xiv) Where and to whom do you sell your goods? (probe this fully)
- .....
- .....
- (xv) Why do you sell there? .....
- .....
- (xvi) What transport do you use to collect and sell?
- .....
- (xvii) Do you prefer working for yourself or would you work for someone if you were offered a job? Why?
- .....
- .....
- (xviii) What are the biggest problems in this work? .....
- .....
- .....
- (xix) What could help you in your work?
- (a) Would a loan help - if so how much? .....
- (b) Would a co-operative help - what facilities would it have?
- .....
- (c) Could the government help eg easier licensing, less police harassment?
- .....
- (xx) How much money do you make from this work each month (probe fully)? .....
- .....

(xxi) Do you sell for cash only or also for credit .....

(xxii) Do you buy for cash only or also for credit .....

(xxiii) If you were able to make more goods each month would you be  
able to sell them easily?

.....

.....

3. Redistribution (selling)

- (i) Household member .....
- (ii) What kind of things do you sell? .....
- (iii) How long have you been involved in this activity? .....  
.....
- (iv) Have you ever worked for anyone else (specify)? .....  
.....
- (v) Do you work from your house or elsewhere (specify)? .....  
.....
- (vi) Do members of the family help? .....  
.....
- (vii) Do you employ anyone or have any partners? .....  
.....
- (viii) Have you sold other things (or worked for yourself in another way) and why did you change? .....  
.....  
.....
- (ix) How did you become involved in working for yourself?  
(Probe possibly choice, retrenchment, supplement salary, ill-health, other) .....  
.....  
.....
- (x) What made you choose selling? .....  
.....  
.....
- (xi) Where do you buy your goods (Kwa Mashu shops White area, Indian area, other).....  
.....



- (xiii) Why do you get them from there? .....  
 .....
- (xiv) Where and to whom do you sell your goods? (Probe this fully)  
 .....  
 .....
- (xv) Why do you sell there? .....  
 .....
- (xvi) What transport do you use to collect and sell?  
 .....
- (xvii) Do you prefer working for yourself or would you work for  
 someone if you were offered a job? Why?  
 .....  
 .....  
 .....
- (xviii) What are the biggest problems in this work? .....  
 .....  
 .....
- (xix) What could help you in your work?  
 (a) Would a loan help - if so how much? .....  
 (b) Would a co-operative help - what facilities would it have?  
 .....  
 (c) Could the government help eg easier licencing, less police  
 harassment? .....  
 .....
- (xx) How much money do you make from this work each month?  
 (probe fully) .....  
 .....
- (xxi) Do you sell for cash only or also for credit?  
 .....
- (xxii) Do you buy for cash only or also for credit? .....  
 .....

4. Services (Repair, maintenance, transportation, child-care)

- (i) Household member .....
- (ii) Type(s) of activities .....
- (iii) How long have you been involved in this/these activities?  
.....
- (iv) Have you ever worked for anyone else (specify)?  
.....
- (v) Do you work from your house or elsewhere (specify)?  
.....
- (vi) Do members of your family help? .....
- (vii) Do you employ anyone or have any partners? .....
- (viii) Have you ever done any other kind of work for yourself, and  
what made you change? .....  
.....
- (ix) How did you become involved in working for yourself?  
(probe possibly choice, retrenchment, supplement salary,  
ill-health, other) .....  
.....
- (x) What made you choose this particular job? .....  
.....  
.....
- (xi) How did you get the money to buy (name necessary equipment)?  
.....
- (xii) Where do you get the materials you need (name them)?  
(probe Kwa Mashu shops, White Areas, Indian Areas, Other).  
.....

- (xii) Why do you get them from there? .....
- .....
- (xiv) Who are your customers? (probe) .....
- .....
- .....
- (xv) Where did you learn to do this work? .....
- .....
- (xvii) Do you prefer working for yourself or would you work for  
someone if you were offered a job? Why?
- .....
- .....
- .....
- (xviii) What are the biggest problems in this work?
- (a) Would a loan help - if so how much? .....
- (b) Would a co-operative help - what facilities would it have?
- .....
- (c) Could the government help eg easier licencing, less police  
harassment? .....
- .....
- (xx) How much money do you make from this work each month  
(probe fully)? .....
- .....
- .....

Would you mind if we come back and ask more questions?

## CASE STUDY QUESTIONNAIRE

1. What kind of activity?
2. Where is it done?
3. Where do inputs come from? Why?
4. Do you use machines or any equipment?
5. To whom do you sell?
6. Do family members (or anyone else) assist? Have they ever?  
Wages?
7. Hours worked?
8. Education?
9. Have you worked for an employer before? (History)
10. Which do you prefer?
11. Why?
12. What made you select this job (i/s & specific)?
13. Would you like to increase your activities and employ others.
14. Are there problems which stop you?
15. How long have you been in this activity (and any other i/s)?
16. Has the business got better or worse (affected by retrenchment)?
17. Where was the money necessary to start acquired from?
18. Where was the necessary skill learned?
19. Do your customers pay cash (always) or do you give credit?
20. Do you pay cash for inputs?
21. Do you think this activity gave you an income of R1-25, 26-50,

22. Do you keep written records?
23. Is money from this activity used for a particular purpose or is it added to breadwinners income?
24. Household size, dependents, wage employment (History especially of spouse).
25. Rural or urban born, and ties to rural area. Length of time resident in urban areas.
26. Parent's occupation?
27. Do you buy food, clothes, services (repair, child minding) from people who work for themselves?
28. Is competition with others in this activity a problem? Or from big shops? If you could make more goods could you sell them easily?
29. Have laws, public authority bodies or police given problems?
30. What were main problems in setting up the business?
31. What would make it easier to run the business: (KDC), Bank, Co-op, Government.
32. Do you have a licence?
33. Household income? (Apart from informal sector) Under 200, 200 - 500, +500, +1500.