



## Sustainable Livelihood Consultants

**Client:** Provincial Government of the Western Cape – Department of Economic Development and Tourism



### Consultants

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### Assignment

To provide the Department of Economic Development and Tourism (Micro-Economic Development Strategy – MEDS) with a more comprehensive understanding of micro-enterprises in the informal sector in order to inform DEDT policy direction. The team studied micro-enterprises in six sectors:

- High-street traders
- Hair care (salons & barber shops)
- Hospitality (bars/shebeens/restaurants)
- Tourism services (tour guides & tour operators)
- Township accommodation (B&Bs, homestays, guest houses and backpackers)
- Craft (handicrafts & art).

These sectors were selected on the basis of their perceived dynamism. The emphasis on tourism enterprises was justified on two accounts: firstly, tourism is a priority sector in DEDT strategic plans; secondly, micro-enterprises in this sector are thought to have the capacity to attract investment to townships and so generate new opportunities within their value chains.



*Workshop for informal tourism enterprises – Cape Town, 2007*

### Research findings

The SLC research sustained four overriding conclusions:

1. Informal sector advantages. Informal sector businesses emerge through entrepreneurial risk-taking, a process that involves trial and error as the entrepreneur explores the market opportunities. Once trading, the business evolves but does not necessarily become formalised.
2. Entrepreneurial initiative and social capital. Informal business development is not contingent on direct institutional training or on enterprise development support.
3. Reciprocal gestures. Micro-businesses do not create employment, but instead provide a means for skills acquisition. They commonly feed opportunities downstream, facilitating growth in micro-enterprises.
4. Business realism. Informal sector entrepreneurs start their business with seed capital derived mainly from employment or family loans. They utilize accessible and affordable infrastructure/equipment, including their homes, and run their business on a cash basis.

Other conclusions on enterprise dynamics in the informal sector are as follows:

- Informal enterprises are sustainable
- Financial barriers to entry are low, but prior work experience is important
- The use of old shipping containers as secure business premises constitutes an especially innovative enterprise model, which currently includes hair salons, phone-calling shops and cellphone repair shops.
- Most entrepreneurs expressed their concern about crime. However, only 20% of respondents saw crime as a major impediment to their business
- The clustering of informal micro-enterprises in nodes (e.g. transportation nodes or commercial zones) enables businesses to establish synergies, which in turn enhances their individual growth and allows entrepreneurs to develop collective strategies, e.g. for combating crime.