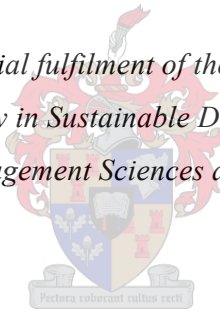


Benefits and Limitations of the Informal Economy in Promoting Sustainable and Inclusive Local Economic Development: A Stellenbosch Case Study

**by
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*Thesis presented in partial fulfilment of the requirements for the degree
of Master of Philosophy in Sustainable Development in the Faculty of
Economic and Management Sciences at Stellenbosch University*



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March 2016

DECLARATION

By submitting this thesis electronically, I declare that the entirety of the work contained therein is my own, original work, that I am the sole author thereof (save to the extent explicitly otherwise stated), that reproduction and publication thereof by Stellenbosch University will not infringe any third party rights and that I have not previously in its entirety or in part submitted it for obtaining any qualification.

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ABSTRACT

Poverty, inequality and unemployment are major challenges facing South Africa. The government is struggling to create jobs in the formal economy, as economic growth rates are low and falling. The informal economy, on the other hand, provides livelihoods to thousands of people, but it is poorly understood and therefore poorly supported. Within the context of the developing world, promoting and supporting the informal economy is imperative. This study therefore sets out to: (i) investigate the benefits and limitations of the informal economy in promoting sustainable and inclusive local economic development; (ii) assess Stellenbosch Municipality's approach to the informal economy and the impact this approach has on livelihoods and local economic development and; (iii) review a number of comparative cases to find best practices.

The study is informed by both a literature review and a case study methodology. The case study methodology includes document and newspaper analysis and interviews whilst a review of comparative case studies is used to draw lessons from other municipalities.

The study found that despite several ways in which the informal economy could contribute to sustainable and inclusive local economic development, it is generally disregarded or undervalued in such discussions. Furthermore, Stellenbosch Municipality's approach to the informal economy has had a negative impact on the participants' livelihoods and local economic development through its top-down approach and the exclusion of the informal sector in the LED process. However, Stellenbosch Municipality is now looking at implementing ways to engage and support the sector. The findings suggest that the local economic process of Stellenbosch has the potential to create a vibrant informal economy to meet all local requirements for reducing poverty, inequality and unemployment in a way that also restores the environment.

OPSOMMING

Armoede, ongelukheid en werkloosheid is groot uitdagings in Suid-Afrika. Die regering sukkel om werk te skep in die formele ekonomie aangesien ekonomiese groei laag is en daal. Die informele ekonomie, aan die anderkant, verskaf 'n lewensbestaan aan duisende mense, maar dit word nie voldoende verstaan en gevolglik nie voldoende ondersteun nie. Binne die konteks van die ontwikkelende wereld is ondersteuning van die informele ekonomie 'n noodsaaklikheid. Dus stel hierdie studie ten doel om i) die voordele en beperkings van die informele ekonomie te ondersoek betreffende die bevordering van volhoubare en inklusiewe plaaslike ekonomiese ontwikkeling; ii) Stellenbosch munisipaliteit se benadering tot die informele ekonomie en die impak daarvan op die lewensbestaan en plaaslike ekonomiese ontwikkeling te bepaal; en iii) 'n paar vergelykende gevalle van goeie praktyke te bekyk.

Die studie is ingelig deur beide 'n literatuur oorsig en 'n gevallestudie metodologie en 'n gevalle studie metodologie. Die gevallestudie metodologie sluit dokument en koerantanalise en onderhoude in terwyl 'n oorsig van vergelykende gevalle studies gebruik is om lesse te leer vanuit ander munisipaliteite.

Die studie het bevind dat die informele ekonomie oor die algemeen verontagsaam en onderskat word ten spyte van verskeie maniere waarop dit kan bydra tot volhoubare en inklusiewe plaaslike ekonomiese ontwikkeling. Verder het Stellenbosch munisipaliteit se benading tot die informele ekonomie 'n negatiewe impak gehad op die deelnemers se lewensbestaan en plaaslike ekonomiese ontwikkeling as gevolg van hul bo-af benadering en die uitsluiting van die sektor uit die *Local Economic Development (LED)* prosesse. Die Stellenbosch munisipaliteit kyk nou egter na die toepassing van maniere om die sektor te betrek en te ondersteun. Die bevindings doen aan die hand dat Stellenbosch plaaslike ekonomiese proses die potensiaal het om 'n dinamiese informele ekonomie te skep wat voldoen aan alle plaaslike vereistes om armoede, ongelukheid en werkloosheid te verlig op 'n wyse wat die omgewing sal herstel.

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ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
AFDB	African Development Bank
BBUS	Black business Unit
BEE	Black Economic Empowerment
BER	Bureau for Economic Research
CWDM	Cape Winelands District Municipality
DBSA	Development Bank of Southern Africa
DEA	Department of Environmental Affairs
DEAT	Department of Environmental Affairs and Tourism
DoE	Department of Energy
DoHET	Department of Higher Education and Training
DST	Department of Science and Technology
DTI	Department of Trade and Industry
DWA	Department of Water Affairs
EDD	Economic Development Department
EKC	Environmental Kuznets curve
EPR	Employment-to-population ratio
GDP	Gross domestic product
GCRO	Gauteng City-Region Observatory
GEAR	Growth Employment and Redistribution
GVA	Gross Value Added
HRV	Hausmann, Rodrik and Velasco

IPCC	Intergovernmental Panel on Climate Change
ICLS	International Conference of Labour Statisticians
IES	Income and expenditure survey
IEA	International Energy Agency
IDC	Industrial Development Corporation
IIED	International Institute for Environment and Development
ILO	International Labour Organisation
ITMB	Informal Traders Management Board
LED	Local economic development
MEAUN	Millennium Ecosystem Assessment
MGDs	Millennium development goals
NDP	National Development Plan
NEDLAC	National Economic Development and Labour Council
NFSD	National Framework for Sustainable Development
NGO	Non-governmental organisation
NGP	New Growth Path
NPC	National Planning Commission
NSDS	National Sustainable Development Strategy
NSSD1	National Strategy for Sustainable Development and Action
OECD	Organisation for Economic Co-operation and Development
PACA	Participatory Appraisal of Competitive Advantage
PRSPs	Poverty Reduction Strategy Papers
UNDP	UN Human Development Report

UK	United Kingdom
UNDESA	United Nations Department of Economic and Social Affairs
UN	United Nations
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UN-HABITAT	United Nations Human Settlement Programme
USA	United States of America
UWAMAA	UmojawaWanamazingiraAsili Arusha
SALGA	South African Local Government Association
SEWU	Self Employed Women's Union
SMMES	Small, medium and micro enterprises
SMA	Stellenbosch Municipal Area
VAT	Value added tax
WCED	World Commission on Environment and Development
WCPG	Western Cape Provincial Government
WPLG	White Paper on Local Government

CHAPTER 1: INTRODUCTION

1.1 BACKGROUND

My interest in the topic of sustainable and inclusive local economic development stems from both a practical and theoretical awareness that the global economic system is in crisis. “Global economic growth strategies are rapidly depleting natural resources and the ecosystem, leaving developing countries with increasing poverty and widening inequalities, which cannot be addressed through economic development” (Swilling & Annecke, 2012). Whilst studying towards a Postgraduate Diploma in Sustainable Development, the issues of poverty, inequality and unemployment consistently appeared throughout the modules. However, even though most modules gave attention to these, there were no clear measures indicated of what interventions were suitable to combat socioeconomic inequalities, particularly for those economically excluded in developing countries.

South Africa is characterised by an uneven distribution of economic wealth, poverty and rising unemployment. The South African democratic government has tried to improve livelihoods but half of the population still “lives in poverty, jobs are scarce, and the country is more unequal than ever”(Marais, 2011). This indicates that the current government has failed to find innovative ways to promote development and create sustainable jobs for the unemployed.

Like most developing countries, the South African economy is divided into two parts: the formal and the informal economy. In 2003, former South African president Mr. Thabo Mbeki noted, “a structural fault in the economy and society has resulted in a dual economy and society” (Turok, 2014). According to Turok (2014), the formal economy is characterised by industries and commerce in urban areas, which are integrated into a competitive global market, significantly reducing labour; whilst the informal economy is characterised by marginal or periphery economic activities that lag behind as the global economy seems to favour the stronger formal economy. However, since the 2007/2008 economic crisis, developing countries have been experiencing expansion in the informal economy, leading to a number of studies in an attempt to understand this economy.

Investigation into complex adaptive systems reveals how interconnected and highly complex the world is. A change in any social, environmental or economic component may affect virtually any other component in a mostly unpredictable manner (Heylighen, Cilliers & Gershenson, 2006). If the economy is viewed as a system (whole), it is comprised of a set of interconnected components that are coherently organised in such a way that it produces its own pattern of behaviour over time and achieves a purpose (Meadows & Donella cited in Brown, 2009).

In South Africa it is noted that the informal economy is largely underdeveloped compared to other developing countries (Turok, 2014; Mahajan, 2014). Amongst other reasons, the political history of the country is responsible for this gap. However, the allocation of resources has portrayed a focus on the formal economy and its integration into the global market, thereby neglecting the informal economy. According to Turok (2014), the government's neglect of the informal economy and the one million people who participate in, and depend on, it is the result of the challenging socioeconomic problems that the country is facing. Therefore, social grants alone are not a solution.

For decades, the economy has been viewed as two separate components. Meadows and Donella in Brown (2009) argue that the whole has a tendency to be greater than the sum of its parts; the whole resulting in emergent properties. Therefore, reducing the whole into its parts destroys the emergent properties. From this perspective, when studying the economy with a focus on the formal and regarding the informal as a problem, we are destroying the emergent properties. The current global crisis creates an amazing opportunity for the country, whereby economic strategies will have to move from abstraction to resemble reality in order to solve the problems facing the nation (Reinert, 2010).

Mahajan (2014:08) points out that, "South Africa's economic growth potential could be significantly enhanced if it can launch its own version of economic convergence, one that would enable rapid growth of the township (informal) economy". Moreover, there is a need to develop a strategy that will involve "building on the comparative advantages of the township economy: in particular, abundance of cheap, unskilled labour; adjoining land space that is more affordable than in city centres; and a potential consumer market that is still untapped." (Mahajan, 2014:08).

In an attempt to understand the informal economy in Stellenbosch, a meeting was arranged with Paul Hendler and Mike Hyland from Stellenbosch Transparency, an organisation that is mobilising a voice for traders in the informal economy in Stellenbosch. The meeting revealed that there is a lack of understanding of the informal economy and its contribution to the overall economy, employment creation and livelihoods. According to Hendler and Hyland (2015), this view has led to little or no attention being given to the sector by institutions in Stellenbosch. A further meeting with Vusumzi Zwelendaba, an official from the Local Economic Development (hereafter referred to as LED) Department in Stellenbosch Municipality, revealed that the municipality gives a lot of support to medium enterprises but little to the informal micro businesses, as not much is known about their contribution to the Stellenbosch economy as a whole. This study is interested in exploring what an inclusive and sustainable local economy would look like in South Africa, and particularly in Stellenbosch.

The research area is defined as the Stellenbosch municipal area in the Western Cape province, South Africa. Stellenbosch presents two distinct socioeconomic realms, whereby great wealth exists alongside extreme poverty (Stellenbosch Municipality, 2014:05). Stellenbosch faces similar challenges to those seen at national level, including high unemployment, inequality and natural resource pressures, and reflects many challenges faced globally, including the move towards a sustainable future. The town therefore provides an interesting case study for the research, portraying the complexities of economic development and its interconnectedness to society and the planet. The challenges facing Stellenbosch also present opportunities for exploring alternative paths to LED, which is grounded in social and environmental justice.

1.2 RATIONALE

Within the context of the global economic crisis, coupled with global environmental challenges, South Africa is looking at new economic models in order to respond to both internal and international pressures. Where unemployment, poverty and inequality are concerned, this study is appropriate. It aims to expand current conceptions in attaining sustainable and inclusive development by acknowledging the informal economy as a particular focus in order to contribute

to social and economic justice. The study therefore contributes to the body of knowledge on local economic development, informal economy, sustainable development and inclusive growth.

1.3 PROBLEM STATEMENT

The preliminary investigation suggests that the Stellenbosch LED plan does not recognise or value the informal economy, therefore making the LED process unsustainable and exclusive. Poverty and inequality are major issues in South Africa. Unemployment is at record levels and the government is struggling to create jobs in the formal economy, as economic growth rates are low and falling. The informal economy, on the other hand, provides livelihoods to thousands of people but it is poorly understood and therefore poorly supported. A better understanding of the sector will enable government (particularly at local level) to better support the informal sector, and to ensure that more people can derive sustainable (and better) livelihoods from this sector.

1.4 RESEARCH QUESTIONS

Based on the problem statement, the specific research questions are:

1. What are the benefits and limitations of the informal economy in promoting sustainable and inclusive LED?
2. What is Stellenbosch Municipality's approach to the informal economy and how does this approach affect participants' livelihoods and the LED process?
3. In what ways can the Stellenbosch Municipality better support the informal economy to contribute to a sustainable and inclusive LED?

1.5 CLARIFICATION OF CONCEPTS

Local economic development

The concept of LED is highly contested, with different interpretations. This study maintains a broader perspective, moving towards developmental LED and relying in part on the World Bank (2001) definition of LED as development that provides the private, not-for-profit sectors, and local communities the opportunity to work together with a focus on job creation, thereby alleviating poverty, reducing inequality, enhancing competitiveness, increasing sustainable growth, and ensuring that growth is inclusive.

Sustainable development

The premise of sustainable development is that people cannot exploit their natural resources and deprive future generations from enjoying the same opportunities that currently exist (WCED, 1987; Anand & Sen, 2000).

Inclusive growth

This paper maintains a broader perspective on inclusive growth, therefore relying in part on Klasen's definition. Klasen (2010:02) defines inclusive growth as "growth that benefits all stripes of society, including the poor, the near poor, middle-income groups, and even the rich".

Informal economy

The ILO defines the informal economy as "all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements and informal work which can be carried out across all the sectors of the economy both in public and private spaces." (ILO, 2012).

1.6 LIMITATIONS

The following limitations are recognised:

- The study only focuses on LED in the Stellenbosch Municipal area.
- The policies and plans analysed relate to the period between 2008 and 2015.
- The informal economy businesses being considered are those within the legal framework; illegal activities within the informal economy are not included.
- The study focuses mainly on businesses within the informal sector and not the formal sector, but does recognise LED holistically.

1.7 RESEARCH DESIGN AND METHODOLOGY

The research methodology was designed to answer the research questions as outlined in section 1.4. The study drew on a comprehensive literature review and a case study, which included document analysis and semi-structured interviews. Chapter Two provides a detailed description of the research design, process and methods. Below is a brief summary.

The first step of the research was to investigate the benefits and limitations of the informal economy in promoting a sustainable and inclusive LED. A literature review was undertaken to provide a sound theoretical understanding of sustainable development and inclusive growth as a lens through which to assess the benefits and limitations of the informal economy in promoting sustainable and inclusive LED. The research strategy involved reviewing the relevant academic and grey literature. The review included literature on inclusive growth and sustainable development in general, as well as South Africa's approach to sustainable and inclusive growth, LED and the informal economy in particular. The findings of the first objective inform the research sourced in meeting the second research question. The outcomes of the literature review was used to inform the approach taken for the research in meeting the second research objective (outlined in Chapters Two and Three) and also as the foundation for informing the

recommendations (based on the research conducted) for Stellenbosch in the final part of the research (Chapter Five).

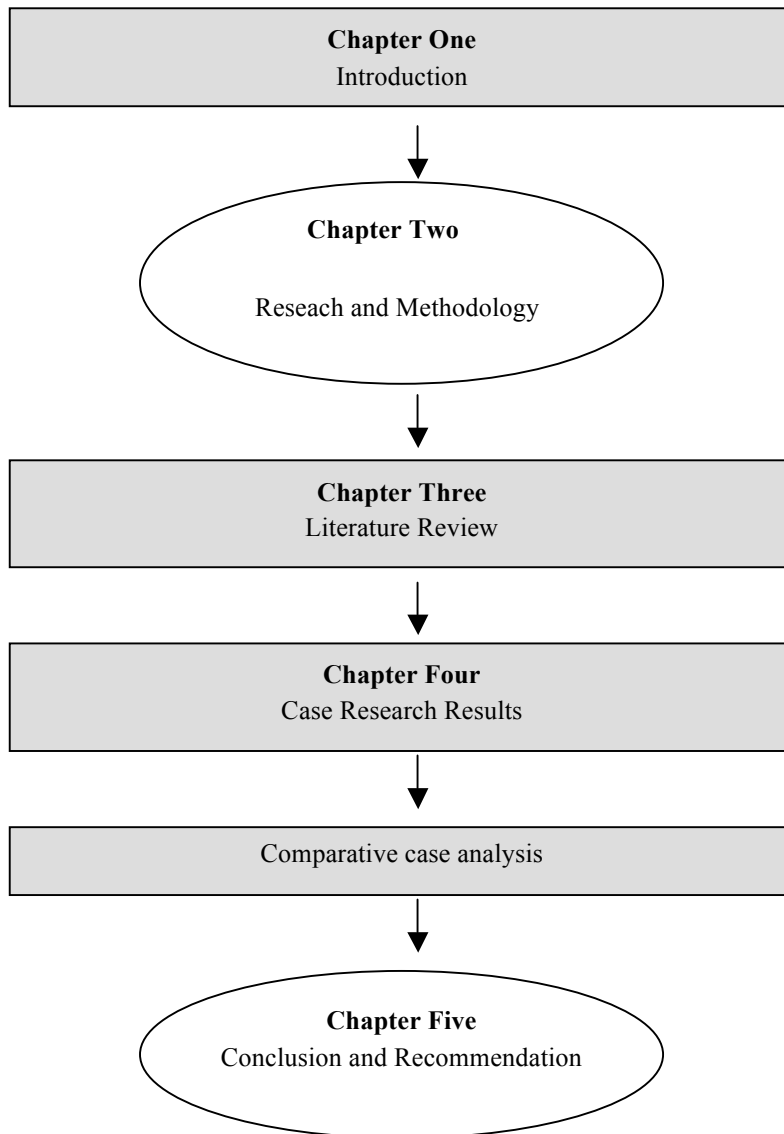
The next step of the research was to build an understanding of the Stellenbosch Municipality's approach toward the informal economy and how it affects the participants' livelihoods and LED. A comprehensive case study was undertaken to identify Stellenbosch Municipality's position on the informal economy, both in the past and present in order to establish their approach towards the sector, its participants and the sector's overall importance in the Stellenbosch LED plans. The process included semi-structured interviews with informal economy business owners and LED officials, and a document analysis of LED municipality policies and frameworks together with district and national policies that guide LED.

The last step of the research was to review the ways in which Stellenbosch Municipality can better support the informal economy in order to bring about more sustainable and inclusive LED policy and plans. Good practice and experience from other municipalities and cities on how they promote sustainable and inclusive local economies were examined. These included experiences from Gasabo, Rwanda, Arusha, Tanzania and the case of Warwick in Ethekewini Municipality. The cases were used to show how they promote sustainable and inclusive LED through practise and legislation. This information enabled recommendations on the necessary aspects to be adopted to improve the LED process within the Stellenbosch context.

For a full outline of the study, see figure 1.

1.9 Thesis outline

Figure 1. Thesis outline



CHAPTER 2: RESEARCH DESIGN AND METHODOLOGY

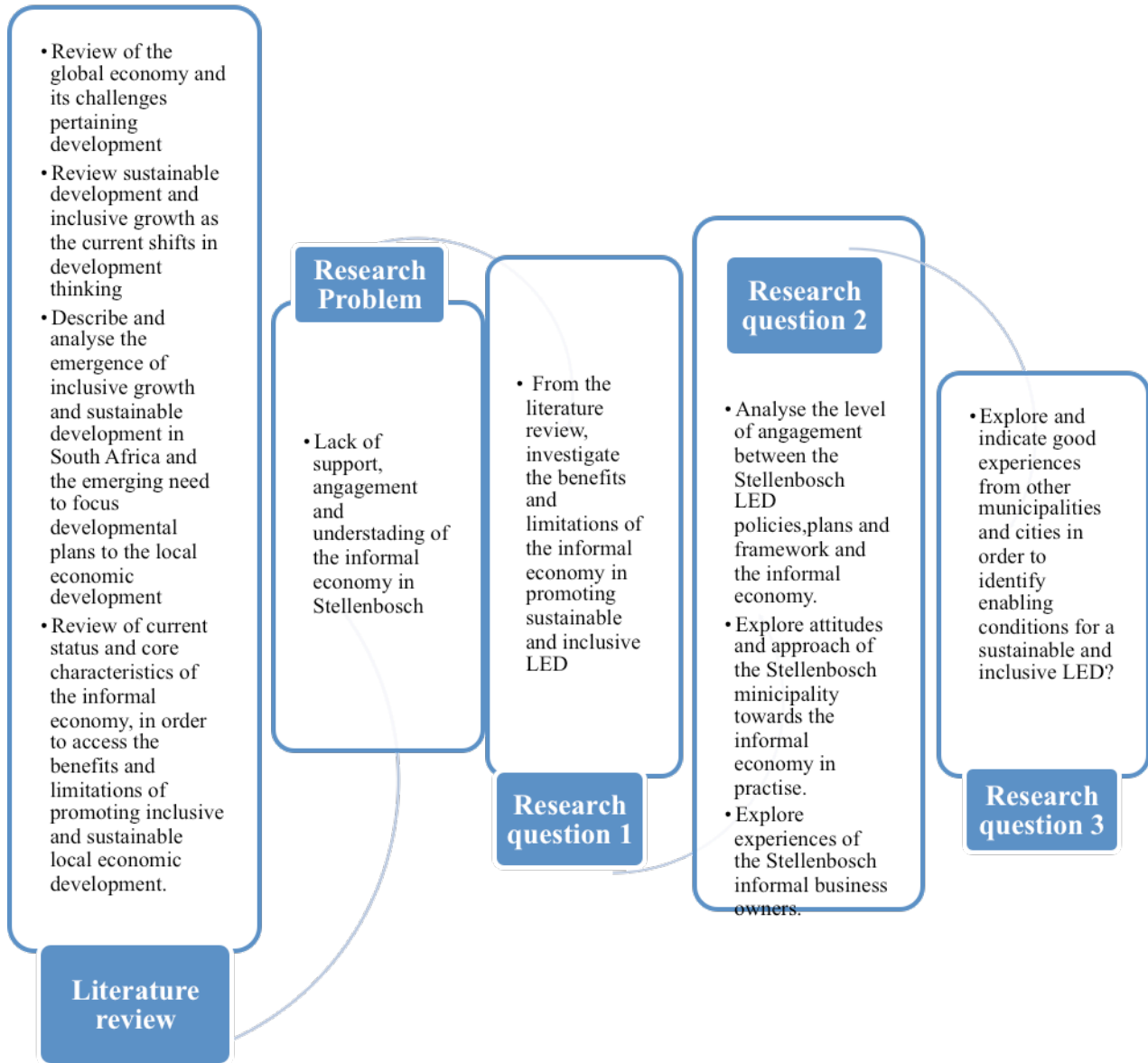
2.1 INTRODUCTION

This chapter outlines the research design, methodology, and processes of the study in order to motivate the research approach for gathering information. The study consists of three parts, namely a literature review, a Stellenbosch case study, and comparative case studies. As mentioned in chapter one, the literature review's aim is to assess the benefits and limitations of the informal economy in promoting sustainable and inclusive LED. The findings from the literature review serve as a reference point in the exploration of the second study objective, in terms of analysing Stellenbosch Municipality's approach to the informal economy and the affect of this approach on the participants' livelihoods and the LED process. Based on the findings of the literature review and the Stellenbosch case study, good practices and experiences from other municipalities and cities that promote sustainable and inclusive local economies were examined. This was done in an attempt to meet the third research objective, which is to explore ways in which the Stellenbosch Municipality can better support the informal economy to contribute to sustainable and inclusive LED.

2.2 RESEARCH DESIGN

The research design focuses on “what kind of study is planned and what kind of results is [it] aimed for?” (Mouton, 2001:56). The research design aims to respond to the research questions outlined in chapter one, as shown in figure 2 below. Figure 2 shows the research design and highlights the process followed in order to conceptualise the research problem and associated research questions, whilst pointing out the required objectives to be achieved in order to answer each research question.

Figure 2. Research design



2.3 LITERATURE REVIEW METHODOLOGY

The research methodology entails the processes and tools that will be used to gather and process information (Mouton, 2001). Mouton notes that a literature review is a research design type that “provides an overview of scholarship in a certain discipline through an analysis of trends and debates” (Mouton, 2001:179). Within this study a narrative literature review is used. According to Petticrew and Roberts (2006), a narrative literature review synthesises individual studies in a narrative manner.

After the clarification of reasons and aims of the thesis, as discussed in chapter one, it was deemed necessary to formulate research questions that will give the thesis a clear focus (Clough & Nutbrown, 2002). Research question one is investigated through the literature review. The literature review aims to establish current perspectives, practices and challenges within the global economic system. An overview of the current global economic challenges is presented by reviewing key issues and challenges to sustainable development and inclusive growth as they relate to LED. It is critical to analyse how local economies contribute to, and are affected by, current global economic challenges. Furthermore, it creates a platform to discuss the informal economy as a possible link to attaining sustainability and inclusiveness in a LED process, particularly in Stellenbosch, which is presented in chapter five. This in turn necessitates a definition of sustainable development, inclusive growth and reviewing approaches used for LED.

Key internationally accepted reports are taken as an entry point into the building of an argument for including aspects of sustainable development and inclusive growth in LED policies and plans. These reports include:

- The United Nations Development Programme’s Human Development Report from 1998, which argues for the need to shift the global focus beyond poverty to include inequality measures (UNDP, 1998).
- The 2003 UN-HABITAT report on the Challenge of Slums, which identifies the magnitude of a growing urban population, which is linked to increasing urban poverty (UN-HABITAT, 2003).

- The 2008 publication of the World Energy Outlook by the International Energy Agency Key reports, which argues the end of cheap oil (IEA, 2008:14).
- The Fourth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC, 2007) report, which confirms that global temperatures are rising due to the greenhouse gas concentration in the atmosphere caused by human activities to meet global economy demand.
- The Millennium Ecosystem Assessment Report of 2005, which reports that 60% of the ecosystems on which human depend for survival are degraded (MEA, 2005).
- UN-Habitat (2006): Innovative policies for the Urban Informal Economy.

2.3.1 Searching the Literature

The first search criteria for investigating the informal economy is set to the informal economy or second economy literature based on Stellenbosch or South African experiences. The search revealed no specific literature available on the informal economy in Stellenbosch. South African search results showed limited literature with minimal case studies on the informal economy. The search criteria included both online databases and meeting with the sustainable development subject librarians at the Stellenbosch University library. The online searches revealed a vast selection of academic papers that could be relevant to the study. Many of the papers that were found are particularly relevant to certain parts of the thesis. For example, many papers were on the informal economy and sustainable development, some on inclusive growth or LED practices in different countries, but no specific papers were on a sustainable and inclusive LED with reference to the informal economy. The majority of findings from searching online databases and the University of Stellenbosch database focused on the sustainable development debate and emerging green growth, in some cases extending to “inclusive green growth”. The literature on sustainable development and green growth/economy fell short of addressing the complexity of the relationship between the economy and inequality, by focusing only on poverty reduction and the environment. The literature on inclusive growth highlighted the challenge of inequality and argued for productive employment as a path to ensuring economic participation and economic

benefit sharing, hence reducing poverty, inequality and unemployment. The search was then broadened to include papers that could be combined to constitute the required literature to answer the research question and be applicable to the study.

Literature from sustainable development and applied economics modules offered at the Sustainability Institute in 2014 were used as a starting point for obtaining literature related to sustainable development, and inclusive growth as an alternative to the global economy (shift in development thinking). Furthermore, papers on LED and the informal economy were then included as they directly relate to the thesis and themes, as indicated in the literature review section. An ancestry approach (which is looking in the reference section of obtained studies) was then used while working on papers from the literature search to broaden the study. The process involved examining the reference lists of cited articles in the literature, starting with the most recent articles before proceeding to older articles. Linkages began to emerge across different research fields, including the links between a reduction in poverty, inequality and the provision of productive employment through the informal economy and the role that LED can potentially play within that space. These linkages were affirmed by the findings of key papers on sustainable development, inclusive growth, LED and the informal economy (Ruzek, 2015; Rogerson, 2013; Ranieri & Ramos, 2013; Ianchovichina & Lundström, 2009; Chambwera et al., 2011; Mahajan, 2014).

The literature review was limited in that several case studies, which may have been of relevance, were not included due to the scope of the study coupled with time and other constraints that did not allow all possible literature to be reviewed. Main sources of error may be derived from the types of literature that were drawn on as a result of potential personal bias towards participation-driven solutions and opinions on the importance of social, economic and environmental sustainability. An attempt was made to substantiate these views through key international reports and published case studies.

2.4 CASE STUDY METHODOLOGY

In order to answer research question two outlined above, a case study approach was adopted focusing on the Stellenbosch informal economy. It was thus necessary to analyse Stellenbosch LED policies, frameworks, and national and district policies and frameworks that guide LED. In addition data was gathered on the personal experiences of 16 informal economy business owners, three Stellenbosch Municipality LED officials, one LED researcher and one Stellenbosch informal economy organisation chairperson and informal businesses activist in order to ascertain Stellenbosch Municipality's position on the informal economy, their mandate, and the impact of their support on the informal economy.

The case study approach is supported by Nieuwenhuis (2009:75) who states “the typical characteristics of case studies are to strive towards a comprehensive or holistic understanding of the interaction and relationships of participants or components in specific situations”. In case study research, the unit under analysis is a critical factor – in this research, the Stellenbosch LED process. Nieuwenhuis (2009:75) notes that case study research focuses on a system of action or on one or two concepts and issues that are fundamental to understanding the system under examination. Under this perspective, the Stellenbosch LED is viewed as a whole, taking into consideration the interaction that the activities in the Stellenbosch LED have with society, the environment, and economy. According to Yin (2011), a case study design should be considered when:

- The focus of the study is to answer ‘how’ and ‘why’ questions;
- The researcher cannot manipulate the behaviour of those involved in the study;
- The researcher wants to cover contextual conditions because he or she believes they are relevant to the phenomenon under study; and
- The boundaries are not clear between the phenomenon and context.

Based on this description, a case study design was preferred over other designs as the issues explored in this study are embedded in the context of the community and people of Stellenbosch.

2.4.1 Justification

Document analysis, newspaper analysis and semi-structured interviews were selected as sources of data (Mouton, 2001:148). This is because a case study relies on multiple sources of evidence and multiple data-collection techniques. Various authors support this combined use of data sources (Yin, 1994:4; Nieuwenhuis, 2009:81-92; Hofstee, 2006:115-116). Despite the suitability and strength of case study research for the subject under investigation, limitations and criticisms of this approach do exist. Nieuwenhuis (2009:76), for example, notes that one cannot draw general conclusions when depending on one case. This, however, is not an issue for this research, as findings will not be generalised in any way. As Flyvbjerg (2006:241) affirms, “a case study is a necessary and sufficient method for certain important research tasks in the social sciences, and it is a method that holds up well when compared to other methods in the gamut of social science research methodology”.

The reasons Stellenbosch was chosen for the case study were both practical and theoretical. After the researcher attended a meeting with members of Stellenbosch Transparency (a local NGO) and hearing of the work the organisation was doing in mobilising a voice for economic and livelihood freedom and participation in Stellenbosch, an interest was piqued in possible solutions for including the masses of the economically excluded in the economy and thus contributing to inequality reduction and poverty alleviation. The researcher was also awarded a Stellenbosch community engagement bursary from the national research fund, which made the research possible.

The number of informal business owners being selected for the study was unplanned. Rather, a meeting with a Stellenbosch LED official (considered as the best place to get information about the informal economy participants in Stellenbosch) led to referrals to other players in the informal economy. After gaining an understanding of the complexities within the informal economy in Stellenbosch, it made sense to gather a representative sample of the informal

economic activities in the area. As guided by the literature review, informal businesses that contributed to the objectives of sustainable development and inclusive growth were targeted.

2.4.2 Document Analysis

Document analysis was used to understand Stellenbosch Municipality's approach toward the informal economy and how the approach affects participants' livelihoods and the LED process. The approach adopted in the document analysis involved reviewing various municipality documents and newspaper articles relating to the Stellenbosch informal economy and the people who have been participating within this economy for many years. This analysis served as a foundation for understanding some of the challenges that the informal businesses face in Stellenbosch, and also for understanding why the state of informal economy in Stellenbosch is the way it is today, as well as the importance of the informal economy to overall Stellenbosch LED at large. This understanding informs the decisions and the approaches that can be used or developed by the Stellenbosch Municipality going forward.

Documents refer to any written materials for communication purposes (Nieuwenhuis, 2009:82; Mouton, 2001:99). For this study, primary sources of data include municipality documents and municipality reports. These sources of information are described as grey literature, defined as "information produced on all levels of government, academics, business and industry in electronic or print formats not controlled by commercial publishing" (Paola & Sandra, 2003:01).

In deciding which documents to analyse, the criteria set out by Nieuwenhuis (2009:83) were referred to, which suggests that the following should be verified first:

- The nature of the document.
- Time of publication.
- The purpose or intent and the context that it was produced for.
- The points and arguments put forward and their relationship to the research.

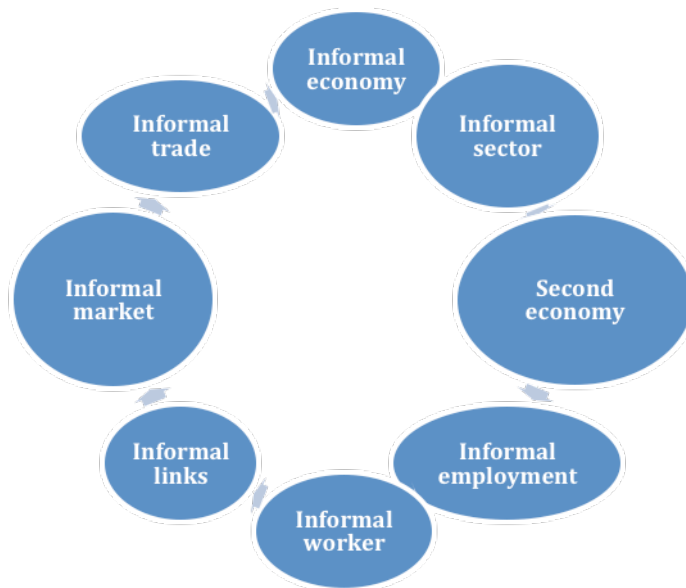
The units of analysis were appropriately identified as those documents that guide national, and particularly Stellenbosch local municipality, interventions for local economic development. The sample of documents and plans, related to the informal economy that guides national, regional and local economic development in South Africa, consisted of the following documents:

Table 1. Stellenbosch Municipality policies, Cape Winelands District Municipality policies and National policies that guide LED

POLICY DOCUMENT OR FRAMEWORK
Cape Winelands District Municipality Local Economic Development Strategy (2011)
Cape Winelands Integrated Development Plan (2012/13-2016/17)
National Development Plan 2030 (2012)
National Framework for Local Economic Development (2006)
National Growth Path, Green Economy Accord (EDD, 2011)
National Skills Development Strategy III 2011-2016 (DoHET, 2012)
Industrial Policy Action Plan (DTI, 2014)
Integrated Development Plan (2015/2016)
Stellenbosch LED Strategy and Action Plan (2014)
Stellenbosch Local Municipality Investment Incentive and Retention Policy Framework (2014)
Stellenbosch Spatial Development Framework (2012)
Stellenbosch Strategic Framework for LED (2013)

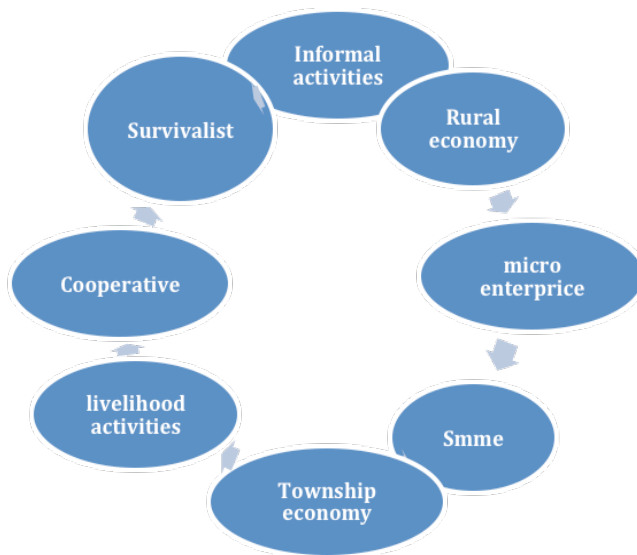
Each key document was evaluated on the occurrence of certain direct and indirect references to the informal economy within it (see figures 3 and 4). The ‘selected terms’ method was adapted from Smit and Musango (2015) where known direct terms, such as informal economy and informal sector, were searched for and quantified. However, in this study, as with Smit and Musango (2015), certain indirect terms emerged through the coding process and from the documents under analysis. The terms considered as direct or indirect references relevant to this study are illustrated in Figures 3 and 4.

Figure 3. Direct references to the informal economy



Source: Own compilation based on Smit and Musango (2015)

Figure 4. Indirect references to the informal economy



Source: Own compilation based on Smit and Musango (2015)

2.4.3 Semi-Structured Interviews

The research drew on both formal and informal discussions with informal economy entrepreneurs, workers and local municipality officials, given their direct role in the research topic area. The informal business owners, LED officials, informal economy association chairperson and economic development-planning researcher were interviewed between 16 June and 07 August 2015. The main aim of the semi-structured interviews was to establish current practices, and the challenges and opportunities facing the Stellenbosch informal economy.

Semi-structured interviews, as purposed by Nieuwenhuis (2009:87), were conducted in order to collect convincing data and to gain a deep and clear understanding of the current role that the Stellenbosch informal economy plays in overall LED. Open-ended questions were used to enable respondents to develop their own stories and their own perceptions in-depth. These interviews were also used to widen an understanding of inclusive growth and sustainable development and to assess how the informal businesses in Stellenbosch contribute to a sustainable and inclusive LED, thus enabling a critical review of the Stellenbosch LED process. The interviewees represent a number of different groups:

- 16 informal economy businesses (entrepreneurs).
- One economic development-planning researcher who has engaged in research pertaining to the sustainability of the informal economy and the contribution of the informal economy to the LED process.
- Two Stellenbosch Municipality LED officials.
- One Cape Winelands District municipality LED official.
- One informal business association chairperson.

All interviews were recorded (with permission) using a mobile device in order to enable verification with the field notes later on. During the analysis, key trends were analysed in order to present the results.

2.5 Comparative Case Studies

Good practices and experiences from other municipalities and cities, related to how they promote sustainable and inclusive local economies, were examined. The comparative studies include Gasabo local government, Rwanda, Arusha city, Tanzania, and the case of Warwick in eThekweni Municipality. These cases are included to develop measures on how the Stellenbosch LED process can foster sustainable and inclusive LED and also enable a recommendation of necessary aspects to be adopted to improve the LED process within the Stellenbosch context. The final objective of the research is to provide recommendations for promoting inclusive and sustainable local economic development through Stellenbosch's local economic system. The recommendations made in chapter five are based on the outcomes of the literature review, the collected data, interviews conducted, and comparative case studies.

2.5 .1 Justification

This following provides the justification of the selected comparative case studies.

Gasabo local government, Rwanda

Gasabo local government was chosen on both a policy and practical level from where Stellenbosch could draw lessons from. From a policy point of view, just like South Africa (as we learn from the literature review below) the informal economy in Rwanda does not feature in their long term development plans like the Rwanda *Vision 2020* (World Bank, 2012). However, even though that is the case, the Gasabo local government has innovatively found alternative ways to manage the informal economy, while not necessarily waiving from the Rwanda *Vision 2020*. From the practical perspective, just like Stellenbosch (see Stellenbosch Municipality, 2015), Gasabo local government places themselves as an innovative local government with its aims to attract and retain big corporate businesses (World bank, 2012). I then became interested to find ways on which the Stellenbosch municipality with a thriving tertiary business sector can innovatively manage the informal economy while also being in line with the nations development plans.

Arusha city, Tanzania

I came across the experiences of Arusha city while reading on the informal economy in Africa. My reasons of selecting the Arusha city is mainly based on experience. Like Stellenbosch, Arusha is a center of Tourism and Trade in Tanzania, formely known for being hostile towards informal economy and often performing arbitrary evictions (Lubuva & Mwijibe cited in David et al., 2013). Having shared similar experiences with Stellenbosch, I was interested to draw lessons on how Arusha city had moved from this perspective in handling the informal economy and the impact that has had on the overall city.

Warwick in eThekweni Municipality

My interest in the case of Warwick was on the basis of the possible impact of a national mandate to the informal economy at local level. As a South African municipality, eThekweni Municipality has been viewed as having the most progressive policies towards the informal economy. However, it also faces a lot of challenges. The lessons from Warwick were selected as most important for the study as they bring realities of some of the trade offs that municipalities have to make if there is a lack of national mandande pertaining to the sector.

2.5 CHAPTER SUMMARY

Chapter two indicates that the methodology of the study is influenced by qualitative research design and that multiple methods and a variety of tools were utilised in order to collect and analyse the data necessary for addressing the research questions. Chapter three presents the literature review as pertaining to the first research question.

CHAPTER 3: LITERATURE REVIEW

3.1 INTRODUCTION

The aim of this chapter is to investigate the benefits and limitations of promoting inclusive and sustainable local economic development with reference to the South African informal economy. The literature review is spread over five themes.

The first theme begins with an overview of the global economy, as well as the on-going economic crisis and the challenges it poses to development, in order to provide a context for the study. This is done by highlighting the main arguments and debate around development thinking. The second theme introduces the concepts of sustainable development, inclusive growth and the emerging need to focus development plans to LED due to current shifts in development thinking.

The third theme analyses the emergence of inclusive growth, sustainable development and LED in South Africa. A review of the current policies and plans pertaining to sustainable development, inclusive growth and LED is critically analysed. This review provides a context for focusing on the informal economy.

The fourth theme introduces the informal economy in terms of its current status, core characteristics and linkages to sustainable development, inclusive growth and LED processes. This is done in order to assess the benefits and limitations of promoting inclusive and sustainable local economic development.

The fifth theme explores a series of comparative case studies of several cities and their approaches to the informal economy. The lessons and experiences gleaned, are vital to informing if and how Stellenbosch municipality may improve its approach, discussed in Chapter 5.

3.2 OVERVIEW OF THE GLOBAL ECONOMY

The global economy consists of enormous economic activities worldwide (Cripps, Izurieta & Singh, 2011). These activities include cross-border movement of technology, goods, services and capital. Today this phenomenon represents the increasing interdependence of places and people across the globe (Johnston-Anumonwo & Doane, 2011), leading to national, regional, local economic, political and cultural dependency. There have been various responses to the notion of a global economy. Some view the global economy as a ‘world heritage’, a view that sees it not only as good, but also as a “gift from the West to the world”(Sen, 2002). According to Sen (2002:19), the developmental history of Europe has “led to a massive increase in living standards in the West, and now these achievements are spreading across the world”. On the contrary, many argue that this way of development is a curse (Stiglitz, 2008). Similarly, Appleton and Lehmann (2011:327) view the global economy as “precarious, characterized by multi-polarity, asymmetrical power threats.”

The global economy has not been without its challenges. These challenges include poverty and widening inequality, high unemployment, environmental and ecosystem degradation and growth in urban populations. These challenges necessitate a different view of the global economy, particularly within the current on-going economic crisis. The following section will look at these global challenges individually as to highlight how they are deeply connected and act as detrimental to current growth and future development.

Poverty and inequality

“In the last fifty years, the world economy has grown seventeen fold, but the share of the poorest nations have collapsed” (Hopwood et al., 2005:30). According to the 1998 UN Human Development Report, the richest 20 per cent of the world population in developed nations accounts for 86 per cent of total private consumption expenditure, with the poorest 20 per cent accounting for 1.3 per cent (UNDP, 1998). This unequal distribution of global growth has created a small community who benefits from inequality; a community with political and market

power to ensure that inequality continues for their own benefit, thus aggravating global poverty (Swilling & Annecke, 2012).

Similarly, Beneria (2003) argues that the global economy has grown, however poverty and inequality have also continued to increase between and within countries. Despite the global focus on poverty eradication from, for example, the Millennium Development Goals (MGDs) and Poverty Reduction Strategy Papers (PRSPs), inequality measures have not been a focus in achieving the MGD goals, as growth is argued to be sufficient for poverty alleviation (Bangura, 2011). Swilling and Annecke (2012:37), however, note that despite the 1998 Human Development Report, which highlights the relationship between poverty and inequality, “poverty is often discussed as if it were unrelated to equality”. For Meth (2007), global inequality is responsible for the poor distribution of resources, which are critical for development, and undermines the potential for social systems. In Bartelmus’ (1994:06) view, “the current global crisis is not of absolute physical shortage but of economic and social maldistribution and maluse”.

Whilst global inequality is a threat to achieving a decent quality of life for all, in many developing countries, the pursuit for global economic growth has also failed to decrease poverty rates. According to the World Bank research paper by Chen and Ravallion (2004:16), “if we exclude China (which followed a state driven development approach) from the debate on the world poor, from 1981-2001 the number of the poor living under \$1/day increased from 840 million to 890 million”. There is a causal relationship between the increasing global inequality and increasing poverty rates, which has significantly escalated during the economic crisis (Swilling & Annecke, 2012).

Rising unemployment

The 2007/2008 global economic crisis resulted in devastating effects for the poor. Alongside the negative impact from the increase in food and oil prices that followed the crisis, rising unemployment prevailed across the globe as a result of the economic meltdown (Gennard, 2009). After the crisis, the International Labour Organization (ILO) expected global unemployment to

rise by between 18 and 51 million people above 2007 levels by the end of 2009 (Awad, 2009). In 2013, “almost 202 million people were unemployed around the world, an increase of almost 5 million compared with the year before” (ILO, 2014:11). The crisis strongly affected youth unemployment in both developing and developed nations. For example, Greece recorded 58 per cent youth unemployment, with Spain at 55 per cent, South Africa at 52 per cent, 42 per cent in Italy and 30 per cent in Portugal and the Slovak Republic (OECD Yearbook, 2014).

According to O’Reilly, Lain, Sheehan, Smale and Stuart (2011:584), “the crisis has not only highlighted the interdependencies in national economies but the further increased interdependency in the use of the global force”. The ILO (2012) notes that, if the global unemployment trend continues, unemployment is set to worsen further, reaching more than 215 million jobseekers by 2018. This global trend has resulted in an increase in what the OECD (2014) calls vulnerable employment/informal employment – that is, either self-employment or work by contributing family workers, which now accounts for almost 48 per cent of total employment. According to the 2006 UN-Habitat report entitled *Innovative Policies for the Urban Informal Economy*, informal employment as a percentage of non-agricultural employment in the three major developing country regions is estimated to be 72 per cent in sub-Saharan Africa, 65 per cent in Asia and 51 per cent in Latin America (UN-Habitat, 2006). According to this report, the informal economy is recognised as a permanent and significant component of urban and national economies. The informal economy is, however, largely overlooked in the development debates and mostly excluded in economic development planning, especially at local level. The challenge of creating necessary employment in the formal sector is further aggravated by global environmental challenges.

Environmental and ecosystem degradation

Deforestation, burning of fossil fuels and oil-dependant agricultural production are amongst the main activities in greenhouse gas emissions (Intergovernmental Panel on Climate Change, 2007). In addition, 60 per cent of global economy energy needs depend on fossil fuel derived oil (Swilling & Annecke, 2012). The resultant increase in global oil and food prices make it almost impossible for countries to attain their desired economic growth numbers to address the

socioeconomic challenges of increasing poverty, inequality and unemployment imposed by the economic crisis. Moreover, the UN Millennium Ecosystem Assessment MEA (2005) reports that 60% of ecosystems, which humans depend on for survival, are degraded. The MEA (2005) report found that over the next 50 years the extent of ecosystem degradation will worsen and cause a barrier to achieving the MDGs.

“The more integrated a country is with the global economy, the higher to be expected its level of CO₂ emissions and the faster its process of deforestation” (Kahuthu, 2006:66). For Swilling and Annecke (2012), “the first to suffer from the consequences will be the world’s poor as soils become less productive, water more expensive, air and water polluted, fisheries collapse, climate warm up, desert spread and forest get felled”. However, Swilling (2012:70) notes that “there is little evidence that researchers and decision-makers in Africa have registered the full implications of the multiple impacts of global warming for the way in which development policies are designed in Africa”. Economic crisis is a complex subject and the causes are highly debated, however, there is a growing consensus that linear economies founded on unsustainable consumerism will exacerbate suffering, especially for the most vulnerable in developing nations (Bartelmus, 1994).

Growing urban population

The world’s population is now predominantly urban, with cities of the developing world estimated to absorb 95 per cent of urban growth in the next two decades, thereby becoming home to almost four billion people or 80 per cent of the world’s population (Crush & Frayne, 2010). The increasing urban city population poses a challenge to developing nations, as they are already facing development challenges. According to the UN-Habitat report entitled *The Challenge of Slums*, one-third of the world’s total urban population (rising to over 75% in the least developed countries) live in slums or informal settlements (Swilling & Annecke, 2012). Cities in the developing world are characterised as two cities within one city – with one part of the urban population enjoying all the benefits of urban living, and the other part characterised by slums and informal settlements within which the poor live under worse conditions than their rural relatives (Crush & Frayne, 2010). There is a deep connection between the growing urban slum population

and poverty and inequality. The growing urban population will pose increasing strain on developing countries that are already faced with limited environmental resources. Development strategies will have to plan not only for current demand, but also the growing demand of an increasingly crowded planet.

3.2.1 Section summary

The root causes of the economic crisis have emerged as both externalisation of the environment and social cost, resulting in deepening social and environmental ills. Global warming coupled with the peaking of oil supply and ecosystem degradation will change the nature of the global economy. With the human population set to rise to nine billion by 2050 (Griggs, 2013), development models must be revised to include the security of both people and the planet. A new developmental discourse is therefore needed that will include more people with less use of natural resources. These challenges raise various discussions as to what shift will be required to respond to them. The concepts of sustainable development, inclusive growth and a focus on LED processes for attaining development goals are the latest additions to these discussions, promoted by international institutions and various developing nations claiming to offer different development thinking as a possible solution to the current global challenges.

The following section gives a review of the shift in development thinking to alternative paths to the current framework of development. All these challenges reinforce one another and cannot be reduced to a single cause-and-effect relationship (Swilling & Annecke, 2012). The argument presented in this study considers that developing nations cannot afford a path of economic growth that is not sustainable and inclusive, and this will mean seeking solutions beyond the formal economy and recognising and supporting the informal economy, particularly at a local level. The increase in informal employment shows that if we are to tackle global poverty, inequality and unemployment, a total focus on the formal economy maybe not be the answer for the developing world. It is therefore worth looking at the informal economy as it has shown persistent growth by significantly creating productive employment and income for most of the poor in the developing world. That will require us to move from what Morin (1999) notes as reductionist thinking, a thinking that separates the formal economy from the informal economy,

components that are inter-linked together but recognise these linkages as they may hold possible solutions to the current development challenges.

3.3 SHIFT IN DEVELOPMENTAL THINKING

There are two interrelated but separate discussions of the challenges of persistent inequality, poverty, unemployment and environmental degradation, namely (i) the evolution of ‘sustainable development’, on one hand, and (ii) ‘inclusive growth’ on the other. When the economy is viewed in relation to environmental fairness, the concept of ‘sustainable development’ is promoted. Social justice is argued as a concern in the conceptualisation of sustainable development but in practise there is less focus on the structural causes of socioeconomic challenges (Smit & Musango, 2015). However, in most developing nations, where social justice is the end goal of the economic process, inclusive growth is advocated but with less emphasis on the environment (Ramos et al., 2013).

“The relationship between economic growth and environmental quality has been a source of great controversy for quite a long time” (Kahuthu, 2006). The environmental Kuznets curve (EKC) hypothesis argues that in the early stages of the economic growth process, pollution and degradation of natural resources increase rapidly and beyond a certain threshold of growth the relationship reverts and pollution declines, leading to a positive relationship between economic growth and the environment (Kahuthu, 2006). According to the EKC hypothesis, nations could grow and liberate their economies first, and clean up their environment later. This perspective largely led to the global economy favouring trade expansion and economic growth, neglecting the environment (Nuemayer, 2000:30). For Kahuthu (2006), this perspective encouraged economic growth rather than environmental policy. It is this view that largely shapes the global economic system: a view that sees the environment as external to humans and economic activities, to be exploited with special areas preserved for wilderness or parks (Hopwood et al., 2005).

The production and consumption processes involved in economic activities cannot be separated from the environment in which they are located (Kahuthu, 2006). The rapid depletion of natural

resources and ecosystem services as shown by the current increase in oil and food prices, amongst other environmental challenges, questions the notion of no limits to nature's supply of resources. This perspective was proven by a quantitative study conducted by Rockstrom (2009) on planetary boundaries. Rockstrom (2009) conclude that there are absolute limits to the supply of our natural resource and ecosystem services that should not be breached. According to the IPCC report (2007), if temperatures increase by 2°C or more it will lead to major ecological and socioeconomic changes, and the world's poor will experience most of the destructive consequences (Intergovernmental Panel on Climate Change, 2007). According to Stern (2007), global warming will affect all countries, but the poorest and most vulnerable countries will suffer the most, despite them having contributed least to the cause of climate change. From this perspective, it will be better for developing countries to fix their environmental problems simultaneously with their development goals rather than later.

The 2007/2008 Human Development Report, that focused on the relationship between climate change and human solidarity, brought contrasting views to the environmental Kuznets curve. The report showed that the EKC hypothesis proved true for some developed countries, such as the UK, Japan, Germany, Italy, Australia and Korea, as they managed to grow their economies with marginal growth in CO₂ between the period of 1990-2004, with Germany recording negative CO₂ growth rates (Swilling & Annecke, 2012). The report also confirmed the EKC analysis for some developing countries like South Africa. South Africa recorded moderate economic growth with high CO₂ emissions in both per capita basis and per country measurement (Swilling & Annecke, 2012).

On the contrary, developing countries like Brazil recorded high economic growth with low CO₂ emissions (Swilling & Annecke, 2012). According to Swilling and Annecke (2012), the report clearly shows that the relationship between growth per capita and CO₂ is not fixed (as argued by the EKC hypothesis) and that policy intervention makes a difference. This perspective is also shown by countries like Germany, Japan, Italy and Korea, "whose governments have focused on increasing efficiencies to bring down total emission with positive economic spill offs and improved quality of life" (Swilling & Annecke, 2012:34).

For Kahuthu (2006:67), globalisation should try to combine economic development with environmental regulation and principals in the management priorities, rather than just aiming at enhancing economic growth. He further notes that, “the contradiction between the cumulative natures of the process of economic growth versus its irreversible consequences on non-renewable resources makes the relationship under discussion imbalanced” (Kahuthu, 2006). It is under this context that the notion of ‘sustainable development’ has been advocated as an alternative growth path to global economy that heeds to environmental limits.

On the other hand, for decades development literature has assumed the process of development to be automatic – once it is set in motion, incrementally following the same steps towards high levels of average income and industrialisation (Ranieri & Ramos, 2013). Similarly, orthodox economists argue that economic growth is the answer to poverty and inequality, as the benefits of growth will ‘trickle down’ to the poor (McBride, 2011). This perspective is largely informed by the 1950’s Kuznet U hypothesis. The Kuznet U hypothesis argues that increasing inequality levels should not be a problem for developing countries because in the end inequality will increase as average incomes rises from low levels, but eventually inequality will fall as income continues to increase (Wade, 2011; Ranieri & Ramos, 2013).

Berg and Ostry (2011) note that this theory has been proven true by the development experiences of developed countries such as the USA and UK. However, even though the average income grew in some developing countries, in a number of others this was not the case. On the contrary, Ranieri and Ramos (2013:02) point out that, “in several countries where fast growth was accompanied by worsening inequality, the growth process failed to produce a turning point after which the initial trend was reversed; not only did inequality not retreat, but poverty rates persisted at high levels or, in some cases, even increased”.

Ranieri and Ramos (2013) argue that the literature on empirical tests of the relationship between income distribution and income per capita, together with East Asian development, are the two major experiences that have defied the ‘trickle down’ view. According to Kanbur in Ranieri and Ramos (2013:3), “the development literature on empirical tests of the relationship between income distribution and income per capita never found consummate validation of Kuznets’s hypothesis”. The East Asian countries’ rapid economic growth in per capita income with low and

stable inequality suggests that growth and equity are not incompatible. Ranieri and Ramos (2013) argue that these experiences defied the ‘trickle down’ assumption, leading to emerging concerns about the distributional aspects of growth. The emergence of the understanding that growth and equity can and should go hand in hand opened up an era of development thinking in which a host of factors increasingly oriented the debate towards how to promote growth with equity, and which later led to the inception of the concept of pro-poor and recently, inclusive growth (Ranieri & Ramos, 2013).

The mounting environmental challenges facing the planet coupled with increasing poverty and widening inequality have highlighted the greater interdependency that the economy has with the environment, economy and society. The economy co-exists with society, and both the society and economy exist within, and dependent on, the environment (Hopwood et al., 2005).

3.3.1 The Emergence of Sustainable Development

In 1987, the Brundtland Commission (WCED) Report, *Our Common Future*, defined sustainable development as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (WCED, 1987:43). The argument of sustainable development is that we cannot exploit our natural resources and deprive the future generation from enjoying the same opportunities we have today. Sustainable development is a highly contested concept; different governments, institutions and communities view and interpret sustainable development from different perspectives (Blewitt, 2008). However, even though the concept is widely interpreted and vaguely defined, it has become the foundation of various international debates for managing global social, economic and environmental crises (UNDESA, 2014). Sustainable development’s strength is premised as an alternative global economic growth model that can lift the world out of the current financial crisis. In 2009, the notion of the ‘green economy’ emerged as an economic pathway to sustainable development (Swilling & Annecke, 2012). A number of mainstream economists are now looking to green growth as “as a way out of economic stagnation and low growth rates” (Benson & Greenfield, 2012; Smit & Musango, 2015). However, where human development is concerned, a number of weaknesses have been identified in sustainable development and green growth in the literature. These include issues of

power and participation, GDP as a measure of growth, and overlooking the informal economy (Benson & Greenfield, 2012; Smit & Musango, 2015).

It must then be asked: who holds the power in green growth and sustainable development discussions? According to Bass (2013), international government and organisations dominate discussions around green growth and sustainable development. Söderbaum (2013) points out that the dominant approach to the green economy or green growth is underpinned by neoclassical economics. Even though green growth is an alternative to conventional growth, its ultimate goal is still growth (Smit & Musango, 2015). For some developing countries' governments, the green economy or green growth, like the 1980's structural reform conditions, carries Northern-driven conditions and regulations that might reinforce North-South inequalities (Smit & Musango, 2015; Cook et al., 2012). While certain aspects of green growth may equally apply to developing countries, it may prove unsustainable if the theory is based on a Western industrial experience.

Issues of economic participation and overlooking the informal economy

Cook et al. and Smith, cited in Smit and Musango (2015), argue that market-based solutions, offered by green growth or green economy, reinforce inequalities, power structures, and negate true democracy, maintaining limited participation by disadvantaged groups. Green growth maintains limited participation by disadvantaged groups in the economic process (Cook et al., 2012). In addition, it does not bring about new global forms of management that can deal with relevant issues of inequalities in wealth and power. The green economy or sustainable development disregards and overlooks the informal economy (Smit & Musango, 2015; Dawa & Kinyanjui, 2012). Dawa and Kinyanjui (2012) note that the informal economy “plays a significant role in the restructuring of capitalism in the era of globalization”. Markandya, Gonzalez-Eguino and Escapa, in Smit and Musango (2015:18), also indicate how the “literature pertaining to environmental fiscal reform, believed to simultaneously improve the environment and have positive economic and social outcomes, has thus far ignored the shadow economy”. However, the informal economy is becoming a vital source of employment and income for the poor, providing a seedbed of local entrepreneurship and an effective instrument to combat poverty and social exclusion. In addition, evidence shows that the majority of new employment –

both self-employment and wage employment – in developing countries is generated in the informal economy.

Issues of what should be sustained

Anand and Sen (2000) note that sustainable development would not make sense if the present life opportunities to be sustained in the future were miserable and indigent. Sustaining deprivation cannot be our goal, nor should we deny the less privileged today the attention that we bestow on generations in the future. Parkin et al. (2003) argue that sustainability has been treated as an environmental concept only, ignoring its great interdependency to society and the economy. Similarly, environmental sustainability cannot be achieved if the challenges of poverty and inequality are not successfully addressed globally (Robinson, 2003). If the socioeconomic status of the people is not globally improved, then sustainable development goals cannot be effectively attained (Aggarwal, 2013). It is therefore of paramount importance that the natural resource base is preserved and renewed for the sustenance of the future generations, however it is equally important that the deprived in the present generation are given enough opportunities to sustain themselves and their own future generations as well.

A number of studies have identified three main conflicts between the economy, society and environment (WCED, 1987; Campbell, 1996; Connelly, 2007; Rennkamp, 2013). According to Rennkamp (2013), these three conflicts are: (i) a resource conflict between economic development and environmental protection; (ii) a development conflict between environmental protection and equity and social justice; as well as (iii) a “property conflict between economic development and equity”. There is an inverse relationship between nature and justice. Any attempt to ease the crisis of nature by protecting soils, animals, human, forest and atmosphere will worsen the crisis of justice, as poor people demand more land, energy and purchasing power (Sachs, 2001).

According to Fulai (2011), growth is a threat to the environment and cannot be equitable; protecting the environment can be a constraint in attaining economic growth and eradicating poverty (Fulai, 2011). Therefore, as Ghosh (2010) states, sustainability cannot be attained

without inclusive growth. “There is a need to integrate these three dimensions” (Fulai, 2011). In the same perspective, this study argues that, due to the interdependency that the environment has with society and the economy, there is a need to merge the concepts of sustainable development and inclusive growth if the current development challenges are to be met, particularly in a developing world that has been proven a great risk to environmental destruction. The following section reviews inclusive growth and its characteristics.

3.3.2 The Emergence of Inclusive Growth

In order to appreciate and evaluate the role of inclusive growth in terms of current contextual realities, it needs to be considered against the backdrop of pro-poor growth discussions. Pro-poor growth discussions took light in the context of shifting developmental thinking about growth and poverty reduction beyond the trickle-down expectation (Ranieri & Ramos, 2013). The concept has been defined differently in the literature. Ranieri and Ramos (2013) distinguish between two main definitions of pro-poor growth. One definition is classified as the weak absolute pro-poor growth definition. In this definition, pro-poor growth is any growth experience that leads to a drop in the poverty rate (Ravallion & Chen, 2003; Grosse, Harttgen, & Klasen, 2008; Ranieri & Ramos, 2013). Many have argued that this definition is weak as, even though the poor maybe lifted out of poverty, it has no regard for the distribution of income or the relative conditions of the poor, thus running a risk of increasing inequality that will disfavour them (Grosse et al., 2008; Ranieri & Ramos, 2013).

The other definition of pro-poor is found under this context. Many argue that for growth to be pro-poor, “poor people’s income should grow at a higher rate than that of the wealthier, which implies that poor people’s income grows at a higher rate than average income” (Weeks, 2000; White & Anderson, 2001; Grosse et al., 2008; Ranieri & Ramos, 2013:3). This definition aims to improve the conditions of poor people while reducing relative inequality. The concept of pro-poor growth is focused on the outcomes of growth with regard to its impact on the income of poor people in particular (Fourie, 2014).

Inclusive growth builds on the literature of pro-poor growth. The term ‘inclusive growth’ first appeared in 2000 in a report by Kakwani and Pernia while highlighting what constitutes pro-poor growth. Following the 2007/2008 global economic crisis, the concept has received increased attention as a means of responding to inequality and poverty, while ensuring environmental justice. “The concept has gained prominence in development circles” (Ranieri & Ramos, 2013), becoming a strategic pillar for development banks such as the Asian Development Bank (ADB) (Klassen, 2010) and recently the African Development Bank (Ncube et al., 2014).

In 2008, the Commission on Growth and Development noted that inclusiveness is a concept that encompasses equality of opportunity, protection in market and employment transitions, equity and is an essential ingredient of any successful growth strategy. This led to various theoretical and empirical studies that aim to define and conceptualise the measure of inclusive growth. Definitions that constitute what inclusive growth is vary, lacking clarity as to what inclusive growth means or how it is attained (Ranieri & Ramos, 2013). Kakwani and Pernia (2000:03) define inclusive economic growth as “one that enables the poor to actively participate in and significantly benefit from economic activity”. Similarly, for Ali and Son (2007:27) inclusive growth is economic growth that “increases the social opportunity function, which depends on two factors: (i) average opportunities available to the population, and (ii) how opportunities are shared among the population.”

Other authors define inclusive growth as both the pace and distribution of economic growth, arguing that, “for growth to be sustainable it has to be inclusive” (Anand, Tulin & Kumar, 2014; Berg & Ostry, 2011; Ianchovichina & Lundström, 2009; Kraay 2004). Ianchovichina and Lundström (2009) suggest that inclusive growth is about raising the pace of growth, enlarging the size of the economy, while levelling the playing field for investment and increasing productive employment opportunities. In other words, the size and rate of the economy’s growth should increase in order to increase employment opportunities.

Ramos et al. (2013) define inclusive growth as both an outcome and a process. As an outcome, inclusive growth should ensure that everyone can participate in the growth process in terms of both decision-making and participating in the growth itself by earning income. As a process,

inclusive growth should result in an equitable share in the benefits of growth (Ramos et al., 2013).

This study maintains a broader perspective of what inclusive growth is, therefore relying in part on Klasen's definition. Klasen (2010:02) defines inclusive growth as "growth that benefits all stripes of society, including the poor, the near poor, middle-income groups, and even the rich". Klasen (2010) points out that everyone should benefit while the poor accrue greater benefits. This definition looks at inclusive growth from a systemic view, other than an approach that benefits the poor at the expense of the rich. "Reducing inequality is in the interest of both the poor and the rich, it is critical to improving poor's conditions of life and it is also important in creating a better macro social environment for sustainable businesses and reasonable profit generation" (Netshitenzhe, 2014:9).

The concept of inclusive growth may not be clearly defined, but its strength is premised on a clear belief that the objective of inclusive growth (unlike green growth or sustainable development) is to pursue a strategy that would provide for the inclusion of the socially and economically marginalised in the economy, increase economic participation and sharing, and provide a useful measure of progress, economic inclusivity and growth processes (Suryanarayana, 2013).

Economic participation

While inclusive growth focuses on productivity and cross-economic class sharing of economic opportunities and benefits, "the main instrument of sustainable and inclusive growth is productive employment" (Onder, 2013:07). In other words, the main feature of inclusive growth is productive employment and economic participation. According to the OECD (2014), inclusive growth is not only about sharing but also about being able to contribute to society. Being unemployed denies this opportunity.

Non-sector discrimination in the economic process

Ranieri and Ramos (2013) point out that inclusive growth involves non-sector discrimination in the economic process. This means that where economic production is concerned, no group or person should be denied participation in the growth process. Inclusive growth includes both improvements in self or contractual employment and the distribution of that growth (Ranieri & Ramos, 2013). Ianchovichina and Lundström (2009) note that productive growth has the ability to raise returns for those self-employed, and life wages for the employed, whereas employment growth generates new jobs and income for the individual – from wages in all types of firms, or from self-employment, usually in micro firms. For Ianchovichina and Lundström (2009), productive employment should include equality of opportunity in terms of access to markets, resources, and an unbiased regulatory environment for businesses and individuals.

Income sharing and the role of government

To be sustainable, an inclusive growth process is not only about participation in the economy, the process should also measure the income from participation (Suryanarayana, 2013). In addition, Ianchovichina and Lundström (2009:11) state “income is not only about wage-employment but also about self-employment which means that returns to capital, land and other assets matter to the income potential of the focus group”. To achieve these goals the role of government as a facilitator and structural change agent is necessary. Evidence shows that not one single nation has achieved significant income growth and poverty reduction without economic diversification and structural transformation (Imbs & Wacziarg, 2003). Ianchovichina and Lundström (2009) point out that governments could only use income distribution schemes in the short run to relieve the negative impacts of policies intended to jump start growth for the poor, but income distribution cannot be an answer in the end. According to the report of the Commission on Growth and Development (2008), a persistent and determined focus on inclusive long-term growth by governments is one of the ingredients to a successful growth strategy.

Measure of inclusive growth

Inclusive growth focuses on integrating poverty, inequality and economic growth into one measure, an analysis that has been traditionally separated (IMF, 2007). According to Anand et al. (2013), income growth and income distribution are two measures of inclusive growth. In 2009, Ianchovichina and Lundström adopted the 2005 Hausmann, Rodrik, and Velasco (HRV) index to measure inclusive growth in Zambia. Ianchovichina and Lundström (2009) recognised that the HRV index is only applicable to countries where income, growth and investment levels are slow. A more working inclusive growth index was recently introduced by the work of Ramos, Ranieri, and Lammes (2013).

Ramos et al. (2013) analysed changes in the level of inclusiveness of 43 different countries, measuring the impact of the growth process in terms of inclusiveness without the amount of growth achieved. The index included income poverty, inequality and the employment-to-population ratio. Ramos et al. (2013) conducted the analysis in a cross-country context with low-income countries and emerging markets alike. The study concludes that most developing countries have managed to increase their levels of inclusiveness, mainly due to significant decreases in poverty levels and due to the fact that inequality has not increased in most countries (Ramos et al., 2013). Moreover, changes in employment-to-population ratio (EPR) have varied more, and the EPR has decreased significantly in several countries where it was already at worryingly low levels. The study conducted by Ramos et al. (2013:40) reveals that the pace of growth was not a necessary factor for achieving inclusive growth as, “several countries achieved impressive results with low economic growth and many of the countries with the worst inclusiveness performances had very high economic growth”. Furthermore, Ramos et al. (2013) argue that the lack of correlation signifies a need to shift the focus away from the size of the increase in economic output, to how the output is generated.

The global economic crisis offers a great opportunity for the world and their leaders to restructure economic relations in a more democratic and sustainable way (Ghosh, 2010). There is an increasing interest in sustainable development at a local government level, as many view LED as a tool to achieve sustainable development and human development (Sowman & Brown, 2006). The global economy changes had a negative impact on local economies; cities had to

adjust their mandate to deal with these changes, leading to a public-partnership aimed at promoting local economic growth (Abrahams, 2003). For developing countries, whose communities are prone to high poverty rates, inequality and unemployment, an inclusive approach that aims to create employment and generate income should be priority, while ensuring overall sustainability. Rogerson (2013) points out that the 2007/2008 global crisis and climate change have negatively affected developing nations and critically changed LED planning in various aspects. Tomaney and Pike (2010) agree that the future of local and regional development is changing. Several recent writings confirm the continued relevance, if not increased importance, of local (and regional) development policies in the context of rapid unfolding of events that are reconfiguring the global economy (Pike, Rodríguez-Pose & Tomaney, 2010). LED policies are considered to represent a critical response to the territorial challenges produced by globalisation (ILO, 2012). The following section briefly reviews LED and current trends within LED literature.

3.3.3 Local Economic Development

LED is a contested concept, with different definitions and interpretations applied differently across countries (Cox, 2011). Abrahams (2003:193) defines LED as a “community-empowering process within which the benefits for the community are far reaching and where the inclusion of marginalized groups in processes to create their own prosperity will have a greater positive impact on development in the area”. Others view LED as a “process in which partnerships are established between local governments, the private sector and community based groups in order to manage existing resources for job creation as well as the stimulation of local economies” (Helmsing, 2001a; World Bank, 2001).

Fosler, in Abrahams (2003:188), points out that “the aim of LED ultimately is to produce higher standards of living, improve the quality of life, alleviate poverty, create more and better jobs, advance skills and build capacity for sustained development in the future”. She further notes that LED involves the notion of endogenous development, which emphasises the use of local physical, human and institutional resources in order to stimulate both economic growth and development (Abrahams, 2003). This study maintains a broader perspective moving towards a

developmental LED, relying in part on the World Bank (2001) definition that defines LED as providing the private, not-for-profit sectors, and local communities with the opportunity to work together with a focus on job creation, alleviating poverty, reducing inequality, enhancing competitiveness, increasing sustainable growth and ensuring that growth is inclusive.

There are currently two dominant approaches to LED, namely pro-growth LED and pro-poor LED (Abrahams, 2003). Pro-growth LED argues for urban efficiency, urban attractiveness and the offering of incentives to industries and place marketing (Abrahams, 2003). However, Bond (2001) points out that past experiences have shown that place marketing and investment attraction alone have not created sustainable jobs for the local economy in the long term. Agreeing with this perspective, Abrahams (2003) adds that returns on investments do not usually benefit the neediest people.

Pro-poor LED aims to integrate marginalised and disadvantaged communities into the formal economy (Abrahams, 2003). Furthermore, pro-poor LED encourages human resource development, community empowerment initiatives, redistribution of resources, promotion of local creativity, targeting of poverty, and innovation and mobilisation of local resources (Abrahams, 2003). Recently, pro-poor LED includes community businesses, co-operatives, trading systems, and local exchange as community economic development (Abrahams, 2003). According to Bond (2003), pro-poor LED approach strategies are more sustainable. Community participation in the planning and implementation of new projects or developments will result in even greater benefits (Bond, 2001).

Despite the differences in the LED approaches, Scott and Pawson (1999) note that the fundamental principles of both pro-growth and pro-poor approaches include self-reliance, participation, employment creation, local co-operation and environmental sustainability. The World Bank (2001) states that investment in human capital development, public-private partnerships, retention and expansion of existing local firms, support for SMMEs, workforce development and training, and a general move to a more targeted inward investment focus should be a focus for LED (World Bank, 2001). This perspective calls for balance between pro-growth and pro-poor approaches to LED. Abrahams (2003) argues that economic growth is important for a town or city, however, due to unequal development in many towns and cities

(particularly in the South), integrating historically disadvantaged communities into a growing economy has become equally important.

Aside from the lack of consensus on what LED is and how it should be implemented and interpreted, aspects of partnership, participation, poverty and inequality, a move from competition to inclusive growth and the greening of LED seem to feature quite often in what constitutes a sustainable LED. The following sections look at these concepts individually, however, it is acknowledged that many are highly connected and co-dependent policy considerations.

Partnership and participation

Good governance is regarded as the most important element for attracting investment and jobs (Beukman cited in Rogerson, 2008). Although local government is arguably the major actor in LED, “the inclusion and participation of other actors, particularly the private sector and the local community, is important to the sustainability and success of LED initiatives” (Abrahams, 2003:190). The objectives of LED can only be achieved if there is co-operation between a wide range of stakeholders.

Taking it further, various theorists argue that top-down approaches are not capable of dealing with current economic challenges (Pike, Pose & Tomaney, 2006; Rodriguez-Pose, 2008; Crescenzi & Rodriguez-Pose, 2011; Rogerson, 2013). The bottom-up policies have been argued as a more appropriate approach to local economic development (Crescenzi & Rodriguez-Pose, 2011). There is a need to empower local actors and make them directly responsible for the design of their own collective response to the challenges of the changing global economy; in this way bottom-up policies can effectively work as an alternative to the traditional top-down approach (Crescenzi & Rodriguez-Pose, 2011). Similarly, Pike et al. (2006) point out that bottom-up policy addresses the natural economic potential within cities. In the same manner, Abrahams (2003:188) argues, “the activity of LED is a partnership between key actors in a locality, where the local authority is either the driver or facilitator of the process”. In the same perspective, Rodriguez-Pose (2008) notes that, as LED strategies seek to embed economic activity in a

territory and make economic activity dependent on the specific economic conditions and comparative advantages of that place, they generate sustainable employment in enterprises more capable to withstand changes in the global economic environment.

Poverty and inequality

“Besides the obvious problem of reducing poverty to quantitative measures, poverty is also discussed as if it were unrelated to inequality” (Swilling & Annecke, 2012:37). Poverty currently receives international attention. According to the 1987 Brundlant report, poverty and inequality is a root cause of global environmental destruction, and any reduction in poverty (and inequality) is a necessary condition for environmentally sound development (WCED, 1987). Similarly, Rogerson (2002) argues that eradicating poverty is at the core of sustainable development and successful LED. The World Bank (2001) agrees, stating that the success of LED requires economic, environmental and social renewal. In support of this approach, Abrahams (2003) argues that LED strategies and plans should link poverty alleviation strategies by further including excluded groups and the marginalised.

Local government is strongly recognised as an ideal sphere of government to deal with poverty alleviation and inequality reduction. Rogerson (2002) argues that the core function of LED should be to manage those local projects that aim to address poverty and inequalities between citizens. Moreover, local government should shift from a view that the poor, including their communities, are a constraint to economic growth in their cities and instead view them as untapped assets and resources that can bring about new economic and job creation for the city or region as a whole (Abrahams, 2003).

Inclusive growth

Various LED policies and theories in both developing and developed nations have argued for local government to build competitive local and regional economies (Rogerson, 2013). Crouch (2011) states that under the effects of globalisation it is widely recognised that there is growing

competition among different cities, city-region. According to Cox (2011), development is about “the development of people”. “Cities are considered as competing to attract and retain mobile factors of production by offering the greatest quantity or optimal combination of location factors in order to lure skilled or talented labour and investment” (OECD, 2006:55). Amongst others, the ‘innovation system’ is another characteristic of competition. “Innovation system is developing close links between local institutions, universities and centres of R & D” (Porter & Marchese, 2010:17).

Where inclusive growth is the goal, the notion of ‘competitiveness’ that dominates local development strategies in both developed and developing nations is criticised (Rogerson, 2013). Bristow (2011:344) goes further and suggests that, “The notion of place competitiveness is ‘an inherently confused concept’ and represents a classic example of ‘theory being led by policy’”. According to Rogerson (2013), the notion of “local competitiveness lies mainly in the competitiveness of firms that operate in that particular city or region”. Similarly, Bristow (2011) adds that the competitiveness strategies advocated for in LED are not particularly concerned about sustainability of the city, who benefits from the competition nor the productive firm.

Instead of pursuing competitiveness, LED should move towards ‘inclusive growth’ by ensuring environmentally sound productivity while eradicating poverty and inequality (Turok, 2011; Rogerson, 2013). Whilst this view has merit, it may be argued that LED process should be able to aim for economic competitiveness while ensuring that the growth process is inclusive.

Greening of Local Economic Development

An on-going and ever-present challenge that local government faces is to ensure that economic development is pursued in a manner so as not to deplete natural resources. The increasing international attention on the effects of climate change brings significant challenges for LED practice and policy (Tomaney & Pike, 2010). “Given the growing demand for support to address the local effects of climate change, LED strategies are more and more incorporating the ‘green jobs’ dimension” (ILO, 2012:01).

“Local and regional governments have started to value the importance of a green economy, not only as a way to fight climate change, but also as an area of economic development” (Miranda, Chung, Gibbs, Howard, & Rustico 2011a:37). According to Rogerson (2013:651), “different interest groups and large corporations alike, often with vastly different interpretations and agendas have adopted the concept of the green economy”. Furthermore, other groups argue that climate change-driven technological and economic transformation must encompass a social justice agenda. On the other hand, advocates for greening the economy take for granted that technological change and government incentives will trigger economic growth and job creation and are less concerned with how these jobs are distributed or where and how economic development may proceed.

Recent studies have pointed out the limitations on greening of LED, maintaining that on many occasions the promotion of sustainable forms of LED represents mainly a marketing tool for the place (Jonas, While & Gibbs, 2010). However, Rogerson (2013:652) points out that “greening can be a catalyst for economic regeneration.” Great economic regeneration can be achieved if the LED process includes untapped economic opportunities in the informal economy. Jonas et al. (2010:02) argue that where policy and practise is concerned “attempts to ‘green’ local and regional economies have met with very mixed success as suggested by a continuing preference for promoting economic competitiveness over and above meeting environmental and social needs”.

The informal economy as the most distinctive LED focus for developing nations

The informal economy has attracted a lot of interest, mainly due to its continued expansion, the linkages it has with the formal economy and overall contributions to the economy (Chen, 2012). Statistics show that informal employment comprises of 48 per cent in North Africa, 51 per cent in Latin America, 65 per cent in Asia, and 72 per cent in sub-Saharan Africa (Chen, 2007). Various countries include informal employment in agriculture in their informal employment statistics, and this further increases their informal employment. In India, informal employment increases from 83 per cent without informal agriculture employment, to 93 per cent of total

employment, Mexico increases from 55 per cent to 62 per cent, while South Africa increases from 28 per cent to 34 per cent (Chen, 2007).

This has led to global changes in perspectives regarding the informal economy (Chen, 2007) (see table 2).

Table 2 Changes in perspectives on the informal economy

THE OLD VIEW	THE NEW VIEW
The informal economy is the traditional economy that will wither away and die with modern, industrial growth.	The informal economy is here to stay and expanding with modern, industrial growth.
It is only marginally productive.	It is a major provider of employment, goods and services for lower-income groups.. It contributes a significant share of GDP.
It exists separately from the formal economy.	It is linked to the formal economy – it produces for, trades with, and distributes for agriculture as well as emerging new ones occupations, such as temporary and part-time jobs plus homework for high-tech industries.
It represents a reserve pool of surplus labour.	Much of the recent rise in informal employment is due to the decline in formal employment or to the ‘informalisation’ of previously formal employment relationships.
It is comprised mostly of street traders and very small-scale producers.	It is made up of a wide range of informal occupations – both ‘resilient old forms’, such as casual day labour in construction and agriculture, as well as ‘emerging new ones’, such as temporary and part-time jobs plus homework for high-tech industries.
Most of those in the sector are entrepreneurs who run illegal and unregistered enterprises in order to avoid regulation and taxation.	It is made up of non-standard wage workers as well as entrepreneurs and self-employed persons producing legal goods and services, albeit through irregular or unregulated means. Most entrepreneurs and the self-employed are amenable to, and would welcome, efforts to reduce barriers to registration and related transaction costs in order to increase benefits from regulation; and most non-standard wage workers would welcome more stable jobs and workers’ rights.
Work in the informal economy is comprised mostly of survival activities and thus is not a subject for economic policy.	Informal enterprises include not only survival activities but also stable enterprises and dynamic growing businesses. Informal employment includes not only self-employment but also wage employment. All forms of informal employment are affected by most (if not all) economic policies.

Source: Chen (2007:05)

The current literature emphasises the importance of the informal economy as the focus of LED policy and practise, particularly for developing countries (Rogerson, 2013). Moreover, even though the informal economy exists in developed nations, the informal economy in developing nations merits acknowledgement as a critical policy focus for LED (Rogerson, 2013). The informal economy is recognised as creating a great measure of viable economic and livelihood activity (Robinson, 2002; Pavloskaya, 2004; Simone, 2004; Owusu, 2007; Rogerson, 2007; Mosiane, 2011).

A city represents a system with networks of people, markets, ideas, transportation and services across and beyond the municipal boundaries. Municipal managers should creatively reshape the urban space by taking these opportunities to benefit all inhabitants (Robinson, 2004). Chen (2012:19) argues that, “there is a need for urban planners and local authorities to embrace the informal economy and calls for them to include urban informal livelihoods, not just urban informal settlements, in their urban plans and local economic development.” Furthermore, Chen (2012) warns urban planners and local authorities to “stop doing harm to informal livelihoods”.

The informal economy is globally integrated, representing a key feature of the modern capitalist way of progress (Chen, 2007). Chen (2012) suggests that these are reasons enough to shift from seeing the informal economy as a peripheral sector to a basic component of the total economy.

Challenges to LED

As mentioned, LED is widely suggested to be a way to attain sustainable development and inclusive growth, however, the LED process has not been without challenges. Various studies have noted that local government authorities have had hardships in interpreting the different approaches into meaningful LED implementation (Clarke & Gaile, 1998; Scott & Pawson, 1999; Rogerson, 2002; Abrahams 2003). Abrahams (2003) argues that, “instead of trying to narrow down the meaning of LED, it may be better to view it as an ‘umbrella term’ that covers a variety of organised responses that localities face as national economies are re-regulated in the context of globalisation”.

Theoretically measuring the successes and failures of LED has been limited (Rodriguez-Pose & Palvicini-Corona, 2013; Rogerson, 2013). According to Rodriguez-Pose and Palvicini-Corona, (2013), the dominant approach to monitoring and valuating LED is “good practise case studies”. Valler (2011:25) notes that, “there is a methodological challenge in evaluating LED strategies concerns and assessment of what might have happened in the absence of LED interventions”. Similarly, Rodriguez-Pose and Palvinicini-Corona (2013) argue that there is little evidence showing whether LED strategies really make a difference for economic development. In response, Rogerson, (2013) states that the absence of a measure of whether LED strategies work or not leaves many unanswered questions on the effectiveness of LED.

To develop an appropriate measure, a recent study done by Rodriguez-Pose and Palvinicina (2013) in Mexico on the impact of LED strategies included a quantitative analysis of 898 municipalities. Overall, the analysis viewed “the presence of a development plan, an emphasis on sustainability, local leadership and entrepreneurship, the existence of participation mechanisms, development links, capacity building, as well as the degree of local autonomy as factors that would facilitate the success of LED” (Rogerson, 2013:644). It tests the hypothesis that “the presence of any of these key constituents in LED in the strategies followed at the local level will result in better development outcomes” (Rodriguez-Pose & Palvinicini-Corona, 2013:304). According to Rodriguez-Pose and Palvinicini-Corona (2013:313), the key finding from the study was that, “pursuing or even thinking about LED strategies has paid off for local authorities in Mexico in the last two decades. In sum, the studies found that the municipalities who did nothing were worse off where development is concerned.

3.3.4 Section summary

Sustainable development attempts to address environmental issues that inclusive growth does not strongly address. As mentioned earlier, GDP remains the dominant measure of progress in the green economy or for green growth (Smit & Musango, 2015). In other words, even though sustainable development attempts to reduce poverty, it does not go beyond pro-poor growth levels. No systemic change is offered on who participates or benefits from growth. Inclusive growth in contrast, aims to bring a possible solution to inequality. A more integrated perspective

on inclusive growth, incorporating the principles of sustainable development, may provide the desired holistic approach for meeting developmental needs. The following section will review how sustainable and inclusive growth is considered in the South African context.

3.4 THE EMERGENCE OF SUSTAINABILITY, INCLUSIVE GROWTH AND LED FOCUS IN SOUTH AFRICA

South Africa has a number of development plans and sectorial strategies for sustainable development. The first integrated framework for sustainable development emerged after the Johannesburg Summit in 2002 (Rennkamp, 2013). Approved in 2008, the South African National Framework for Sustainable Development (NFSD) outlines the nation's vision for sustainable development. The NFSD states that South Africa aspires to be a sustainable, economically prosperous and self-reliant nation state that safeguards its democracy by meeting the fundamental human needs of its people and managing its limited ecological resources responsibly for current and future generations, and by advancing efficient and effective integrated planning and governance through national, regional and global collaboration (DEAT, 2008). After the 2008/2009 economic crisis, South Africa released its Framework for South Africa's Response to the International Economic Crisis (RSA, 2009). The framework advocated for investment incentives that would develop capacity in green technologies and industries, the greening of existing manufacturing and service activities, and the creation of numerous 'green jobs' (DEA, 2014a; RSA, 2009).

“South Africa recognises the green economy as a pathway to sustainable development” (Smit & Musango, 2015:31). The Department of Environmental Affairs defines the green economy as “a system of economic activities related to the production, distribution and consumption of goods and services that result in improved human well-being over the long term, while not exposing future generations to significant environmental risks or ecological scarcities” (DEA, 2014a). Smit and Musango (2015) argue that a “South African green economy in the context of sustainable development and poverty eradication should necessarily incorporate inclusivity,

democracy and wider stakeholder participation, which should largely include the informal economy. Smit and Musango's findings, however, indicate that the informal economy is generally ignored or undervalued in the green economy landscape in South Africa.

The term 'inclusive growth' has not been definitively described in the South African debate; yet it is contained in various plans, projects and often used by government spokespersons (Fourie, 2014). For example, the National Development Plan (NDP) frequently mentions an inclusive economy and inclusive growth, but it does not explicitly define the terms (Fourie, 2014). According to Fourie (2014), inclusive growth is widely endorsed as the way to address South Africa's urgent economic problems, as it aims to address the challenges of unemployment, poverty and inequality while promoting economic growth.

South Africa faces pressing challenges of poverty, inequality, unemployment and environmental degradation (Du Toit & Neves, 2007; Peter & Swilling, 2011; Swilling & Annecke, 2012, Smit & Musango, 2015). "As in most developing countries, development comes first on the political agenda" (Rennkamp, 2013:08). For South Africa, inclusive growth should centre on promoting socioeconomic inclusion and participation to the millions who are economically excluded, while ensuring environmental justice. The country's interpretation of inclusive growth will need to be placed in the context of the nation's socioeconomic and environmental challenges.

Since democracy, South African economic growth has increased, resulting in regional and international recognition. During the first ten years of democracy, the country recorded the longest period of growth in history (Bhorat & van der Westhuizen, 2010), with GDP growth reaching six per cent in 2006 (Ncube, Shimeles & Verdier-Chouchane, 2014). However, despite the growth, poverty, inequality and unemployment continue to haunt the country (Ncube et al., 2014).

Bhorat and van der Westhuizen (2012) analyse the Income and Expenditure Survey (IES) of 2005 to provide an in-depth overview of changes in poverty and inequality for the first ten years of democracy in South Africa. One of the key findings was that poverty rates, specifically for black Africans, has declined in both the higher and lower poverty line measures. The aggregate poverty declined from 52.5 per cent in 1995 to 49 per cent in 2005 using the higher poverty line

(R322 per month at 2000 prices), and from 31 per cent to 24 per cent using the lower poverty line (R174 per month at 2000 prices) (Bhorat & van der Westhuizen, 2013).

Bhorat van der Westhuizen (2013) argues that, according to the evidence of this study, there is a high correlation between the increasing state social security system and the rapid growth in expenditure levels of the poor in the first ten years of democracy. The Child Support Grant, the Old Age Pension and the Disability Grant are probably the key individual determinants for South Africans experiencing absolute levels of pro-poor growth in the 1995-2005 periods (Bhorat, 2013:20). In agreement, Gray (2006) points out that social security has become the only poverty alleviation measure within the development welfare system. In contrast to the neoliberal economist view, the above evidence shows that economic growth is necessary but not sufficient for poverty reduction in a society (Bhorat & van der Westhuizen, 2013). For Kanbur (2005), it takes significant changes in economic growth to shift the economy's income distribution, or a particular pattern of growth. Bhorat and van der Westhuizen (2013) concludes that the positive economic growth during the first ten years of democracy (1995-2005) has resulted in moderate gains in poverty reduction while, on the other hand, inequality significantly increased.

Several studies indicate that inequality has largely increased while the welfare of many South Africans has improved (Bhorat & van der Westhuizen, 2013; Hoogeveen & Ozler, 2006; Leibbrandt, Levinsohn & McCrary, 2005; Leibbrandt, Poswell, Naidoo, Welch & Woolard, 2005). Bhorat & van der Westhuizen (2013) points out that, during 1995-2005, the economy's Gini coefficient increased from 0.64 in 1995 to 0.69 in 2005. Agreeing with this perspective, Netshitenzhe (2014) also notes that the Gini coefficient has been in the mid to late 0.60s over the past 20 years of democracy, placing South Africa at the second highest level of income inequality in the world, after Namibia.

With regard to unemployment, Ncube et al. (2014:22) note that in the second decade of democracy, "the sources of growth in South Africa have shifted from agriculture and mining to services, which in relative terms are skill intensive", resulting in increasing youth unemployment reaching 40 per cent in 2010. For Rodrik in Ncube et al. (2014:16), "the reasons lie on the shrinkage of the non-mineral tradable sector since the early 1990s and the weakness of export-

oriented manufacturing which have reduced the demand for unskilled workers”, and probably also on the government’s neglect of the informal economy.

3.4.1 Policies Relating to Sustainable and Inclusive Growth in South Africa

In 2002 the South African democratic government formally adopted the developmental state as its official economic view and theoretically distanced itself from neoliberal economic prescriptions (Swilling & Annecke, 2012). This shift in developmental thinking was followed by the introduction of the New Growth Path (NGP) in 2010.

In 2010, the government adopted the NGP as an inclusive development strategy together with neoliberalism to foster shared and balanced growth (Ncube et al, 2014). “The NGP embraces the concept of developmental state where the government confers upon itself a crucial role in directing resources to attain pre-defined social and economic programs” (Ncube et al, 2014:20). The plan acknowledges poverty and inequality as the core challenge in South Africa. The main area of focus in the NGP is job creation; the NGP has set a target to create five million jobs by 2020 (Rennkamp, 2013, Ncube et al., 2014). “The plan targets 300 000 jobs to explicitly emerge in the ‘green economy’, with 80 000 in manufacturing and the rest in construction and maintenance of ‘environmentally friendly infrastructure’ (Rennkamp, 2013:08).

The National Development Plan (NDP) emerged in 2011, presented by the National Planning Commission. According to the National Planning Commission, the “priority is to reduce poverty and inequalities as the main development objective in its National Development Plan, and by 2030, 39% of the population living below the national poverty line (418 ZAR per month/2009 prices) should be reduced to 0%, income inequality should decrease from 0.7 to 0.6 by 2030” (NPC, 2011:3). Whilst the country is one of the most unequal in the world, the difference in poverty and inequality targets as projected by the NDP seem to indicate a lesser focus on reducing inequality than on reducing poverty.

For economic inclusion purposes, post-1994 the South African democratic government adopted Black Economic Empowerment (BEE) (Ncube et al., 2014). The BEE strategy focused on giving economic opportunities to previously disadvantaged groups (Ncube et al., 2014). Moreover, the

BEE strategy's main aim was to rectify legal economic discrimination against black South Africans mainly in skills development, employment and business ownership (Ncube et al., 2014). Sartorius and Botha (2008:90) describe BEE as "a coherent socio-economic process that brought about significant increases in the number of black people that manage, own and control the country's economy and a way of reducing income inequalities".

Ncube et al. (2014) note however, that only a small group have benefited from BEE, as the elite protected the strategy structure of BEE programs. In agreement with this perspective, Turok (2014) argues that BEE created a domestic class that exercises both political and economic power in their own interest, characterised by high spending while neglecting the interest of the masses of South African people. Similarly, Calland, in Bernstein et al. (2014:13), argues that, "just as the old white corporate sector had maintained power and control over vast swathes of the apartheid economy through interlocking directorships and shareholdings, tightly linked new black elite now serves on each other's boards and is closely connected to the national government". According to Ncube et al. (2014), neither BEE nor neoliberalism (GEAR) and few other social protection initiatives could address poverty, inequality and unemployment that remains entrenched to date.

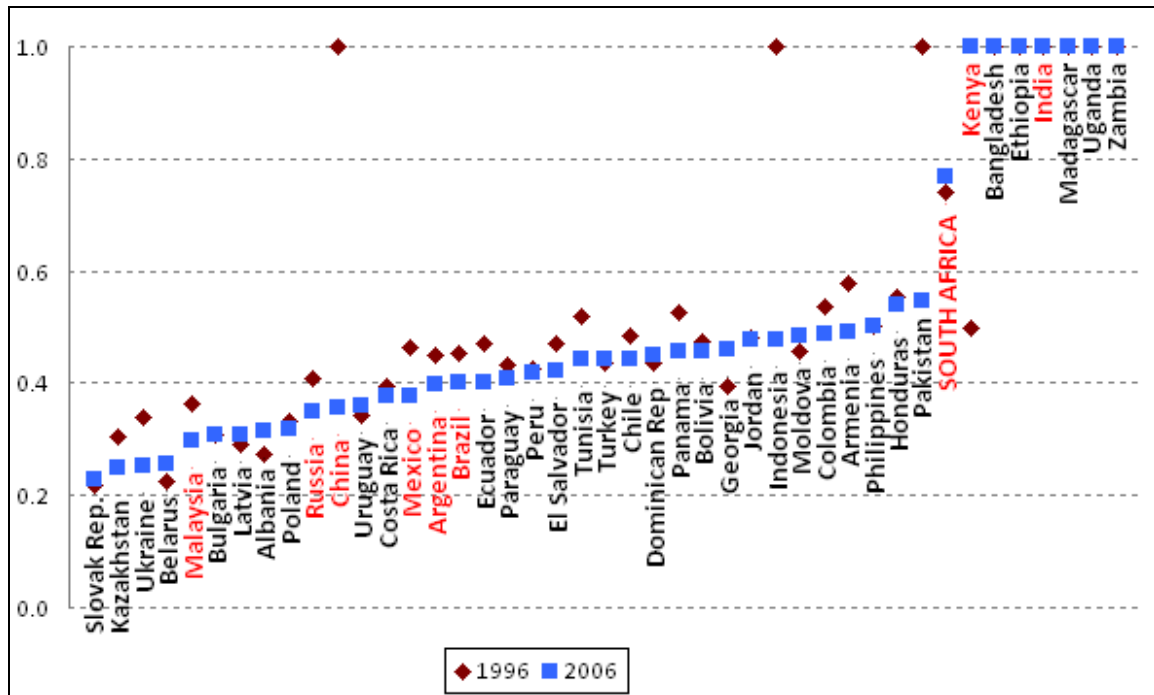
3.4.2 Challenges to a Sustainable and Inclusive Growth Transition in South Africa

The green jobs stipulated in the NGP are expected to emerge from the management of natural resources, manufacturing and renewable energy construction (Rennkamp, 2013). Rennkamp (2013) points out that, while growing the mining industry generates jobs, it does not protect water resources nor contribute to reducing emissions. Moreover, a growing mining sector demands increased electricity, which is dependent on coal (Rennkamp, 2013). According to Rennkamp (2013), the government's response to energy needs is the exploration of new coalmines in the Waterberg area, as resources in the central mining fields are fading. The number of targeted construction employment will mostly come from the construction of these plans. However, Rennkamp (2013) notes that "these large-scale public works will create jobs, especially for lower skilled labour, but these jobs are not necessarily sustainable, once the main road works are done; only a small part remains employed in maintenance and administration".

The targets in the NDP are well defined, however it is not clear how they will be achieved, as the targets for poverty and inequality reduction are not yet national policy (Rennkamp, 2013). Fine (2013:130) notes that, “for the vast majority of the NDP it is as if the NGP does not exist or, at most, is simply taken for granted”. Similarly, Fourie (2014) points out that the informal economy has disappeared from both the NGP and the NDP.

On sustainability, Rennkamp (2013) argues that the international recognition of the vulnerability of the poor to climate change should be reason enough for South Africa to make urgent interventions to deliver social objectives, while ensuring natural resources’ long-term sustainability. However, both the sustainable development and inclusiveness effort have had no major positive impacts on reducing poverty, emissions or inequality (Rennkamp, 2013). Income inequality remains among the highest in the world. Recent statistics shows that 39% of the population live below the national income poverty line and the country’s greenhouse gas emissions constitute around 1% of global emissions (Rennkamp, 2013). In addition, South Africa’s annual per capita emissions are high for a developing country, at 9.2 tons per capita, whereas its GDP per capita is closer to developing countries with far lower emissions per capita (Rennkamp, 2013).

A study by Ramos et al (2013) measures inclusive growth in developing countries using i) poverty headcount ratios obtained from the World Bank Development Research Group’s global update (with a poverty line of US\$2/day purchasing power parity), ii) Gini coefficients from the Standardized World Income Database (SWIID) and iii) employment-to-population ratios (EPR) provided by the International Labour Organization (ILO). The Index is constructed on a scale ranging from 0 to 1, it represents a country’s position regarding poverty, inequality and employment relative to the best situations within the group of countries, a higher index value implies a worse performance in terms of inclusiveness (Fourie, 2014). This study revealed that South Africa has an Inclusiveness Index value of around 0.75, which is very high in a comparative context. In other words, South Africa has a low rate of inclusiveness if compared to other developing countries like Slovak Republic and Ukraine which has Inclusiveness Index value of 0.2 respectively (see figure 5 below).

Figure 5. Inclusive growth index

Source: Ramos et al. (2013), Fourie, (2014)

“In terms of this measure, South Africa’s inclusivity has declined since 1996: amidst high GDP growth rates, the index has climbed from 0.74 in 1996 to 0.77 in 2006. In this period, the only positive element in the SA index was the declining poverty ratio – but it was overshadowed by growing inequality and a declining employment-to-population ratio” (Fourie, 2014). In response, Fourie (2014) states that South Africa’s current economic growth pattern is not employment intensive, as shown by the employment coefficient ratio (which is the ratio of formal employment growth to GDP growth) of 0.5. Fourie (2014) further explains that, due to this, “the absorption of labour will continually decrease relative to output, implying that overall employment intensity keeps declining, making it difficult to increase employment significantly in [the] formal economy”.

According to Faulkner and Loewald (2008), given the constraints in expanding formal employment, the informal sector has a significant role in providing employment opportunities to the unemployed. For Fourie (2014), if “inclusive growth requires that poor and marginalised people participate in the growing economic activity and simultaneously benefit from it,

inclusivity as a concept and as an economic policy strategy will have to include and integrate the informal and survivalist segments of the economy”. However, unlike most developing countries where informal employment constitutes up to 75 per cent of all employment, in South Africa the size and growth of the informal economy is relatively low due to the country’s history and current policies and could therefore be an explanation for slow employment growth.

The same challenges identified at national government level are also evident in local government. In the following section, the role of LED in South Africa is reviewed in order to situate the role of local authorities as the government sphere closest to the people (Turok, 2014). The 1998 White Paper on Local Government (WPLG) framework recognises “the South African local government sphere as being primarily developmental, committed to working with citizens and groups within the community to find sustainable ways to meet their social, economic, material needs, and improve the quality of their lives” (WPLG, 1998:33). The need for sustainable and inclusive local economic development is examined in terms of the nation’s social, economic and environmental challenges.

3.4.3 LED in South Africa

In South Africa, LED is a national government policy aimed towards economic development that allows and encourages local people to work together to achieve sustainable economic growth and development (Phago & Tsoabisi, 2010:156). The 1998 White Paper on Local Government introduced the concept of LED, which was defined as “local government committed to working with citizens and groups within the community to find sustainable ways to meet their social, economic and material needs and improve the quality of their lives” (Republic of South Africa, 1998:17). Since 1994, LED has shifted from stand-alone local development intervention in cities, to mandatory obligation for all local governments in terms of the national constitution (Nel & Rogerson, 2005; Rogerson, 2008).

According to the Department of Provincial and Local Government (DPLG, 2003:01), the main aim of LED is to create employment opportunities for local residents, alleviate poverty and redistribute resources and opportunities to benefit all residents, with an emphasis on local

government creating robust and sustainable local economies. According to Moyo (2007:221), the following are the reasons for the introduction of LED in South Africa.

- Persistent poverty and unemployment despite the attainment of a fair rate of economic growth;
- Fallacy of the so called ‘trickle-down’ phenomena in market-driven economies;
- Weak capacity of macro-level systems to deliver micro-level development at the grassroots levels;
- Weak capacity of municipalities (poor business skills and management systems, financial difficulties and politicisation of development through exclusive, critical role players);
- Limited public sector support for sustainable development projects; and
- Limited private sector investment in local economies.

With the developmental mandate accorded to local public administrators, LED has assumed growing significance in South Africa (Asmah-Andoh, 2009; Malefane, 2009). The growth of LED planning in South Africa is viewed as an integral component of what has been described as part of the ‘re-engineering’ of local government in South Africa (Thornhill, 2008). The National Framework for LED outlines the following as LED strategies (DPLG, 2006; Moyo, 2007):

- The creation of an environment that is conducive to business initiation, growth and development by ensuring that procedures and processes for business registration and licensing, approval of building plans minimise time and cost to the businesses;
- Promoting the formation of new enterprises and encouraging growth in existing enterprises by improving access to finance, provision of business advisory services, and promoting procurement practices that enhance access for emerging small- to medium-scale enterprises;

- The provision of soft infrastructure, such as enhancing access to finance, skills training, mentorship, and developing business-focused education programmes;
- Business cluster development;
- Promoting business linkages and cluster development;
- Mobilisation of communities and building their capacity to manage LED projects; and
- Building capacity of municipalities to design and implement LED interventions.

It is clear from the above LED strategies and the constitutional obligation placed on municipalities, that development and service delivery are fundamental objectives that must be achieved (Banoobhai, 2011). Such development must be done in a responsible manner; taking into account the impact it will have on the environment.

3.4.4 LED Policy in South Africa

As previously mentioned, LED is a constitutional mandate in the Republic of South Africa. In addition, the 1998 White Paper on Local Government states that LED strategy within municipalities must align with provincial and national development strategies. Government further reinforces the mandate for LED in the Municipal Systems Act (No. 32 of 2000). In this Act the Department of Cooperative Governance and Traditional Affairs (CoGTA) is assigned the duty to build institutional capacity within municipalities to promote LED. The Local Government Municipal Systems Act (No. 32 of 2000) mandates municipalities to realise the notion of developmental local government through the formulation and adoption of a single and inclusive Integrated Development Plan (IDP). Section 35(1)(a) of the Local Government Municipal Systems Act (No. 32 of 2000) describes the IDP as a principal strategic planning instrument which guides and informs all planning and development and all decisions with regard to planning, management and development in the municipality. The IDP therefore becomes a form of planning that involves linkages and co-ordination amongst all sectors of a municipality.

It also becomes a blueprint for the total operation of the municipality and a product of the integrated planning process. Through the process of integrated development planning, a municipality must identify the needs of the community and prioritise projects and programmes as five-year strategic plans for service delivery. An important feature of developmental local government that is encapsulated in the IDP, is LED. The IDP should principally embody LED objectives. As argued by Malefane and Mashakoe (2008:478), the IDP and LED share common characteristics, such as municipal interventions. Malefane and Mashakoe (2008) identify common characteristics of the IDP and LED, arguing that both focus on development, they are consultative and multi-sectorial in orientation, and they are both a crosscutting element of operation in a municipality.

3.4.5 Challenges in LED Policies in South Africa

South Africa has shown low success rates in LED processes despite large investments by government and donors in LED capacity development (Lawson, 2012). Similarly, Nel (2001:1008) argues that, “LED is currently attracting considerable attention in government and policy circles in South Africa, although few tangible results have yet been achieved”.

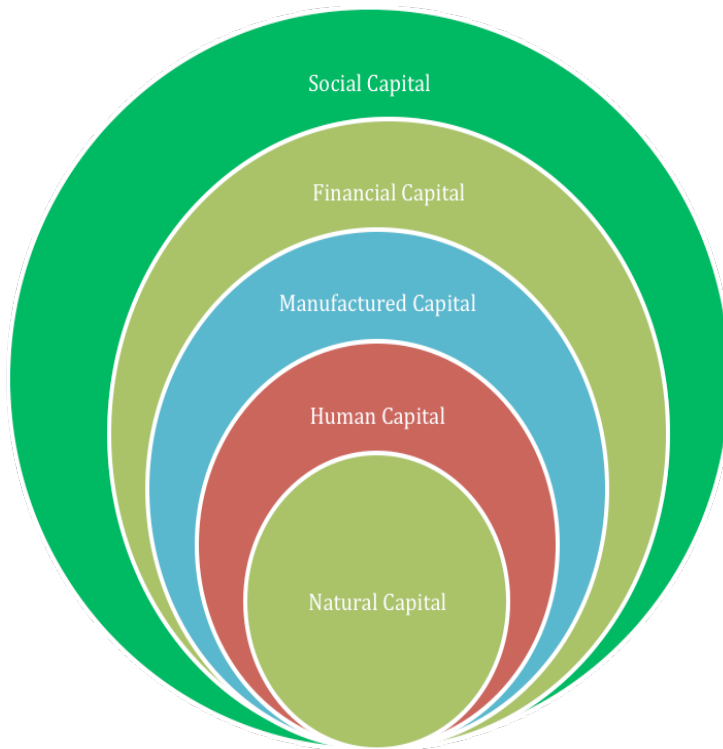
Moyo (2007) notes that a lack of understanding of the concept, especially amongst the agents at the local sphere (municipalities and communities) resulted in failed intervention. Moreover, Moyo (2007) argues that LED is viewed more as a tool for poverty alleviation and less as a strategy for long-term or sustainable development. Many municipalities tend to focus more on promoting the growth of local markets in the hope that the business model will generate jobs and improve the income of the community, instead of focusing on both the markets and the informal economy (Moyo, 2007). According to Moyo (2007), the consequence of poor LED is lower economic impact, affecting millions of citizens. In addition, Moyo (2007:224) argues that the “lack of capacity especially at the sphere of local and district municipalities who should be the implementing agencies for LED resulted in the failure of the intervention”.

According to Moyo (2007), the failure of LED is largely due to the fact that municipalities have not been adequately prepared for the added developmental responsibilities. Some municipalities

have acknowledged their limitations and gone ahead to form Section 21 companies to undertake the LED work (Stutterheim, Welkom & Port Shepstone, as cited by Stiftung, 1999). One other reason for failed LED plans is due to poor monitoring and evaluation. The impact of LED on job creation, sustainable livelihoods, and community empowerment, for example, is difficult to ascertain because of the lack of in-built mechanisms for monitoring and evaluating the process. Evidence of partnership formation in LED is limited, and private investment flows into some communities have been less due to the existence of environments not conducive to business, loss of skills through brain drain and poor mobilisation and participation of communities and intended beneficiaries in the design of LED.

3.4.6 Sustainable and Inclusive LED

The impact of LED may be considered against the five capitals model. Abrahams (2003) emphasises the use of local physical, human, financial, manufactured and social capital together with institutional resources in order to stimulate both economic growth and development (Abrahams, 2003). For organisations to understand these complex relationships, Parkin et al. (2003) coined the five capitals of sustainability as a framework for businesses and organisations to understand the full range of seemingly unrelated subject in terms of the economic concept of wealth creation. These are natural, human, social, manufactured and financial capitals (see Figure 6) (Porritt, 2007).

Figure 6. Five capitals of sustainability framework

Source: Porritt, 2007

Natural capital refers to the planet or environmental pillar in the sustainability pillars. This includes natural resources such as timber from the forest, fish from the ocean, and precious stones and minerals from underground mining. Porritt (2007) argues that all organisations depend on natural capital, and they need to be aware of nature's limits. Therefore, there is a need for the organisation and particularly LED to regulate operations and usage in a way that enables natural life to continue in a balanced way.

Human capital refers to the people or social pillar in the three sustainability pillars: it includes intellect, skills, knowledge and health. This is closely linked to human rights and the reputation of the organisation (Porritt, 2007).

Manufactured capital refers to the economy pillar of sustainability; it includes infrastructure, building and technology that the organisation owns. Porritt (2007) suggests that efficient use of manufactured capital can lead to resource reduction and sustainability.

Financial capital also refers to the economic pillar of the three sustainability pillars; it is the financial base of the organisation. Porritt (2007) argues that for businesses to attain sustainability, financial capital should reflect the true value of the other forms of capital on which it depends.

Social capital refers to the people or social pillar in the three sustainability pillars. Porritt (2007) differentiates between internal and external capital, the one being characteristics that increase organisational cohesion and the latter being communities, government and legislative organisations to create stability where they operate.

Graham (2010) argues that social capital is critical for enabling innovation, making it possible to tackle tough problems. According to Cameron Sinclair (2014), social capital is vitally important within a city because “all problems are local and all solutions are local.” Climate change, poverty and inequality are a global problem but all need to be approached locally. If the challenge of climate change, poverty and inequality is failed at the local level, there is no hope for solving the problem globally.

Parkin et al. (2003) suggest that for sustainability to be embedded in any organisation, a balance should be maintained across all five types of capital rather than exploiting them and diminishing financial sustainability in the long run. “The model allows organizations to broaden their understanding of financial sustainability by allowing business and organizations to consider how wider environmental and social issues can affect long-term profitability” (Porritt, 2007). The framework allows organisations to build a more sustainable and inclusive model, which can be applied within the current capitalist system prevailing in most developing countries.

In the case of South Africa, if the nation is to include economically excluded groups and ensure productive participation in the economy, a sustainable and inclusive LED will have to integrate and expand opportunities in the informal economy. As suggested by Fourie (2014:07), “if economic policy could develop untapped economic and employment potential in the informal sector, such inclusivity could produce an economic growth trajectory that would increase the scope and value of economic activity and incomes also in the informal economy”. For Fourie (2014), the poor and marginalised people would contribute to growth – rather than just receiving benefits from formal sector growth in the form of social spending or grants.

3.4.7 Section summary

In order for South Africa to assess the sustainability and the inclusiveness of an economic process more particularly at a local level, the following key questions can be asked:

1. Does the economy allow for equitable participation and sharing of economic benefits? As highlighted in the discussions above, participation and sharing in the economic process addresses challenges of poverty, inequality and rising unemployment.
2. Does the economic process allow improvement in quality of life, equitably? In the context of growing demand and increasing strain on the planet's carrying capacity due to population growth and urbanisation, inclusive growth measures and sustainable development practices should make provision for opportunities to improve quality of life for future generations as well.
3. Does the economic process operate within the earth's limited carrying capacity? Planetary thresholds that are increasingly being reached will need to be respected through more effective management of resources and reduced impact on the natural environment, including reduction in greenhouse gas emissions and reducing dependency on fossil fuels.

The following section considers different perspectives on the informal economy in South Africa in particular and traces its connections with the formal sector.

3.5 INFORMAL ECONOMY IN SOUTH AFRICA

Unemployment is one of the pressing challenges facing South Africa, affecting about 25.2 per cent of the workforce (Statistics SA, 2013). The formal economy has failed to capture the increasing labour force (Davies & Thurlow, 2010). The interest in the informal economy in South Africa is visible at national, provincial and municipal government levels, especially in the promotion of small, medium and micro enterprises (SMMEs). Locally, the Johannesburg premier, when recognising interventions to “change the structure of the economy”, pointed out that the provincial government was “determined to revitalise and mainstream the township economy (informal economy) by supporting the development of township enterprises,

cooperatives and SMMEs that produce goods and services that meet the needs of township residents” (Peberdy, 2015). At a national level, 2014 saw the establishment of a Ministry of Small Business Development. The ministry has set a target to increase SMME’s contribution to the national gross domestic product (GDP) from the current 35 per cent to between 60 per cent and 80 per cent. However, Peberdy (2015) notes that the focus of the ministry seems to be geared towards formal businesses and not the informal economy.

South Africa “has a spatial realm that is not fully connected with the urban systems (spatially, socially, or structurally) and is certainly disconnected from the rural economy” (Mahajan, 2014:01). Townships and informal settlements represent this spatial realm. Townships and informal settlements in South Africa are a result of the country’s past; however, policies of post-apartheid South Africa have kept their reality alive. Today, South African townships and informal settlements account for 38 per cent of the country’s working-age population, and are home to almost 60 per cent of its unemployed. Moreover, townships and informal settlements are also a destination of choice for many aspiring urban migrants looking for livelihood opportunities in the urban job market.

South Africa has a small representation of the informal economy compared to other developing nations. As mentioned earlier, unlike the dynamic and robust informal economies found in developing nations, cities like Dharavi, Mumbai or Kibera, Nairobi, in South Africa the informal economy is relatively small. According to Mahajan (2014), this is due to the policies under apartheid, whereby entrepreneurship was discouraged or even outlawed for certain trades. Instead, post-apartheid South African townships and informal settlements have been characterised by the presence of formal sector banking and mass-production networks that are spreading. For Mahajan (2014) the presence of these formal stores in the townships and informal settlements is “often at the expense of the local informal sector, with the presence of the banking sector for transaction purposes rather than for expanding access to funding for local businesses”.

However, empirical and theoretical analyses have shown that fast-paced growth in the urban informal economy is fully consistent with growth in the urban formal sector (Mahajan, 2014). In this respect, Jutting and Laiglesia (2009) point out that, over the past 30 years, the growth in various countries in Latin America and Southeast Asia was accompanied by increasing, not

falling, informal employment. Furthermore, Mahajan (2014) argues that, while developing countries experience fast economic growth rates, the informal economy will not only grow alongside the urban formal economy but also can potentially become a noteworthy driver of near-term growth. Similarly, Mosiane (2011:38) argues that “there is no valid reason why the informal economy in South Africa, with the potential to develop and flourish into larger ‘growth enterprises’, and build networks with the formal economic sector should not contribute to employment creation, poverty alleviation and national economic growth”.

Definitions of the informal economy

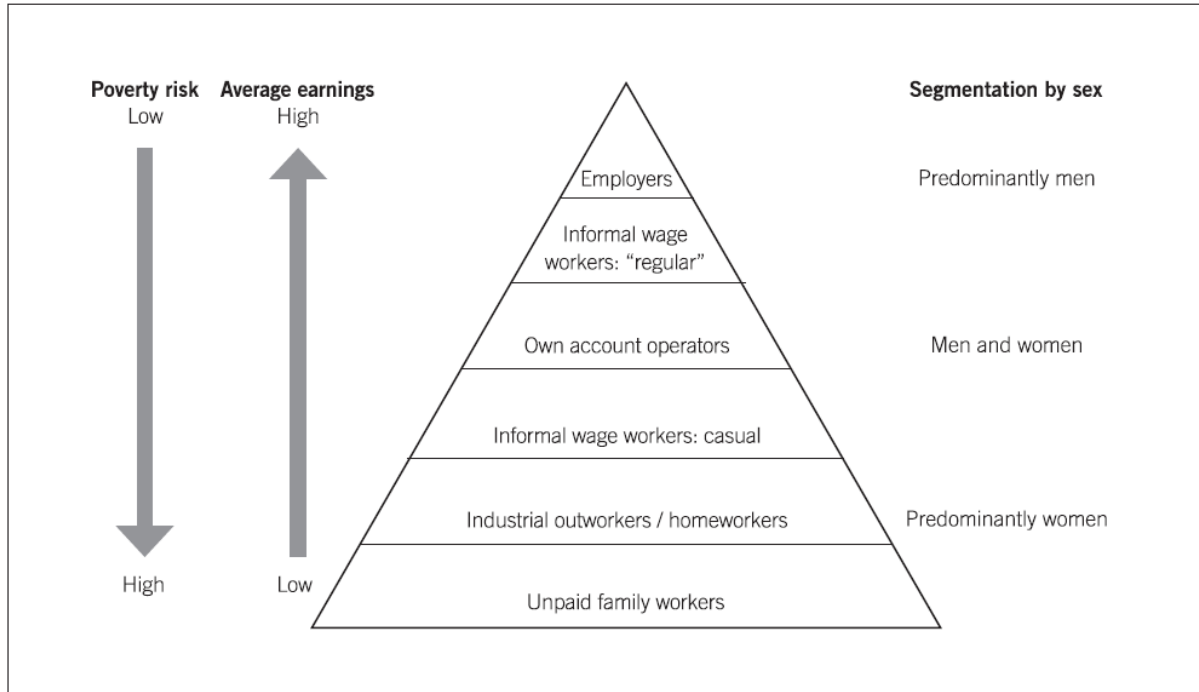
The ILO defines the informal economy as “all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements and informal work which can be carried out across all the sectors of the economy both in public and private spaces” (ILO, 2012). Further, the ILO (2012) estimates that “the informal sector absorbs as much as 60 per cent of the labour force in urban areas of developing countries, and 40 per cent of the global work force” (ILO, 2012).

Examples of the informal sector include farmer markets, garage sales, street vendors, open-air markets, and flea markets. There are also booming collaborative or sharing economies that form the informal sector, for example eBay, Craigslist (Ruzek, 2014), and OLX, including various economic social network stores. According to Chen (2007:01), “supporting informal enterprises and improving informal jobs are increasingly recognised as key pathways to promoting growth and reducing poverty”. A 2009 Organisation for Economic Co-operation and Development (OECD) study concludes, “Informality is increasingly becoming normal, not least in middle and even high-income countries (Ruzek, 2014).

Chen (2007) adds that, from recent global research findings, two main facts have emerged about the informal economy: there are major gaps in earning and gaps in gender representation in the earnings from the informal sector. According to the study, “on average, employers have the highest earnings; followed by their employees and other more ‘regular’ informal waged workers, own account operators; ‘casual’ informal waged workers; and industrial outworkers” (Chen,

(2007:02). These are portrayed on a continuum from low to high earnings (Chen, 2007) (see figure 7).

Figure 7. Continuum of informal economic actors and activities



Source: Chen 2007

According to the study, men are over-represented in the high earnings, while women are over-represented in the bottom segments. The shares of men and women in the intermediate segments tend to vary across sectors and countries. According to Chen (2007) this segmentation in the informal economy can also be a factor of race and ethnicity.

The South African informal and formal economy is affected by the global economy. Potts (2008:152) argues that a "potential for positive change in the informal economy is often constrained by the institutionalised framework of development imposed by the modern way of development". For Pavloskaya, (2004), economic policy prescriptions like the Washington Consensus, is the root cause of the problem, as it views the informal and formal economy as separate. However, where poverty and inequality is a challenge, the coexistence of diverse networks of informal and formal social and economic activities across and beyond a city may

offer innovative livelihood opportunities for the poorer urban groups to improve their lives (Robinson, 2004). In support of this view, Peberdy (2015) and Rogerson (2003) state that the interactions between the informal and the formal businesses are more of a reciprocal relationship rather than a competitive strategy.

The following section provides a review of how the informal economy contributes to both sustainable and inclusive growth within a local economy context.

3.5.1 Informal economy linkages with sustainable development, inclusive growth and Local economic development

Considering the abovementioned underrepresentation of the informal economy in South Africa, this section aims to highlight linkages of the informal economy to the broader notion of sustainable development and then, more specifically, to the attainment of inclusive growth and LED. These linkages are made explicit through the characterisation of the informal economy in the context of sustainable development, inclusive growth and LED.

3.5.2 Informal Economy and Sustainable Development

The literature on sustainable development has focused on changes required within the formal economic sector, with few looking at solutions outside the formal economic model (Ruzek, 2014). In other words, even though the informal economy has continued to grow, sustainable development has somehow neglected or overlooked possible contributions that the informal economy can add to attaining sustainable futures. Ruzek (2014) argues that attaining sustainable development through dissolving the capitalist economic model may be possible theoretically, however, impossible practically. From this perspective it may be worth looking at the economy holistically and not reducing it to the formal sector alone, but by including the informal economy as well. The current constraints and challenges facing South Africa at both national and local levels suggest that the nation's approach to sustainable development should extend its focus to include the informal sector.

The exclusion of the informal economy from the sustainable development discussion is not without reason. For example, Briassoulis (1999:214) argues “if it is difficult to achieve sustainable development with known, formal actors, how can this be done with unknown, informal actors?” According to Briassoulis (1999), economic sustainability in the informal economy will be difficult to measure, as participants do not often own resources except for labour, making their outcome uncertain and unpredictable. However, Ruzek (2014:24) views economic sustainability away from just measuring, arguing that “the informal economy can help add the needed shift in economic models, while maintaining pieces of capitalism, allowing it to be a dynamic link and step toward a sustainable future”. For Curtis (2003), economic sustainability is best secured by creating a regional and local self-reliant community economy. However, if the informal economy is not constrained by city regulation, it carries the potential to create a sustainable local economy, specific to the context of the community (Ruzek, 2014).

Another area of contention with regards to the informal economy has been the topic of whether to legalise the sector or not. De Soto (2000) points out that, in order to turn the resources from the informal economy to ‘live capital’, the informal economy must first be legalised. Briassoulis (1999) also notes that the core challenge with informal activities is control and regulation, making it impossible to bring the informal sector into the discourse on the formal environment. In contrast, Ruzek (2014) argues that complete control over informal activities will destroy the informal economy, whereas by controlling the informal economy through a mixture of policies and economic freedom it can help to create jobs, promote localism, and benefit the community while controlling the possible growth of negative informal economies (Ruzek, 2014). Supporting this view, Mitchell (2007) argues that attempts to regulate resources and activities in the informal economy are continuing capitalist market strategies to control, rearrange and distribute resources.

With regards to environmental management, Briassoulis (1999) notes that framing environmental control to the informal sector will be unsustainable, as the formal economy will not contribute to environmental protection while both sectors are sharing the environmental resources. However, even though it may be difficult to measure environmental control within the informal economy, a study conducted by Smit and Musango (2015) notes various activities within the informal economy that contribute to sustainable development.

On issues of social sustainability, sustainable development argues for social integration. Briassoulis (1999) notes that the presence of the informal economy fosters social and spatial segregation, entrenching social injustice within and between generations, thus not contributing to social equity and social sustainability. In this manner, Briassoulis (1999) claims that allowing the informal economy to flourish will mean promoting a further divide between rich and the poor, formally employed and informal worker, and rich and poor nations or regions. However, Ruzek (2014) views this perspective differently. He notes that the informal economy provides the poor with goods and services not accessible to them from the formal economy. Furthermore, street markets allow for a variety of goods that can be available at reduced costs, though perhaps at reduced quality, allowing different socioeconomic classes to have the same opportunities. Ruzek (2014) further argues that where social capital and social cohesion are concerned the presence of the informal economy creates an environment where people are reduced to the same level, as they interact for their goods and services.

Throughout various global or national economic crises or wars, the informal economy remains the only operational economy in many countries (Ruzek, 2014). Therefore neglecting or disregarding the informal economy in sustainable development discussions may be neglecting some of the developing nations' only economies.

3.5.3 Informal Economy and Inclusive Growth

Economic growth will not be inclusive unless it is made to be so (Fourie, 2014). For Anand et al. (2013:13), “while there appears to be broad agreement on the policies that are important for growth and reducing poverty, less is known about what may foster inclusive growth”. Writing on the South African perspective, Fourie (2014) notes that if South Africa were to only look at productive employment from the formal sector, it may be impossible to attain inclusive growth. As earlier mentioned, the current employment co-efficient in South Africa is approximately 0.5, which means that for every percentage increase in GDP growth, employment increases at one half the rate of GDP growth.

According to Fourie (2014:07), “part of the answer must lie in finding ways to enable those that are excluded from formal sector employment to find (or remain in) sustainable, paid employment or self-employment in the informal sector and grow their income from such work”. Moreover, in agreement with Fourie (2014:07), “if by definition inclusive growth means and requires that poor and marginalised people participate in the growing economic activity and simultaneously benefit from it, inclusivity as a concept and as an economic policy, strategy will have to include and integrate the informal and survivalist segments of the economy”. As a response to inclusive growth, if LED plans and policies can develop employment and development opportunities with potential in the informal sector, such strategies will increase the income potential in the informal economy. Moreover, such policies may further integrate the informal economy into overall economic activities (Fourie, 2014). “Poor and marginalised people would contribute to growth – rather than just receiving benefits from formal sector growth in the form of social spending or grants” (Fourie, 2014).

3.5.4 Informal Economy and LED

A large body of literature recognises that if LED is sufficiently sustainable, it can address the challenges of poverty, unemployment and inequality in developing economies (Makhele, 2010). According to David, Ulrich, Zelezeck and Majoe (2012), both national and local governments have realised that the informal economy has become a critical factor in local economic development, particularly in developing and emerging countries, as it offers significant job and income generating opportunities. However, local government is historically known to have a tendency to deal with informal economy participants on the basis of by-laws, especially with street traders (Brown, 2010). For Brown (2010), “this approach is based on an inherently restrictive view of the ‘problem’ of the informal economy”.

In South Africa, survivalist businesses continue to be discounted in favour of small to medium employment creating businesses (Beeton, 2010). Moreover, there is also a tendency to fuse the informal sector with small and medium enterprises (SMMEs) resulting in a fused informal sector policy with SMME policy. Although elements of an SMME policy will certainly apply to a portion of the informal sector, “confusing of the two as perfectly interchangeable will invariably

result in an important (and particularly vulnerable) part of the informal sector being overlooked” (Van der Heijden, 2012). Beeton (2010) argues that the exclusive focus on formal small and medium business for employment-creation potential ignores (at the nation’s cost) the resource and value of micro and survivalist businesses. Moreover, whilst informal businesses are mostly a response to joblessness, they nonetheless have phenomenal social and economic value, which is so often overlooked in their role as useful start-up economic endeavours and sources of work (as opposed to idling about and unemployment) (Beeton, 2010). However, most municipalities in South Africa fail to provide LED-friendly and more developmental and inclusive informal economy policies and by-laws (David et al., 2013). According to Beeton (2010), South Africa’s way of business is highly influenced by a mentality of materialism, ‘up market’ approaches to business, a profit-above-all mentality, and ‘the bigger the business the better’ thinking – these drive business in the country and people at all levels. “This is clearly illustrated in the absence of reference to the informal economy in many official Integrated Development Planning (IDP) and Local Economic Development (LED) strategy documents” (David et al., 2013:59).

If the aim of LED is to alleviate poverty, and increase economic growth and employment opportunities at the local level, “positive LED outcomes are unlikely to be achieved unless the potential and needs of the informal sector are adequately considered” (Hobson, 2011). Hobson (2011) argues that supporting the informal economy at a local level provides a two-way benefit:

- A focus on the informal sector is crucial for the success of LED strategies and initiatives; and,
- Supporting and promoting the informal economy within an LED process provides a major opportunity for improving the performance of the informal sector in Africa.

Van der Heijden and Skinner (2012) argue that developing across the board policies that recognise the contribution of the informal economy to the local economy and recognise the vulnerabilities of informal economy participants will be a significant step forward in achieving the goal of developmental government at a local level. According to Van der Heijden and Skinner (2012), municipalities need to move from a fragmented to an integrated approach in

respect of the informal economy. There is a need for municipalities to balance the need to regulate the informal economy with the need to support the livelihoods and employment created by the sector.

David et al. (2013) note that local governments who show an interest in embracing and promoting their informal economy are often overwhelmed by the challenge of how and where to best include it into local government policy and planning processes. According to David et al. (2013) the following are the main challenges facing local governments with regards to the informal economy:

- Acknowledging the importance and presence of the informal economy (as a key stakeholder or sector in development and local economies) and facilitating changes in attitude towards the informal sector;
- Dealing with the complexity and diversity within the informal economy or having the right skills, capacity and structures within the local government sector to engage with the informal economy;
- Bridging the relationship and communication gap between local government and the informal economy;
- Including informal sector issues into local government policies, regulations and planning processes;
- Developing LED friendly policies and by-law guidelines for the informal economy;
- Actively engaging the informal economy in LED; and
- Involving national departments in supporting the efforts of local government to develop and implement a more developmental approach towards the informal economy.

Municipalities should therefore start thinking more systemically and holistically with regards to LED, exercise creativity and patience, and understand that the value of the informal sector needs to be viewed within a longer-term perspective and a much more dynamic framework (Beeton, 2010).

3.5.5 Benefits of the informal economy in promoting inclusive and sustainable LED

There are several ways in which the informal economy (operating within the context of the capitalist economic model) can be shown to promote sustainable and inclusive local economic development. These are described broadly, according to the benefits for different actors in the local economy.

The significance and permanence of the informal economy

A vibrant urban informal economy is not just a theoretical assumption, it is an empirical reality. According to Mahajan (2014), the size of the informal economy shows remarkably persistent, rising patterns in certain parts of the world, even during periods of high GDP growth. Moreover, a 2009 OECD study found that the informal economy is becoming normal in both developing and developed countries (OECD, 2009). Schneider's study of 110 countries, cited in Ruzek (2014:25), found the "U.S. tied with Switzerland with the informal economy making up only 8.8 percent of the GNP, Italy with 27 percent and Georgia with 67.3 percent, to characterize the lowest to highest". Global informal employment is estimated at 1.8 billion (Chambwera, 2012; Ruzek, 2014), and it is expected to grow to 4.5 billion 2020 (Neuwirth, 2011).

The informal economy involves more than selling, manufacturing goods or providing services; it is highly complex and often overlooked and underestimated (Peberdy, 2015). According to a study conducted by Le Roux cited in Brand (2006:9), "South Africa's 2-million small businesses represent 98 per cent of the country's total number of firms, employ 55 per cent of the labour force and contribute 42 per cent of the country's wage bill, yet 87 percent of these enterprises are survivalist and operate outside the formal economy".

Informal economy linkages with the formal economy

Studies have confirmed that there are supply chains and value relations from the informal economy to the formal economy (Devey, Skinner & Valodia, 2003; Chen, 2007; Chen, 2012). In addition, evidence has shown that the financial gains or growth in the formal economy partly depend on growth from the informal economy, due to relationships between the sectors (Devey, Skinner & Valodia, 2003). Similarly, a study conducted by Saunders (2005) agrees with this perspective, finding that “the informal economy has effects in, and on, the formal economy, that an increase in the size of the informal economy will ultimately contribute to an increase in the growth of the economy as a whole”.

Chen (2012) outlines three possible areas that could link the formal to the informal sector. These linkages include: (i) individual transactions where informal businesses exchange goods and services with formal businesses; (ii) where goods and services are exchanged with the formal sector through sub-sectors; and (iii) where they are linked via value chains. Chen (2004) also notes the connection through major suppliers, which supply leading formal firms, subcontractors and informal enterprises. However, Chen (2012) notes that due to power and market domination, formal enterprises tend to control the transactions.

Productive employment opportunity

“Despite the advances in modern retailing, millions of people throughout the world still make their living partly or wholly through selling goods on the streets” (Skinner, 2008:01). This is particularly the case in most developing countries. However, most informal workers are poor (Chen, 2014). According to Sahel (2012:03), “African policy makers are presented by a large informal economy that suffers from very low productivity and wages, but at the same time absorbs all those who cannot find good quality jobs elsewhere and provides a livelihood for the vast majority of young people”.

Sahel (2012) suggests that the informal economy should be seen as part of a solution to the high unemployment that Africa faces rather than as a problem. For Grimm et al. (2011), the high returns in the informal economy are largely unexploited due to the number of social, economic

and institutional constraints. “Removing these constraints would enable entrepreneurs to grow their business, achieve their full productive potential and create good quality jobs for themselves and others” (Sahel, 2012).

The informal economy can provide some productive employment for the poor and for that reason Chambwera et al. (2011:01) argue that “informal employment is a key route to achieving the millennium development goals (MDGs) of eradicating extreme poverty and hunger, promoting gender equality and empowering women”. “The informal sector can provide social capital, promote local economies, create jobs and provide the needed economic shift toward a sustainable future” (Ruzek, 2014:01). According to Ruzek (2014), “proper management and organization of cities must include the informal sector, embracing the qualities of the informal sector that can drastically help create jobs and livelihoods where there are none”. According to Ruzek (2014), embracing the informal sector can allow the absorption of excess labour in a rapid and effective way. Similarly, Chambwera (2011) adds that, “in a time when opportunities in the formal economy are dwindling, the informal sector will provide an even larger share of employment”.

Human capital

The informal economy provides a nest for human capital formation, a key entry-level point for attaining work and business experience and an opportunity to access and be part of the economy. According to Beeton (2010), what is so often overlooked is that micro or survivalist entrepreneurship is very often the gateway to so many other possibilities and opportunities in further education, formal employment and larger and more lucrative business establishment. For example, Beeton (2010) describes the experience of an owner of an informal settlement day-care centre who received some mentoring support and then went on to register for a formal qualification in early childhood development.

Role of the urban informal economy in relation to the urban formal economy

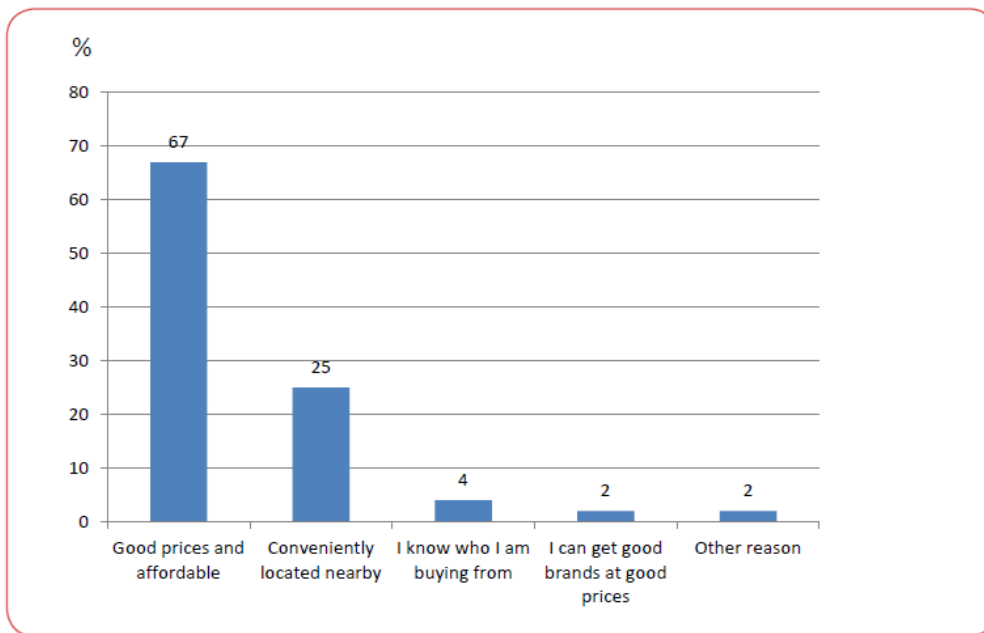
Mahajan (2014) distinguishes between two forms of informal sector: the traditional informal sector and the modernising informal sector. For Mahajan (2014), the traditional informal sector is associated with “very low capitalization, low labour productivity, low incomes, very small size (three or fewer workers), and static technology.” On the other hand, the modernising informal sector is “more capital-intensive, usually larger in size (as many as ten workers), more dynamic in technology, often linked to the urban formal sector”.

Mahajan (2014) notes that the South African informal economy, particularly in the townships, falls into the traditional economy category with a huge short supply of the modernising informal sector. According to Mahajan (2014), if South Africa allows the modernising informal sector “to emerge under supporting conditions (especially those that strengthen its linkages with the formal urban sector), that will hold significant potential for expansion and economic participation in a country’s growth process”. The modernising informal economy also holds promise for lifting the growth and job creation potential of the townships, especially the large urban townships, which are favourably situated.

Consumer and social capital

The informal economy can provide goods and services to many who are too poor to afford formal goods and services (Ruzek, 2014). Moreover, informal businesses often adjust to the needs and wants of their communities; something that is missing in the formal sector as changes in the global business world often take months to occur.

A recent Gauteng City-Region Observatory (GCRO) data brief by Peberdy (2015) shows that consumers made use of the informal sector as it had “good prices” and was “affordable” (see Figure 8).

Figure 8. Reasons for using the informal sector, 2013 (percentage)

Source: Peberdy (2015)

In the Peberdy study, 93 per cent of the respondents said they bought food in the informal economy (Peberdy, 2015). For Peberdy (2015:17), “this suggests that the affordability of the informal sector could have implications for the supply of affordable food to households in the province”. Ruzek (2014:30) identifies various consumer and societal benefits that the informal economy brings, for example:

- The prices can be adjusted to separate economic classes;
- Allows less affluent individual or local persons to pay lower prices than an affluent business person or tourist;
- The flexible economy and pricing can allow for social equity as both socioeconomic classes now have the same opportunities;

- The informal markets allow a reduction in class boundaries as they reduce everyone to the same level; and
- Everyone is required to interact socially for his or her goods and services.

In support of this perspective, the GCRO data brief states that the informal sector allows for the notion of accessibility of goods and services (see Figure 3.4). According to Peberdy (2015) “25 percent said they bought from the informal sector because outlets were conveniently located nearby”. The informal sector has an ability to narrow the distance between consumer and worker, enabling social interaction and increasing social capital. Ruzek (2014:29) notes that an increase in social capital greatly improves the physical and human capital and provides another ‘outcome’ or profit that can be acquired from the local economy.

Local economy, economic shift and resilience

Economic sustainability “is best secured by the creation of local or regional self-reliant, community economies” (Curtis, 2003:89). According to Ruzek (2014), the profit-driven formal economy will always seek to find the cheapest areas of production due to their lack of local economy interdependency. Moreover, “encouraging developing countries to take the same path as the ‘West’ is only asking for an increase in environmental stress, overconsumption and no path toward sustainability” (Ruzek, 2014:30).

In South Africa, the country’s growth potential could be “enhanced if it could enable rapid growth of the hitherto failing township economy by unleashing its own internal economic dynamics (with a special focus on the informal modernizing sector) and by integrating it in meaningful ways with the modern urban economy” (Mahajan, 2014).

According to Mahajan (2014), “this catch-up strategy would involve building on the comparative advantages of the township economy: in particular, abundance of cheap, unskilled labour; adjoining land space that is more affordable than in city centres; and a potential consumer market

that is still untapped”. For Ruzek (2014:30), “despite the socioeconomic standing, by allowing the informal sector to flourish unhindered by government regulations, it can create local economies; each adapted to the community’s needs, wants and shifts in trends”.

For Mahajan (2014:26), failure to modernise the informal economy, particularly the township economy, could result in the following:

- An era of lost opportunities, not only for the townships but also for the nation; and
- With unemployment concentrated in the townships, informal settlements, and formal homelands (whose residents also aspire for urban economic opportunity, seeing the townships as their first point of entry), the battle to reduce South Africa’s staggeringly high unemployment rate will likely be won (or lost) in these places.

Recognising the informal sector can provide the required economic shift without moving away from the basic capitalist ideas (Ruzek, 2014). For Mahajan (2014), such policies will require a shift from viewing the township and informal economy as peripheral or a place of residence to as economic opportunities for growth and development. According to Ruzek (2014), the informal economy can drive local movements globally; this includes providing a unique product line or craft for each community and region.

Contributions to the green economy and the natural environment

Recent literature has indicated that there are activities taking place within the informal economy that contribute to a green economy (Smit & Musango, 2015). Acey and Culhane, cited in Smit and Musango (2015), point out that households and communities in Africa implement green livelihood strategies, often driven by necessity, that include the adoption of household-scale energy technologies, organic waste management, urban farming, and so forth. According to Smit and Musango (2015), such strategies indicate that there are green activities taking place within the informal economy and these activities contribute to the restoration of ecosystem services and

mitigation of negative impacts on the environment. For example, urban waste collectors contribute to both the rapid absorption of excess labour and the natural environment (Agamuthu, 2010). According to Agamuthu (2010), up to two per cent of the working population in Asia are employed as waste collectors, an informal productive employment that contributes to sustainability.

There are, however, several other studies that argue that there are unsustainable practices in the informal economy. According to Baksi and Bose, cited in Smit and Musango (2015), artisanal mining, bleaching and dyeing of garments and brick manufacturing are amongst the negative effects the informal economy has on the natural environment. Not disregarding the negative perspective of the informal economy, the sector has been shown to have great potential in positively contributing to the environment.

3.5.6 Limitations of the Informal Economy in Promoting a Sustainable and Inclusive LED

There are certain limitations of the informal economy in promoting inclusive and sustainable local economies. These are reviewed with respect to limitations of the informal economy to meet inclusive and sustainable productive opportunities for the local community. The lack of recognition from the government, overcrowding by bigger businesses, lack of access to credit and various illegal activities within the informal sector, that may not be suitable for promoting inclusive and sustainable local economic development.

Lack of recognition by the government

Government policies and plans still view the informal economy as a welfare problem (Bauman, 2005). According to Turok (2014), the significant low and underdeveloped informal sector in South Africa is as a result of this perceptive. For Turok (2014), “the consequence of this approach is that, having neglected the informal economy and millions of people living therein, the government face a huge social problem which cannot be solved by social grants alone”.

Despite the evidence that acknowledges that many informal firms and workers are linked to formal firms through complex chains or networks of production and exchange, many informal firms and workers are negatively affected by government regulations (Chen, 2014). Players in the informal economy are most negatively affected by government decisions. This is mostly evident “when the government decides to waive labour regulations (as is the case with global production) or when the government decides to impose punitive regulations (as in the case of street trade) or to evict workers (as is the case with both home-based workers and street vendors)” (Chen, 2014:413).

Heinonen (2008) notes that the informal sector is often viewed as a hindrance to economic development, marginal, and a blockage to sustainable development. Chen (2014) argues that it is for such reasons that the informal economy is not included in urban and economic plans, lacking promotion and protection from the government. For Ruzek (2014), a reduction in government regulations, taxes and zones could help street markets flourish (Ruzek, 2014). “The challenge is to convince the policy makers to promote and encourage hybrid economies in which micro businesses can co-exist alongside small, medium, and large businesses: in which the street vendors can co-exist alongside the kiosks, retail shops, and large malls, just as the policy makers encourage bio diversity, they should encourage economic diversity” (Bhatt, cited in Chen, 2014:415). Measures should be taken by local government planners to recognise townships, informal settlements and street vendor markets as industrial clusters and support the enterprises within them (Chen, 2014). Chen (2014:415) argues that promoting the informal economy “will require significant political will, active negotiations, and a change in mind-sets about the informal economy”.

The informal sector should not be treated as recipients of welfare but as potential producers (Turok, 2014). For Turok (2014), development will not be certain in South Africa if the country follows a path that concentrates on issues like unemployment, poverty, housing, health, and education, while not expanding productive capacities to those without work. Moreover, while the basic income grant raises incomes and provides incentives for productive effort and thereby employment, such a strategy contains the risk of fostering a culture of dependency and an entitlement culture, which could bring major social strains if the funding should not be available in future years (Turok, 2014).

If the problem of inequality, poverty and unemployment are to be addressed directly, rather than hoping that growth in the first economy will gradually address them, the choice is whether to fund poverty relief or to enhance people's productive capacities so they can help themselves (Turok, 2014). Enhancing the people's productive capacities will, however, require a bottom-up approach. Turok (2014) recognises that the informal economy requires a shift from development as passive citizenry to active involvement and empowerment.

Overcrowding by bigger formal businesses

As mentioned, in South Africa there has been a recent trend of supermarkets in townships and informal settlements (Mahajan, 2014). South African townships and informal settlements have malls with major supermarket chains (such as Spar, Pick n Pay, and Shoprite) and other formal mass-production networks, instead of the vibrant informal economy that is present in most developing nations (Mahajan, 2014; Charman & Peterson, 2008). These stores come in alternative formats, such as USave, Boxer and Score. The literature argues that the presence of these stores often crowd out local production and street trading through price competition (Du Toit & Neves, 2007).

Many argue that the presence of such supermarkets in the townships and informal settlements plays a huge role in urban food security. However, recent literature in food security indicates that the presence of these stores may only "provide better access to less-nutritious processed foods" and will not address food and nutrition insecurity (Battersby & Peyton, 2014). Moreover, these stores may reduce food security by crowding out local informal retailers that allow customers to buy on credit (Battersby & Peyton, 2014). For Turok (2014), this results in the spending power of urban townships going to mainly white-owned city businesses that do not contribute to the improvement of the townships. For example, Soweto has an estimated spending power of R10.5 billion rand per annum, but 80 per cent of it is spent outside Soweto boundaries. This trend has a negative effect on income distribution and inequality as most money leaves the townships.

Lack of access to credit

Whilst the informal sector often expands in most developing countries, even during economic crises such as the recent financial crisis (Horn, 2009), “informal workers are often excluded from financial markets, with little or no access to formal sources of credit” (Chen, 2014:415). The outcome of the World Bank study on the South African township economy by Mahajan (2014) identifies several issues that the lack of access to credit for the informal economy can result in, such as the following:

- A lack of access to finance by the informal sector entrepreneur, especially in South African townships, adds to their vulnerability and economic exclusion.
- The financial exclusion and uneven access to finance for the poor and small businesses are involuntary and are the results of market imperfections.

For Mahajan (2014), financial inclusion will likely benefit the poor and, without inclusive financial systems, the poor and small businesses are forced to rely on their own limited resources to invest in education or become entrepreneurs, making it difficult to pursue growth opportunities.

Lack of access to market information

Most entrepreneurs in the informal economy are characterised by low skill levels, which then lead to missed opportunities due to their low literacy levels and low access to technology (David et al., 2013). According to David et al. (2013), if the regulatory environment for business was improved and informal workers had better skill levels, access to finance and legal working spaces, amongst other things, there would be a much higher chance that their activities could grow into much bigger businesses.

Illegal activities in the informal sector

Drug trafficking, prostitution and the black market fall within the informal sector (Chen, 2014). “These aspects can be extremely detrimental to the development and movement toward a sustainable future” (Ruzek, 2014). This aspect of the informal sector often creates tension with authorities and thus increases a negative perception towards the participants and the sector as a whole.

3.5.8 Section summary

Massive informal markets and entrepreneurship will be the face of future urban centres. If embraced and fully supported, the informal economy is based on principles of contributing to productive employment, local economy, social capital and the natural environment. The informal economy therefore has tremendous potential to promote inclusive and sustainable local economic development in the context of a predominantly formal economic system. However, the biggest challenge is to convince the policy makers to promote both informal and formal businesses, whereby informal businesses coexist alongside small, medium and large businesses.

3.6 COMPARATIVE CASE STUDIES

The following selection of case studies from Gasabo local government, Rwanda; Tanzania city, Arusha; and South Africa, eThekweni are presented to provide context to a growing informal economy, and to highlight some of the challenges and opportunities for promoting informal economies in Stellenbosch and how the Stellenbosch Municipality could learn from their experiences.

3.6.1 The Gasabo local government experience – Kigali, Rwanda, DuhahiraneGisozi Cooperatives

The Gasabo District Municipality’s experience of innovatively managing the informal economy highlights many benefits of the informal economy in promoting a sustainable and inclusive LED,

as well as some limitations. An increase in the number of street vendors in Gasabo District created a deterioration of their urban environment. The area was perceived as provoking vagrancy, begging and crime. In addition, due to the surplus of informal street vendors, even formal businesses were forced onto the streets (David et al., 2012:50). The Gasabo District was then forced to find innovative ways to salvage the area and the formal business without causing harm to the informal traders.

The informal economy plays a significant role in Rwanda; however, it does not feature much in the country's 2020 vision. The Rwanda 2020 vision assures that the informal sector "will also be developed in such areas as retail trade, repair workshops and garages, handicrafts and metalwork" (World Bank Rwanda Country Study, 2012). The Rwandan local government has supported the creation of cooperatives as an approach towards supporting the informal economy (David et al., 2013). This approach has resulted in many successful cooperatives operating in Rwanda, including cooperatives of informal taxis and waste collectors (David et al., 2012). As a response to the problem, the Gasabo District decided to launch a cooperative, a process by which the traders can become productive employers and employees, helping both themselves and the economy in the process. The following were the Gasabo District objectives in carrying out the process:

- Empowering vendors to transform their lives by becoming responsible business people;
- To create a clean, safe, accessible modern space in which the traders can ably work;
- Reducing the numbers of vendors on the streets to ease competition for formal businesses and to keep the Gisozi streets clean;
- To shift informally vending traders into the formal sector, thereby aiding revenue collection; and
- Improving the urban environment and keeping the Gisozi streets clean, and encouraging other street vendors to join in the practice.

The process included ten stages:

1. Identifying the street vendors. In 2009, 1 653 street vendors were identified and 243 were based in Gisozi sector.
2. Building awareness and mobilisation. The district municipality mobilised, encouraged and advised traders (with incentives) to invest in the cooperative. After many small-scale meetings and discussions, 74 vendors were finally prepared to invest in the cooperative (David et al., 2013).
3. Securing first stage credit. The district played the role of a facilitator in advising members on how to secure the necessary deposits. For example, women traders who were unable to pay the initial USD 56 required were introduced to Duterimbere (translated as ‘let us develop’) micro-finance: a non-profit credit organisation providing loans specifically to women (David et al., 2013).
4. Transferring the 74 traders (prospective cooperatives) to a new site. In April 2010 the district allocated a new site in Musezero cell of Gisozi to the traders while they awaited the building of the permanent structure (David et al., 2013).
5. Acquiring the second stage credit. The cost was estimated at USD 1 000 per vendor. For those unable to contribute the necessary deposit, the district negotiated that there be an opportunity to rent a space at a reduced rate. The overall cost of the second phase of construction cost USD 416 340 and the Kenya Commercial Bank granted the necessary loan.
6. Second stage construction. A construction permit and the environmental impact assessment certificate were issued. This was done prior the cooperative being granted legal status on the basis of a provisional recommendation put forward by the district’s office to advance the project as fast as possible (David et al., 2013).
7. A stakeholder meeting. The meeting took place on the 3rd of December 2010 between the district, cooperative promotion experts and cooperative members to further include a phase 3 complex in addition to the phase two marketplace (David et al., 2013).

8. The completion of stage two construction. The market place was completed on the 10th of December 2011 with a capacity for 350 vendors (David et al., 2013).
9. Securing credit for stage 3 of the development. The cooperative, made of 312 members, approached the Rwandan Development Bank with their dream of building a commercial complex. They secured the support of USD 2 387 460 to complete a commercial complex, this was on the basis of the progress made thus far, combined with the access road awarded in the district's performance contract.
10. The construction and completion of phase 3. The commercial centre has 500 shop spaces with a minimum of 312 to be located at the ground level, allowing one for each cooperative member. Shops will be allocated by lottery, ensuring fair treatment for each member. The top two tiers will be available for purchase or rent within and without the cooperative.

Table 3. Impacts of the Gisozi Cooperative on the members, sector and district

IMPACTS	312 COOPERATIVE MEMBERS	GISOZI SECTOR LOCALITY	GASABO DISTRICT
Socioeconomic	Investors in a USD 2387460 commercial complex, daily wages have risen on average from USD 1/day to USD 20/day and living standards have improved.	Services in the Gisozi sector have improved, especially in the financial sector. Coop members have gained respect in the community and sector.	The Gasabo District now receives revenue of about USD 140 per day
Business enabling environment	Each member has at least one account with a financial institution.	The banking sector of Gisozi has become more open to offering loans to informal sector investors with similar ideas.	The way is cleared for district to fast track worthwhile construction projects. District incentives have been shown to help.
Gender equality	Around 70% of members are women, who have gained confidence and status through their membership.	Female street vendors have been inspired to access credit and open their own markets in other sectors of Kigali.	A USD 83 532 project has been launched to train the youth and female vendors in business and construct small markets for them within the district.
Youth employment	Around 70% of members were under 35 and have become role models for other youth.	Youth who opened a metal workshop in the coop's market space have obtained a contract with the Ministry of Infrastructure.	
Private/public sector relations	Coop members are now supported by the Rwanda Development Board, The Coop is now officially part of the private sector	A Coop member has been elected as vice president of the Gisozi sector council to represent all coop.	On the basis of the coop's success, the GoR approved construction of the access road via means of the district's performance contract.
	Two cooperatives, based on the Gisozi models have since been launched: Gasabo District: (1) FODECO (second-hand clothes vendors) in Gipsoro sector; (2) COPCOM (construction materials) in Gisozi sector.		

Source: David et al. (2013)

Sustainability and inclusivity

From the outcomes listed in Table 9 above, the Duhahirane Gisozi Cooperative is sustainable and inclusive, the cooperative continues to expand, and it is backed by the Rwandan Development

Bank. In a recent interview with the Rwandan Focus, Boniface Munyentwari, the chairman of Duhahirane, mentioned that the “cooperative’s members were previously hawkers, and getting together has transformed their lives, today, they have been able to build houses, pay school fees for their children and they are contributing to the development of the country” (Rwandan Focus, 2015). For David et al. (2013:53), “The innovative means by which the Gasabo District mobilised not only the vendors, but the financial institutions and the government of Rwanda itself to play their respective roles in establishing the DuhahiraneGisozi Cooperative is laudable and a fine example of good, participatory local governance. What is also interesting to note, is that most of the components of the initiative were already in place; it was the means to negotiate and link that was missing. And that became the district’s primary role: to negotiate something of an obstacle course to reach the ultimately successful result”. Regardless of whether the DuhahiraneGisozi Cooperative can be replicated, it has mobilised many different people at multiple levels including: youth, women, sole informal traders, communities, sectors, districts and the central government.

3.6.2 Arusha local government experience – Tanzania

Unlike other cities in Tanzania, the informal economy in Arusha is more diverse, complex and vibrant due to the international status of the city as a seat of the East African Community; Arusha International Conference Centre; its role as a centre for tourism and trading tanzanite: a rare gemstone mined at Mererani, close to the city; and its proximity to the border with Kenya. Climate change effects of drought, which devastated the pastoral economy of the Arusha region, the collapse of the coffee industry and the increasing scarcity of land in Arusha and the neighbouring Kilimanjaro region has propelled high rates of migration to Arusha city and thus impacted on the informal sector’s growth. The degrading environment coupled with an increase in the informal economy, which has contributed to the environmental deterioration in the town, compelled innovation from the local government.

As a response, the Arusha local municipality partnered with the informal economy to bring solutions to the problem. The Arusha local government assisted the informal economy participants in “setting up 130 tree nurseries, 50 car wash hubs, and promoted waste recycling by

the disabled and built a number of permanent premises for itinerant traders” (David et al., 2012). The Arusha local government’s experience of partnering with the informal economy while restoring the environment highlights many benefits of the informal economy in promoting a sustainable and inclusive local economic development, as well as some limitations. The concerns over the deteriorating environment in the town, partly due to disorderly conduct from the informal businesses, resulted in a new and restored sustainable and inclusive local economy in the city of Arusha. These initiatives have provided employment opportunities to thousands of people, who are mainly the youth.

The informal economy contributed 39.5 per cent to Tanzania GDP in 2010. However, despite this large contribution to the country’s economy, the informal economy is not officially recognised by the government (David et al., 2013). In addition, “informal businesses occupy public spaces in contravention of town planning and health regulations, often exposing them to harassment by municipal authorities” (David et al., 2012:09). According to the Tanzanian Business Licensing Act (2003), street trading is illegal. Until recently, the Arusha local government had not supported the informal economy and often evicted the informal businesses just like other municipalities (David et al., 2013). According to David et al. (2013), in Arusha most informal businesses operate at low levels of visibility from officials and may easily move from one location to another, or open or close at will to evade regulation. However, informal economy in Arusha is now more responsive to municipal regulation, due to the trust of local government, originating from its commitment to “work with, and not against the informal economy and also due to an aggressive public education campaign of local government using posters, a community radio and a local newspaper” (David et al., 2013).

Sustainability and inclusivity

The informal economy in Arusha is now organised, and two associations represent the sector: the UmojawaWanamazingiraAsili Arusha (UWAMAA) and Shanga Shanga. These associations have made it possible for a group of second-hand traders who were initially evicted from their trading site in the town centre to build a market just outside town. The

UmojawaWanamazingiraAsili Arusha (UWAMAA) and Shanga Shanga appealed for the traders and they were later given a title to occupy the land.

According to David et al. (2013), the idea of the traders market resulted from a partnership with a local second-hand clothing wholesaler that the associations had approached for assistance. Moreover, during the acquiring and building of the site, each trader paid USD 164 in three instalments; they provided voluntary labour during construction under the supervision of an engineer whom they paid on a daily basis and the local council provided the equipment for the upgrading of the land (David et al., 2013:80). The 800 traders have constituted themselves into a co-operative since 2010.

Thus, the case demonstrates that local governments need not necessarily disrupt livelihoods when they enforce urban planning or environmental regulations. The initiative also shows that urban authorities can promote the informal economy even in a situation like Tanzania's, in which there is no explicit policy or strategy in the sector.

3.6.3 Warwick Triangle Experience - Ethekwini

In South Africa, “eThekweni municipality stands out as a municipality which has taken an innovative and multi-faceted approach towards the informal economy” (David et al., 2013:71). In 1999, the city councils developed an informal economy policy with the intention to mainstream and integrate the informal economy into the formal economy and make it an integral part of the LED strategy. “The policy represented an important shift in thinking, the informal economy as a critical sector for economic development” (David et al., 2013). The policy acknowledges the informal sector's critical role in creating and providing jobs and incomes for many of eThekweni's citizens. The city moved from viewing the informal economy as a part of a welfare or poverty alleviation project to as part of economic planning and development.

The case of Warwick triangle shows how a partnership with the informal economy organisation in local government planning can bring out mutually beneficial results. “Warwick triangle is the primary transport node in Durban, with an estimate of 460 000 commuters who walk through every day, on a busy day [it] houses as many as 8000 street traders the majority of whom are

women” (Skinner, 2009:01). The traders include cardboard collectors, gold tooth sellers, cigarette sellers, traditional herbalists, live chickens and fruit and vegetable sellers. Since 1995 the street traders have created a market of their own, a sense of a complex African bazaar with a city. However, this did not come without challenges and struggles. In 1994 the Self-Employed Women’s Union (SEWU) was formed, its active branches were comprised of street traders working in Warwick Junction (Skinner, 2009). The main aim of SEWU is to build leadership among women in the lowest strata of the wider working class (SEWU Constitution cited in Skinner, 2009). SEWU has branches and elected branch leaders, all members received negotiation skills in order to be able to engage in negotiations with the municipality. In 1995, an umbrella body of street trader organisations – the Informal Trade Management Board (ITMB) was formed. Women traders who were part of SEWU became active members of ITMB (Skinner, 2009). Over the past 20 years the collaborative partnership between SEWU, then later ITMB, and the municipality has resulted in a lot of success that benefited both party interests, including the following:

- Just after SEWU was founded in 1994, the leaders secured an agreement with the city council to install water, temporary toilets and mobile police patrols for the traders.
- Traditional, street traders were under threat to be removed by the city council from Warwick. However, through negotiations by SEWU with the municipality, these plans were averted and traditional traders were recognised as a permanent feature in the area. In addition, SEWU negotiated for a traditional medicine market. In 1998 the Herb Traders Market was opened providing shelter, water and toilet facilities, with more than 1 000 traditional medicine traders operating in the area. The traders were involved in all the designs and building of the new market.
- Over 500 women collecting an estimated 30 tons of cardboard daily were facing a challenge of exploitation from dishonest buyers. SEWU leaders approached the local city council to intervene. After many negotiations, “the local council agreed to set aside land to establish an inner city buy back centre where cardboard could be sold directly to the recycling company, this initiative increased the collector’s incomes by 300 per cent” (Skinner, 2009:05).

- SEWU launched project cleaning initiatives. Female street traders volunteered their time to clean the streets where they worked. The volunteers spent up to three hours cleaning the street twice or three times a week.

In February 2009, in the wake of the 2010 World Cup, the Durban city council announced a plan to build a shopping mall in Warwick, in the site occupied by the early morning fresh produce market. The fresh produce market is one of the oldest markets in Warwick, with an estimate of 2 000 traders, some of who are third and fourth generation traders. In contrast to the previous approach of incorporating the traders in planning, traders stated that they were not consulted but rather presented with the finished plan. The proposal met with a lot of opposition; the Congress of South African Trade Unions and the South African Communist Party in the KwaZulu-Natal province opposed the proposals in support of the traders. These organisations, together with the traders' association, met weekly under the international alliance of street trade organisations (StreetNet) campaign 'World Class Cities for All'. In support of these organisations, urban practitioners and academics called on the city to immediately stop the plans, with the petition receiving international support. "The city council on the other hand strongly reacted to the objections, resulting in traders tear gassed by city police while staging legal sit-in in the Early Morning Market on the 30th May 2009. In addition, on the 15th of June 2009, rubber bullets were used on protesting traders injuring a number of people including elderly women traders. The Legal Resources Centre has initiated a case against the City Council on the basis of the right to livelihood." (Skinner, 2009:10). In 2011 the city's economic development committee announced that the city's plans to build the mall were cancelled. In January 2014, the Thekwini municipality announced that the plans to develop Warwick were back on track. However, this time around the plans of building a mall were not included, instead the city promised to keep the Early Morning Market. All stakeholders were included in the planning of the development and all parties gave it the go-ahead.

Sustainability and inclusivity

All stakeholders agreed that Warwick triangle was in need of upgrading and development, but the question was how and who would benefit and if the existing traders were to be part of the process. When South Africa was preparing to host the 2010 World Cup, the images of the informal economy in the city were outweighed by a modernist vision of a mall. According to Skinner (2009), the mall development plan was highly driven by private property developers and pressures for the city to fast track their development due to the World Cup event. However, resilience from a strong informal economy organisation coupled with great support gave a voice to the Early Morning Market that could not be ruled out by other forces.

3.7 CHAPTER SUMMARY

In the context of current global challenges and impacts of the global economic system, there is a clear need for more focus on developmental LED that is both sustainable and inclusive and which recognises and supports the informal economy. Building a more developmental LED has been shown to have numerous benefits in promoting greater sustainability, but this needs to be supported by recognition and support of the informal economy.

The concept of a developmental LED economy in the context of sustainable, inclusive development, poverty eradication and inequality reduction is highly contested. Several pathways to a successful LED exist, based upon the conceptualisation of the term. These pathways indicate a range of perspectives, interpreting the LED on a scale ranging from broad to narrow. In distinguishing between broad and narrow interpretations, it is reasoned that several features may be identified as belonging to each. Broader interpretations of the LED value poverty alleviation and a reduction in inequality, thereby incorporating stakeholder partnership and inclusivity into its processes.

The experiences from Gasabo local government, Rwanda; Tanzania city, Arusha; and South Africa, eThwekwini show that local government has the ability to innovately manage and grow the informal economy, however not without challenges.

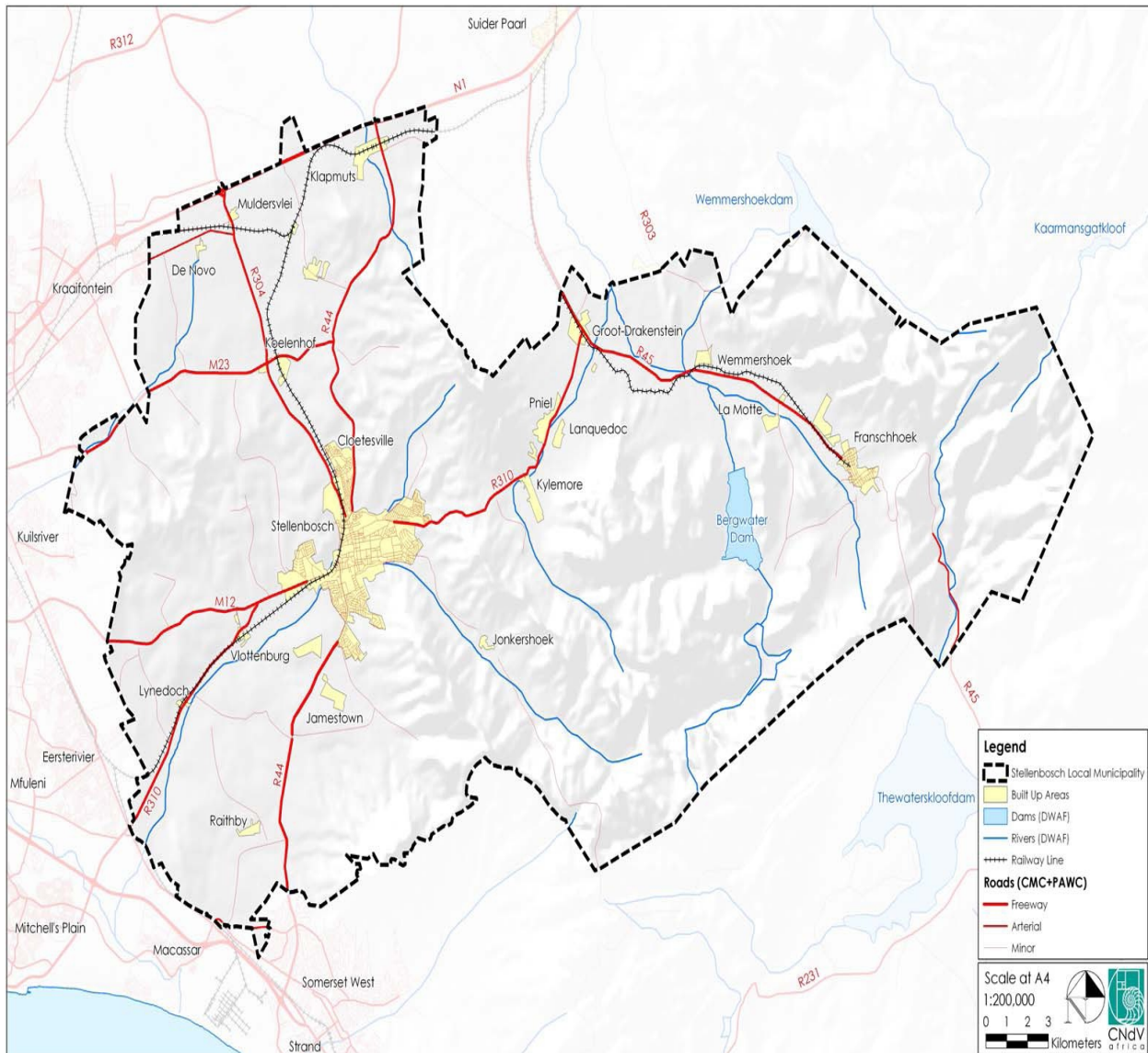
CHAPTER FOUR: CASE RESEARCH FINDINGS

4.1 INTRODUCTION

Chapter four provides the research results to answer the second and third research questions as earlier outlined in chapter one, section 1.4. The following section will provide an overview of the Stellenbosch context. The core findings on the approach of the Stellenbosch Municipality towards the informal economy and how the approach affects the participant livelihoods and LED are related and discussed. The findings from the document and newspaper analysis are presented first. Findings from the interviews are grouped around the main questions asked during the interviews relating to the informal economy business profile, target market, engagement and support from the municipality. These findings relate to research question one and two. The findings will be used to present the experiences of the informal business owners in order to compare them with findings from the literature review in chapter three.

4.2 OVERVIEW OF STELLENBOSCH

The Stellenbosch Municipal area is located within the Cape Winelands municipal district of the Western Cape province in the Republic of South Africa. The municipal area includes the towns of Stellenbosch, Kayamandi, Franschhoek, Raithby, Jamestown, Kylemore, Idas Valley, Pniel, Klapmuts, and Cloetesville (see figure 9). The area covers approximately 900 square kilometres with a population estimated at around 270 000 people (Stellenbosch Municipality, 2013:13). Stellenbosch is historically known for its wines, fruits and educational institutions. It is home to Stellenbosch University and various prestigious schools.

Figure 9. Map of greater Stellenbosch

Source: Stellenbosch Municipality, 2014

The Stellenbosch population consists of several groups (see table 3). Table 3 also shows the population growth from 2001-2011, indicating a sharp increase in the African population in Stellenbosch. The Integrated Development Plan (IDP) of Stellenbosch Municipality (2015) recognises that this influx is due to migration from the Eastern Cape, as people are in search of a better livelihood.

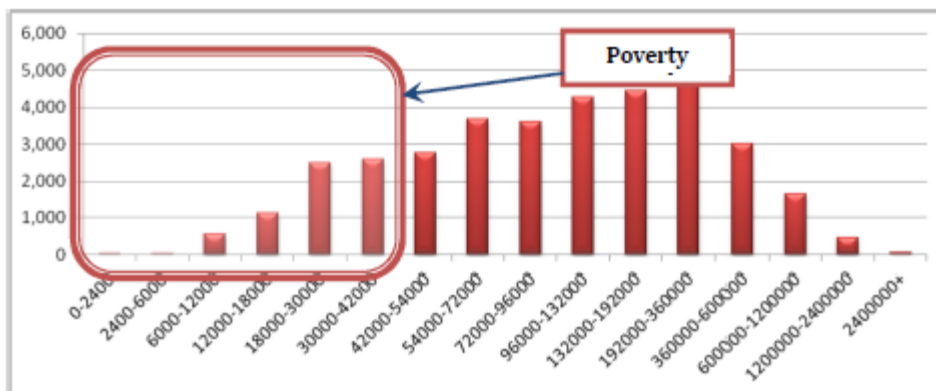
Table 4. Demographic profile of Stellenbosch.

Population group		
	2001	2011
Coloured	56.40%	53.00%
African	19.60%	27.70%
White	23.70%	18.90%
Asian	0.20%	0.40%

Source: Stellenbosch Municipality, 2013

In terms of education and skills, it is estimated that in 2011, 53.6 per cent of the population had no matric, 23.5 per cent had matriculated and 16.3 per cent had higher education. One part of the population is highly skilled and affluent and the other has no skills and is a low-income population (Stellenbosch Municipality, 2013). See figure 10 below.

Figure 10. Number of households by income in Stellenbosch



Source: Stellenbosch Municipality, 2014

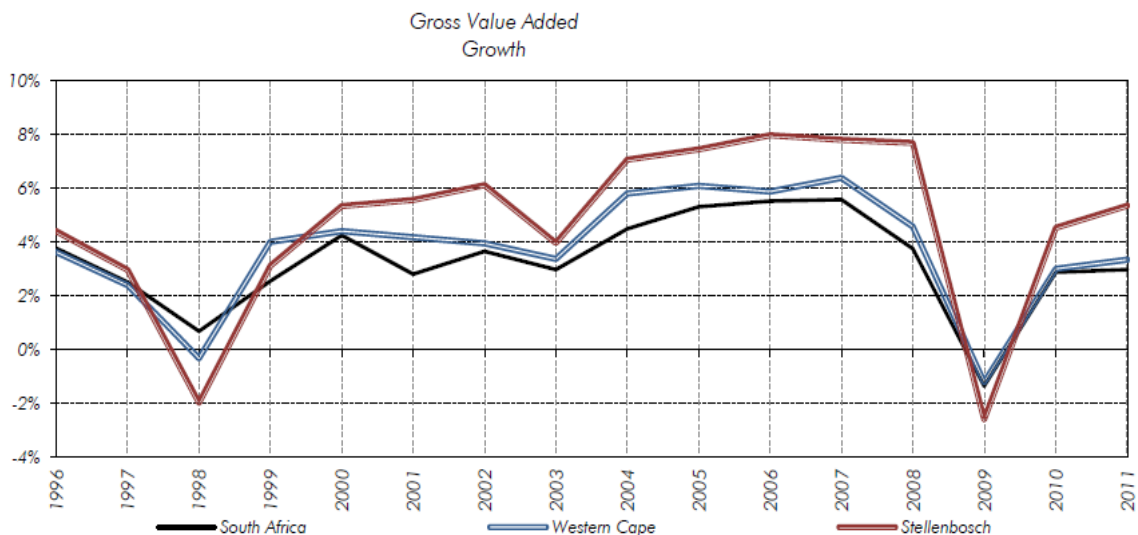
The presence of the highly skilled and affluent groups in Stellenbosch has led to a rapid increase in the value of land for farming and housing. This group contrasts with the significant low-income population that experiences poor service access and low living standards. Recent retail and housing developments have predominantly catered to the needs of high-income earners and

car owners, and the divide between the two groups has widened as a result (Stellenbosch Municipality, 2013).

Recently the area has attracted and retained a strong business sector, which ranges from big South African businesses and corporations, to smaller enterprises and home industries (Stellenbosch Municipality, 2013:13). Manufacturing, trade, finance and government services are the four dominating economic activities in Stellenbosch (Bureau for Economic Research (BER), 2013). In 2011, the financial services sector was the largest contributor to economic activity, at 23.6 per cent, followed by manufacturing at 22.3 per cent of economic activity, trade at 18.2 per cent, and government services at 12 per cent (Bureau for Economic Research (BER), 2013). These attributes, together with the town's rich history, have made it a sought-after destination for international and local tourists alike.

Stellenbosch Municipality's Gross Value Added (GVA) increased at an average of four per cent between 2002 and 2009 (see Figure 11). In 2013, Stellenbosch Municipality's economic growth was the highest at 2.8 per cent in the district, superseding the district's growth of 2.1 per cent (Stellenbosch, 2014). See figure 11.

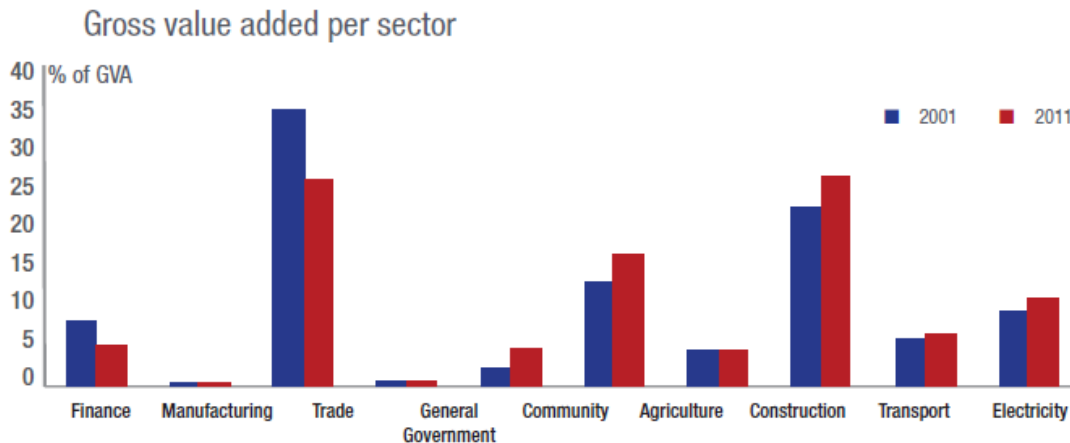
Figure 11. Gross Value Added (GVA)



Source: Bureau for Economic Research (BER), 2013

With regards to employment contribution per sector (see Figure 12), in 2013 the highest numbers of jobs were created in wholesale and retail trade at 23.8 per cent, community jobs were at 19.5 per cent, manufacturing at 13.7 per cent, and government jobs at 12.9 per cent (Stellenbosch, 2014). The agricultural sector provided the highest employment opportunities in 2003 at 22.2 per cent but it reduced to 9.2 per cent in 2013 (Stellenbosch, 2014).

Figure 12. Gross Value Added per sector



Source: Bureau for Economic Research (BER), 2013

Like many towns in South Africa, Stellenbosch is faced with socioeconomic and environmental challenges. Despite the indicated positive sustained growth in the Stellenbosch economy, unemployment is still one of the pressing challenges facing the town. The unemployment rate has increased from 19.2 per cent in 2001 to 24.4 per cent in 2011. However, the proportion of workers in the agricultural sector has declined dramatically since 2001, from 24 per cent to 6.9 per cent (Stellenbosch Municipality, 2014:20). Although the economy of Stellenbosch has grown, people laid off in agriculture are less likely to be absorbed into financial services and technology industries.

The town is arguably one of the most socially unequal in South Africa, with a Gini coefficient of 0.61 in 2009. This phenomenon is deeply rooted in the legacy of the apartheid era (Swilling et al., 2012). As a response to these challenges, Stellenbosch Municipality has attempted to position itself as the innovation capital of South Africa, displaying extraordinary efforts to secure a greater economic and social balance amongst the town's people (Stellenbosch IDP, 2014:12). According to the town's Integrated Development Plan, Stellenbosch Municipality (2015:09) has committed itself to five strategic objectives:

- Striving to make Stellenbosch the preferred destination for investment and entrepreneurship, translating into jobs and prosperity.
- Establishing the greenest municipality, which will not only make Stellenbosch attractive for visitors and tourists, but will also provide a desirable environment for new industries and create 'green' jobs.
- Ensuring dignified living for all Stellenbosch citizens, providing acceptable living conditions, sanitation and clean drinking water.
- Creating a safer Stellenbosch valley, where civic pride and responsibility will replace crime and destructive behaviour.
- Entrenching good governance, which implies compliance with and adherence to mandatory policies and procedures. This is central to a well-run municipality.

Despite the strategic objective of making Stellenbosch Municipality a preferred destination for entrepreneurs, as discussed later, this seems to be restricted to entrepreneurs who already have considerable resources and skills at their disposal. The current drive and support towards high technological industries clearly neglects job creation for the large unskilled population. Whilst there is an absolute need to promote high-tech and service industries, it is also of paramount importance that the economy is holistically supported across the spectrum to ensure that the economic needs of the Stellenbosch community are met, entailing a focus on the informal economy. The social, economic and environmental challenges facing the Stellenbosch community, and the municipality's commitment to addressing these challenges in a sustainable

manner, provide a context for investigating how the current approach of the Stellenbosch Municipality to the informal economy affects the participant's livelihoods.

4.3 THE STELLENBOSCH MUNICIPALITY'S APPROACH TO THE INFORMAL ECONOMY AND ITS EFFECT ON PARTICIPANTS' LIVELIHOODS

The analysis of the affect of current approach of Stellenbosch Municipality to the informal economy on participant's livelihoods involves three methods.

1. First, an analyses of Stellenbosch Municipality's policies, plans and frameworks that guide LED.
2. Second, interviews with various participants in the Stellenbosch informal economy to allow for a deeper understanding of: (i) the Stellenbosch Municipality's approach to the informal economy, and (ii) how that approach affects their livelihoods.
3. Thirdly, two Stellenbosch and one Cape Winelands LED officials were interviewed on their perception of the current municipality level and quality of engagement and support for the informal economy.
4. Lastly, an interview with Maggie Murcott (2015), a representative from the South African Local Government Association (SALGA), was then undertaken to understand what challenges are facing LED if local governments are not fully supporting or engaging with the informal economy.

Stellenbosch plans and frameworks related to LED

Stellenbosch Municipality's plans and frameworks, together with national and district policies that guide LED, set the tone for understanding the approach of the Stellenbosch Municipality to the informal economy. National policies provide the guidance, framework and approach that

need to be adapted and implemented at national, provincial, district and local level. The following section represents the results from the document analysis. The number of direct and indirect references to the informal economy were considered indicative of the municipality's approach. Table 4 shows results from the document analysis.

Table 5. Results for rating LED policies' engagement with the informal economy

POLICY DOCUMENT OR FRAMEWORK	DIRECT REF	INDIRECT REF	TOTALS	OVERALL REF %
Cape Winelands District Municipality Local Economic Development Strategy (2011)	32	123	155	36%
National Development Plan 2030 (2012)	33	76	109	25%
National Framework for Local Economic Development (2006)	25	16	41	9%
Industrial Policy Action Plan (DTI, 2014)	3	21	24	6%
Stellenbosch Local Municipality Investment Incentive and Retention Policy Framework (2014)	8	13	21	5%
Cape Winelands Integrated Development Plan (2012/13-2016/17)	1	15	16	4%
Stellenbosch Strategic Framework for LED (2013)	3	14	17	4%
Integrated Development Plan (2015/2016)	4	10	14	3%
National Growth Path, Green Economy Accord (EDD, 2011)	1	12	13	3%
National Skills Development Strategy III 2011-2016 (DoHET, 2012)	0	9	9	2%
Stellenbosch LED Strategy and Action Plan (2014)	2	6	8	2%
Stellenbosch Spatial Development Framework (2012)	4	3	7	2%
TOTALS	116	318	434	100%

The plans and frameworks were comparatively ranked in terms of their direct and indirect references to the informal economy. The results indicate the CWDM LED strategy (CWDM, 2011) as having the most overall references and the National Skills Development Strategy III (DoHET, 2012), LED Strategy and Action Plan (Stellenbosch, 2014) and the Stellenbosch Spatial Development Framework (SDF, 2012) as having the least number of references to the informal economy. However, there seems to be a disconnect in the CWDM policies. Even though the CWDM LED strategy had more references to the informal economy, the CWDM IDP (CWDM, 2012) ranked sixth at four per cent, with only one direct reference to the informal economy. This may be indicative that the informal economy has an LED focus and is not recognised as having value as one of the key focuses in overall municipality plans.

Quantitatively, the CWDM Local Economic Development Strategy (CWDM, 2011) had more references to the informal economy. However, it is also important to note that the CWDM Local Economic Development Strategy (CWDM, 2011) has the least references to the Stellenbosch informal economy.

As can be seen in Table 4, there are less direct than indirect references to the informal economy. The NDP (NPC, 2012) ranked second and stands out as recognising the need for systemic economic change. The NDP identifies the need to create opportunities that enhance people's capabilities to attain a more inclusive economy. Even though Stellenbosch policies and frameworks are guided by the national and district policies, they ranked last in the analysis. This may be due to classification of informal businesses into the SMME umbrella. For example, the Stellenbosch Local Municipality Investment Incentive and Retention Policy Framework (2014) identifies the need for Stellenbosch Municipality to promote investment and development for smaller entrepreneurs.

Stellenbosch Municipality’s approach to the informal economy in practice – municipality official perspective

In order to verify the findings from the document analysis process, semi-structured interviews were conducted to measure the approach of the municipality towards the informal economy in practice. A further contribution was made by semi-structured interviews with both Stellenbosch and Cape Winelands municipality officials. In this regard three municipality LED officials were interviewed.

Table 6. LED officials interviewed

LED OFFICIALS INTERVIEWED
LED Official One: Stellenbosch Municipality LED
LED Official Two: Stellenbosch Municipality LED
LED Official Three: Cape Winelands LED Municipality

Engagement with the informal economy

The interviews revealed that the Stellenbosch Municipality had previously not engaged with the informal economy participants or organisations when planning or implementing LED activities until 2014. In 2014, the LED department embarked on a Participatory Appraisal of Competitive Advantage (PACA) to mobilise stakeholder participation and to leverage their insight and capacities to contribute to the local economy. According to the two Stellenbosch LED officials, this process included the informal economy participants. The informal economy participants included the Black business unit (BBUs), which is an organisation representing informal businesses in Stellenbosch; Kayamandi business network and Siyakayani business network. According to LED official two, the outcome from the PACA process for the informal economy included the following objectives as a means of supporting the informal economy going forward:

- Establishment of a small business centre

- Business networking events
- Review of Stellenbosch informal trade by-law
- Mentorship network
- Incubator space

In contrast, the Cape Winelands municipality LED official was not aware of any engagement with the informal economy when planning or implementing LED activities.

Support to the informal economy

With regards to support given to the informal economy, the officials responded that prior to the 2014 PACA process they have been helping informal businesses with business registration and business plans. According to LED Official One, this was all support they could provide as they do not have the capacity to do more in their department. However, since the PACA process they have started adding more services for the informal economy. It was then asked how they are helping the informal economy. Both officials spoke of eight female meat traders in Kayamandi. According to the officials, during the PACA process they discovered that the female traders collectively spent R40 000 a week in stock purchase from a Maitland and Mitchells Plain meat wholesalers. Since the beginning of the year, the Stellenbosch LED department has facilitated the provision of water, shade, fridges and containers from a private business sponsorship to create an enabling environment for their business. Both Stellenbosch Municipality LED officials confirmed that this is their first project towards helping the informal economy thrive. The Cape Winelands district municipality official mentioned that her department offers funding and mentorship to a certain number of small businesses per year, but not necessary sure if those were informal businesses.

Is the engagement and support sufficient?

With regard to whether the current level of engagement and support between the municipality and the informal economy was sufficient, all officials agreed that it was insufficient. All officials indicated a need to properly understand the sector and organise it in order to improve engagement and support.

“It’s not easy to fully engage with the informal economy as they are not organised. Currently we have a number of representatives from small informal economy associations in Kayamandi, Franschhoek, etc. with different needs and interests. However, Stellenbosch black business forum (BBus) is now trying to organise all these small informal economy organisations into one umbrella and have one voice in the municipality and business engagement.”

(LED Official Two)

Similarly, LED official one stated that:

“Every day I am faced with people who come into my office asking for business support, this ranges from advice on the kind of business to pursue to access to finance. I cannot help all these people, as I do not have capacity. However, if they were organised, we could help well”.

LED Official Two further mentioned that the PACA process revealed a need to link the formal businesses with the informal businesses. According to LED Official Two, the process revealed a major gap in the value chain. For example, many small farmers sold their produce outside Stellenbosch, and informal traders then bought the same produce outside Stellenbosch, only to re-sell locally.

Contribution of the informal economy to the overall Stellenbosch economy

The question was posed to the municipality officials of whether or not they knew of the contribution that the informal economy makes to the overall Stellenbosch economy. LED Official Two revealed that they were aware of how much the informal economy contributed, and they believe that the sector has a huge potential for growth. Proof was requested of the contribution, and LED Official Two promised to forward a quarterly report, however, at the time of writing the information has still not been received.

Market for informal traders

When asked about their take on the various private informal markets taking place in Stellenbosch, all of the officials were happy that private informal markets were arising in Stellenbosch. The reason being was that they increase the economy, which is in their interest. LED Official Two mentioned that it is difficult for them to interfere with those markets, as they are private and quite specific. One official mentioned that Stellenbosch is also still colour divided and socially not cohesive.

LED Official Two said that, “we are currently identifying various areas within the town and other areas like Idas Valley, Cloeteville and Jamestown where we can develop markets in order to develop further opportunities in the informal economy”.

Kayamandi tourism and economic corridor

In the wake of the 2010 World Cup, the Stellenbosch Municipality planned the development of the Kayamandi tourism and economic corridor as part of their urban renewal process. The main aim of the corridor was to create a catalyst that would offset multiple economic opportunities, thus creating an economic hub for the area, historically lacking in townships. However, the piece of land that the new development was projected to occupy already contained an existing small business complex, which housed 30 viable small businesses. On the 1st of July 2004, the small business development complex was demolished by the municipality in order to build the

proposed structure. According to the Cape Argus, municipality official and informal economy participants who traded in the building, the reason behind the demolition was to promote development (see figure 13).

Figure 13. Article in the Cape Argus: 2 July 2004

Tensions high as business site razed

ZENZILE KHOISAN
Staff Reporter

AN INFORMAL settlement was tense last night after local councillors and members of a trust demolished a small business complex, outraging traders in the area.

Councillors and members of the Khayamandi Development Trust brought in earth-moving equipment and day labourers to demolish the premises of 30 businesses operating from the small business development complex in Khayamandi, Stellenbosch.

By 5pm yesterday every structure on the site, which had been in operation since the mid-1990s, had been destroyed.

All that remained of what was once an attempt at economic upliftment for new entrants in the formal economy were a few rickety walls, jagged pieces of wood and some signs indicating that people had traded there.

Explaining the situation in the middle of a gathering crowd of residents, Sandile

Eland, the chairman of the Stellenbosch branch of the National African Federated Chamber of Commerce (Nafcoc) said the local council had acted without a court order.

"There was no proper consultation with these people who have traded here from the mid-90s. I think the local

councillors have become a law unto themselves," said Eland.

Asked why the trust had apparently proceeded without a court order, one of the councillors, who was direct-

ing the operation, replied: "This is all about development. We don't need a court order."

Eland said the small business operators on the site had received no legal eviction order and that the only correspondence the group had received from the trust was a letter from Cluver Markotter, attorneys for the Stellenbosch Municipality, stating that the property had been leased to the development group and instructing the traders to vacate it by

June 27.

"As you are aware, our client will commence with the development of the Commercial and Tourism Development Corridor Project on Monday, 28 June 2004," the notice said.

"If you fail to adhere to the above, our client reserves the right to proceed against you by instituting the necessary legal proceedings on an urgent basis."

By the time the demolition began at about 7am yesterday the trust had not yet gone

to court to obtain eviction orders against the traders.

The trust had also allegedly not consulted the traders on the issue of alternatives for their businesses.

Witnesses and traders who were present at the site when the demolition began said they were shocked and horrified when approximately 30 men arrived with sledgehammers and crowbars and started bashing down businesses' walls and doors.

Alfred Mantsayi, a tenant for seven years who owned a shop selling assorted goods and groceries, was in his shop when the demolition started.

"There was no warning. They just started to bang and break.

"They broke down the walls and the doors and my stuff was still inside," Mantsayi said. "Now I do not know how I will support my family."

Another witness to the demolition, Stellenbosch Nafcoc member Sizwe Mahlangu said: "The way this happened just reminds me of the past. It is a very dangerous situation ..."

When asked about the demolition of the small business development and the process they took, two officials refused to comment on the subject stating that they were not at the municipality at the time. LED Official Two mentioned that, even though he joined right after the demolition and the planning of the Kayamandi tourism and economic corridor, the purpose of the demolition was to bring development into Kayamandi. However, there were various flaws in the municipality's approach. According to LED official two, the Kayamandi tourism and economic corridor had no public participation process. The small business owners who were trading in the demolished building were not consulted in the planning phase of the development. According to the newspaper report (Figure 13), the municipality officials at the time stated that they were misinformed about the building. They did not know that there were businesses operating in the complex. "The Kayamandi tourism and economic corridor was a development plan that destroyed what was already working", said LED official two.

Success of the Kayamandi tourism and economic corridor

When asked about any business success at the development of the corridor, LED Official Two said, "due to a number of flaws in the planning of the corridor, there is not success". When asked what those flaws are, LED Official Two indicated the following reasons:

- The municipality had to run the corridor. According to LED Official Two, the municipality had no ability to run the corridor due to long processes before decision making. For example, LED Official Two mentioned that before any business could lease premises in the centre, they needed to fill out a thick tender document. Moreover the tender document took a long process before the space could be granted.
- Currently the municipality spends R900 000 a year in water and maintenance for the corridor and there are only five businesses in operation.
- The businesses that initially rented spaces in the corridor have since left as their businesses failed to attract customers.

Eviction of traders from a trading site near Rhenish church in Stellenbosch

On the 16 of January 2013, Stellenbosch Municipality evicted informal traders from their trading space following a complaint by a nearby church (Rhenish Church) that the traders were defecating and urinating on and damaging the property, as well as making noise with drums during church services. When asked about the incident, LED Official Two explained that, before the incident in 2013, the informal traders were under law enforcement and not LED. According to LED Official Two, the Stellenbosch Municipality by-laws did not allow any trading to take place in the town. According to the by-laws, traders are not allowed to trade near municipality buildings, churches, heritage or historical spaces. When the church complained about the traders, according to the by-laws the traders had to be evicted from the space, regardless of how long they had been trading for. Only after the eviction did the LED department take responsibility for traders under their umbrella. Since last year, the LED department has worked on reviewing the municipality by-laws to create an enabling environment for the traders. According to LED Official Two, all the restrictions have been removed, and the LED department has even identified further sites within the town that can be used for trading.

Stellenbosch Municipality's approach to the informal economy in practice – informal business owner perspective

As previously stated, the policies, plans and frameworks that guide the Stellenbosch LED set the tone for assessing Stellenbosch Municipality's approach towards the informal economy and how it affects the participant's livelihoods. The study, however, set out to further investigate the level of engagement and support that the Stellenbosch Municipality and the informal economy participants receive in practise. As mentioned, the selection of the informal economy businesses included businesses that had tourist and community as their main target markets. Seven of the businesses are (legally registered businesses) legal entities, however, none of the businesses are registered for VAT or tax, which qualifies the selected businesses as informal businesses. The businesses that are legal entities in the study do not have any permanent employees, written contracts, paid leave, pension and retirement funding, UIF provision for any of their workers.

The following section discusses the findings from the semi-structured interviews with informal sector business owners. The findings are grouped according to the main questions asked during the interviews, which are related to the second objective. Table 6 summarises several details of the 16 informal business owners that were interviewed.

Table 7. Descriptions of the interviewees

INFORMAL ECONOMY BUSINESSES	POSITION IN THE BUSINESS	BUSINESS DESCRIPTION	INDUSTRY	LOCATION	DATE INTERVIEWED
Vuka Creativity	Business Owner 1	Jewellery and craft producer	Arts and crafts	Del Vera Wine Estate/ Kayamandi	16-Jun-15
Posh Currio Collection	Business Owner 2	Second-hand clothing and handmade jewellery	Clothing waste	Kayamandi Corridor and Stellenbosch Slow market	19-Jun-15
Tandi Creations	Business Owner 3	Small scale clothing manufacture	Manufacturing	Kayamandi Corridor and Stellenbosch Slow market	19-Jun-15
Shaik - Trader	Business Owner 4	Craft stall	African craft	Church Street Stellenbosch	19-Jun-15
C.O. Art Collection	Business Owner 5	Indigenous African art manufacturing and collection	African craft	Root 44 Market/Online	21-Jun-15
Shack Fusion	Business Owner 6	Art and food	Hospitality	Enkanini	25-Jun-15
Somali Spaza Shop	Business Owner 7	Grocery trading (spaza shop)	Retail	Enkanini	25-Jun-15
Bites And Sites Food Tours	Business Owner 8	Tours and cultural South Africa food	Tourism	Stellenbosch	24-Jul-15
Yamie And Yoliswa's Braai Stand	Business Owner 9	Meat trader	Catering	Kayamandi corridor	31-Jul-15
Mamfene Meat	Business Owner 10	Meat trader	Catering	Kayamandi corridor	31-Jul-15
Jane's Fruit And Veg	Business Owner 11	Fresh produce	Retail	Jamestown	31-Jul-15
Fresh Fruit And Veg Stall	Business Owner 12	Fresh produce	Retail	Cloetesville	31-Jul-15
Silusapho Homestays	Business Owner 13	Bread and breakfast and catering	Tourism	Kayamandi	31-Jul-15
The HVC Lemon	Business Owner 14	Home-made food/catering	Hospitality	Root 44 Market/ Stellenbosch	7-Aug-15
J&T Clothing	Business Owner 15	Clothing	Retail	Blaauwklippen	7-Aug-15
Thrift Scavenge	Business Owner 16	Thrift shop	Retail	Blaauwklippen	7-Aug-15

For the purpose of this analysis, the interviewed businesses are divided into two groups, according to their monthly business turnover. Group One's monthly turnover range from R21 000 to R150 000, and Group Two's monthly turnover range from R6 000 to R20 000. In order to better appreciate the municipality's approach towards the informal economy and how that affects the livelihood of the informal economy participants, the business selection included one business (business three in Group One) that is no longer operational. Business three of Group One is no longer in business, and business sixteen in Group Two was out of business for five years and has only been operating again for three years. Business eight and ten owners were present in each other's interviews and both contributed in answering the questions.

Table 8. Informal economy: Business Group One

Business owner - group one	Is the business legally registered?	Years in business	Reason to start	No. of employees	Supplier	Target market	Estimated monthly turnover	Engagement with the municipality	Support from municipality
1	Yes	12	Gap in the market	6	Wholesale in Maitland	Tourist	R150 000.00	No engagement	Not aware of any support
2	Yes	18	Gap in the market	4	Manufacture in Hermanus	Tourist	R80 000.00	No engagement	Not aware of any support
3	Yes	4	Gap in the market	4	Abafazi (40 women in Kayamandi)	Tourist	R70 000.00	No engagement	Not aware of any support
4	Yes	4	Gap in the market	2	Fabric wholesaler in Bellville	Tourist	R70 000.00	No engagement	Not aware of any support
5	Yes	6	Gap in the market	1	Fabric wholesaler in Bellville	Tourist	R60 000.00	No engagement	Not aware of any support
6	Yes	8	Gap in the market	1	Supermarkets in Stellenbosch	Tourist	R50 000.00	No engagement	Not aware of any support
7	Yes	4	Gap in the market	4	Links with the township economy	Tourist	R30 000.00	No engagement	Not aware of any support
8	No	20	Retrenched	1	Meat distributor in Maitland	Community	R21 000.00	Good engagement	Training, access to water, sponsorship

Table 9. Informal economy: Business Group Two

Business owner - group 2	Is the business registered?	Years in business	Reason to start	No. of employees	Supplier	Target market	Estimated monthly turnover	Engagement with the Municipality	Support from municipality
9	No	5	Survival	2	Wholesale in Bellville	Community	R20 000.00	No relationship	Not aware of any support
10	No	20	Unemployment	1	Meat distributor in Maitland	Community	R20 000.00	Good engagement	Training, access to water, sponsorship
11	No	8	Unemployment	1	Epping Market	Community	R15 000.00	No relationship	Reached out for support with no success
12	No	14	Unemployment	1	Epping Market	Community	R12 000.00	No relationship	Reached out for support with no success
13	No	16	Survival	2	Wholesale in Stellenbosch	Tourist	R12 000.00	No relationship	Reached out for support with no success
14	No	9	Survival	1	Supermarkets in Stellenbosch	Tourist	R9 000.00	No relationship	Reached out for support with no success
15	No	6	Survival	0	Fabric wholesaler in Bellville	Tourism/Community	R7 000.00	No relationship	Reached out for support with no success
16	No	9	Survival	0	Various craft designers in Stellenbosch	Tourism	R6 000.00	No relationship	Reached out for support with no success

As can be seen in Table 7, only one business in Group One is not legally registered, compared to all eight businesses in Group Two who are not registered legal entities. The average number of years in business for group one is nine, and ten for Group Two. In other words, despite the turnover differences in both these groups, they have been in business for a similar number of years.

Reasons to start the business

The main reason given in Group One for starting the business is as a response to a gap in the market, while survival and lack of employment were given as main reasons in Group Two. Interestingly, even though businesses in Group Two started their businesses for survival and out of being unemployed, they see a future and positive aspects for growth in their businesses. Business fifteen and sixteen were motivated to start their businesses as their previous employment in a vineyard farm in Stellenbosch was not sustainable. Business owner fifteen said,

“Starting my own business has enabled me to keep my children at school the whole year, working seasonally at a farm meant I could not do a lot of things and my life was not stable”.

Number of employees, suppliers and target market

Group One businesses have an average of three employees, while group two has an average of one employee. Wholesalers in and around Cape Town supply most businesses in both categories. Service businesses three and seven in Group One have interesting links with various other informal businesses in Stellenbosch. Business three has trained and outsourced their bead preparation and craft making to 40 women in Kayamandi. Business seven is co-dependent on an informal taxi business, catering and craft businesses in Kayamandi. Business seventeen in Group Two provides catering services for business seven in Group One. Further, business seventeen in Group Two is directly dependent on business seven. When asked about the target market, business owner seventeen mentioned that: “I don’t advertise my business and I don’t have any other clients besides the tourists that Hanlie (business owner seventeen) brings”.

Photo 1. Business owner 17 and guest (who is business seven’s client)



Source : Bites And Sites Food Tours, 2014

The taxi business is used to transport tourist clients to various tour sites in Kayamandi. Business seventeen in Group Two then receives the tourist and prepares lunch for them. Seven out of eight

businesses in group one indicate tourists as their main target market. However, 50 per cent of businesses in group two indicate their community as the main target. 70 per cent of businesses have tourists as their main target market. This could be an indicative of the vast opportunities of the tourist market in Stellenbosch.

Figure 14 and 14: Monthly turnover of both groups

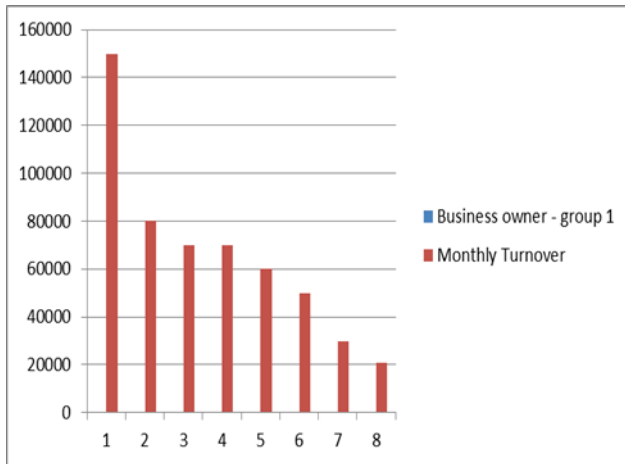


Figure 14. Group One monthly turnover

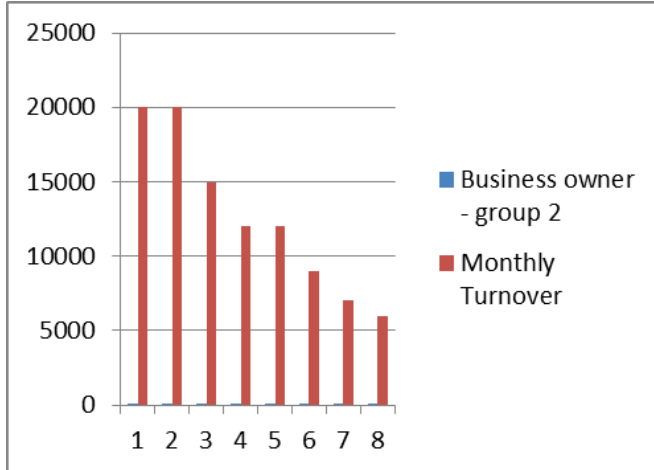


Figure 15. Group Two monthly turnover

Businesses in Group One have an average of R66 375.00 monthly turnover, while businesses in Group Two have an average monthly of R12 625.00. Participating in the informal economy is sometimes viewed as being marginal or survivalist. However, it appears that the businesses in

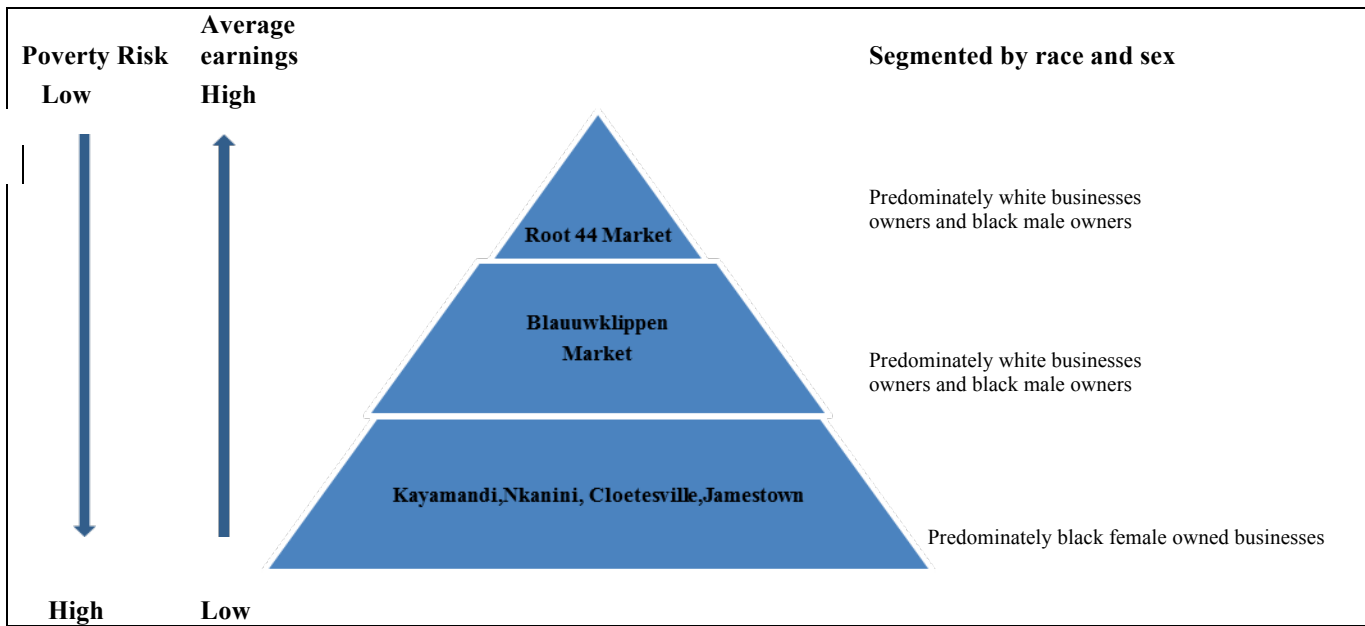
Group One are hardly marginal or survivalist businesses. Even businesses in Group Two indicate that they are better off in the informal economy; as what they make is more than what they could earn if they were employed, even in formal institutions. Interestingly, all businesses in Group Two indicate family and extended family dependency on the business income, compared to only business eight and business three in group one.

Engagement and support from the municipality

Only business eight and business ten indicated an engagement and relationship with the municipality. The rest of the businesses in both groups indicate no engagement and no relationship. Businesses eight and ten indicated various support given by the municipality. The remaining seven businesses in group one and business nine in group two indicated not being aware of any support that the municipality gives to the informal business. The rest of the businesses in group two indicated that they had tried to seek help from the municipality with no success. Business owners eight and ten mentioned that, “The municipality has provided us with business skills training, access to water and a facilitation of private sector sponsorship of operation containers and for advertising their businesses”.

4.3.1 How the Stellenbosch Municipality approach affects the livelihood of the informal economy participants

Two main facts emerge about the segmented informal economy in Stellenbosch. There are major gaps in business earning and gaps in race and sex representation in the earnings from the Stellenbosch informal economy. White-owned informal businesses are over-represented in the high earnings, while female black-owned informal businesses are over-represented in the bottom segments (see Figure 16).

Figure 16. Segmentation in the Stellenbosch informal economy

Source: Own compilation based on Chen 2012

The current increase in informal markets has not only presented an opportunity for traders and informal businesses to enter into these informal market but has also created barriers to entry. Business one in group one mentions that it is not easy to secure a trading space at the Root 44 market. Business one went as far as to say that he tried getting a stall a couple of times from the market but due to his colour he was unsuccessful. It was then asked how he had managed to trade at the Root 44 market if he was refused. Business one answered that a white friend got him the stall. However, businesses fifteen and sixteen who are operating in Kayamandi corridor and Stellenbosch Slow market have contrasting views about entry conditions. Both businesses said that getting a stall at the market was not difficult. Their main challenge was storage and transport. Both business fifteen and sixteen are unable to trade at the slow market, as they do not have transport or storage for their goods.

An interview with Mr. Franklin, the chairman of Stellenbosch's black business unit, revealed that the lack of involvement in the informal economy by the municipality affects the participants. A

number of businesses in the bottom segments indicate a negative effect to their livelihood due to a lack of engagement and support from the municipality. For example, business three in group one and business sixteen in group two are part of 30 informal businesses that lost their business when a small business development complex was demolished by the municipality councils in Kayamandi.

Photo 2. Business three products



Source: Vuka Creativity (2003)

Business owner three from Group One had rented a space in the demolished small business development complex, which they utilised as a factory. The small business development complex was demolished without a court order and the tenants were not even given time to remove their belongings. As a result, they lost all their stock, machinery and equipment. Business three mentioned that the demolished small business development complex did not only destroy his business but it also negatively impacted his family's livelihood. In response to, "how did it affect you and your family's livelihood?" Business owner three replied, "We spent months after the ordeal trying to rebuild the business but we failed, at the end we had to give up our shop in Del Vera". After many attempts business three failed to get back to business as their factory

was destroyed with customer orders and no production. After a year of no income the owner lost his home, and his children had to leave school.

Moreover, business sixteen lost all her stock and equipment when the small business development complex was demolished. Afterwards, she stated that, “I was out of business for five years after my business was destroyed. It was not easy being a single parent”. In 2010 business owner sixteen went back to business and rented a place at the Kayamandi tourism and economic corridor. However, she mentions that the business was more successful in the small business development complex than it is this time around. For example, business owner sixteen had a monthly turnover of +-R15000 when operating in the small business development complex, but her business now only has a monthly turnover of +-R6000. According to the newspaper article below (see figure 17), the municipality admitted they had acted unlawfully in demolishing the building due to misleading information about the tenants. However, business owners three, sixteen and all the businesses that were destroyed were never reimbursed for their losses. Business three has been unemployed and out of operation since the demolition of the building, while business sixteen is struggling and making far less money operating at the corridor.

Figure 17. Article in Cape Argus: 2 July 2004

SA Media - The University of the Free State		Page: 1
Source: CAPE ARGUS	Date: 02-Jul-2004	
Topic: 35	Ref No: 3891	
 1	ID: 03105968-01	Source Page: 2

Demolition: Council admits it slipped up

ZENZILE KHOISAN
Staff Reporter

THE MUNICIPALITY of Stellenbosch has admitted that it may have broken the law when it consented to the demolition on Wednesday of a structure housing 30 business premises in the Khayamandi informal settlement.

Pieter Loftus, spokesman for the Stellenbosch municipality, said it had not got a court order for the eviction of business people and the destruction of their premises because the municipality had been assured by the Khayamandi Development Trust that there were no people in the buildings.

He said the land on which the buildings were erected had been identified as a potential site for a development corridor initiative.

"We gave instructions to the contractor to demolish the buildings because we were assured by the tenant (the development trust) that there were no people inside," Loftus said.

"We did not get a court order because the tenant told us there were no people in the buildings, and we only needed to get an order if there were people in the buildings who did not want to leave."

When asked if the municipality had considered the possibility that the trust had presented it with an incorrect version of the situation, Loftus said it was acting after consultation with the development trust, to which it had leased the site.

"We have a tenant who sublets. We were told people had taken their things out of the building," he said.

"If there are or were people in the building, then we need a court order."

"Our instruction to the demolition company was that they should only destroy structures where there were no people."

Witnesses and traders at the site when the demolition began said they were shocked and horrified when about 30 men arrived with sledgehammers and crowbars and started bashing down businesses' walls and doors.

By 5pm on Wednesday every structure on the site, which had been in operation since the mid-1990s, had been destroyed.

Sandile Eland, chairman of the Stellenbosch branch of the National African Federated Chamber of Commerce, said: "We are going to take action to ensure that the illegal actions of the municipality and the trust do not go unpunished."

Furthermore, business owner two is part of a group of traders who were evicted by the Stellenbosch Municipality on the 16 of January 2013 following a complaint by a nearby church (Rhenish Church) that the traders were defecating and urinating on and damaging the property, making noise with drums during church services. When asked if this was the case, business owner two replied, “We have been trading in that place for more than 18 years; we are decent people trying to earn a living. We will not destroy this place as we still need to attract more tourists to buy more of our products”.

Photo 3. Business owner two’s stall



Source: C.O Art Collection, 2015

The municipality offered for the traders to move to Bergzicht taxi rank, however the traders refused as the place was far from tourists, who are their target market. After a lot of protest and negotiation with the municipality, on the 10th of December 2013 (11 months after the eviction) traders were given a temporary place to trade in Die Braak. Business owner two was asked how the eviction affected his livelihood. He replied “I was out of work for almost a year, it was difficult, I had no income to support my family, but it taught me how to think out of the box. Today I sell online and I supply a few shops”.

Photo 4. Traders protest after eviction

Source: www.streetnet.org.za (2015)

4.3.2 How the Stellenbosch Municipality approach affects LED process

The experiences from the Stellenbosch municipality led to an an interview with Maggie Murcott (2015) from SALGA to understand possible challenges that LED process may faces if they do not fully supporting and engaging with the informal economy. The following are the challenges, as mentioned by Maggie Murcott (2015) from SALGA.

Loss of spending in the overall economy

Maggie Murcott (2015) says that the main challenge when the informal economy is not supported is the loss of spending in the overall economy. According to Murcott, studies have proven that income earned by informal traders is spent largely on the consumption of goods and services, much of which is in the formal economy within the local economy. In similar a finding, David et al, (2013) notes that a loss of income from informal traders will result in lower consumption spending across the economy.

Loss of business for formal business

Murcott (2015) mentions that the informal economy is an important source of business for many businesses companies in the formal sector. According to a 2005 study by Marriot (2005) on the relationship between the informal economy and the formal economy, the two sectors have a supportive rather than combative relationship. In addition, the study indicates that, “formal businesses can often benefit from the increased foot traffic attracted by informal traders” (Marriot, 2005).

Makes fighting unemployment costly

According to Murcott, if the municipality does not view the informal economy as an integral part of the local economy, and a key factor in fighting unemployment, it might be very expensive to ignore the informal economy. Murcott says that with growing unemployment, mainly from the formal economy being unable to provide enough employment opportunities, self-employment in the informal sector is increasingly the only alternative solution.

Deprived participants from creating a source of livelihood

Murcott says that the informal economy is an important part of almost every local economy in South Africa; it has been recognised for its role in providing livelihoods for the poor and unemployed. According to Murcott, the informal economy needs to be an integrated part of municipality planning and it cannot be ignored.

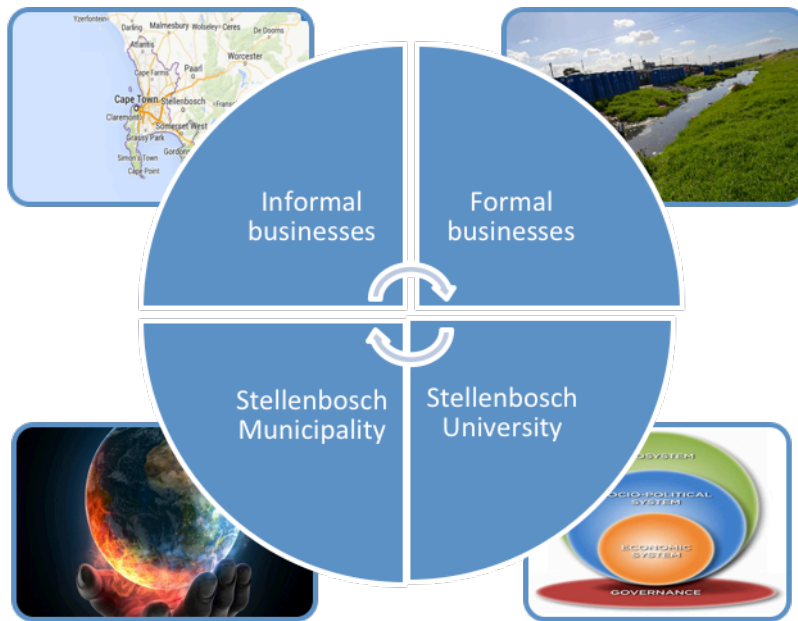
Similarly, the literature indicates that policies that ignore or marginalise survivalist enterprises cannot meet the requirement of inclusive and integrated local government planning (Davies & Thurlow, 2009).

4.4 INTERPRETATION OF THE RESULTS

Based on the 16 informal business owners interviewed, three LED Officials, the Stellenbosch black business unit chairperson and a representative from SALGA, it is concluded that the Stellenbosch Municipality's approach towards the informal economy is negative and thus negatively affects the livelihood of the participants.

It is clear that most of the business owners interviewed have not engaged with nor received any form of support from the municipality. Most of the businesses in Group One had no previous relationship with the municipality and they were not aware of any support. Whereas most of the businesses in Group Two (who previously sought help from the municipality) were generally unsuccessful in getting the needed help. One main attribute that stands out is that the municipality has often taken a top-down approach towards the informal economy. Most initiatives that the municipality took to develop the community and promote micro businesses, such as the Kayamandi tourism and economic corridor, were done in goodwill but ended up negatively affecting participants' livelihoods because of the approach taken.

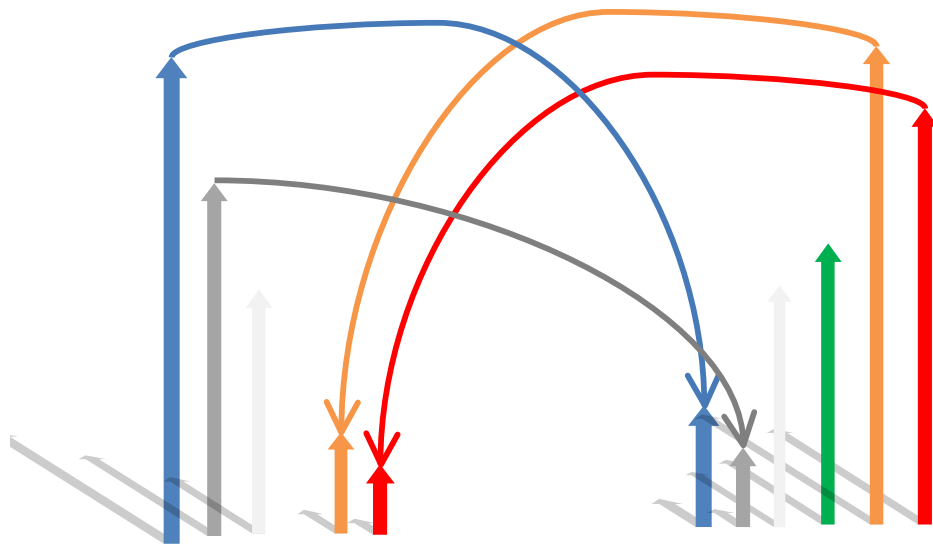
LED is a partnership between local government, the private sector and the community to manage local resources for job creation, local economic growth and empowerment of the marginalised groups to create their own prosperity. In the case of Stellenbosch, several stakeholders are recognised (see Figure 18)

Figure 18. Stellenbosch stakeholders

Source: Own compilation (2015)

Stellenbosch Municipality has a strong formal economy, the presence of a prestigious university and a thriving and vibrant informal economy. However, it is clear from the interviews with the 16 informal economy businesses and the BBU's chairperson that the informal economy is not a strategic partner in the Stellenbosch LED strategies and plan. According to Mr. Franklin from BBUs, even though BBUs were stakeholders during the 2014 PACA process, they are not recognised as a strategic partner. In addition, Mr. Franklin mentioned that his organisation has been trying to mobilise one voice for the informal businesses in Stellenbosch but various small informal business associations are reluctant to join BBUs and, due to racial issues and mistrust, many informal economy participants are scared to join associations.

Additionally, according to the literature, LED involves the notion of endogenous development, which emphasises the use of local physical, human, financial, manufactured and social capital together with institutional resources in order to stimulate both economic growth and development (Abrahams, 2003) (see Figure 19).

Figure 19. Exchange of capital to benefit all communities

Source: Own compilation based on Porrit (2007)

An area or community may have financial, manufactured, natural, human and social capital (each capital represented by an arrow in the diagram). Some areas will be rich in some aspects, and poor in others. An area may be financially rich, with lots of financial capital and manufactured capital, but socially poor, with little human and social capital. In other areas, it may be the other way around, and the area may be financially poor but socially rich.

For a sustainable local economy, the municipality needs to facilitate the transfer of capital to make up for deficits where they exist. The Stellenbosch informal economy (as presented by the results) seems to be thriving and very successful in areas financially rich and struggling in areas that are not financially endowed. There seems to be a clear separation within the Stellenbosch informal economy. There is an offsetting role of the municipality to use the financial tax base to integrate these informal participants to make up for financial deficits in the financially poor areas. There is also a missing link between the areas with a more active informal economy (with high social capital) for the municipality to facilitate the transfer of social capital from the areas with high social capital and high social cohesion to the areas where this is lacking.

4.5 CHAPTER SUMMARY

The research findings suggest that Stellenbosch Municipality (as highlighted by the Moyo (2007) in the literature) is currently promoting the growth of local formal industries in the hope that the business model will generate jobs and improve the income of the community, instead of focusing on both the formal and the informal economy. The municipality focuses on formal businesses to generate jobs, while unemployment, poverty and inequality is a serious challenge that cannot be met only by jobs created in the formal economy. Previously the municipality had failed to provide LED-friendly and more developmental and inclusive informal economy policies and by-laws. Due to this approach, the results shows that the Stellenbosch Municipality informal economy participants have been negatively affected. However, a recent process conducted by the LED department had noted the municipalities shortcomings and the municipality is currently (theoretically) in a process to change the position and create a more enabling environment for the informal economy. The informal economy response indicated a gap in the level of support and engagements with the municipality and several challenges were recognised as contributing to poor levels of engagement.

It was established that the Stellenbosch informal economy is vibrant and it could play a significant role in creating employment, reducing poverty and inequality. Several case studies found that the informal economy is able to create employment and increase the size of the local economy in a way that promotes social and economic value with reduced environmental impacts. The success of these initiatives rests on the local government as the facilitator, capacity building, collaboration, awareness building.

CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS

This chapter provides an overview of key findings by research objective, including conclusions on the current approach of the Stellenbosch Municipality's towards the informal economy in Stellenbosch, as well as the benefits and limitations of the informal economy in building a sustainable and inclusive LED in the Stellenbosch context. Key recommendations will be presented in response to the third research objective: to recommend ways that the Stellenbosch Municipality could better support the informal economy to promote a greater sustainable and inclusive LED. Opportunities for further scholarship were identified through the research process and are also presented.

5.1 SUMMARY FINDINGS

5.1.1 First Research Question

The first research objective was to investigate the benefits and limitations of the informal economy in promoting sustainable and inclusive LED. The key finding of the literature review is that the informal economy tends to promote greater sustainable and inclusive LED by shifting decision making around LED back to the people, in which the local economy is embedded.

The informal economy promotes increased economic participation and income sharing through reconnecting people to their local economic system that supports them, and thereby increasing the potential of alleviating poverty and reducing inequality that directly affects their local environment.

The literature highlighted that informal economy has multiple social, economic and environmental benefits for local economies like its linkages with the formal economy, the provision of productive employment opportunity, increased human capital, consumer and social capital, economic shift and resilience.

In the short and long term the informal economy can actively promote local development and resilience. However, in the short term, the informal economy requires active support from the municipality in order to be effectively recognised as a sector that highly contributes to livelihoods and the local economy. In the context of the end of rising youth unemployment and increasing urban populations, it is put forward that the informal economy will increasingly grow, especially in the local economy. The key findings from the research, presented in support of the first research objective, leads to the conclusion that the informal economy promotes more sustainable and inclusive LED than the current focus on a formal economic system, and that building a stronger informal economy in Stellenbosch will promote greater sustainability and inclusivity. However, limitation like the lack of recognition by the government, overcrowding by bigger formal businesses, lack of access to credit, lack of access to market information and illegal activities in the informal sector were noted as possible threats to attaining a sustainable and inclusive LED.

5.1.2 Second Research Question

Based on the findings of the first research objective, the investigation for the second research objective (to build an understanding of the Stellenbosch Municipality approach toward the informal economy and how it affects the participants' livelihood and LED) was critical in establishing a current approach and a baseline for making recommendations to support the informal economy through the final research objective. Key findings of the research undertaken in support of the second research objective are presented below.

A document analysis of 12 policy documents and the framework related to LED revealed irregularities in referring to or engaging with the informal economy. The analysis found very few references to the informal economy in terms of its role and value to the Stellenbosch LED. The results from the interviews indicated that the Stellenbosch informal economy is vibrant and mostly visible, however not recognised. The interviews revealed that in the past, the Stellenbosch Municipality's approach has negatively affected the informal economy participants. Findings

from the interviews confirmed the findings from the document analysis. LED is vital in terms of sustainable development, but it needs to be inclusive and promote informal economies if it is to tackle poverty, unemployment and inequality. Factors affecting the level and quality of engagement between practices related to the LED and the informal economy were identified as concerning a lack of information, support and institutional processes.

5.1.3 Third Research Question

The final research objective was to find ways by which the Stellenbosch Municipality could better support the informal economy to contribute to a sustainable and inclusive LED. Based on the findings from the first and second objectives, experiences of Gasabo, Rwanda; Arusha, Tanzania and the case of Warwick in Ethekewini municipality were analysed. These experiences were identified as having addressed several barriers and challenges that local government incorporated to bring about sustainable and inclusive LED. The research presented in support of the third and final research question aimed to provide inputs for making recommendations for building a stronger sustainable and inclusive LED in Stellenbosch.

Experiences from Gasabo, Arusha and Ethekewini local government showed that partnership and collaboration with the informal economy could lead to sustainable and inclusive LED. The innovation displayed by the role that the Gasabo District took in the formation of the cooperative is a plausible example. The Gasabo District assumed the role of a facilitator and mobilised vendors, financial institutions and the government of Rwanda to play their respective roles in establishing the Duhahirane Gisozi Cooperative. This experience showed that good stakeholder participation could lead to sustainability and inclusivity at local governance. It is also important to note that most of the components of the initiative were already in place; it was only the role of a facilitator that was missing, to negotiate and link the stakeholders. The Duhahirane Gisozi Cooperative has mobilised many different people at multiple levels: youth, women, sole informal traders, communities, sectors, districts and the central government. Stellenbosch LED official one, indicated that the Stellenbosch Municipality has become aware that formal businesses in Stellenbosch are sitting with +40 billion rand from cooperative social investment and they did not know where to use it. On the other hand, the chairperson of BBUs also indicated how small start-

up businesses are struggling. There seems to be a missing role of facilitator in Stellenbosch Municipality, and there is a need for the Stellenbosch LED department to assume this role of facilitator as its primary role to reach an ultimately successful result. There have been issues regarding the ability to replicate the Gasabo project, however recent establishment of more cooperatives in the district have proved that this form of organisation the informal economy is plausible.

The case of Arusha city shows that a holistic view of the system can bring about innovation and newness that was not expected. Tackling the challenge of environmental degradation in the city with a view to include all stakeholders resulted in something innovative and of mutual benefit. The Arusha government showed that improving the city environment is possible without necessarily disrupting livelihoods in the informal economy. Partly due to the conduct of the informal economy, the city opted to restore the environment in a way that improved the sector's performance by leveraging it with local formal enterprises. In Arusha, local government officials shifted from evicting the informal businesses and traders and instead the city council now assists the informal economy actors and is trying to strengthen its relations with informal business operators by providing them with loans and helping them to find alternative business premises. The city council in Arusha has shifted its mindset from seeing the informal economy as a hindrance to development to considering the informal economy as integral to sustainable and inclusive development of the city. This initiative has translated to 'raising people's standards of living, including those in the informal economy, on an environmentally sound basis'.

The case of Warwick triangle is a good example of how mobilised change through informal economy organisation, partnership and democracy with the informal economy organisation in local government planning can bring mutually beneficial results. Even during times of development pressure, when the city wanted to revert their support to the sector and evict the informal businesses to comply with certain city images, resilience from informal economy organisations, coupled with great support, brought a voice for the Early Morning Market that could not be ruled by other forces. Through these processes and negotiations, the city of Ethekwini has moved from viewing the informal economy as a part of a welfare or poverty alleviation project to a part of economic planning and development.

At this stage, it is asserted that the study has achieved the objectives that it set out to attain; however, it is also recognised that the study could improve in several respects. The following section includes the limitations and areas of improvement in more detail.

5.2 LIMITATIONS OF THE STUDY

Although every effort was made to enhance the validity and reliability of the study through triangulation, it is recognised that the quality and size of the sample could be improved. The study relied on purposive or judgmental sampling combined with snowball sampling. The interview process with the Stellenbosch LED officials was initially started as they were thought to know the system best. They then referred me to participants in the informal economy, who gave referrals to other business owners. This route was taken due to limited connections with the Stellenbosch informal economy practitioners, and affected the size and quality of the sample. For example, not all types of informal businesses were included; the focus was more on informal businesses that had tourist and community as their main target markets. Therefore, informal businesses in construction, waste management and transport were not included.

Secondly, the study set out to gain a deeper understanding of the Stellenbosch Municipality approach towards the informal economy and how the approach affected the participant's livelihood. It was therefore deemed necessary to consider a wide range of data to be able to assess the impact on the participant's livelihoods. The media was then examined for any reports on the Stellenbosch Municipality and the informal economy. A relatively wide range of searches was considered in order to obtain a multilevel understanding, these included newspaper articles, and interviews with informal economy organisations and informal economy participants. However, only three informal business owners who were negatively affected were interviewed. Some business owners who were also negatively affected by the Stellenbosch Municipality approach refrained from participating in the research, as they feared they would lose their businesses and rights to trade if they engage in the research. The study could have benefited from greater participation from such a group as representing the direct impact of the municipality approach on the sector.

5.3 RECOMMENDATIONS

For a holistic approach to promoting a sustainable and inclusive LED, within the context of a predominantly market-based local economy, the key recommendation for Stellenbosch Municipality is to promote a stronger LED by engaging, recognising and supporting the informal economy. This could be achieved in part through the set of recommendations for the Stellenbosch LED process presented below, and further recommendations will emerge from future scholarship.

Strengthen the organisations in the informal economy

Strengthening the organisations within the informal economy is critical for including, recognising and supporting the informal economy in Stellenbosch. Experiences from Kigali, Arusha and Ethekewini show that strong informal organisation is a key ingredient for a positive change within the informal economy. From the interview with the chairperson of the Stellenbosch BBUs, it is apparent that a lack of effective organisation within the Stellenbosch informal economy has caused a hindrance and delay in integrating the sector into the overall economy.

Separate the informal economy from the SMME mandate

The challenges facing the informal economy and its participants are unique and require special interventions. Combining the informal economy strategies within the SMME mandate may lead to the informal economy being overshadowed and overlooked. A clear distinction between the two sectors will enable the municipality's capacity to focus on each sector individually and thereby meet their specific needs. This will, however, probably require a national mandate. It is also important to note that the experience from Arusha has shown that it is possible for a local government to specifically engage and support the informal economy without a national mandate. In essence, it will be much easier to have the informal economy as a standalone especially in the view of measuring the sector.

Recognising the informal economy in poor areas

There is a need to recognise informal businesses in townships and informal settlements as contributors to LED and sustainable livelihoods. Chen (2014) suggests that local government can view slums and street vendor markets as industrial clusters and promoting them will require significant political will and active negotiations.

Mindset shift about the informal economy

There is a need for a mindset shift from local government, communities and big businesses as they contribute to income generation, employment creation and flexible market and convenience shopping, and economic participation and sharing for the poor. The informal economy represents untapped resources and modes of businesses that local government can tap into to meet their development goals.

Promote hybrid economies

The sole focus on the formal economy for LED process reduces the potential of creating a unique sense of local competitiveness. Promoting a hybrid economy enables a bigger economic creation that will meet and represents a larger inclusive community. Hybrid economies will also enable a vibrant local economy, greater competitive edge and a higher contribution to the local GDP. However, as Chen (2014:415) notes, the challenge will be to convince the policy makers to promote and encourage these hybrid economies “in which micro businesses can co-exist alongside small, medium, and large businesses: in which the street vendors can co-exist alongside the kiosks, retail shops, and large malls.”

Building local distribution chains

During the research process it was revealed that local informal retailers buy their products outside Stellenbosch. There seems to be a lack of information on what goods and services are available in Stellenbosch. For example, the informal fresh produce retailers interviewed indicated that they buy their goods from a market in Epping. The LED process can play a facilitator role where local food producers can be linked to local food distributors and retailers. The LED process can incorporate the establishment of a local distribution hub for locally produced fresh produce to assist local fresh produce retailers and farmers.

Awareness sessions on available business support and opportunities

There was an overall lack of information on the support and opportunities offered by the local government to informal businesses. There is a need for local government to hold awareness sessions on the available support and opportunities in the sector.

Local business integration

The study has shown that the informal economy is divided. There is a presence of an upper class informal market that enjoys greater benefits than the markets in townships and the informal settlements. There is also a need for local government to find innovative ways to integrate these markets as to benefit the whole Stellenbosch informal economy.

Shift from a top-down to a bottom-up approach

The study has also shown that a lot of the previous negative approach from the municipality towards the informal economy was due to a top-down approach towards the sector. LED officials who engaged in a shift towards 'bottom-up' approaches to the LED process are best positioned to promote community participation and empowerment.

5.4 OPPORTUNITIES FOR FURTHER RESEARCH

Further research on the informal economy and its contribution to the LED process is critical to draw some further conclusions and correct some errors in the implementation of LED practices. Based on the limitations of this study, as presented in chapter three, opportunities for further research have been identified and are presented below.

- This study provided in-depth background information on the benefits and limitations of the informal economy in promoting a sustainable and inclusive LED process and did not seek to differentiate the informal economy from the LED process. This presents a platform to critically differentiate the informal economy from the LED process in more detail and to conduct a more critical analysis of the whole LED process and its sustainability and inclusivity.
- There is an opportunity to further investigate the positive and negative impacts of including the informal economy in the LED process. This should also develop and establish reference values and indicators of the informal economy to the LED process.
- There is also a need to further investigate the possible negative impact that the informal sector brings to a sustainable LED future.
- Research also needs to be carried out to quantify the impact of informal economy activities on the environment and ecosystems.
- This study revealed some elements of disregard towards the informal economy by the LED process. There is a need to investigate and evaluate the long-term influence of the informal economy on poverty alleviation, inequality reduction and unemployment.

5.5 CHAPTER SUMMARY

The list of possible future research topics may be numerous, however, the implications of the study are very clear. For the Stellenbosch Municipality to achieve a sustainable and inclusive LED process, it will have to promote, engage and support the informal economy. To do so, the

LED officials and policy advisors need to shift their mindset towards considering the informal economy and its contribution to the local economy. Furthermore, a collaboration and partnership with the informal economy actors may greatly assist in finding innovative ways of building a robust local economy that meets both social and environmental challenges faced at a local level.

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APPENDICES

APPENDIX A: INTERVIEW QUESTIONS TO THE STELLENBOSCH INFORMAL BUSINESS OWNERS

1. What is the name of your business?
2. What led you to start your business?
 - Background on the person
 - How long have you been in business?
3. Is your business registered?
4. What services/products do you provide?
5. Do you have any people working for you (if yes how many?)
6. Where do you buy your products (if selling goods) – whose your supplier?
7. Who is your target market?
 - How do you market your business?
8. How much money do you make a month?
9. Do you pay any rent or levies for using this space?
10. What difficulties do you face in your business?
11. How can those difficulties be solve?
12. What advantages do you have as a small business in Stellenbosch?
13. What benefits do you have by operating in the corridor?
14. What support do you get from the community, municipality and the formal businesses in Stellenbosch?
15. What kind of support would you like to receive to grow your business?