Promoting Domestic And Export Activity In The Craft Industry

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Abstract

South Africa is an example of a country with an enclave model in terms of development. This former settler-dominated economy is faced with the problem of unemployment and underemployment. The purpose of this study is to investigate ways in which the informal sector could become more productive and competitive and a nexus for industrialisation. A comparative analysis of two case studies found within the craft sector is undertaken. The case study respondents were the Talking Beads and the Kopper en Kraale. Questionnaires were used and analysed. This resulted in development strategies that are proposed for the integration of the informal sector into the formal sector of the economy.

Declaration

I declare that this report is my own, unaided work. It is submitted in partial fulfilment of the requirements of the degree of Master of Management (in the field of Public and Development Management) in the University of the Witwatersrand, Johannesburg. It has not been submitted before any degree or examination in any other University.

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In memory of Paola Beck, my friend and mentor.

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CONTENTS

List of Abbreviations

BDS	Business Development Services
BEE	Black Economic Empowerment
CIDA	Cultural Industries Development Agency
CIGS	Cultural Industries Growth Strategy
COSATU	Congress of South African Trade Unions
CREATE SA	Creative Research Education and Training Enterprise South Africa
CSG	Cultural Strategy Group
CSIR	Centre for Science and Innovation Research
DAC	Department of Arts and Culture
DACST	Department of Arts and Culture, Science and Technology
DOL	Department of Labour
DTI	Department of Trade and Industry
ECA	Economic Commission for Africa
FS	Formal Sector
GDP	Gross Domestic Product
GEAR	Growth, Employment and Redistribution
ICT	Information and Communications Technology
ILO	International Labour Organisation
IS	Informal Sector
ISEP	International Small Enterprise Programme
ITC	International Trade Centre
IDZs	Industrial Development Zones
JASPA	Job and Skills Programme for Africa
LDC’s	Less Developed Countries
MAPP- SETA	Media, Advertising, Publishing, Printing and Packaging Sector Education and Training Authority
MLL	Minimum Living Level
MSE	Micro and Small Enterprise
NAC	National Arts Council
NCCSA	National Craft Council of South Africa

NGO's	Non-governmental organisations
OECD	Organisation for Economic Co-operation and Development
PSA	Proudly South African
RDP	Reconstruction and Development Programme
SANCC	South African National Craft Council
SAQA	South African Qualifications Authority
SDI's	Spatial Development Initiatives
SETA	Sectoral Education and Training Authority
SEWA	Self-Employed Women's Association
SLL	Supplementary Living Level
SME	Small and Medium Enterprise
SMME's	Small, Medium and Micro Enterprises
SS	Subsistence Sector
STFC	SEWA Trade Facilitation Centre
TEP	Tourism Enterprise Project
TISSA	Trade and Investment South Africa
UNDP	United Nations Development Programme
WEP	World Employment Programme
WSSD	World Summit on Sustainable Development

CHAPTER 1
INTRODUCTION

1. Introduction

The aim of this research is to investigate the manner in which the informal sector could be made more productive and competitive in the context of a dynamic and transforming South African economy. This research report shall investigate ways in which the development of craft in the informal sector could be formalised and integrated with the formal sector in terms of both domestic economic activity and export promotion. In order to pursue the above it is important to summarise the historical background within which the development of the informal sector occurred within South Africa.

1.1. The South African Scenario

The institutionalisation of the apartheid system of governance led to environmental degradation and black impoverishment in South Africa. Mass population displacement of black people to rural reserves and urban townships resulted in environmental degradation. Colonialism and apartheid has resulted in a small percentage of the population contributing to the formal sector of the economy. Hence a large percentage of the population are found in the non-formal sector of the economy. This can be further identified as the informal and the subsistence sectors.

After the first democratic election in 1994 the role of the government became that of a facilitator and a quality assuror of standards in terms of economic development and growth. The government had to simultaneously put policies in place to address issues of underdevelopment in the informal sectors and on development at a macro-economic level. Programmes such as the Reconstruction and Development Programme (RDP) and policies such as Growth Employment and Redistribution (GEAR) were formulated to this end accordingly. Hence the creation of Small, Medium and Micro Enterprises (SMME's), Spatial

Development Initiatives (SDI's) and clusters were put together in a critical mass to give momentum to development.

South Africa is a country that is an example of a settler-dominated economy. Settler-dominated economies were former colonies where the immigrant settlers or colonialists established and institutionalised economic dualism (Mhone, 1997). Here are some of the characteristic features of these economies. According to Mhone (1997) exploitation and marginalisation of the majority of labour were institutionalised and were seen as a source of cheap labour. The majority of the labour force had their land expropriated. Restrictions were placed on access to education and to skilled and professional jobs. This was coupled with a strategy for the exploitation of primary resources such as agriculture and mining. There were also institutional mechanisms in place to regulate labour flows between formal and non-formal sectors within the formal sector itself. Hence long term development of the enclave economy was formalised prior to independence of the colonies (Mhone, 1997).

The settler-dominated economies were dependent on primary production with very little emphasis on import substitution with a high dependency on export markets and imports of industrial and consumer goods. Using economic nationalism these countries started to challenge the imperial division of labour. This resulted in import substitution strategies to expand the formal sector. However the majority of the labour force was still marginalized despite these inward looking strategies and policies. Only a segment of the labour force was hired as indigenous unskilled labour. Hence one of the main characteristics of this type of economy is the trend of jobless growth.

Market forces cannot solely solve the problem of economic dualism. The South Africa scenario is indicative of economic dualism, enclavity and low labour absorption. These are related to the economic situation that existed during the colonial era and that has since been reinforced and perpetuated during the post-independence period. This research report shall also investigate whether post-independence policies are adept at addressing reform of the enclavity.

1.2. Development of the Informal Sector

According to the Economic Commission for Africa (UNECA, 1997) there are three points of view regarding the development of an informal sector strategy in Africa. The first deals with the notion of the informal sector being unsustainable. Hence this sector will be subsidiary and dependent in the development process. Development of the informal economy can only occur through a "trickle-down-effect" of the development of the formal economy. Thus there is no need for a separate development strategy for the informal sector. All the barriers to the development of the informal economy such as immobility between the sectors, legal restrictions to informal operations, etc., can simply be corrected through appropriate policy initiatives to integrate the informal sector into the formal economy.

The second view of the development strategy for the informal sector focuses on it being a great potential for independent development and using it as the nexus of industrialization (UNECA, 1997). This therefore requires that the informal sector activities be identified and ranked for development, based on set criteria to be followed by appropriate policy intervention. Government and Non-governmental organisations (NGOs) would be expected to participate in research activities and in the implementation of priority projects.

The third view focuses on urban squalor and mass poverty of the informal sector. Thus policy formulation for the improvement of welfare and working conditions of the urban poor become paramount. This is aimed at increasing productivity and incomes in the informal sector.

The second view in terms of developing the informal sector has been found to be the most feasible and has been adopted by the ECA. This results from the state’s inability to increase investment in the formal sector's industries, the weaknesses of the indigenous private sector to replace the public sector and the reluctance of substantial foreign investment in Africa. The above scenario reinforces the need to develop the informal sector, especially if the industrial development policies and strategies of African countries are made amenable. Ironically the informal sector has demonstrated better performance during economic crisis. The informal sector becomes more dynamic than the formal sector. It has displayed a high potential towards the contribution to qualitative structural changes and to the promotion of entrepreneurial ability. This research report shall adopt view where the informal sector could be utilised as the nexus of industrialisation.

Hence the aim of this research is to investigate the manner in which the craft sector could be made more productive and competitive in the context of a dynamic and transforming South African economy. How can the informal sector of the economy that produces African craft be transformed to join the formal sector of the economy?

1.3. Background

This section will focus on definitions of the informal sector, productivity and competitiveness. The nature of the problem of the informal sector will be examined in conjunction with the existing policy environment of cultural industries wherein the craft sector in South Africa is located.

1.3.1. The Informal Sector

The International Labour Organization (1991) defines the informal sector as:

Very small units producing and distributing goods and services, consisting largely of independent, self employed producers in urban areas of developing countries, some of whom also employ family labour and/or a few hired workers or apprentices; which operate with very little capital, or none at all; which utilize a low level of technology and skills; which therefore operate at a low level of productivity; and which generally provide very low irregular incomes and highly unstable employment for those who work in it.

[ILO, Dilemma of the Informal Sector, 1991].

The informal sector comprises of small-scale unregistered enterprises that is primarily aimed at self-employment. Generally less than five persons may be employed in such an enterprise. These persons have ingenious plans and survive under hostile policy and structural environments that are governed by unconstructive social and economic characteristics.

According to the United Nations Economic Commission for Africa (1997), the following characteristics are the commonly used to describe the informal sector:

> *(i)The working capital is individual or household owned and the activity involves a small range of workers; (ii) knowledge and skills are acquired through apprenticeship; (iii) activities or workshops are home-based or in insecure non-permanent locations; (iv) a large number of operators do not comply with established business regulations; (v) in the production sub-sector, working conditions are generally poor, with little basic infrastructural support and minimum use of modern technologies; (vi) operators have low formal education background, pay minimum wages to workers and provide apprenticeship on a non-remunerative basis; (vii) in the trading sub sector women form the largest group of operators; (viii) in the financial sub-sector, clients are made of poor households and micro-enterprises within the sector and credit, if not based on mutual confidence, is linked to land and goods* (1997, p.6).

According to May (2000) the informal sector in South Africa comprises 1.7 million people and includes workers that are involved in survivalist activities. May uses the Supplementary Living Level (SLL) and the Minimum Living Level (MLL) as tools for the examination of poverty within the informal sector. The SLL is set at R220.10 per month and the MLL is set at R164.20 per month. The utilisation of both poverty-line estimates indicate that a minimum of 45% of self-employed people or approximately 379 000 people earn incomes that are lower than the poverty line. Statistics indicate that over half of the self-employed earn less than the SLL of R220.10.

May (2000) have identified race, gender, age and location as the four markers of poverty in the informal sector. Africans represent approximately 76% of this total population that earn below the SLL. About 72% of the above earn below the MLL. In terms of gender approximately 60% of women earn less than the SLL.

The informal sector in South Africa has evolved as a residual, transitional, survivalist and the labour absorber of both the subsistence and formal sectors of the economy.

The informal sector is also underpinned by characteristics such as unregulated markets, unrecorded official statistics; little or no access to organised markets, credit institutions, formal education and training institutions and to public services and facilities. The government in terms of policy processes generally marginalizes the informal sector. Hence this sector lives and works under poor and appalling conditions. Thus transformation of the informal sector into a dynamic and productive sector that is linked to the formal sector has to be preceded by a drastic change in structural distortions and policy biases.

1.4. The Problem Statement

The Apartheid government's economic policy biases enforced enclavity in South Africa. The government system adopted the formal sector as a driver of growth and development. It believed that the formal sector will expand laterally and there will be a trickle-down effect that will absorb unemployed and under-employed labour from the non-formal sector.

The developmental problem postulated is that there is a significant sector of South African society who are external to the formal sector in the capitalist mode of production are not perceived to be contributing to the Gross Domestic Product (GDP) of the country.

The research question posed is how the informal sector that produces African craft be transformed to join the formal sector of the economy? Other questions arising from this enquires as to what must be done in order for the transformation of the informal sector to successfully occur. The following key issues arise.

- What is the current state of the value chains and the value channels within the informal craft sector?
- What needs to be done in order to rectify problems arising from above?
- What strategies can be undertaken by the public and private sectors to strengthen the value chain and value channels within the informal craft sector and among all sectors of the economy?

Unemployment and under-employment creates certain economic and social ramifications. An under-utilised labour force creates a constraint on economic growth and development. Economic development can only occur if economic growth involves the majority of the labour force in productive economic activities that would impact on improved living standards. When under-employment exists then the labour force is not productive enough to earn a living wage to ensure a decent standard of living. This manifests itself in social maladies such as high infant mortality rates, low life expectancies, etc.

In South Africa the co-existence of the capitalist and pre-capitalist modes of production that are seemingly fused together is dominated by the capitalist mode of production. It was expected that the nature of capitalism and the market would be able to absorb and transform this pre-capitalist mode of production. Pre-capitalism when compared to capitalism as a mode of production consists of non-productive labour i.e. where labour is not aimed at profit making or to the increase of capital itself. Hence labour that does not contribute towards profit making maybe viewed as non-productive as it does not contribute to economic growth at either the micro or macro economic level.

The formal sector of the economy maybe referred to as the capitalist part of the country’s economy whilst the non-formal sector maybe referred to as the pre-capitalist part that may also include the informal and subsistence sectors. The non-formal sector is characterised by pre-capitalist forms of production and from a capitalist's point of view is non-productive. All countries experience this problem globally however in Africa the informal sector comprises the majority of its labour force and that is the crux of the problem. The discussion above is necessary for understanding the problem of enclavity and also demonstrates the problems concerning the informal sector that need to be addressed when dealing with its transformation in the craft sector.

Post 1994 the democratically elected government continued with economic policies such as GEAR that had been fashioned in this light to promote growth and development. However in countenance to the above the new government also promoted the tenets of the RDP programme that looked as the craft industry as a programme aimed at poverty alleviation and the setting up of SMME's to counteract the unemployment and the under-employment that was found in the informal and subsistence sectors. The Department of Trade and Industry has also made strides since its White Paper of 1995 on the development of SMME's. The Department has since published a discussion paper entitled *A Guide to the Microeconomic Reform Strategy* (Dobson, 2002). This dissertation will make use of the abovementioned document in terms of its analysis and the strategy it proposes for the development of the craft sector.

1.5. Problems associated with the Informal Sector

The research question addresses how can the informal craft sector be transformed to join the formal sector of the economy? In order to transform the informal sector one needs to address the problems that this sector currently faces. According to Mhone (1996) the problem with the informal sector is two-fold. The first part of the problem is the structural relationship between the formal sector (FS), the informal sector (IS) and the subsistence sector (SS). This point is pertinent to the original structure and location of the informal sector in African society and its relationship with both the formal and subsistence sectors. The second part of the problem is concerned with the constraints that the informal sector experiences with regards to growth, development and transformation into a more dynamic sector.

The structural status of the informal sector is indicative of the distortions that African economies experience in terms of the allocative inefficiencies i.e. the manner in which factors of production (labour, land, finance, inputs and technology) and goods and services are allocated across the economy. These distortions can be attributed to the historical evolution of African economies, to policies of omission and commission and to the functioning of those economies despite their structural distortions and globalisation.

Hence these allocative inefficiencies constrain the dynamism of this sector therefore transformation of this sector would require a structural enabling environment. Structural policies are necessary for the transformation and integration of the informal sector into the formal sector of the economy. The informal sector is often underdeveloped as far as policy is concerned in this regard.

The microeconomic inefficiencies at the level of the enterprise contribute to the low levels of productivity, inadequate access to factors of production (i.e. labour, machinery and equipment, intermediate inputs, utilities and land), underdeveloped production processes and work flow, poor working environment and inadequate access to possible markets.

The abovementioned microeconomic constraints are commonly addressed as policy concerns but will be ineffective and costly if the structural distortions of the informal sector are not dealt with appropriately in terms of a structural and policy-enabling environment.

The informal sector becomes a repository for the structurally and transitionally unemployed. Liedholm et. al (1993) maintains that the threat of saturation of participants is an ever-present threat, unless effective barriers are positioned for entry into the various economic activities. Examples of people having unique and creative skills are the crafters. Involutionary growth i.e. lateral expansion of the sector results in people working long hours for a pittance. This has a negative impact on individuals, households, the state and society. Thus involutionary growth has a negative impact on human and social capital.

1.6. Limitations to the transformation of the Informal Sector

There are three limitations that restrict the transformation of the informal sector. These are as follows:

The first limitation is structural constraints that govern the informal sector and its relationship to the formal and subsistence sectors. Its marginal and residual status is discussed in relation to the bias policies formulated by the state for the formal sector. The relative ease through which a participant gains entry into the informal sector results in involutionary growth, i.e. lateral expansion that results in declining income. It is therefore necessary for an enabling environment to be created that will allow the informal sector to structurally transform the economy. This implies the strengthening of value chains i.e. distribution, marketing, finance, human resource development, technology capabilities, etc.

The second limitation is the barriers at the enterprise level that result in weaknesses that related to management, marketing, production processes, etc.

The third limitation is the behavioural characteristics displayed by the labour market in terms of its reflection on how individuals and households are able to adapt under adverse conditions.

The above discussion reflects the immediate need for the structural context of the informal sector to be addressed if it were to play an effective role in the absorption of surplus labour and if it were to address poverty eradication. This research report through its methodology seeks to address whether the organisations discussed in the case studies are compliant with the ideal scenario of the acknowledgement of the existence of the enclave model and whether the relevant transformative changes have been made. The areas addressed in terms of the development of the value chains and value channels within which each of these organisations operate in is analysed in terms of the organisation characteristics of the enterprise, the financial operations, management, marketing, policy issues with regards to development of SMME’s, quality and skills.

The next part of the discussion will focus on the informal sector and the nature of its constraints. Extensive research indicates that the informal sector of the African economy provides the majority of the population with employment and income as well as with goods and services. The International Labour Organization (ILO) through its Job and Skills Programme for Africa (JASPA) recognized the importance of informal sector development in the field of employment expansion. The ILO's World Employment Programme (WEP), showed an interest in the investigation of the workings of labour markets in developing countries and the discovery of the informal economy as a possible nexus of industrialization.

In order to transform the structural status of the informal sector as a possible nexus of industrialisation, one needs to focus on the key areas being value chains and value channels. These focal areas will contribute to the increase in productivity, formalization and export promotion in the informal sector. Value chains refer to the various linkages among enterprises within, and across the three sectors viz. the formal, informal and communal sectors and these impacts upon productivity, production, costs and returns. These include activities such as distribution, marketing, finance, human resource development, technology capabilities, etc. among all sectors. The development of value chains and value channels is instrumental in transforming the informal craft sector to join the formal sector of the economy as there needs to be simultaneous transformation in the formal, informal and communal sectors of the economy.

Value channels refer to disaggregated spheres of activities of the enterprise at a microeconomic level that has a similar impact upon productivity, production, costs and returns. These activities include management of enterprise, management of inputs, production processes, technology, marketing, distribution, human resource management, finance, etc (Mhone, 1998). The topic of this research report is entitled “Promoting domestic and export activity in the craft industry”; hence concepts such as productivity and competitiveness are imperative in its realisation. The following sections will introduce these concepts.

1.7. Productivity

Productivity refers to the value of output (goods and services) produced per unit of input (productive resources) used. Thus an increase in productivity means producing more goods and services with the same amount of resources, or producing the same goods and services with fewer resources, or some combination of these two possibilities (Johnson, 2000). While productivity is often measured or referred to only in terms of the productivity of labour (output per man-hour), a more precise and complete view of the sources of productivity incorporates the effects of all inputs to production, including capital, land and materials. The principal means of increasing overall productivity are (Johnson, 2000):

- Greater specialization and a more complex division of labour (often involving a geographical or territorial expansion of the relevant market area, incorporating new people with different skills and endowments of natural resources.
- Investment in increasing the stock of capital goods.
- Investment in so-called human capital (for example, teaching workers new or more efficient production skills).
- Technological innovation that creates new ways of combining somewhat different inputs of the factors of production to produce the same goods at lower costs.

Productivity can be defined as the efficient and effective manner in which resources are utilized to produce an output or service. According to Mhone (1998) productivity maybe defined as the need to maximise output from a given set of inputs in average and marginal terms. Mhone suggests that productivity enhancement be approached from a sector or wide-economy level and at the enterprise level. Hence the emphasis on institutional support, value chains and linkages are important to productivity enhancement. Productivity enhancement is important for the transformation of the informal craft sector.

Globalisation as a concept has been in existence for over 100 years it became a dominant force in 1990s and has consistently shaped a new era of interaction among nations economies, and people. However the speeds of current economic integration, caused by developments in information and communication technology, have increased investments and capital flows and is new to globalisation. The world is characterized by shrinking space, time, and disappearing boarders. Globalisation generally refers to a broadening of and deepening of international trade, foreign investment and portfolio flows and it involves international integration with radical implications for all countries of the world.

1.8. Competitiveness

In the global economy competition means an ability to constantly take the most advantageous position or niche in a rapidly changing market environment. More often it is associated with high quality, and technical superiority, speed and product differentiation, rather than cost. This is important in determining the niche export market for South African craft that is being produced in the informal sector.

According to Lall (1999) competitiveness is the ability of an economy to grow in an open market with advantages that yield rising wages, sustained employment creation and improved working conditions. This requires greater technological, organisational and managerial capabilities on the part of firms. However, it also requires supportive policy: firms develop competitive capabilities by responding to market signals and drawing upon factor markets and institutions. They learn from their interactions with other firms, competitors, suppliers and customers. These markets, institutions and networks can suffer from deficiencies, many of which can be remedied only by government policy.

The OECD defines competitiveness as "*The degree to which a country can, under free and fair market conditions, produce goods and services which meet the test of international markets, while simultaneously maintaining and expanding the real* *incomes of its people over the long-term*". This could only be achieved under increased productivity.

The single most important determinant of competitiveness is the level and improvement of workforce skills at all levels. Hence this is imperative to the development of value chains and value channels for the transformation of the informal craft sector.

The World Competitiveness Report (1995) proposes eight major factors that influence the competitiveness of companies and nations. These are discussed below. The more competition there is in the domestic economy the more productive and competitive the domestic firms are likely to be abroad and the higher value-added productivity and country prosperity. Openness for international economic activities increases a country's economic performance. Export-led competitiveness is often associated with growth-orientation in the domestic economy. Higher integration with the international economy results in more productive resource allocation and higher living standards.

In order to promote competitiveness the government's intervention in business activities is minimized. Government policies are to concentrate on creating a competitive environment for the enterprises by providing macro-economic and social conditions that are predictable and thus minimizing the external risks for economic activities. Hence government must be flexible in adapting its economic policies to a changing international environment. A well-developed, internationally integrated financial sector in a country supports its international competitiveness. The efficiency of the financial sector is best measured by the narrowness of the "spread" between the rates of interest that borrowers pay, and the rate that depositors receive. A narrower "spread" means either those depositors receive higher interest rates, or that borrowers pay less. The financial sector performs more efficiently when the spread declines, whether it is borrowers or lenders who benefit.

This research report focuses on the transformation of the craft sector that is located within the informal sector of the South African economy. Hence the craft industry is a sub-component of the cultural industries.

1.9. Enhancing Craft Productivity in the Informal Sector

Productivity is said to increase when:

- Less or the same amount of resources produce more output;
- Increase in output is greater than the increase in input;
- When an output can be produced with fewer inputs;
- The reduction of inputs is greater than the resulting reduction in output.

Economic use of resources that result in increased productivity of craft allow for the surplus resources to be used for expansion. Productivity enhancement at the enterprise level can be found in any of the factors of production and processes used by the enterprise. Hence the notion of productivity enhancement refers to total productivity whereby the various factors of production, inputs and processes may make a contribution. Productivity enhancement must be viewed from a sector-wide level of the craft industry as well as from the enterprise level. This is important because firstly, factors external to the craft enterprise such as the effectiveness and efficiency of the value chains that impact on productivity at the enterprise level need to be identified and addressed. Secondly, elements of productivity at the craft enterprise level may have bad effects at the sectoral-wide level. Thirdly, resource allocation must be effectively utilized across all sizes of the enterprise in the craft industry.

Productivity enhancement can be broadly categorised into two streams: viz. meso-factors and value chain aspects. The meso-factors are associated with institutional agents that are generally established by the State and here productivity enhancement is found outside the ambit of the informal craft sector. These institutional agents may also comprise of associations that represent the interests of craft enterprises or they maybe non-governmental and community organisations that have a direct impact on productivity. One of the key factors that underpin African economies is that there is a scarcity of institutional agents of productivity in the formal sector, let alone the informal sector where they are non-existent.

1.10. The Meso-factors that enable Productivity Enhancement

The meso-factors contribute towards enabling the institutional environment that would result in productivity enhancement. Hence this section is concerned with the specialised agents that address the productivity needs of specific economic activities.

1.10.1. Publicly or association funded national productivity institutes or organisations

In South Africa, there's a need for national or activity specific organisations that would advocate productivity enhancement for micro enterprises. These organisations would have the task of up-grading certain select informal sector enterprises. The main function of such organisations would be to analyse and assess the overall constraints of informal sector enterprises in terms of transforming them into dynamic and productive enterprises. Additionally such organisations would be responsible for the dissemination of information that would enhance productivity of micro enterprises in the informal sector.

1.10.2. Research and Development

Research and development into the various facets of the value channels that apply to a craft enterprise are required. Value channels consist of the use of technology, production techniques, work methods, product development, quality control, marketing and distribution, management practices, etc. Research is needed for the craft activity, development of technology and its role in economic contribution to the informal sector. Research institutions of this regard such as CREATE SA and TIPS would need to cater for the high value-added potential of the different activities in the informal sector and their linkages with other sectors of the economy.

1.10.3. Education and Training

There is a need for specialised training agents for craft micro enterprises in the informal sector especially in terms of the development of value chains and value channels within the craft industry cutting all sectors of the economy. The Departments of Arts and Culture, Education, Labour, Trade and Industry and Foreign Affairs need to formulate a co-ordinated strategy for the craft industry. Thus far each of these departments through various programmes and policy documents have contributed to the development of this sector. CREATE SA has been especially put together by DAC and Labour to develop skills with accreditation within the craft sector.

1.10.4. Dissemination of Information

The DAC, DTI, and CREATE SA disseminate knowledge and information about specific economic activities. However relevant information with regards to micro enterprises in the craft informal sector are also required. Some of these activities might include information with regards to government subsidies, regulations and laws, management practices, marketing, lobbying, etc.

1.10.5. Infrastructure

This deals with services that are inputs that impact on craft productivity and is the standard practices of services that are expected by the formal sector. These services such as serviced stands that are strategically situated with amenities including water; electricity, transport and communication are rarely supplied to craft micro enterprises in the informal sector. It must be stressed that product enhancement at the enterprise level is dependant on such services.

The provision of public utilities to the informal sector is a second method of productivity enhancement and it is imperative that it is done in consultation with the craft micro enterprises. Hence there must not be a unilateral segregation of services to micro enterprises without a proper consultative and a participatory process. Flea markets are an example of how micro enterprises can be integrated with enterprises of a larger scale. This assists with the formalisation and enhancement of productivity and the efficiency of micro enterprises.

Value chains are a third way in which craft productivity maybe enhanced. Linkages with other craft enterprises engaged with the same activity in either the micro sector or the formal sector results in the strengthening of benefits and productivity enhancement. Elements of the value chain that maybe gainfully affected are linkages to marketing, distribution, inputs, human resources, technology, finance, management and production. Mhone (1998) maintains that it is imperative to find ways to exploit the enhancement of productivity that may arise from intra or inter sectoral linkages between enterprises in all value chains.

Expansion of market demand is a fourth mechanism to enhance craft productivity. Easy access into the informal sector results in the saturation of participants hence the market becomes a constraining factor on productivity. Lack of demand depresses productivity. Strategies must be formulated to enhance the demand for informal sector products and services, so that this demand will have a positive impact on productivity. It becomes imperative that each type of informal craft sector activity identifies the appropriate market for its products.

1.11. Enclavity and its Implications on the Informal Craft Sector

The discussion of the enclave model attempted to address the problem of unemployment and under-employment in South Africa and that has direct repercussions on low GDP and investment. The problem has been coined as the low absorptive capacity of African economies. Historical structural factors such as a settler-dominated economy have contributed to the marginalisation of the majority of the labour force. These factors have resulted in the perpetuation of the enclave and dualistic economy. This results in the formal sector being grafted onto the colony by the colonialists whose agenda was determined by external factors. Hence there was neither presence of transformation nor the development of internal accumulation and the majority of the labour force that was engaged with the subsistence form of production. The problem contained in the subsistence form of production versus the capitalist form of production may also be attributed to the utilisation of the enclave formal sector as a driver of the economy. Growth of the formal sector was envisaged as a trickle-down effect that would absorb the labour force into the capitalist mode of production.

The open enclave model that is a characteristic of the South African economy and the external markets reinforce the enclavity of the formal sector. This has also been perpetuated by government policies that have a strong bias towards large-scaled, capital intensive enterprises in the formal sector. The above have all contributed towards the bias of small-scale enterprises that are labour-intensive that are found in both urban and rural areas.

In order to reverse this enclavity it is imperative for the state to be proactive towards the development of the non-formal sectors. There is a need to restructure the base of the economy so that it can accommodate the majority of the labour force. In order to for the unemployed and the under-employed to be involved in the capitalist mode of production the state has to broaden the asset and income entitlements through policies that have a strong transformation agenda of the non-formal sectors. This strategy requires a paradigm shift from the trickle-down effect to one that acknowledges the structural limitations of enclavity. Hence the state is already pro-active in the restructuring of the non-formal sectors. Thus transformation of the informal sector into a dynamic and productive sector that has linkages to the formal sector has to be preceded by changes in structural distortions and policy biases.

1.12. Increasing Competitiveness within the Craft Enterprise

A well-developed infrastructure within the craft industry supports economic activity. This includes the availability of natural resources and functional business systems, information technology, transport, communication and education, and an efficient protection of the environment. A competitive product and service reflects managerial ability, its long-term orientation, and the ability to adapt to changes in the competitive environment, a level of entrepreneurship and skill for integration and differentiation of business activities.

Competitive advantage can be built on efficient and innovative application of existing technologies. Investment in research and innovative activities creating new knowledge is crucial for the craft industry’s more mature stage of economic development.

A skilled labour force with a positive attitude increases a country's productivity and competitiveness. Education, the technical ability of labour, the quality of management and efficiency all contribute to competitiveness. All this means that to pursue a competitive strategy many coordinated changes in human resource development are simultaneously needed rather than a few high profile initiatives in one or two areas.

It should be emphasized here that openness to global markets and the internationalisation of economies play an increasing role in productivity and competitiveness enhancement.

Competitiveness is one of the important issues for the development of the craft enterprise. The concepts of competition and productivity are interrelated. Competition improves when productivity rises relative to cost. Short-term competitiveness is achieved based on cuts in costs i.e. on job losses. However competitiveness can be sustained if productivity is driven by high skills and a strong human resource management policy and advanced technology. Emerging technologies call for a higher level of skill and application of the technologies also demand a more complex education and training programme.

Generally the production of craft is a small enterprise. Thus the development and the sustainability of SMME’s are vital for the South African economy. The Department of Trade and Industry (DTI) maintains that the small business sector plays an important role in meeting basic needs and in helping marginalized groups (like female heads of households, disabled people and rural families) to survive during the current phases of fundamental structural changes where the formal economy is unable to absorb the increasing labour supply, and social support systems are grossly inadequate (DTI, 1995).

Additional needs for supporting SMME development in South Africa is as follows. International experience reveals that there is a support for trade development over donor aid. SMME development supports the Promotion of Democracy and Civil Society. Thus it can assist in the development of the private sector and other institutions that promote participation by entrepreneurs in the economic, political and social systems of South Africa. The development of SMME's in South Africa can promote a flexible, innovative and competitive economic structure that is crucial for reacting to changing global trends and overall competitiveness. From a macro-economic point of view SMME's are an important phase in the transition to a market economy and thereby contribute to overall development of the private sector, including the promotion of privatisation. The importance of SMME development has been recognised and encouraged by International Donors.

Craft can be considered a source of innovation for the entire economy. The craft industry is linked to other industries such as the tourism industry. Development of the craft sector would enhance the development of the country's skills base and a strong labour pool is a national priority. There is both a domestic and an international market for craft products.

Easy access into the informal sector has given women entry into the craft industry. Hence adaptation of traditional skills such as sewing and beading provide women with a window of income. The production of craft is regarded as key to product and process innovation. Products initially produced in the craft industry are often later manufactured on a larger scale.

The craft sector is closely linked with a number of other industries such as the tourism and the formal manufacturing and retail sectors. This happens through joint supply and distribution chains, product development and marketing strategies.

1.13. Cultural Industries

Creative South Africa: A Strategy for Realising the Potential of the Cultural Industry (1996) maintains that the South African Cultural Industries focus mainly on the music industry, craft, publishing and film and television sectors. The Cultural Strategy Group (CSG) that compiled this report worked from the basis that the Cultural Industries Growth Strategy (CIGS) is an industrial strategy. The sectors that were concentrated on were on the basis of the potential for job creation, growth and export.

According to DACST the cultural industries has been *used to describe a variety of cultural activities which all have commercial organisation as their prime motivating force. These activities take a number of different forms and are organised in different ways from the manufacture or creation of products to the marketing and distribution thereof* (Creative South Africa: 1998).

Hence cultural industries can be used as a tool to conserve, document and develop heritage. Intrinsic in these processes, is an interaction between international interests and values, the claims of nationalism, ethnic and religious traditions, as well as the concerns of the local communities. Central to the sustaining cultural legacies into the future is this link to community practices and social interaction. The World Bank together with the Cultural Heritage Development Action Network Group advocates partnerships between the complementary experience and knowledge of cultural heritage experts with that of practitioners of social, economic, and infrastructure development.

The World Bank (1999) maintains that

In Africa, there are many opportunities to integrate cultural heritage with pressing social and economic development objectives such as employment generation, skills training, poverty alleviation, social cohesion, health and education. http://wbln0018.worldbank.org/es

The Department of Arts and Culture endorses the views of the World Bank and the Cultural Heritage Development Action Network Group and this is evident in the policy documents that underpin this sector.

The RDP (1994) endorses the above by maintaining that the arts and culture policy ought to *conserve, promote and revitalise our national cultural heritage so it is accessible to all communities (historical and cultural collections, resources and sites must fully reflect the many components of our cultural heritage and, in particular, neglected and suppressed aspects of our people's culture must be conserved).*

A large majority of the participants within the craft industry are located in the informal sector of the economy. Most of these participants can be found selling their products at flea markets, craft markets and along the roadside. Hence this research report focuses on incorporating these non-formal traders of the craft sector into the formal sector of the economy.

1.14. Chapter Review

The structure of the research report is as follows. Chapter two deals with the Literature Review where there is a review of the literature written about the linkages between the formal and the informal sectors of the economy and the various theoretical schools that have formulated them and enclavity. The second part of the literature review focuses on the craft industry. It comprises of a global overview and craft promotion in the countries of India, Italy and Thailand. The chapter is concluded with perspectives on Africa.

Chapter three focuses on the Craft Industry in South Africa. It explores the development of the craft industry in South Africa since 1994. There are statistics of this sector in terms of its contributions to the economy and to development.

Chapter four focuses on the Methodology employed in this research report. The comparative case study has been adopted as a methodology. The two case study respondents were **Talking Beads** and **Kopper en Kraale**. Their responses to the questionnaires maybe found in the Appendix. In each of these case studies data was gathered that examined the concepts of value chains and the value channels within each organisation through questionnaires. The Expert System Builder a software package was used as a tool for analysis that triangulates the qualitative and quantitative responses from the questionnaires.

Chapter five deals with the Findings of and the Recommendations gleaned from the case studies. Chapter six is the Conclusion to the research report.

CHAPTER 2
LITERATURE REVIEW

2. Introduction

This chapter reviews the literature written about the linkages between the formal and the informal sectors of the economy and the various theoretical schools that have formulated them. The framework of enclavity is discussed which forms the analytical basis of the comparative case studies. There is an overview of the contribution of the craft sector to the world's economy and lessons gleaned from these experiences for Africa are also discussed. There is an introductory South African craft sector is also discussed with regards to both the formal and informal sectors of the economy with the relevant statistics where applicable.

2.1. Theories concerning linkages between the Formal and Informal sectors

Much literature has been written about the linkages between the formal and the informal sectors of the economy (Mhone, Todaro and Lewis). There are three schools of thought that are referred to as the dualists, the structuralists and the legalists. The views of each of these schools can be summarised as follows (Todaro, 1994). The dualists perceive the informal economy as a separate marginal sector that is not directly linked to the formal sector that provides income or a safety net for the poor. Dualists argue that the informal economy exists because economic growth or development of the formal sector has failed to absorb those who work in the informal economy. The structuralists perceive the informal economy as being subordinated to the formal sector. Structuralists argue that privileged capitalists in the formal sector exploit employment relations and subordinate those who work in the informal sector in order to reduce their labour costs and increase their competitiveness. The legalists perceive the informal work arrangements and unregistered businesses as a rational response to over-regulation by government bureaucracies. Legalists argue that those who run informal businesses do so to reduce their own costs and increase their own wealth (Carr& Chen, 2001).

The distinguishing factor that separates each of these schools is their underlying model of power or power relationships. The dualists subscribe to the notion that there are few power relationships between those who work in the informal and the formal economies. The structuralists subscribe to the notion that the formal economy exerts a dominant power relationship over the informal economy in its own interests. In South Africa this notion of power relationships does exist between the formal and informal sectors of the economy. This can be further discussed in terms of race and class. The legalists subscribe to the notion that informal entrepreneurs exercise their own power or choice to operate informally as a response to unreasonable state controls.

2.2. The Enclave Model

South Africa is an example of a country with an enclave model in terms of development. The enclave model refers specifically to *"developing countries that had been colonised had inherited a special type of social formation in which the capitalist sector of the economy was grafted onto pre-capitalist forms of production in a manner that was distorted"* (Mhone, 1997). This type of capitalism was imposed externally and did not originally emanate from within the country in the name of development. Hence this sector was structurally disarticulated from the informal and communal sectors. The informal and communal sectors in an enclave model are expected to develop via the "tickle-down" effect from the surplus plus that was generated in the formal sector of the economy.

2.2.1. The Problem of Unemployment and Under-employment

Unemployment and under-employment is a problem that affects most countries in Africa and is often referred to as the problem of low labour absorptive capacity of African economies. This research report adopts the paradigm that African economies have been afflicted by the legacy of enclave growth and development which is partly due to the manner in which capitalism gained foothold into the colonised territories in Africa. This paradigm of enclavity would link the problem of low labour absorptive capacity of African economies to the structural legacy of economic dualism. This structural legacy can be attributed to it being partly self-perpetuating even within a market context in terms of current structural adjustment programmes and to it being partially policy induced. Thus market friendly measures and proactive policies are required to assist with this problem.

This implies that the formal sector that comprises 20% of the population would generate approximately 90% of the GDP and that the majority of the population that straddle the informal and communal sectors contribute to approximately 10% of the GDP (there are exceptions e.g. South Africa). According to Mhone (1997) this produces a low equilibrium trap. This model therefore contributes to poverty that is experienced as a common development problem in the developing countries.

The dependency school of theory focused on the manner in which global forces marginalized and sidelined developing countries that were former colonies when they entered the global economy. This school of theory concentrated upon the inequalities between the developed and developing countries as far as trade, aid and foreign investment were concerned.

An important trait of capitalism is the relationship between capital and labour, where labour is commodified to boost the continuous expansion of capital of market exchange of both factors of production and goods and services. Capitalism as a mode of production replaced the primary subsistence form of production that was organised along communal lines both in Africa and in Southern Africa. Generally capitalism occurs through the transformation of agrarian subsistence forms of production and the simultaneous emergence of capitalist forms of production in both agriculture and industry that commodifies almost all-active labour. However in Africa capitalism did not transform both agriculture and industry and did not commodify all-active labour that hence lay outside of the capitalist mode of production. This has resulted in economic dualism.

2.2.2. Economic Dualism

Economic dualism is a characteristic of the South African economy. Economic dualism is the coexistence of mutually interrelated segments of the labour force i.e. a minority of the labour population that is engaged in capitalist forms of production aimed at capital accumulation and the majority of the labour population that is engaged with non-capitalist forms of production and hence results in low productivity from a capitalist point of view. The capitalist sector is the formal sector that exists as an enclave amidst the mass of under-employment that is prevalent in the non-formal sector that this can be further sub-divided into the informal and communal sectors. Hence this incomplete subordination of non-capitalist forms of production is called economic dualism. This interrelated coexistence leads to economic stagnation and marginalisation of the non-formal sector that constitutes the majority of the labour force as opposed to the dynamic transformation that has occurred in developed countries. The transformation that has occurred in industrialised countries such as Australia and the United States of America has had capitalism imported by its citizens who were immigrants from Europe.

This concept of economic dualism makes the following assumptions:

- Labour to the formal sector can be obtained at a low price
- Capital is a scarce factor of production
- Domestic markets have limitations since the majority of the labour force is engaged in non-productive activities.

The outcome of this research report is to provide a strategy using the developmental approach to transformation of the craft industry in the subsistence, informal and formal sectors of the economy. This implies the transformation of the craft industry both individually in each sector and their linkages with each other. This would finally imply the disappearance of the craft industry in the subsistence and informal sectors of the economy in African society as their economic activities become formalised. Hence the next section deals with the various models for development that would inform the strategy.

This report shall adopt the notion of development as espoused by Todaro (1994) who maintains that “development must therefore be conceived as a multidimensional process involving major changes in social structures, popular attitudes, and national institutions, as well as the acceleration of economic growth, the reduction of inequality, and the eradication of poverty”.

2.3. Structuralism and the Informal Sector

This research proposal explores the views of that espoused by the structuralists. The structural problem with regards to the informal sector in this light consists of the following characteristics:

The formal sector, which is viewed as the engine of the economy, is unable to generate sufficient employment for the absorption of net increases in the labour force and for the absorption of the under-employed. According to Mhone (1998) the reason for this is that the various biases such as the dependency on the formal sector for exports and imports which obviated the need for the development of internal markets and sources of inputs have had an impact on the formal sector. These results in a low rate of employment growth relative to the growth of the labour force; and the low rate of employment growth relative to the amount invested.

Linkages between the formal and non-formal sectors are minimal, exploitative or marginal. Hence the trickle-down effect of the formal sector growth tends to be minimal, perverse or impoverishing.

The ability of the informal sector to transform them is very limited given the structural and policy bias constraints. Thus the informal sector is prone to involutionary growth that results in the lateral expansion of the sector coupled with declining incomes and an increase in effort to achieve minimal subsistence incomes in an urban environment.

In summary the formal sector did not generate sufficient employment to incorporate labour that was engaged with subsistence activities. It also did not initiate the transformation of the informal and subsistence sectors through linkages nor by means of formalization of the economic activities carried out by those sectors. Hence the formal sector always had surplus labour. The reasons for constrained and low labour absorption of the formal sector are as follows:

The formal sector depended on exports and imports that absolved its self from the need to develop internal markets and sources for inputs. There were low rates of growth of foreign investment and exports in relation to the growth of the labour force. The utilization of production processes that were dictated by the technical demands of developed countries. Developed countries generally experienced a shortage of land and labour and had an abundance of capital and therefore had the means to outsource the production process to less developed countries.

The less developed countries in Africa chose to adapt to the demands imposed upon them instead of developing the abundance of resources such as labour, land and natural resources. The state produced policies that were biased and favoured large-scale, capital intensive forms of production through the provision of infrastructure and utilities.

This biased position was further supported through policies for education, training and research that supported large- scale enterprises and capital-intensive forms of production. There was a biased position towards large- scale formal enterprises with regards to the provision of credit and financial services. A general bias prevailed towards large- scale formal enterprises and capital-intensive forms of production in terms of trade, investment and sectoral policies. There was a bias in regulatory policies with regards to access of markets inputs, urban space in terms of zoning regulations and licensing requirements. Hence development of the formal sector was favoured above the informal and subsistence sectors.

The above scenario clearly demonstrates the bias of the state towards formal sector development and large-scale formal enterprises. This resulted in the formal sector entrenching its self as a self- reproducing enclave sector in relation to the informal and subsistence sectors. This sector did not formulate policies for the development of the other two sectors.

2.4. The Subsistence or Communal Sector

The economy is divided into the formal and non-formal sectors. The non-formal sectors comprise of the informal and the subsistence or communal sectors. Hence to effect transformation and development of the informal craft sector it is imperative to understand the subsistence or communal sectors. The subsistence sector or communal sector has continued its existence as a residual sector. Hence a century since modernization the rural African economies are primarily still entrenched in their subsistence and communal existence. Africa with the exception of South Africa has the largest percentage of the labour present in this sector. Through an absence of external policy interventions this sector is heavily under-employed. As a result of these resources such as labour and land and production processes are under-developed. The communal forms of economic organisation have not yet adapted to the concepts of markets and profits that are characteristic of the formal sector economy.

The subsistence sector is characterised by low levels of productivity and income reinforcing the under-employment of labour in this sector (Mhone, 1998). This sector is unable to uplift itself economically and the spill over benefits from the formal sector is negligible. As a result of declining natural resources and income levels, migration from this sector to the formal sector is a long-term goal and is a characteristic of African economies. Migration from the subsistence sector has exceeded the population growth rate and the employment growth rate of the formal sector. This has resulted in an increase of available surplus labour in the formal sector of the economy.

There is a continuous expansion in the informal sector of the economy. Positioned between a slowly growing formal sector and an impoverished subsistence sector, the informal sector has been the absorber of surplus labour. This has been enhanced through the relative “ease” that one gains entry into this sector. The requirements of entry are that of ingenuity, the use of one’s labour and the ability to use “free and natural resources”.

According to the ECA most African countries do not have an enabling environment and this impedes development of the informal sector. The participants in the informal sector do not have access to government subsidises, grants, finances, education and training, skills development, etc. Hence in order to transform the informal sector the above mentioned activities need to be ranked for development based on set criteria to be followed by appropriate policy intervention. Hence the tri-sector model for development ought to be utilised to promote the informal sector as a nexus of industrialisation.

The integrated approach to structural transformation shall achieve the following. It shall facilitate the growth of productive employment opportunities, thereby relieving the formal sector as the sole generator for productive employment and absorption of surplus labour. It shall increase the reaction of employment to any amount of investment or output. This ought to stimulate growth based on domestic demand and of savings and investments funds. All of the above shall strengthen the sustainable growth of the economy. This implies that there shall be little reliance on external demand, foreign investment and imports.

2.5. Mechanisms to transform the Informal Craft Sector

In order to promote economic development of the craft industry in the informal sector the internal or structural factors that are related to effective implementation of value channels at the enterprise level i.e. management of enterprise, management of inputs, production processes, technology, marketing, distribution, human resource management, finance, etc need to be developed. Similarly strategies need to be developed with respect to external factors that relate to legislation and the role of the state.

Creative South Africa: A Strategy for Realising the Potential of the Cultural Industry (July 1998) is a report to DACST by the Cultural Strategy Group (CSG). DACST commissioned CSG a multi-disciplinary consortium to research the concept of cultural industries in South Africa and to propose strategies for its growth and development. CSG comprised of consultancies such as KPMG, the Centre for African Transformation (CART), LMA/SQW policy and research consultants and BDM consulting. In the report the CSG state that DACST supports GEAR and is contributing to it through numerous arts and culture initiatives. The Cultural Industries Growth Strategy (CIGS) is an example of one such initiative that focuses on developing strategies for growth and development of the cultural industries. Key areas of importance would be the creation of export markets and jobs.

However the South African Craft Industry Report (1998) comments on the lack of documented statistics available in the informal sector with regards to value chains (i.e. distribution, marketing, finance, human resource development, technological capabilities, etc) and value channels (i.e. management of enterprise, management of inputs, production processes, technology, marketing, distribution, human resource management, finance, etc). Thus this research report uses the statistics released through various policy documents of the Department of Arts and Culture.

The Report of the National Craft Imbizo Assessment Workshop (2002) made the following recommendations to DAC with regards to future development of the Imbizo.

Time frames must be set aside for planning, information gathering, market research, project management and fundraising to facilitate access and to maximise opportunities presented by the event. Transparent and consultative regional, provincial and national selections should occur with the aim to ensure quality of the products that ascribe to the Proudly South African accreditation criteria and are tailored to market opportunities presented by the Imbizo. Explicit criteria with regards to product development and support are required to facilitate this accreditation process. There ought to be a focus on craft production in terms of product development, packaging, quality assurance and market readiness of products. All provinces requested the use of centralised, electronic and user-friendly systems of transportation, packaging and stock control to be developed.

The design of the exhibition space allocated needs to effectively showcase the artefacts or craft.

Most of these recommendations made by the craft organisations to DAC are requesting assistance with business development services and on value chains within the enterprise that impact on productivity, production, costs and returns.

Creative South Africa (1998) made the following recommendations for the craft industry. The rural craft sector needed to identify a market prior to the production of craft. The establishment of an information and communication share network to assist crafters with “the where” and “the how”. DACST together with the provinces ought to compile a directory of services for crafters. The directory ought to contain information with regards to sources of commercial supplies, new technologies and production enhancing techniques.

Distribution networks that link the rural crafters to the markets in the urban areas are also problematic for crafters. These craft SMME’s need to be linked to Spatial Development Initiatives (SDI’s). For this to occur there ought to be a clear partnership between government, the private sector and the industry to mark out the roles and the responsibilities. This ought to ensure good co-ordination and management for the development of the sector.

The South African Craft Industry Report (1998) states that there is little or no documented statistics recorded in the informal sector. Financial support from public-private partnerships also favours the craft industry in the formal sector and not in the informal sector. Hence most of the capital for start-up purposes is from one’s personal savings or loans from friends and relatives. The South African Craft Report recommends that a National Craft and Design Institute be established. The objective of this institute would be the promotion and the marketing of this sector. This is an important element to promote competitiveness of the sector. The South African Craft Report (1998) makes the following recommendations in terms of the future role that the National Craft and Design Institute ought to adopt:

- *Provision of market research for local and export markets to facilitate the product development process*
- *Lobbying and advocacy work (Parliamentary representative) and policy development*
- *Look for leveraged policy interventions to create a more facilitative environment for crafters and designers e.g. tax (on supplies and on business)*
- *Identification of catalyst sub-sectors for special support, for example the metal and wood sectors*
- *Building capacity of support organisations and marketing intermediaries*
- *Development of supply chain networks and development of collective purchasing opportunities*
- *Promotion and facilitation of strategic partnerships and joint ventures with the public and private sector*
- *Research, training and education development including the provision of grants and the development of academic programmes.*

Intergovernmental project management together with the SAQA process of accreditation and standards together with the linkages to the Export Councils must be encouraged. According to *Creative South Africa* (1998) one of the responsibilities of the National Craft and Design Institute should look at the issues of research, education and training development. The institute will also provide grants for the development of academic programmes.

Since this report an organisation called Creative Research Education and Training Enterprise South Africa (CREATE SA) has been established. CREATE SA is the National Skills Fund strategic project of the Media, Advertising, Publishing, Printing and Packaging Sector Education and Training Authority (MAPPP-SETA). MAPPP-SETA implemented in partnership with the Department of Arts and Culture (DAC), The National Arts Council (NAC) and the National Film and Video Foundation. Creative industries fall under the auspices of MAPP- SETA.

As a national skills development entity, CREATE SA provides workplace-based learnerships and skills programmes that combine educational and technical training to ensure the sustainability of life-long learning within the South African creative industries.

The DAC commissioned research on the creative industries and they identified major problems such as a lack of adequate skills, market access and innovative product development. The suggested intervention was to intersect the needs of the sector with the emerging National Skills Development Framework, forming partnerships with the Department of Labour (DoL) and the Sector and Training Authorities (SETA) (www.createsa.org.za).

The CREATE SA programme is funded by the National Skills Development Fund and DAC, and promotes a focus on people who might not have had access to training opportunities. The primary outcome of the CREATE SA programme is the promotion of growth and competitiveness in the creative industries sector.

The core business of CREATE SA is to:

- Audit the skills gaps and shortages within the creative industries through research
- Establish the labour supply and skills demand
- Develop standards and establish key performance indicators
- Design and implement learnerships that lead to competence in the sector
- Facilitate implementation programmes through partnerships
- Ensure quality assurance of the training and the accreditation processes
- Ensure the participation of industry and education and training stakeholders through a consultative process.

These programmes are aimed at empowering the crafters in the informal sector with education and training skills and are aimed at strengthening the informal craft sector with administrative, management and new technology skills. This will lead to strengthening of the value chains and the value channels within the craft industry. To date CREATE SA has produced standards for the craft industry and for arts and culture management that focuses on business development.

There has been a reversal of the attitudes of government and the private sector towards SMME's and the informal sector and in terms of generating procedures in the informal sector of the economy to stimulate growth. The DTI since 2002 has a microeconomic reform strategy. However the co-ordination for the implementation of this strategy is required in the craft sector.

According to Mhone (1998) the value chains in the craft industry may utilise partnerships between micro enterprises, formal sector, public sector, community and cooperative agencies engaging both domestic and foreign participants. Training must occur to enhance the existing skill base. These are especially lacking in the areas of production, management and marketing in the informal craft sector. CREATE SA is a vehicle through which the above is being dealt with in the formal sector of the economy. The government needs to provide a well co-ordinated supportive environment for the craft sector.

At the craft enterprise level an alternative value chain might identify market opportunities, design prototypes, test the market, and upgrade production, distribution and marketing services. These are important for the increase of competitiveness both for the domestic and international craft markets. Inputs for this process ought to include finance, training, production, quality control, packaging, costing, pricing, distribution, export development, after sales customer care, assessment of trends of sales and their implications for future design and marketing of the product.

In the context of the above it is important to emphasize the systematic development and maintenance of the product image to ensure product appeal to the international market. A systematic and reliable value chain starts with identification of the export market and ends with after sales service. However this is mediated through entrepreneurial, technical and managerial functions related to the finance, production, marketing and distribution. These traits are imperative for the development and sustainability of the value chain in all sectors within the craft industry.

Productivity at the craft enterprise level in the informal sector can be enhanced through partnerships and linkages with the formal craft sector. Linkages can occur between one or more value chains, in the form of mentorship, subcontracting, dissemination of management practice and outsourcing.

2.6. Productivity Enhancement at the Micro Enterprise Level

This section focuses on craft productivity enhancement at the enterprise level where the management of the value channel becomes paramount for productivity enhancement. Congruency and linkages exist between the craft enterprise and the household. The areas of interest that form part of the value channels that are linked to the craft enterprise include technology, enterprise management, production processes, human resource management, work processes, input management, marketing, distribution and financial management.

For collective and developmental transformation of micro enterprises in the informal craft sector the implications for policy analysis has to either promote a welfare state approach that promotes the unsustainable survival strategies or to provide strategies that attempts to formalise these micro enterprises into the mainstream economy. The latter is the approach that the government has adopted with the microeconomic reform strategy.

The manner in which the household is utilised to subsidize the craft micro enterprise through the use of unpaid labour and other resources results in the depreciation of human and social capital. This manifests itself in shorter life spans, bad health, bad family relations and under-education of children. This may also result in the individual exploiting himself in relation to the returns generated or received.

The informal sector in African countries is presently representative of under-employment of labour. This results in allocative and technical inefficiencies. In terms of restructuring the economy as a whole it would be imperative to withdraw some of these resources and reallocate them to more productive activities. Alternatively one could increase the demand for informal sector products and services. This would increase the overall productivity of the economy. Thus the "fungibility" of the informal sector where the activities of the craft micro enterprise becomes intertwined with that of the household becomes a constraint in achieving efficiency at the micro enterprise level and for the whole economy.

There is need to separate the craft enterprise from the direct control of the family in terms of unpaid labour. One-way of achieving this is through the use of formally contracted labour. According to a study by Biggs et al (1995), the smallest firms in Africa have proven to be the most labour intensive in contrast to their Asian counterparts in the manufacturing sector. The Asian countries i.e. South Korea, Thailand and India demonstrate greater continuity than their African counterparts being Ghana, Kenya and Zimbabwe. The Asian example demonstrates that efficiency and productivity increases with the size of the craft enterprise. This also is the outcome concerning the case studies dealt with later.

Hence the lesson learnt is that larger craft enterprises will always be more sought after than micro enterprises. The strategy must avoid reinforcing the smallness of the enterprise. Rather the challenge would be to create a policy environment whereby all craft enterprises irrespective of their size are able to maximise their cooperative and competitive advantages.

Training is another area that needs to be highlighted in terms of productivity enhancement in the informal craft sector. There is a dire need to train craft entrepreneurs in the fields of management and in the utilization of value channels. Hence in the South African scenario, Learnerships have been created for the development of skills in various sectors. A balance is required in terms of the unstructured, exploratory manner of learning in the informal craft sector together with the structured and institutionalised methods that shall result from outside interventions.

A strategy for training has to be found whereby training will be accommodated without interruption to the craft income generating process. Exceptions may arise where the training is subsidised or targeted at new recruits. In South Africa, training may have to be preceded by Adult Basic Education as a pre-requisite for further training in entrepreneurship.

Entrepreneurship in the craft industry involves creativity and innovation for the enterprise to be successful. However management and administrative skills are equally important for the success of the enterprise. Wohlmuth (1996) states that entrepreneurs may fail because of a lack of skills in management and marketing and the lack of these skills in the craft industry lead to the failure of the enterprise. Training needs need to be identified for the different types of entrepreneurs in the informal sector. According to Mhone (1998), apprentices and entrepreneurs need to be given management training. CREATE SA has undertaken this role in the craft industry in South Africa. Mhone further maintains that entrepreneurs need to be grouped according the time and the experience that they have gained in the informal sector.

Growth of a craft enterprise is dependant on the entrepreneurial spirit and qualifications of its owner and on the quality of business development services it can access. Service providers for crafters should be constantly monitoring and evaluating the impact of their services on the enterprise and, therefore striving to provide services that correspond to demand and of sufficient quality. To ensure that the BDS is financially sustainable i.e. when used in relation to the enterprise that benefits from BDS term refers to the long-term impact of the services on the enterprise. The main objective to facilitating access to quality BDS by SMME's is to help them improve their overall performance. Achieving this objective should lead to their growth - that is, that they employ more workers and become more profitable. Good practice, therefore, has to be seen in relation to this overall objective. Although the BDS have been set up by the DTI the one key concern is that they are accessible to participants within the cities of Johannesburg, Cape Town and Durban but are non-existent in other parts of the country and hence excludes a major portion of the participants in the craft sector (Rogerson, 2004).

Finnegan (1999) maintains that key performance indicators of good practice of service providers maybe broadly categorised under assessment at the enterprise level (i.e. changes in the behaviour and capacity of the owner of the enterprise); the meso or service provider's level (i.e. changes in performance); the household level (improvements in living conditions resulting from the better performance of the SMME'S); and at the macro level (changes to the policy and regulatory environment resulting from the provision of sustainable and better quality BDS).

2.7. Partnerships and Linkages

Partnerships and linkages between SMME's and larger firms, as well as between consortiums of SMME's offer additional possibilities for access to business development services (BDS) in the craft industry. These linkages may occur in the form of joint ventures, subcontracting arrangements, technology transfer and marketing contracts. Such linkages could be essential for the growth and international competitiveness of the larger enterprises, particularly in the face of globalisation and trade liberalisation. They also contribute to the development and growth of SMME's.

The internal linkages may occur in the form of outsourcing to other SMME's or to larger enterprises for the development of the informal sector is recommended. Whilst the external linkages of clustering between SMME's in the informal sector and larger firms in the formal sector to form industrial districts are imperative for the development of the informal sector of the economy where the surplus labour shall become absorbed and be transformed into the formal sector of the economy.

The Italian experience is based upon the formation and development of industrial districts that comprise of linkages among craft micro enterprises and between craft micro enterprises and entrenched businesses in the formal sector. These linkages are enhanced through sub-contraction and flexibility of specialization. Lessons for South Africa can be drawn from this experience. This maybe extended to government departments, to world order institutions, and to multi-nationals in the South African context.

According to the ILO the state is no longer the principal provider of work. Work ought to be created and managed by private sector. The role of the state is vital role in ensuring that the policy environment is 'enterprise friendly'. The path into enterprise should be smooth, and entrepreneurs should be able to receive relevant advice and support (both financial and non-financial) in a highly effective manner from both government and private sector agencies. Hence linkages and partnerships between the private and public sector and the SMME’s are important for the attainment of the above. The needs of the micro and small enterprise (MSE) sector should be clearly identified in the craft sector, and linked with a better understanding of the scale and scope of the enterprise sector and its role in the microeconomic reform strategy for national development. Simultaneously it is important to note that the employees in the micro and small enterprises, the organizations that are representative of them and the management of these enterprises should be able to mutually consult to ensure the quality work and optimum productivity (Finnegan, 1999).

2.8. Trisector Collaboration

Schearer (1995) maintains that there are a number of diverse development models. The market- led development model based on economic growth has had negative impact through its structural adjustment programmes on environmental degradation and on indigenous cultures.

Schearer (1995) puts forth a model of development that he calls the trisector collaboration: a path of many visions. This new strategy looks at collaboration between the different actors and sectors. It aims at the creation of new structural answers that challenges human centred development of both the North and the South. This model outlines and acknowledges the roles of the various actors in our society. The first actor is government whose role is to provide security, social unity and order, governance, infrastructure and basic services. Government requires the private sector’s assistance in the mobilisation of the product forces of the market. This would result in wealth creation and a strong national economy that would be linked to international markets and trade. This would be the assigned role of the second actor, the private sector. Both these actors require the assistance of the third actor who is the manifestation of civil society that also includes labour. Civil society provides the balance and the political integration. Civil society creates the platform for the political voice, social engagement, and economic participation of all grassroots citizens. If a nation wants to deconstruct the polarisation between the rich and the poor, then all three actors need to work in collaboration with each other. This collaboration will need to address the problem of the open market's conditions for economic growth with its adverse effect on the environment, on the redistribution of income and wealth and on cultural values and diversity.

The trisector strategy calls for:

- New engagement of citizens and communities through expanded action by the civil society sector in social development efforts;
- Improved, more focused performance by the public sector;
- Greater responsiveness to social issues by the private sector;
- Wide use of cross sector collaboration and partnership to advance social development; and
- Joint action by the three sectors to mitigate the adverse effects of the market (Schearer, 1995).

The trisector strategy requires partnerships and linkages to occur both horizontally and vertically in terms of the South African economy. Horizontal development of partnerships and linkages refers to the value chains between the subsistence or communal sector, the informal sector and the formal sector. Hence development of cross-sectoral value chains will engage with issues such as productivity, marketing, finance, human resource development, training, technology transfer, distribution, clustering and outsourcing and costs.

Hence the tri-sector strategy is propagated in this research report in developing the informal sector of the economy in South Africa to be more dynamic and productive.

There have been success stories in the craft industry in countries such as India, Thailand, Italy and the Philippines. The next section shall deal with the craft industry in South Africa. This will be followed by an analysis of lessons learnt from other countries and its applicability to Africa and South Africa in particular.

2.9. A Global Perspective of the Craft Industry

The developing world supplies 80% of the world's crafts and the industry employs a large portion of the working poor. Crafts represented 50% of the income of Peru's population, 70% of GDP in Burkina Faso, and have provided employment for 60% of the population of Mali, 95% of the population in Chad and have created 7 million jobs in India (Duggan, 2001). While accurate reporting is one of the major challenges facing the industry, these statistics indicate its size and impact.

The selling of handmade items is one of the few safe options for earning cash that is open to people living in rural poverty, especially women. An estimated 70% of rural women in developing countries produce handmade items for their families use and/or for sale. It is often rural women's first entry into the marketplace.

The International Trade Centre in Handicrafts and Cottage Industries illustrate two aspects of the strategy in **A Guide to Export Marketing for Developing Countries** (1991). Firstly, an audit of the craft industry in terms of the existing skills and products produced. Secondly, the need to assess the nature of the international market through the identification and stimulation of export demand. This assessment would result in design specification, product enhancement, development of prototypes and testing the market through the use of existing skills and the requirements of the market. Thirdly, support measures in terms of research and development for further development of and replication of prototypes and design, financial support for prospective exporters, promotion of production units, establishment of distribution chains for inputs and outputs, provision of marketing services both domestic and international. Identification of both the domestic and international markets would result in productivity enhancement and would increase competitiveness both domestically and internationally.

The next part of this literature review shall review the literature on craft and its promotion in other countries.

2.10.1. The Indian Experience

The Self-Employed Women's Association (SEWA) is an organisation that works in the informal sector in India. Access to global markets is critical to the economic security of many of the world's poor working in the informal sector. According to SEWA, in India, the informal sector includes home-based workers, vendors, manual labourers and service providers. The statistics of the informal sector accounts for up to 70% of gross domestic product and over 40% of exports; of the total workforce, 93% operate within the informal sector, and 60% of these are women (Treacy, 2003). These statistics demonstrate that the informal sector if harnessed correctly can become economically productive in terms of contributing to the growth and development of a country,

There were barriers that were experienced by the self-employed women at SEWA and these are as follows. There were laws and customs that discriminated against women. There were inadequate facilities to access to credit. There was a lack of social support structures such as affordable childcare, health insurance and pensions to enhance social capital to ensure sustainable development. A deficiency in health care and education and training were also experienced. Finally these self-employed women had insufficient knowledge about export markets.

Several groups within SEWA took up these common challenges that were experienced by the women and responded to these needs accordingly. The SEWA Bank was established as one of the group's largest cooperatives, with over 125,000 members. Six self-financed organizations providing insurance, pensions, medical and childcare for SEWA members were also set up. Lok Swasthya SEWA's Health Cooperative is the largest with 155 member-workers servicing

74,695 self-employed members and their families. SEWA places strong emphasis on capacity building and on member education, and has established the SEWA Academy that run education programmes, focusing on literacy, training, research and communication. This service is extended to 20,000 women on an annual basis. SEWA is democratically governed. Each of the cooperatives or self-help groups elects its own governing body among its workers. There are in total 500 elected representatives that meet on a monthly basis to share ideas and experiences.

It is interesting to note that services such as healthcare and education are perceived as the public good and are therefore reliant upon the state for the provision of these services. However the Indian experience indicates that the large informal sector if properly directed could be galvanised into action to take care of their basic needs. The outcomes achieved by the informal sector are indicative of commitment, support and participation of both the public and private sectors.

In order to increase competitiveness both domestically and internationally SEWA set up the SEWA Trade Facilitation Centre (STFC) in March 2000. The STFC has a business model that is unique as the crafters form the majority of shareholders. Within eighteen months of its establishment sales grew by 62% and exports by 311%. Given its success SEWA decided to register the centre as an independent company in 2003 to allow for faster growth.

When the STFC was established it experienced export problems that were linked to production, marketing, design, quality control and retail channels. The STFC advocated market research and communication between micro-enterprises and their federations in order to increase domestic and international exports. Hence there was great emphasis placed on capacity building and product development.

The STFC set up common production centres that dealt with quality control, central designing, and cost rationalization and vendor development in order to streamline the production process. Development on branding the products was achieved by integrating both the social and commercial aspects in its planning. Research was conducted to explore national markets prior to expansion abroad.

The STFC used information and communications technology (ICT) solutions whereby e-business was used as a marketing tool for tapping the virtual marketplace and for advertising its products on web sites. Technology is utilised as a tool for integration for the provision of education and training, networking, quality management and production processes. Information and training software in the local languages were developed to increase the capacity of skills and literacy. SEWA utilised audio-visual media in the rural areas as a means of communication, training, capacity building, mentoring and for export matters. E-conferencing via satellite is used for facilitating meetings and greater communication with all stakeholders.

The STFC's role as a coordination function between the value chains and the value channels in the craft or handicraft sector was pivotal in its success in India. This indicates the importance of partnerships and linkages between all sectors of the economy for sustained growth in the craft industry. The production process that is important for the quality assurance of the product, together with costing is important for the development and the branding of the product. The use of ICT for linking the value chains and the value channels results in effective productivity and competitiveness. Most interestingly if the means of production are in the hands of the workers then the increase in productivity and competition results in an increase in profits. This strategy could be used to transform the informal craft sector in South Africa.

Here is the company profile of SEWA. It has over 420,300 members at grass-roots level (Gujarat 284,317, Madhya Pradesh 107,620, Uttar Pradesh 25,800, Bihar 1,600, Kerala 719 and Delhi 252). It has explored the export markets of Australia, Belgium, France, Germany, Italy, Japan, Spain, United Kingdom and the United States of America (http://www.sewa.org/).

SEWA's domestic success has encouraged it to set up a trade facilitation centre to help women move into exporting. SEWA is a success story of the integration of the informal sector into the global market. This has boosted exports dramatically, and brought greater security and prosperity to India's rural poor.

The handicraft markets in terms of countries of the South such as India, Philippines and Thailand, are a significant source of foreign exchange despite modest investment as opposed to industry investment. There is an increase in commercialisations. An estimated global turnover is in excess of the region of US$35 billion. Hence the craft sector has become a major contributor to economic growth (NACI Project, 2002). According to Kathuria (1998) it is vital that the crafts industry be protected by trade barriers, external regional competition, export restrictions, transport costs, to ensure that the crafters benefit economically from trade.

The European Commission has been a pioneer in the field of enterprise development, providing assistance to small-sized and craft enterprises, and low-income groups and enabling them to expand their economic activities. An evaluation, carried out in 1995, concluded that the results of such programmes listed below are globally positive, leading to the creation of many firms and jobs (Ritto, 1997).

Table1: EC Support for Enterprises 1980-1995

EC Support for enterprises 1980-1995
Evaluation Results
Of 103 projects identified, 44 were analysed in depth, leading to the following findings: • Finance was provided to about 5,000 entrepreneurs • Between 25,000 and 35,000 jobs were created • Loans granted ranged from ECU 780 to ECU 71,500 • Sectoral breakdown of finance provided: Industry and Crafts- 47.4% Commerce and Services - 27.1% Agriculture - 21.1% Other - 4.4% • 24% of the beneficiaries were female • Between five and seven jobs were created on average in each enterprise receiving finance • The group that benefited most from the programmes was 'start-up' entrepreneurs with little business experience

2.10.2. The Italian Experience

Italy has a productive system that is composed of 96% of small craft enterprises, each comprising of less than 20 employees. The craft sector is a key component of the small production sector and accounts for 33% of total businesses comprises of 20% of total employees and amounts to 18% of national exports. The craft sector contributes 12% to the GDP (Pilot Project of the European Commission, 1999-2001).

The Italian experience of associations, linkages and clustering has led to transformation and development of the micro enterprise sector in Italy. Brusco identified three stages and models of inter-firm cooperation in Italy.

In the 1950's the Italian economy reflected dualism between the north and south, which is similar to the dualism between formal and informal sectors in Africa. The formal sector firms in northern Italy established national markets and mass production techniques. Whilst the micro enterprise firms in southern Italy produced for the local market. These firms were not able to compete with the mass production techniques of the north.

In the 1960's the Italian economy experienced decentralisation and inter-firm cooperation. Larger firms subcontracted to smaller firms. This cooperation manifested itself in production, marketing and technological arrangements.

The 1970's both small and large firms were able to cooperate mutually while recognising each other's strengths and competitive advantages without the state's assistance. The industrial districts were now able to exploit the niche markets.

According to Pyke et al (eds., 1990) a district can be described as being a cluster, plus a peculiar relationship amongst firms.

Cooperation in the industrial districts develops mutual advantages to both small and large firms. Flexible specialisation allows both these firms top be able to respond immediately to the changing market and to technological imperatives as dictated to by the global markets.

There is an environment of healthy cooperation present in the industrial districts among firms producing similar goods and services. Establishment of the districts were able to create new export exports. For example, traditional skills in craft and design were too abundant for the local market but were scarce for the international market where they were channelled.

The 1980's saw a need for state intervention in Italy where the industrial districts required institutional mechanisms for management. The local and state authorities facilitated the development of business centres for the dissemination of technological information and import requirements of countries.

The Italian experience is indicative of the dynamic implications of innovation, productivity enhancement and economic growth that can be achieved through inter-firm cooperation. It is important to note that the above mechanisms are those outside of the firm. It also looked at the role of the meso factors, the inter-firm linkages and the cooperation among the various value chains.

2.10.3. The Thai Experience

In terms of terminology utilised in Thailand the term micro and small enterprise (MSE) is not used as widely as the term small and medium enterprise (SME). In Thailand emphasis was placed on business development services (BDS) to SME’s to improve productivity and competitiveness through job creation, poverty alleviation and wealth creation. BDS included access to information that is of interest to micro and small enterprises; consultancy services; skill and business training; marketing services; and technology transfer and development. The Thai government assisted with this process through its policy where it advocated the gradual transfer of direct provision of BDS by government agencies to other service providers outside of government. This development strategy for the craft sector proposes the development and strengthening of value channels at the enterprise level in terms of the provision of BDS to SME’s in Thailand.

The ILO has been in support of micro and small enterprise development. In 1998 the new Recommendation on Job Creation in Small and Medium-sized Enterprise was unanimously adopted at the ILO's Conference. This recommendation proposed the development of an effective service infrastructure and actions in times of economic difficulties. The ILO also launched the global International Small Enterprise Programme (ISEP) to provide technical assistance for member countries, including Thailand. The work carried out under this ILO/UNDP project is also part of the ILO's ISEP programme. Hence the Thai government has the support of the ILO in terms of the promotion of BDS for the increase of productivity and competitiveness in the craft sector.

In terms of training the ILO has developed training programmes such as ***Improve Your Business*** for micro entrepreneurs. An extension model used in Ghana is a flexible service that uses service centres and mobile training workshops. The extension model has been used for entrepreneurs to train their apprentices. It is important to note that skills transfer with regards to entrepreneurs is aimed at development of the value channels, i.e. management, marketing, financial management, production processes and labour relations. The competencies required by micro entrepreneurs include the attainment of minimum skills in the following: technological, investment, marketing and management capabilities. This is important for the promotion of clustering and inter-firm cooperation.

Business development services (BDS) maybe defined as providing information, knowledge and skills, as well as advice on the various aspects of a business (Finnegan, 1999). This definition of BDS implies a conscious action performed by the service provider for the benefit of the receiver of the service. Hence an individual using its personal savings and finance for the establishment of a business may not be considered as a "financial service". Similarly, information obtained inadvertently by an entrepreneur (e.g. on a supplier of materials) may not be considered an "information service". This is an important distinction that is not made by some practitioners who tend to use the term business development services whether a service provider is involved or not.

BDS in Thailand assist entrepreneurs of SMME’s with new ideas on how to improve their business through increasing productivity, reducing production costs, or accessing a more profitable market. These services include the transfer of information in various forms through, for example, consulting services or special events (e.g. exhibitions and trade fairs). The impact of this category of BDS depends on how the owners of enterprises make use of the new ideas. BDS also deals aspects that include the establishment and operation of an enterprise. Such services may include legal services (e.g. registration of the enterprise), training of owners and workers, special laboratory services for testing goods produced by the enterprise, and assistance in arranging contracts with larger firms. These BDS are provided for by both the state and the private sector and may also involve business consultants and are provided for free or for a nominal fee. Business training at an enterprise level is important for development of the enterprise and invariably impacts on productivity and competitiveness. Sustainable development of the enterprise also impacts upon potential partnerships and linkages with the formal and subsistence sectors.

In the development of SMME's many studies indicate that the entrepreneurs utilise their own savings for establishing a business and their accumulated profits for expanding the enterprise. In Thailand the BDS provides information and training to SMME's through formal or informal channels. SMME's may have to deal with contractors or intermediaries if they are involved in subcontracting, or the services of a technician may be required for major repairs to their equipment. Access to quality BDS by MSE's can assist with improving the growth and competitiveness of SMME's. It can also increase the impact of existing financial services and improve the capacity to repay loans that are provided for by the financial institutions in Thailand. Thus the service providers should be sufficiently qualified to provide good quality services.

The guiding principles for the delivery of business development services are as follows:

The provision of BDS is aimed at increasing productivity and competitiveness of the SMME's. Thus the correct BDS to be given to the corresponding client of the SMME i.e. an entrepreneur of an SMME is to have displayed certain characteristics indicating that he or she has been provided with BDS and has utilised these in good practice. The provision of BDS must be viewed as a business transaction between the service provider and the entrepreneur where both parties are satisfied with the services provided. BDS must be demand driven and must met the needs of the clients. This result in the services having a positive impact on the SMME's and also moves from entitlement to the paying client for services rendered.

According to Finnegan (1999) and the ILO the best service providers are those that work in an environment that induces commitment and a strong sense of ownership. The objective of maximum outreach in terms of helping SMME's all over the country to obtain good quality services that will have a positive impact on their business must be established. This can be achieved through the strengthening of private sector service providers, by creating effective networks between service providers, and through the promotion of informal systems of learning.

The Thai experience also focuses on the linkages between the BDS and financial service institutions. The outcome has shown that the ideal scenario would be to have an organisation that is a BDS provider and also offers financial support services. Service providers of BDS should also strive to be cost-effective. If more clients can be served with the same number of resources then the cost of services will also be reduced.

2.10.4. Perspectives on Africa

The International Trade Centre (ITC) reviews the promotion of craft for export purposes in the countries of India, the Philippines and Thailand. The Indian experience reveals that the Indian government identified the craft industry in its strategic plan elevating the status of craft to symbols of patriotism. In India the handicraft board was set up comprising of stakeholders such as artisans, government, formal sector and other agencies. The State Trading Corporation of India was established to promote the value chains discussed above to promote the international export market. The Indian government invested in promotional activities abroad. Thus the following has been identified by the ITC from the Indian experience.

Government has to realise the importance of a sector for development. The correct institutional environment has to be established in order to stimulate the development required for the value chains. The private sector has to be stimulated with incentives to take advantage of the export market.

The Philippines experience reveals that the government identified the craft industry in its strategic plan for development and elevated the status of craft to symbols of patriotism. The National Cottage Industries Development Authority was established to promote the development of the various value chains. The Product Design and Development Centre were established which together with the National Cottage Industries Development Authority gave impetus to the development strategy. The strategy identified the raw materials that were available together with the relatively skilled labour and juxtaposed this with the national associations and trade organisations that were available for the establishment of partnerships. The strategy was given further impetus through the establishment of the Bureau of Trade Promotion, the Bureau of Small and Medium Business Development and the Centre for Trade Exhibitions and Missions. As a result of the above the Philippines acquired a reputation for excellent design and new products.

The Thai experience is very similar to the Indian and the Philippine experience in terms of the state intervention made to develop the value chains required for success in the international market.

The Italian Parliament has recently introduced a change in its legislation whereby it allows the artisan entrepreneurs the choice to either start a limited company with just one partner or a limited partnership. This gives the craft entrepreneurs a chance to innovate their business organizations, to achieve credit facilities and to participate with external capital. Hence outsourcing of the craft production is encouraged and the establishment of craft centres or incubators supports this idea.

Creativity, flexibility, quality, steady innovation and professional skills characterize the craft industry in Italy. These characteristics have contributed to the development of the entrepreneurial model. This model has made an important contribution to the economic development of Italy and its relevance and importance is recognized in the international arena.

Much of these lessons experienced above are beneficial to African countries. However the African countries have been unable to systematically develop these strategies as to significantly impact on the role of the informal sector in the export market. South Africa requires an integrated approach and strategy to development.

Part of this problem is attributed to the government's lack of recognition of the importance of the sector for national development for the upliftment of those marginalized who ironically have the necessary skills to develop and exploit this sector.

The Nigerian experience also indicates the defensive role adopted by the associations due to the retroactive role of the state in terms of its attitude to the micro enterprise informal sector. The associations that serve the micro enterprise sector attempts to regulate and support the sector as the state does for the formal sector enterprises. Hence the associations attempt to fill in the gaps in the economy in terms of the development of micro enterprises. The Nigerian experience is indicative of a hostile and biased policy environment against the micro enterprise sector.

Formation of clusters in terms of production also allows for flexible specialisation.

It is important to note that linkages transfer a certain amount of formality to activities of the micro enterprise. This transference also enhances production by making it more dynamic and economically efficient. Hence returns are also stabilized. The Italian experience of associations, linkages and clustering has led to transformation and development of the micro enterprise sector in Italy.

The success stories of India, Thailand and Italy indicate that education and training, the development of management skills, and the promotion of linkages and partnerships in the value chains and value channels are paramount to the success of craft development in the informal sector where it becomes a nexus of industrialisation. Government needs to formulate policies to effect these changes with an integrated strategy that would involve government, business and civil society.

In South Africa the following policy scenario is prevalent in the craft sector. The Department of Arts and Culture, Science and Technology (DACST) developed the Cultural Industries Growth Strategy (1998) and at its core lay four central premises:

Cultural industries are able to create employment and wealth. These industries have the potential to create significant returns on investment. These industries have the capacity to add value to the economy through innovation and creative human capital. The collaborative approach between the public and private sectors that is imperative to develop these industries.

Since the craft sector in South Africa is a component of cultural industries, it can implement the above core structure especially since the craft industry feeds directly into tourism.

CHAPTER 3
THE CRAFT INDUSTRY IN SOUTH AFRICA

3. Introduction

The purpose of this chapter is to look at the development of the craft sector since 1994. The policies formulated for the South African craft sector that is located within the cultural industries ambit are influenced by the progressive ideological debates concerning cultural heritage that are propagated by world order institutions. The chapter also looks at role of the state in terms of policies that were formulated by the government to develop and promote the craft sector and finally a look at the statistics concerning the growth of the craft sector.

The craft industry in South Africa has been traditionally located within the informal sector of the economy. The ideology pre-1994 viewed craft as being a lower art-form in comparison to the visual arts and hence craft was lower in stature. Thus the state's role in terms of funding and development for this sector was non-existent. The role of the state in terms of the development and preservation of craft as a representation of cultural heritage was also non-existent (DACST, 1996).

World order institutions such as the World Bank's Cultural Heritage and the Development Action Network Group endorse the view that the role of cultural heritage is important for social and economic development. The Cultural Heritage and Development Action Network Group (1999) maintain that *"the fundamental link between culture and development presents opportunities for practitioners of cultural heritage conservation and of economic and social development to realise there shared objectives. This becomes increasingly clear as organisations and governments explore the nexus between culture and development"*. http://wbln0018.worldbank.org/eshttp://wbln0018.worldbank.org/es

The emerging proactive stance of the World Bank seeks to highlight the cultural dimension of development in relation to poverty alleviation, social cohesion, conflict resolution, participatory democracy and environmental protection.

The period post 1994 in South Africa saw the ideology around craft change. Craft was viewed as a component of the cultural industries that was now included in the arts education curriculum and had the same stature as that of visual arts. The Department of Arts, Culture, Science and Technology (DACST) in the new dispensation put into place several policy and strategic documents for the development and the presentation of craft as a representation of South African cultural heritage. The cultural industries strategy was also seen as a poverty alleviation programme that was put in place by DACST. The DTI also viewed cultural industries as one of the five sectors of the economy that has the potential for increased outputs, exports and employment creation (Dobson, 2002).

The term cultural industries are used to describe a diversity of cultural activities that have commercial organisation as their key motivating influence. These activities take a number of different forms and are organised in different ways from the manufacture or creation of products to the marketing and distribution thereof. According to the Department of Arts and Culture the characteristics of cultural industries in South Africa are as follows:

The term cultural industries are used to describe a diversity of cultural activities that have commercial organisation as their key motivating influence. These activities take a number of different forms and are organised in different ways from the manufacture or creation of products to the marketing and distribution thereof. According to the DACST the characteristics of cultural industries in South Africa are as follows:

- *Knowledge intensive, involving highly skilled workers,*
- *Labour intensive, creating more than the average number of jobs,*
- *Differentiated, taking the form of Small and Medium Enterprises (SMME's) and large enterprises, and*
- *Linked with close, interlocking but flexible networks of production and service systems, allowing the sector flexibility in the face of economic*

recession.
(http://www.dacst.gov.za/arts_culture/culture/industries/summary.ht)

According to DACST (1998) the value of the craft industry is approximately R1.8 billion. Craft production occurs both in the formal and informal sector. Statistics are available about craft retail outlets, etc. in the formal sector of the economy. However there is a lack of data on the crafters in the informal sector that sell their goods in public spaces, at flea markets and at the roadside. A study was undertaken and a summary of these statistics was published by DACST in 1998.

The results of the audit carried out by DACST published in 1998 of the sector indicate that:

- *There are 18 different initiatives, public and private, currently collecting data on crafters and the craft sector in general.*
- *More than 66 formalised markets retailing craft and an unknown number of roadside or sidewalk 'markets'.*
- *707 retail outlets identified nationally, which indications of many more.*
- *12 electronic web sites advertising South African crafts.*
- *21 domestic trade fairs and exhibitions.*
- *18 training courses and facilities identified thus far.*
- *28 training facilities for sewing.*
- *3 national associations.*
- *109 home industry co-operatives that are more than likely involved in the production of crafts.*

3.1. Problem Statement

Just as with other African countries unemployment and underemployment are features that characterise the landscape of the South African economy. Hence the continuous lateral expansion of the informal sector due to the relative ease with which one gains entry into the sector saturates the market and leads to the decrease in demand of goods and services that the participants provide.

The craft sector in South Africa that was traditionally located in the informal sector of the economy has undergone transformation since 1994 (DACST, 1998). For instance the cultural industries were identified as one of the economic levers for growth and development by both the Departments of Trade and Industry and Arts and Culture. Hence through various initiatives and strategies by both these departments there is a move to formalise the craft sector as a major player that will contribute towards job creation and economic development.

As stated earlier this research report adopts the view that the informal sector maybe utilised as the nexus of industrialisation. In order for this to materialise one has to be cognisant of the internal and external factors that constrain growth of the informal sector and be aware of the impact that they pose on each other within the context of the enclave economy. Transformation of this implies a simultaneous transformation to occur in all sectors of the economy in order for the surplus labour to be absorbed and become a part of the formal sector of the economy.

This implies that crafters in all sectors of the economy will have to undergo simultaneous transformation and development, thus this will imply a strengthening of the value chains and the value channels within the craft industry.

3.2. The Role of the State in the development of the Craft Industry

Since 1994 the government has been intent in its approach to job creation and poverty alleviation. Tourism and cultural tourism had been identified as particular sectors of the economy that could generate jobs and both domestic and foreign investment. Tourists often purchase souvenirs as a token of memories and experiences in a country. The Department of Arts and Culture, the Department of Labour and the Department of Trade and Industry drafted a skills development strategy to empower South African people with the relevant skills for the production of African craft that would assist with the promotion of tourism.

The Department of Arts and Culture have classified the craft sector as part of the Cultural Industries Growth Strategy. The policy documents that guide this dissertation are the *White Paper on Arts, Culture and Heritage (1996), Creative*

South Africa: A Strategy for Realising the Potential of the Cultural Industry (1998) and *The South African Cultural Industries (1998)*.

Since 1994 the state has adopted a pro-SMME stance that has been spearheaded by the Department of Trade and Industry (DTI). The 1995 White Paper contains the first policy frameworks for the development of SMME's in South Africa. The policies and strategies that have been put forward such as the development of SMME's, the Skills Development policy that have resulted in South African Qualifications Authority (SAQA) and the development of Sectoral Education and Training Authority (SETA), the Cultural Industries Growth Strategy and CREATE SA. Although these mechanisms have been in place but there is a dire need for the implementation of an integrated and co-ordinated strategy for development for the craft industry. In the recent Budget speech (2006) a range of tax breaks and benefits were tabled for small business to stimulate the second economy (Mail and Guardian, 2006).

3.3. The Craft Industry in South Africa

Creative South Africa (1998) maintains that 1.2 million people are active in the craft and related trades sector. Figure 1 indicates that the cultural industries sector employs 17% of the people who contribute to 3% of the GDP (figure 3). The craft industry encompasses the production of traditional and contemporary handmade artefacts. The manufacturing process uses both natural and synthetic materials. Production of craft may vary from one-off designs to mass production of artefacts. The craft industry comprises of five sub-sectors, viz. traditional art, designer goods, craft art, functional wares and souvenirs.

Figure 1: Employment in the South African Cultural Industries [Source: DACST (1998) South African Cultural Industries]

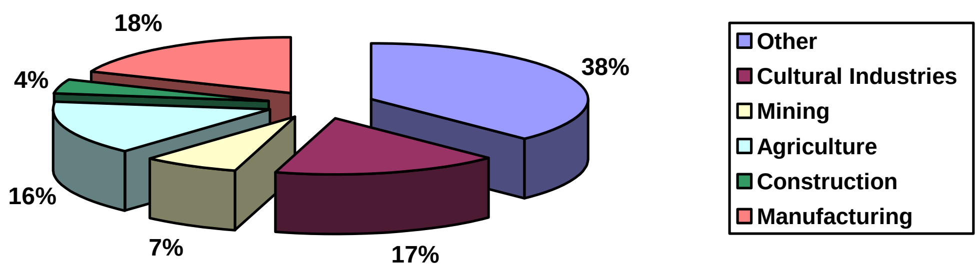
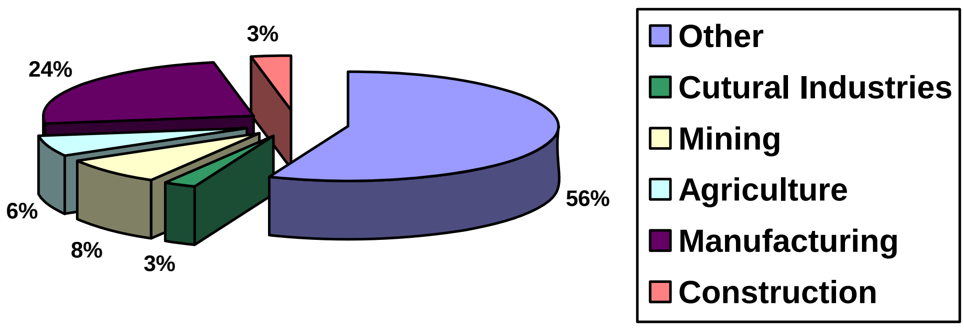
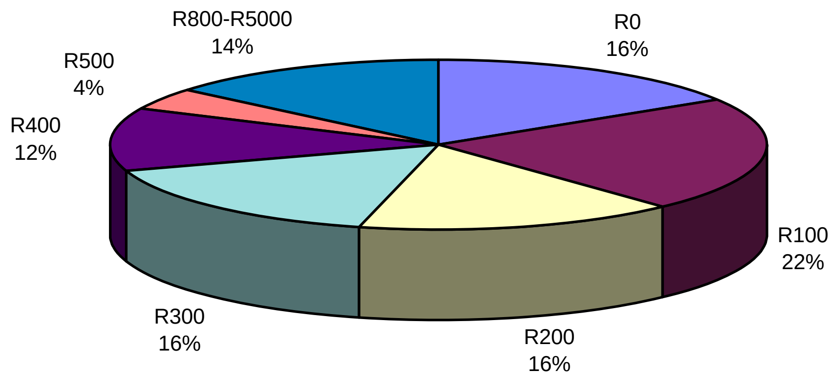


Figure 2: Craft Contribution to GDP [Source: DACST (1998) South African Cultural Industries]



The graph below is based on a micro-survey of the earning power of rural crafters in the Eastern Cape who whose monthly salaries range between R5.00 to R 5 000.00.

Figure 3: A Micro-Survey of the Earning Power of Crafters in the Rural Areas of the Eastern Cape [Source: DACST (1998) South African Cultural Industries]



According to the Deputy Minister of the Department of Arts and Culture (DAC), 2003 the South African craft industry has made both a national and international impact. This was demonstrated by the Proudly South African accredited "Beautiful Things" craft exhibition at the World Summit on Sustainable Development (WSSD). The success of this project has resulted in the setting up of a semi-permanent exhibition at the Newtown Cultural Precinct in Johannesburg. The total sales at the 2002 WSSD Imbizo were approximately R2 million. Trade and Investment South Africa (TISSA) had brought in approximately eight importers to the Imbizo in 2002, which used the Inward Buying Mission to the Imbizo in 2002 to source new craft products for their markets. There were direct and spin-off benefits from this (Sonjica, 2003).

The National Craft Imbizo 2002 was linked with the WSSD and ran for a total of twenty-two days from the 17 August 2002 to the 7 September 2002. Supporters of the DAC’s Craft Imbizo included the Department of Trade and Industry (DTI), Proudly South African (PSA), the Tourism Enterprise Project (TEP), Masana Technologies, Design South Africa, the Design Centre and the National Craft Council of South Africa (NCCSA). The Imbizo consisted of nine provincial stalls and a CSIR stall. The table below lists summary information for project numbers and sales as follows.

Table 2: Summary Information for Projects and Sales at the Craft Imbizo at the WSSD

Province	No. of Projects	Sales	Ranking (Sales)
Free State	6	R50 000.00	10
Eastern Cape	58	R261 000.00	4
Gauteng	78	<R500 000.00	2
KwaZulu Natal	309	R369 000.00	3
Limpopo Province	28	R119 000.00	7
Mpumalanga	46	R176 000.00	6
Northern Cape	11	R67 000.00	9
North West Province	18	R77 000.00	8
Western Cape	56	R525 000.00	1
CSIR	19	R177 000.00	5

Table 2 indicates the KwaZulu Natal was the province that registered the most number of projects a total of 309 projects whilst the Free State had the fewest projects that amounted to 6. The Western Cape as a province recorded the highest sale figure of R525 000.00 whilst the Free State recorded the lowest sales figure of just over R50 000.00. The purpose of the Imbizo was to enhance the marketing opportunities of the craft sector, to create an awareness of the sector and to sell directly to the public. The Imbizo also provided an opportunity for tested strategies to be documented for the implementation of the National Craft Imbizo exhibitions.

The National Craft Imbizo Report (2002) reflected some interesting outcomes in the provincial reports. The Northern Cape's Komani San project made a turn over of R10 000.00 which is twice as what it would have made in the province over the same period of time if it were not for the craft Imbizo held at the WSSD. A spin off for the Northern Cape was the interest displayed by a German department store owner who requested a price list as he expressed an interest in the craft products.

The Western Cape has a slight competitive advantage over the other provinces as it has the Cape Craft and Design Institute that has a constituted forum that brings crafters together in the province and is used a an effective tool for communication and information flow. The Free State in its provincial report after having the least number of projects and sales expressed the need for administrative systems for the industry.

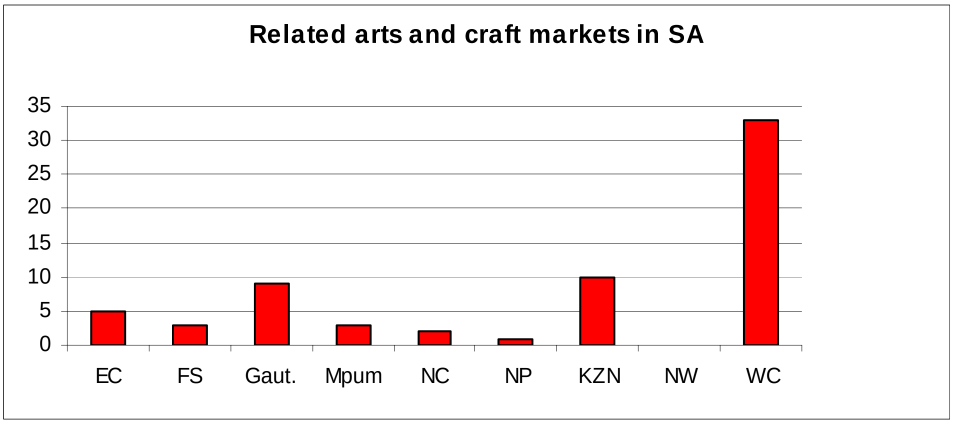
The statistics of the craft sector indicated by Figures 1-3 and Table 2 shows the potential of the sector in terms of generating jobs, alleviating poverty and promoting economic development. The craft sector as stipulated earlier allows for the entry of participants from the informal sector of the economy to join the formal sector. Unlike other informal sector activities craft production requires skill that makes the activity sustainable and viable for economic development and growth.

According to the Deputy Minister of DACST in her address to parliament the Cultural Industries i.e. film, publishing, music, design and crafts is a major contributor to the GDP and is an important focal area for government. The film and video sector is an important employment and income generator and the report suggested that the industry generated up to R4 billion in 2001 in Cape Town alone (Sonjica, 2003).

Another problem that South Africa faces that is different from the countries such as India, Malaysia, Thailand and the Philippines is that these countries have homogenous populations. Homogenous populations have a common culture, meaning they have a common language which they speak, a common religion and common cultural and traditional practices. However South Africa as a result of colonialism, apartheid and enclavity has distinctions of race, class and gender. Hence the distortions resulting from these need to be addressed when dealing with an integrated strategy for development for the informal sector.

Craft is produced all over the country and the spatial distribution of the craft industry in South Africa over its nine provinces is as follows. The provinces of the Western Cape, Eastern Cape, KwaZulu-Natal and Mpumalanga demonstrate the greatest amount of craft production. The graph below displays the spatial distribution of the craft industry in all nine provinces.

Figure 4: Related Arts and Craft Markets in South Africa



The craft sector can provide employment for those that are currently based in the vulnerable segments of the economy i.e. the subsistence and informal sectors. Most producers of craft in the informal sector have learnt their skill from their family or the communities they emanate from. Hence the economic activity of craft can be utilized as a point of entry into the economy. The craft sector's potential for job creation and labour absorption needs to be highlighted. This industry provides income generation opportunities for the informal sector that has been denied access to resources and also offers employment opportunities for the most economically disadvantaged people in South African society i.e. women.

The South African craft industry has the potential to become a major player in the global craft industry. Infiltration into the international market has been a success with the Alternative Trade Organisations such as ProTrade in Germany. Success in the domestic market has been achieved by agencies that focus on crafts with a limited selection of crafters. Hence the agencies are able to influence the production whilst operating with much smaller volumes than the more commercial export agencies.

The craft sector has an important role to play in transformation and development of the informal sector of the economy. The government's pro-active stance in terms of its policies and strategies can help the strengthening of the value chains and the value channels that is required for the transformation of the informal craft sector.

CHAPTER 4
METHODOLOGY

4.1. The Case Study Methodology

The case study is a methodology that is employed in this research report as a tool for social science research. According to Yin (1994) *"case studies are the preferred strategy when 'how' or 'why' questions are being posed, when the investigator has little control over events, and when the focus is on a contemporary phenomenon within some real-life context"*. The quotation cited above highlights one of the merits of the case study as a form of empirical inquiry.

However traditional short comings of the case study as a strategy can also be cited. Case studies may be viewed as a less desirable form of study of inquiry than an experiment or survey. This can be attributed to the lack of rigor of case study research where the case study investigator has used biased views to influence the results and findings of the study. Another concern of case studies is that they provide little basis for scientific generalisation. Finally the case studies might be unwieldy in terms of time management. This may result in the case study taking up too much time and this may lead to much unreadable documentation being produced (Yin, 1994).

The research design is an *action plan for getting from here to there* or a *blue print* (Yin, 1994). The research question posed is how the informal sector that produces African craft be transformed to join the formal sector of the economy? Other questions arising from this enquires as to what must be done in order for the transformation of the informal sector to successfully occur. The following key issues arise.

- What is the current state of the value chains and the value channels within the informal craft sector?
- What needs to be done in order to rectify problems arising from above?

- What strategies can be undertaken by the public and private sectors to strengthen the value chain and value channels within the informal craft sector and among all sectors of the economy?

4.2. Approach

As stated earlier this research report adopts the view that the informal sector maybe utilised as the nexus of industrialisation. The DTI also acknowledges this by maintaining that the microeconomic reform strategy needs to take into consideration that there are two economies in South Africa. Dobson states that *the developed economy suffers from a lack of cost competitiveness in relation to the global economy and that the underdeveloped part of the economy, which represents the experiences of a large proportion of South Africans, is an area where economic potential is not being enabled or harnessed due to backlogs and under-investment in social and productive capital* (Dobson, 2002).

In order for this to materialise one has to be cognisant of the internal and external factors that constrain growth of the informal sector and be aware of the impact that they pose on each other within the context of the enclave economy. Transformation of this implies a simultaneous transformation to occur in all sectors of the economy in order for the surplus labour to be absorbed and become a part of the formal sector of the economy.

The outcome of this research report is to provide a strategy using the developmental approach to transformation of the craft industry in the subsistence, informal and formal sectors of the economy. This implies the transformation of the craft industry both individually in each sector and their linkages with each other. This would finally imply the disappearance of the craft industry in the subsistence and informal sectors of the economy in African society as their economic activities become formalised.

4.3. Data Collection

A comparative analysis of two South African case studies found within the craft sector is undertaken. These case studies comprise of examples of a successful organisation called **Talking Beads** and an organisation that requires creative intervention called **Kopper en Kraale** which both deal with African beadwork. In each of these case studies data was gathered that examined the concepts of value chains and the value channels within each organisation through questionnaires (See Appendix).

Questionnaires were developed as tool for the analysis of the case studies. The questionnaire covered the following broad categories: organisational characteristics of the enterprise, financial operations, and management, and marketing, policy issues with regards to development of the SMME, quality and skills. These key areas were juxtaposed against the acknowledgement of enclave model for the development of the informal sector.

The secondary data concerning the craft sector was analysed in terms of value chains (i.e. distribution, marketing, finance, human resource development, technology capabilities, etc) and the value channels (i.e. management of enterprise, management of inputs, production processes, technology, marketing, distribution, human resource management, finance, etc), access to assets, characteristics and infrastructure and microeconomic allocations. The above shall focus on development of the informal sector so that it can become formalized.

This will be followed by the codification of the qualitative data that has been captured. Primary data of each organisation shall be analysed in terms of value chains and the value channels.

The Expert System Builder (ESB) is a software package that provides the means to develop a knowledge-based system that was used for the codification of the South African case studies. The ESB system was used as it analyses the questionnaires from both the qualitative and quantitative approach resulting in triangulation which it then juxtaposes against the enclave model. This knowledge-based system of analysis also adopts the methodology of linkages of answers found in previous questions and also triangulates and scores accordingly. Hence the ESB system was used as opposed to any other system of analysis. The system comprises three programs: namely the **Question Editor**, **Knowledge Acquisition** and **User Interface** programs. Each of these programs is described below.

4.4. Question Editor

The Question Editor is the program used to start developing the system. It builds the bank of questions, and the series of associated responses, upon which the complete system is developed. Dependencies between questions are set-up such that one question is only asked if the responses given previously deem so. Questions are assigned an importance so that key questions have a greater effect on the final outcome. Linking the question to a URL on the Internet or local machine can expand upon questions. This key activity leads to the success of the final system.

4.5. Knowledge Acquisition

The Knowledge Acquisition program is used to populate the knowledge base of the system. The system developer (aided perhaps by a domain expert) enters records into the system and assigns a weighting (where 1is the most desirable response and 5 is the least desirable response) to each of the options associated with each question in the system for the new record. The User Interface program, together with the user's actual responses, to determine which records to recommend, then uses these weightings. The ranking assigned to each response ranges from 1 to 5 in a multiple answer question; the number one has the most significance to the case-study recipient where as the number five has the least significance.

4.6. User Interface

The User Interface program collates all of the information entered in the above two programs and presents the user with a set of questions to answer. Using the users responses, the knowledge base of information entered with the knowledge acquisition program and its own inference engine the system uses 'fuzzy logic' to determine the record(s) that best suit the data entered by the user. This is presented as an ordered table with the best at the top and the worst at the bottom. The picture and text descriptions of each record can be displayed at the click of a button.

Copies of the questionnaires and the responses of the recipients can be found in the Appendix.

4.7. Donor Aid

Foreign investments and capital are vied for by all developing nations. These nations have to provide attractive incentives for prospective investors especially in the craft sector. Developing nations that depend on the external sector (foreign aid) must ensure that there is a plan for internal transformation of the economy, as the status quo will perpetuate the enclave formal sector. Many donor funded projects in the cultural industries sector failed to become sustainable during the project cycle. These projects were dependent on the national and the provincial governments for continued funding. Thus external markets and foreign capital(donor aid) cannot solve the structural problems associated with enclave economy and unabsorbed labour. Developed countries have their own agenda as far as economic growth is concerned. They accommodate the status quo of the developing countries as they prefer their underdeveloped level of competitiveness at the international level.

CHAPTER 5
FINDINGS AND RECOMMENDATIONS

5.1. Introduction

How can the informal sector that produces African craft, be transformed to join the formal sector of the economy? i.e. "How can the South African informal economic sector become integrated into the systems of formal economic activity?" The research question interrogates the mechanisms through which the informal sector of the economy can be transformed.

One of the main challenges related to the above transformation is how to extract the craft activity that is being produced under a tree in some rural area into a building with systems of production, marketing and distribution with the integration of management underpinned by the use of technology. This implies that training ought to be geared towards administration and management of a craft organisation, together with quality control around the production, marketing and distribution of the product. In order to achieve the above strategies that include education and training ought to be put into place within the organisation supported by policy initiatives from both the public and private sector to allow for the growth and development of this craft organisation.

Hence the objective of this proposal is to propose strategies for the South African informal sector to be integrated into the formal economy, through an investigation of the informal craft sector in relation to both domestic economic activity and export promotion.

5.2. Talking Beads

Talking Beads is an economic venture by rural women from all over South Africa that utilise beadwork for the manufacture of craft. This programme is initiated and managed from Gauteng. Talking Beads is a small enterprise that manufactures corporate gifts, personalised gifts, Embassy gifts, government commissioned gifts, awards and trophies of company logos that are beaded and other African artefacts.

This venture started out with two women in May 1997 and like manufacturing, training is also a part of the core business. To date they have trained 4 500 people, mainly women with another 6 000 on their waiting list requesting training. The training wing of Talking Beads is called *Ngezandla Zethu* that in Nguni literally means “with our hands”. There are five different beading courses that are offered. There is a basic beading skills course, an intermediary beading course, an advanced beading and product presentation, a beading teacher’s training course and an introduction to business skills. Talking Beads operates from a fifteen – roomed building in the Pretoria city centre. The core group in Pretoria comprises of the CEO/strategic manager, the production manager, two marketing managers, and the human resource manager, supervisors for training and design artists.

5.3. Kopper en Kraale

Kopper en Kraale is the second case study that deals with beading. This organisation operates from a residential suburb in Pretoria and the studio is based in the home. Kopper en Kraale is a small start-up venture that was established in 1999. A multi-skilled and a multi-tasked individual have run this organisation single-handedly. The crafter was chosen by DACST as one of fourteen registered top artists to represent South African craft exporters at an art and culture convention held in the USA. This crafter caters for flea and craft markets and produces craft in a seasonal manner. This organisation compared to Talking Beads does require creative intervention in order to maximise its productivity and competitiveness in the craft sector.

Barriers at the enterprise level are identified in order for each organisation to be strengthened. These barriers include the management, marketing and the production processes. The behavioural characteristics of the labour market in terms of their reflection on how individuals and households are able to adapt under adverse conditions are identified and analysed in relation to each of the organisations adopted in the case study.

The issue of value chains and value channels relate to the issue of export promotion in the craft sector. The stages of export promotion can be identified as follows: identification of products and markets, provision of supportive measures to strengthen value chains and value channels related to the product, and the provision of the institutional environment.

An investigation into the state of the value chain and value channel was undertaken via questionnaires in the craft industry. The questionnaire dealt with issues of organisational characteristics of the enterprise, financial operations, and management, and marketing, policy issues with regards to development of the SMME, quality and skills. The findings of these key areas were juxtaposed against the acknowledgement of enclave model for the development of the informal sector.

5.4. Organisational Characteristics

In this research report the term organisational characteristics means the core business or the core functions of the enterprise, the number of years of the organisation's existence and this is related to the manner in which the enterprise classifies itself. This is then related to the number of people that each enterprise employs.

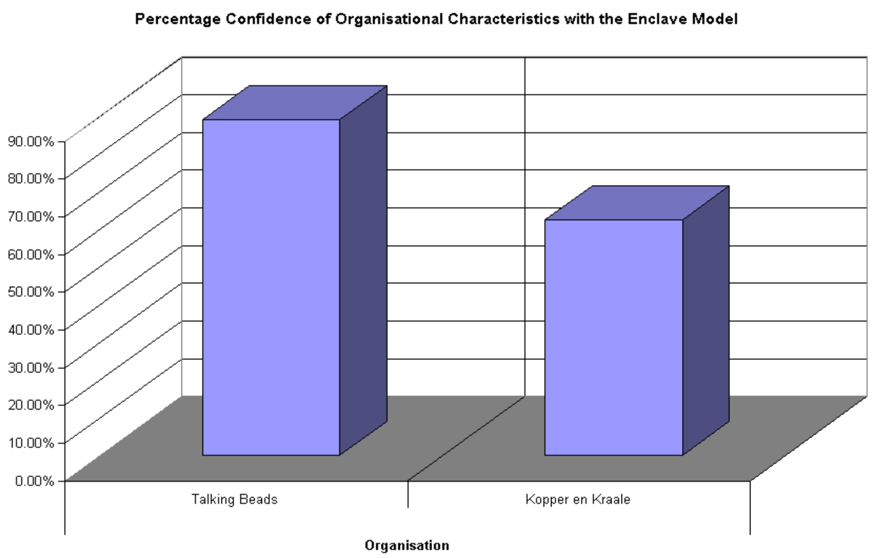
The core business or functions in terms of compliance with the enclave model ought to reflect the three clusters of characteristics in the following order. The first is craft production, the second is management, marketing and business development; and the third is education and training, retail and other. Compliance to the enclave model with regards to the existence of the enterprise should ideally be for the period 7 to 10 years or over 10 years and the enterprise ought to employ in excess of 15 people. Refer to Appendix for an in depth analysis of the above.

Table 3 and Figure 5 below reveals that in terms of output of organisational compliance with respect to organisational characteristics of the enclave model, the Talking Beads scored 89.06% compared to the 62.50% of Kopper en Kraale.

TABLE 3: OUTPUT OF ORGANISATIONAL COMPLIANCE WITH RESPECT TO ORGANISATIONAL CHARACTERISTICS

Posn	Record Name	Conf %
1	TALKING BEADS	89.06%
2	KOPPER EN KRALE	62.50%

Figure 5: Percentage Confidence of Organisational Characteristics with the Enclave Model



5.5. Financials

This section of the questionnaire dealt with the financial management of the enterprise within the enclave model. Some of the elements that involved the strengthening of the value chains and value channels were reviewed within the following areas under financial management. The areas reviewed included the funding mechanisms utilised for the establishment of the enterprise. The levels of competency with regards to financial management present within the enterprise. With regards to marketing and competitiveness to ascertain if each organisation had created a differential in price of their products for the domestic and international markets. To determine the organisation's awareness of funding sources from both the public and private sectors for the various areas of development within the craft sector. This is linked to whether either of the enterprises received any funding from either sector. Hence one is trying to ascertain the issue of financial linkages and partnerships that would assist with the development of the craft sector.

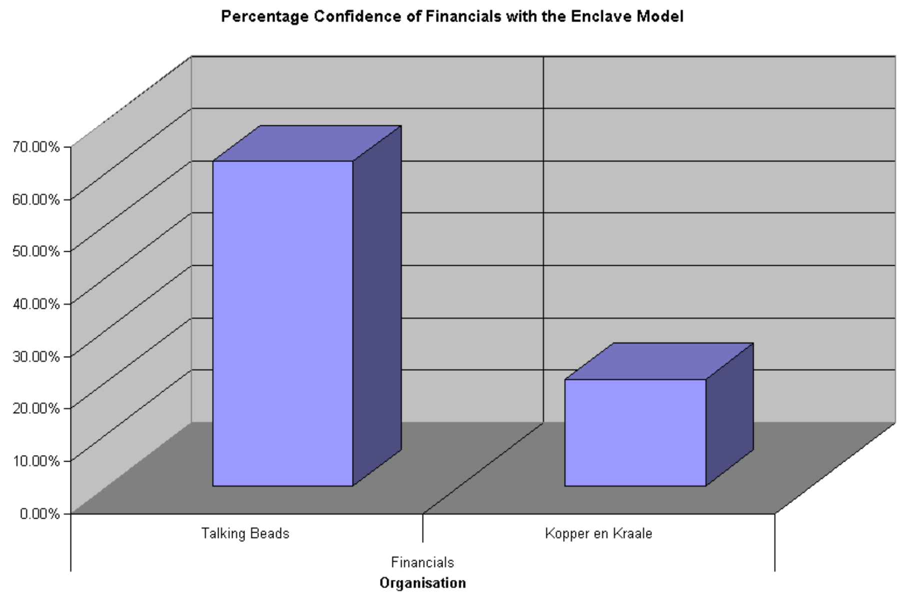
The conclusions of the finance section in accordance to compliance to the enclave model ought to reflect that government aid or foreign aid was used to establish the enterprise. The financial management skills were high and that the enterprise had both an accountant and an auditor in its employ. This is especially important when sending out audited reports to funders. In terms of the promoting the domestic and international markets there ought to be price differentials catering for the different environments. Each enterprise ought to be aware of public and private sector funding that is available for skills development, management development, institutional arrangements, sustainable operations and enterprise opportunities and ought to have received funding accordingly from each sector.

Table 4 and Figure 6 reveal that Talking Beads scored 62.04% compared to the 20.37% of Kopper en Kraale in the section of output of organisational compliance with respect to financial operations. Refer to the Appendix for the respondents responses to this section. The above also reveals that enterprises in the craft sector are not aware of the development and funding programmes that are forthcoming from government or the private sector. This implies that the sector is not well informed of the potential financial linkages and partnerships or that the respective sectors are doing a poor job in communicating its strategies with all potential stakeholders.

TABLE 4: OUTPUT OF ORGANISATIONAL COMPLIANCE WITH RESPECT TO FINANCIAL OPERATIONS

Posn	Record Name	Conf %
1	TALKING BEADS	62.04%
2	KOPPER EN KRAALE	20.37%

Figure 6: Percentage Confidence of Financials with the Enclave Model



5.6. Management

The definition of management in this report encompasses human resource management, strategic management, production, marketing and distribution of craft. This section on management sets out to ascertain the levels of development of the value chain within the enterprise and its level of development of partnerships and linkages in terms of the value channel in the craft sector. This section has direct repercussions on financial management reviewed in the previous section. This section is pinnacle to the success of the strategy for formalising the informal craft sector.

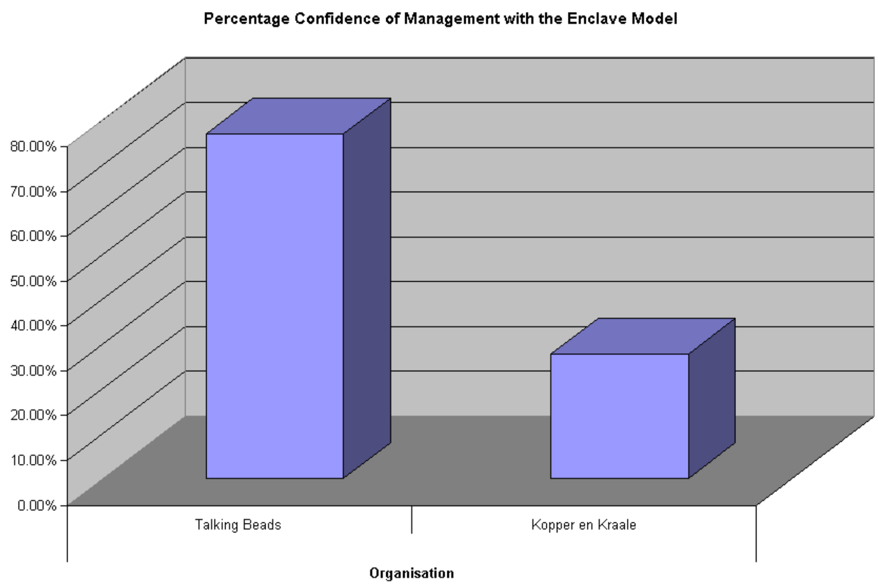
Management in terms of compliance with the enclave model ought to reveal that there are high levels of strategic and human resource management in the enterprise and this is realised in the core business of the organisation. Thus there would be clear roles and responsibilities that would be linked to production and quality assurance. Outsourcing of production is linked to issues of partnerships with other enterprises, firms or clusters and this ought to be pursued. Reasons for such partnerships ought to be strategic, results in the enterprise being able to meet its deadlines, financial, due to a skills gap being identified in the organisation and because of contractual agreement to the client. Thus intellectual property rights and the registering and patenting of products are crucial to the success of the craft enterprise. Ideally the long term strategic vision of the craft enterprise ought to include becoming a large enterprise in the formal sector of the economy, or looking at franchise options or developing into a co-operative.

Table 5 and Figure 7 indicate the results with regards to output of organisational compliance with respect to management; Talking Beads scored 76.99% compared to 27.69% of Kopper en Kraale. Refer to the appendix for the responses from the respondents. Hence both these organisations focus solely on craft production and the Talking Beads also concentrate on education and training. Other areas such as management, marketing, business development, retail and export are disregarded or marginalized. This is one of the most common reasons for the failure of enterprises in the informal sector. Partnerships and outsourcing are done for the sole purpose of meeting deadlines and not for the strategic objectives of expansion, financial and identification of a skills gap within the organisation.

TABLE 5: OUTPUT OF ORGANISATIONAL COMPLIANCE WITH RESPECT TO MANAGEMENT

Posn	Record Name	Conf %
1	TALKING BEADS	76.99%
2	KOPPER EN KRAALE	27.69%

Figure 7: Percentage Confidence of Management with the Enclave



5.7. Marketing

The section on marketing focuses on the levels of business development skills, advertising and mechanisms utilised for marketing. Whereas the previous sections focused to a large extent on productivity the focus here is on competitiveness. As explained earlier both these concepts impact upon each other.

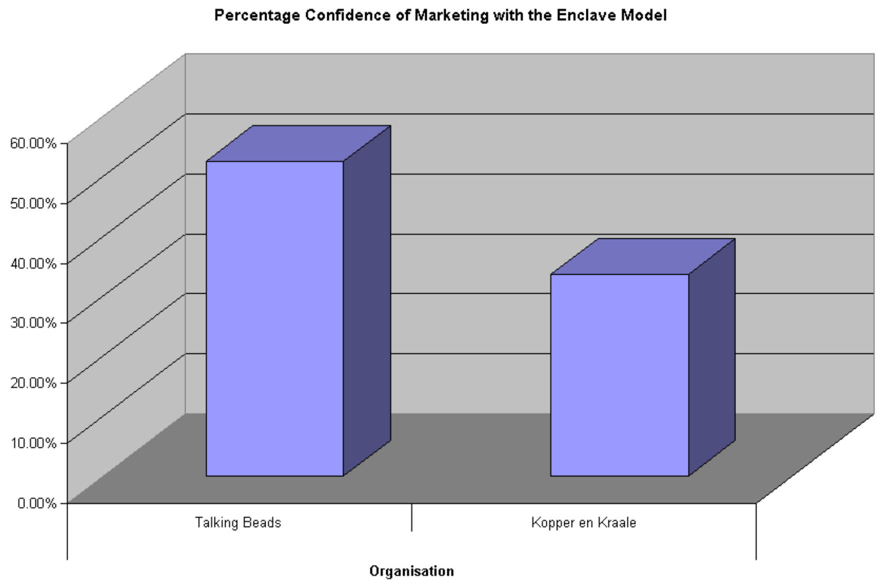
Marketing in compliance with the enclave model ought to indicate the following. There ought to be high levels of marketing and business development skills that target both the domestic and international markets. In terms of partnerships, linkages and institutional arrangements the marketing strategies listed below ought to be exploited. The ambit ought to include government agreements, multinational agreements, the internet and e-mail facilities, the available local and international networks, broadcast and print media. The nature of the virtual market demands that the internet be used as a means of distribution.

Table 6 and Figure 8 indicate the output of organisational compliance with respect to marketing indicates that Talking Beads scored 52.50% compared to 33.75% of Kopper en Kraale. Refer to appendix for detailed responses from each organisation.

TABLE 6: OUTPUT OF ORGANISATIONAL COMPLIANCE WITH RESPECT TO MARKETING

Posn	Record Name	Conf %
1	TALKING BEADS	52.50%
2	KOPPER EN KRAALE	33.75%

Figure 8: Percentage Confidence of Marketing with the Enclave Model



5.8. Policy

This section on policy was meant to ascertain whether or not the current government policies and private sector support were efficient for enterprise development. This was linked to sources of funding from each of these sectors for these enterprises.

Given the performance of the formal sector in perpetuating the enclavity, it is therefore expected that the policies that have been formulated for the development of SMME's in the craft sector will be inefficient. Similarly in compliance with the enclave model the private support as far as funding is concerned ought to also be inefficient. Public and private sector support in terms of developing SMME's in the craft sector ought to focus on the development of skills in the informal sector, management development, institutional arrangements and enterprise opportunities respectively.

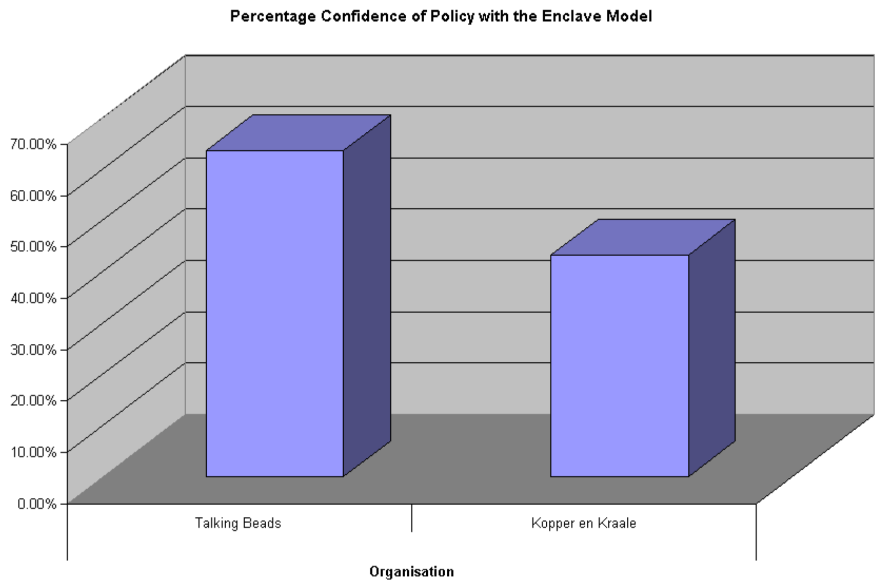
The findings indicate that despite all the policies that have been established for SMME development in South Africa there is still a strong bias towards the development of large firms located in the formal sector of the economy. Both these enterprises would like government to provide infrastructure facilities for the development of the modes of production in the craft sector. Both these enterprises also would like government to facilitate the process of institutional arrangements so that policies would be formulated for finance through banks. The craft sector due to the nature of its production can access assistance from various national governments such as the Department of Arts and Culture, the Department of Education, the Department of Labour, the Department of Trade and Industry and the Department of Environmental Affairs and Tourism. This assistance can also be assigned to the various tiers of government according to their roles and responsibilities as laid out in the Constitution. Table 7 and Figure 9 indicate the output of organisational compliance with respect to policy; Talking Beads scored 63.57% compared to the 43.21% of Kopper en Kraale. Refer to the Appendix for the respondents views.

Hence the above indicates that both the Talking Beads and the Kopper en Kraale were certainly unaware of the DTI's policies concerning the integrated action plan that were focused on the microeconomic constraints to growth, nor were they aware of the setting up of the BDS and of the micro-finance arrangements that were set up by the government and the financial institutions. Herein lays one of the largest constraints to development. The lack of knowledge of what already exists to help assist with development.

TABLE 7: OUTPUT OF ORGANISATIONAL COMPLIANCE WITH RESPECT TO POLICY

Posn	Record Name	Conf %
1	TALKING BEADS	63.57%
2	KOPPER EN KRAALE	43.21%

Figure 9: Percentage Confidence of Policy with the Enclave Model



5.9. Quality

Quality in this section encompasses the aspect of quality assurance with respect to the organisation's strategic implementation plan, to marketing and business development, to customer care, to education and training and to the expansion of the enterprise.

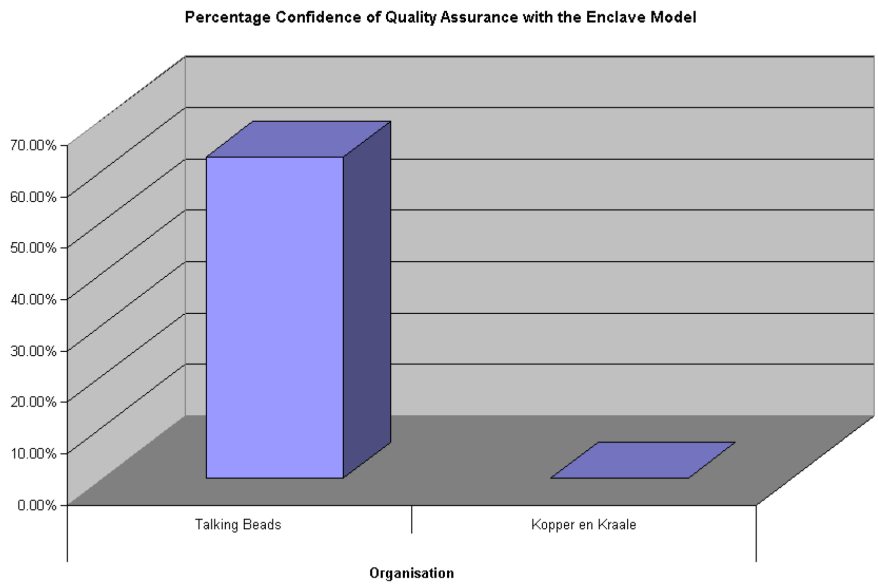
Quality in compliance with the enclave model ought to reflect that the organisation's strategy has been successfully implemented. Hence this impact is reflected in the success of the organisation's training programmes that ought to be measurable. The above measures ought to result in the production of quality products or artefacts that ought to assist the enterprise with market expansion. The enterprise should be faced with the position of expanding profitability and therefore re-invest its profits into the expansion of the organisation. Mechanisms ought to be in place for after-sales customer care. This implies that systems have been established in the enterprise to measure or assess the various components of quality.

The findings indicate that the organisations have a problem in the implementation of their strategy and that the systems are not yet fully established to comply with quality assurance. Hence the strengthening of value channels within the enterprise is crucial in the realisation of success in productivity, production, costs and returns. Table 8 and Figure 10 indicate that the Talking Beads scored 62.5% compared to the 0% of Kopper en Kraale in the section of output of organisational compliance with respect to quality. Refer to appendix for detailed responses.

TABLE 8: OUTPUT OF ORGANISATIONAL COMPLIANCE WITH RESPECT TO QUALITY

Posn	Record Name	Conf %
1	TALKING BEADS	62.50%
2	KOPPER EN KRAALE	0.00%

Figure 10: Percentage Confidence of Quality Assurance with the Enclave Model



5.10. Skills

This section on skills falls under the meso-factors that contribute towards an enabling institutional environment that ought to result in productivity enhancement. Hence in this section skills refer to craft production skills and administrative skills in the organisation.

The data gathered concerning skills development indicate the following. Both the organisations raised their concerns about the skills level in their organisation with regards to business skills, financial skills, marketing and design and innovation.

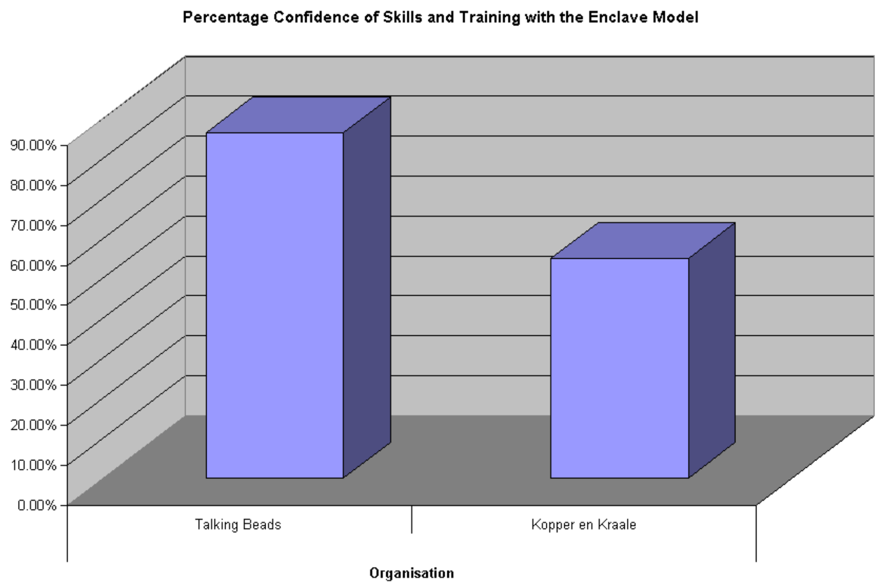
Skills development in compliance with the enclave model indicated that most members in the organisation are multi-skilled with a certain degree of task specialisation. In terms of craft production skills most of the craft producers ought to be at the intermediate level. In order to achieve this level of skill the enterprise must be registered with the MAPP SETA. The MAPP SETA will also assess the quality of the training programmes offered by the enterprise and offer certification of those programmes. According to the enclave model skills programmes being offered to build capacity in this sector must address the following areas of business training, financial skills, design and innovation, production skills, marketing, customer relations and packaging and distribution respectively to enhance the value channels within the enterprise and the value chains across all sectors of the economy.

The development of skills within the enterprise will result in the strengthening of the value channels within the enterprise and this ought to result in the strengthening of the value chains among craft enterprises within and across the three sectors of the economy. With regards to the output of organisational compliance with respect to skills, Talking Beads scored 86.54% compared to the 55.05% of Kopper en Kraale as indicated in Table 9 and Figure 11. Refer to the Appendix for respondents views.

TABLE 9: OUTPUT OF ORGANISATIONAL COMPLIANCE WITH RESPECT TO SKILLS

Posn	Record Name	Conf %
1	TALKING BEADS	86.54%
2	KOPPER EN KRAALE	55.05%

Figure 11: Percentage Confidence of Skills and Training with the Enclave Model



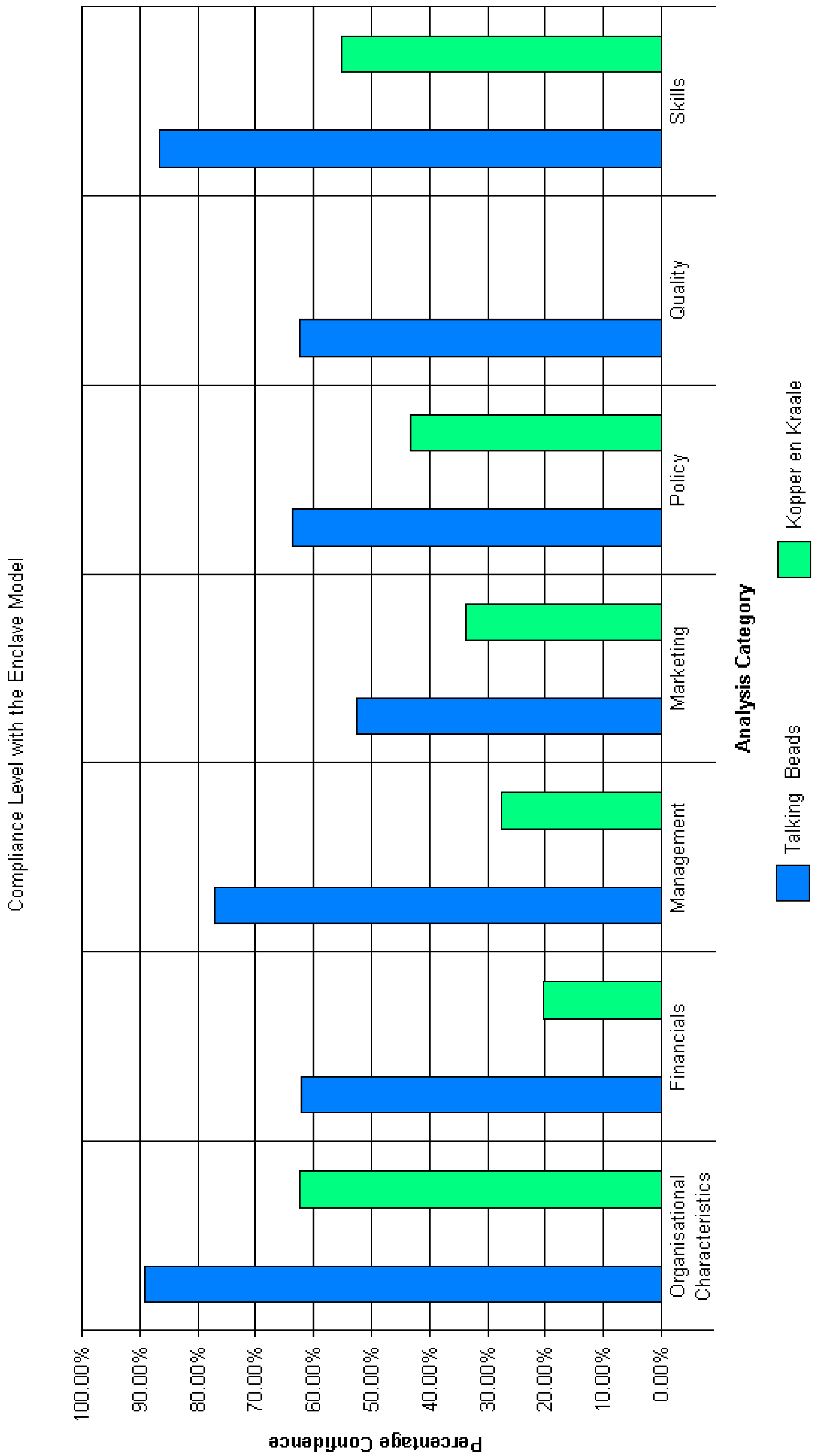


Figure 12: Compliance Level with the Enclave Model

5.11. Recommendations

The above-mentioned results shown in figure 12 from the comparative case study indicate that the small start-up enterprise Kopper en Kraale requires intervention at every level compared to Talking Beads the small enterprise. Kopper en Kraale is sorely lacking skills in terms of quality, financials, management, marketing and policy. This firstly implies the development and strengthening of the value channels at the enterprise level before looking at the development of value chains across all sectors of the economy. Hence education and training in terms of business skills and management is imperative to the development of this small start-up enterprise.

5.11.1. Information and Communication Systems

The lack of information and communication systems with regards to available resources and opportunities to the participants in the informal sector for development both by the state and private sector is a stumbling block to development. The lack of knowledge and information stifles development and growth and this scenario would result in the perpetuation of the existence of the informal sector and subsistence sectors. This is a contributing factor as to why the participant from Kopper en Kraale has to resort to other economic activities to supplement the income that is required by the household for survival.

A centre for communication and the dissemination of information could inform the participant at Kopper en Kraale about the education and training opportunities that are available through the MAPP-SETA and CREATE SA. The development of systems in terms of a centralised database that needs to be shared by DAC, CREATE SA and the NAC is imperative for the development of the craft sector. This database is to also have provincial and local government linkages. Linkages between national government departments such as the DAC, DoL, DTI and DEAT need to be for the development of the craft industry in the informal sector. Linkages with the initiatives of the private sector are also imperative for the development and the sustainability of the craft sector. What was also evident was that the Kopper en Kraale participant had no networks within which to operate.

This is the antithesis of the workings of the informal sector. It is the linkages to networks that sustain the informal sector.

Lessons for Africa can be drawn from the successful experiences of India and Thailand in this regard. The management and dissemination of information by SEWA with regards to the development of the craft industry in the informal sector of the economy must be noted. Similarly the provision of BDS to micro enterprises by both the private and public sectors in Thailand is important for the development of business and management skills for both the development of value chains and value channels. South Africa has the added advantage of structures such as SAQA, MAPP-SETA and CREATE SA for the development of skills.

5.11.2. Strengthening of the Value Chain

The National Craft Council of South Africa (NCCSA) can also be utilised for skills transfer and the development of the industry in the informal sector. Unlike the state or then private sector the NCCSA ought to have contact with most of the SMME's in the craft industry. The NCCSA is also in a better position to facilitate the process of outsourcing, partnerships, linkages and clustering within the craft SMME's in the informal sector and with that of the formal and communal or subsistence sectors of the economy. This will ensure the strengthening of the value chain within all sectors of the economy within the craft sector. SEWA in India has been successful in that they have set up the trade facilitation centre to increase competitiveness in both the domestic and international markets. Through the STFC SEWA has successfully integrated the informal sector with the formal sector globally. The NCCSA can set up links with the export councils at DTI that have an interest in the creative industries. Such export council's assist with identification of international markets and assist with the marketing and distribution of goods. In this manner the informal craft sector could become part of the formalised global economy.

5.11.3. The Role of the State

The role adopted by the state is important with regards to the development of the informal sector. The government has to prioritise and commit itself to the SMME sector and provide supportive institutional infrastructure, both in terms of domestic and export markets. Hence the government must implement policies to promote the development of the informal sector. South Africa can also learn important lessons from the Asian experience for the development of the informal sector. Policy change is therefore a pre-requisite to structural change and transformation of the informal craft sector.

5.11.4. Lessons to be learnt from other countries

A number of useful lessons maybe learnt from the developing East Asian countries such as Indonesia, Japan, Malaysia and Taiwan. These countries ensured that an integrated transformation of all sectors was a prerequisite for sustainable growth and development. The hypothesis for the lesson learnt states that the informal and subsistence sectors cannot continue to operate in the manner that exists presently if sustainable economic development is to be achieved. It is therefore important for the formal sector to undergo simultaneous transformation with the other two sectors. Herein lays within this context a successful programme that is aimed at promoting increased productivity, formalization and exports in the informal sector.

South Africa can utilise the Italian experience of associations, linkages and clusters. This can be facilitated by the NCCSA since the National Craft and Design Institute has not yet been established. The marketing and branding can be channelled through the Proudly South African logo and quality assurance certification as done at the craft Imbizo held at the WSSD in 2002.

5.11.5. Promoting Exports

The Proudly South African campaign is an initiative that sets out to promote South African companies, products and services that assist with job creation and economic growth in South Africa. This initiative is supported by organised labour, organised business, and government and community organisations. Proudly South African is a brand that promotes South African products. Proudly South African was a key partner to the Craft Imbizo as it administered standards against which craft products were selected for sale at WSSD. The key performance areas for craft certification of PSA include quality, local content, labour and the environment.

South Africa has focused its competitive advantages on the craft industry as an entry-level strategy into the market. Maintaining a competitive edge with rising wages in low technology activities is certainly possible, but it calls for more advanced skills. For instance, in the craft industry, it requires sophisticated design, quality control, logistics and delivery as product cycles become shorter and reliable, rapid delivery becomes vital to winning orders.

This is reflective of the changing nature of competition itself. Traditional modes of competition, based on low costs and prices, are being replaced by competition driven by quality, flexibility, design, reliability and networking and is sometimes referred to as ‘new competition’. This change is not only targeted at markets for large firms but also for small enterprises and SMME’s that manufactures but also to mundane consumer goods like clothing, footwear and craft. Large firms are specialising in different segments of the production chain by outsourcing segments and services to other firms to reap economies of scale and specialisation. At the same time, the leading firms in most industries are broadening their field of technological competence to manage effectively the complexities of supply chain management and innovation (Lall, 1999). Information flows, interaction and networking are the new weapons in the competitive armoury; in very technology intensive activities these often include strategic partnerships with rivals and close collaboration with vertically and horizontally linked enterprises.

Although South Africa has the policy framework that is supportive of SMME’s, SDI’s, export councils, the Proudly South African branding, the problems concerning finance, technology, distribution, quality, customer care and rezoning of informal trade in the craft industry have not been dealt with.

5.11.6. Financial Management Issues

Both the case studies discussed have revealed that most of the funding has been personal capital. Although micro loans in terms of finance has been introduced by the government they do not cater for those participants in the informal sector of the economy. These institutional arrangements still cater predominantly for the formal sector enterprises. Government funding and information with regards to the mechanisms by which to obtain such funding does not get properly articulated to those participants in the informal sector. Hence the need for communication and information dissemination is once again reiterated.

5.11.7. Technology Transfer

Technology and technology transfer is key to South African informal craft sector becoming formalised into the global economy. Both case studies have revealed that the extent to which technology is used for the increase of productivity and competitiveness is not fully utilised. This is related to issues of skills in terms of technology transfer and the financial implications of technological use. The use of cyberspace and the Internet has become a necessary tool for marketing and distribution of goods. The recipients of the case studies marginalize themselves and their businesses by not engaging with technology. CREATE SA could include courses such as computer literacy, web design, financial management and marketing using technology. Private sector enterprises can also assist with some of the training. South Africa could learn lessons from SEWA in India in terms of technology and technology transfer.

5.11.8. Quality Assurance

The issues of quality and customer care are related. As stipulated earlier the problem with South African craft in the global arena is related to quality and meeting of deadlines and time frames. Proudly South African, DAC and DTI can regulate the issues of quality around the production of craft. It needs to be stressed that if South Africa wants to become a major player then crafters need to adhere to regulations that need to be formulated for the craft industry with regards to quality and customer care.

5.11.9. Rezoning of informal sector participants

Rezoning of informal sector participants is important for the development and formalisation of the sector. In many instances the state wants to do away with informal trading on the streets in the city; however a consultative approach with regards to rezoning is not adopted. This consultative and open approach is important for participatory democracy that is necessary for development. Rezoning of street crafters in Rosebank with the establishment of the craft market is an example of the consultative approach through which participatory democracy was practiced and has since developed.

After years of crafters street hawking the management of the Rosebank Mall came up with the idea to build a craft market so that crafters would have a safe place to store their artefacts and would be able to use credit card facilities that are required by international tourists. The crafters have formed the Rosebank Traders Committee that attend the management meetings of the Rosebank Mall and report on a monthly basis to traders. This is the manner in which problems are dealt with when they arise. Hence these traders now have shelter for their artefacts, security as well as electricity, lighting that is important for the display of goods and sanitation (Knoll, 2001).

The above type of venture creates access for entry-level crafters and entrepreneurs into the domestic market. This helps economic venture assists to sustain households and allows crafters to join the formal sector of the economy.

This research report proposes a developmental strategy for the craft industry. In order to achieve this, the value channels within the craft micro enterprises need to be developed and strengthened in order to facilitate the development of value chains across the economic sectors of the craft industry.

Partnerships and networking are crucial to this strategy and generally are of a complex nature. These involve the crafts persons, intermediaries, exporters and government agencies. It is imperative for the state to play a leading role where partnerships are least developed, especially in terms of engaging private firms and agencies into the value chains.

CHAPTER 6
CONCLUSION

6.1. Introduction

In the global economic context South Africa is located in the middle between the developed countries and the Less Developed Countries (LDC's) periphery. It is underpinned by the political economy of underdevelopment. In the South African context the economy is characterised by a settler based enclavity of a special kind, compared to other African countries.

The structural problem of the enclave model in South Africa reflects the immediate need for the structural context of the informal sector to be addressed if it were to play an effective role in the absorption of surplus labour and if it were to address poverty eradication.

This research report set out to ascertain how the informal craft sector become formalised to join the formal sector of the economy. A comparative case study was undertaken in the informal craft sector through questionnaires. (Refer to Appendix). The questionnaires were developed to ascertain the development of value channels within the craft enterprise and to determine the nature of value chains across all sectors of the craft industry. This research has utilised the informal sector as a nexus for industrialisation, growth and development.

The findings reflect that craft production generally begins as a one-off that then gets mass-produced on a large scale. The craft sector also has an impact on tourism, retail industry and the formal manufacturing sector. However despite these linkages to lucrative sectors there are development problems within the craft industry. The craft sector is underdeveloped and uncoordinated. The following are the reasons furnished in the report. Crafters do not have access to finance in terms of credit facilities and micro-finance services because of lack of communication between the service provider and prospective clients. Infrastructure with regards to communication systems and services are absent. The marketing strategies are inappropriate and irregular. Crafters experience difficulty in acquiring materials for production. There are problems with regards to production, timeframes, development and the quality of the product. The above indicates weaknesses of the value chain and value channels in the craft industry.

Since the national government has made provisions for micro-finance, setting up of BDS and ICT facilities, perhaps now is the time for partnerships and linkages to occur at local government to implement the microeconomic reform strategy.

In this context the craft industry was analysed as an economic activity of the informal sector and strategies were developed around the manner in which to formalise it so that it becomes a formalised part of the economy. In order for this to materialise the government and the South African National Craft Council (SANCC) need to ensure co-ordination of the craft industry. Horizontal and vertical linkages and partnerships are imperative for the integration of the informal sector into the formal sector of the economy. Hence partnerships with Proudly South African, SANCC and the export councils of DTI are important to assure that the goods are of quality standard for export purposes. Participatory democracy groups are to engage with government and the SANCC to ensure the development and formalisation of this industry.

Social Dialogue has become instrumental for national and business competitiveness. Competitiveness is best achieved when there is a balance between a social and economic balance. Long-term economic development is impossible without a congruent and balanced improvement in social conditions. Thus the most fundamental change in the means of improving competitiveness is the emerging role of human intellectual capital and social dialogue.

6.2. The development of value chains and value channels

The development of value chains and value channels are instrumental to the transformation of the informal sector and are related to the issues of export promotion in the craft sector. The stages of export promotion can be identified as follows: identification of products and markets, provision of supportive measures to strengthen value chains and value channels related to the product, and the provision of the institutional environment (Mhone, 1998).

In order to transform the structural status of the informal sector, one needs to focus on the key areas being value chains and value channels. These focal areas will contribute to the increase in productivity, formalization and export promotion in the informal sector.

6.3. Factors that prevent the formalisation of the informal sector

However there are a number of factors that prevents the informal sector from being formalised. These are as follows:

- Regulation is imposed upon the informal sector in an attempt to constrain its economic activities through zoning requirements and safety and health regulations.
- Constraints retards the ability of the informal sector firms to uplift themselves since their modes of production are underdeveloped compared to the large-scale enterprises in the formal sector.
- The informal sector is plagued by a massive influx of new entrants from the subsistence and formal sectors especially during times of recession or jobless growth.

The factors that constrain growth in the informal sector have been identified as both internal and external, and in most cases they impact upon each other. The internal or structural constraints are related to effective implementation of value channels at the enterprise level i.e. management of enterprise, management of inputs, production processes, technology, marketing, distribution, human resource management, finance, etc. The external constraints are related to legislation and the manner in which it is implemented by the government. Communication of intent with the public by government and the private sector towards the development of Micro and Small Enterprises (MSE) and the Informal Sector (IS) is one of the main constraints of developing the informal sector.

6.4. Partnerships and Linkages

This implies that the government has to ensure that its provincial and municipal counterparts are all informed and are all working towards the implementation of the integrated plan of the microeconomic strategy that the DTI has produced. Rogerson (2004) expands on the idea of the formation of the industrial districts with regards to the garment industry in inner-city Johannesburg. He looks at the crucial role that the municipal government can play in pro-transformation of the informal sector of the economy and will hence formulate policies and programmes together with civil society to show their support of the informal sector becoming a dynamic player in the formal sector of the economy.

The South African system of governance comprises of three tiers i.e. national, provincial and local. Each tier of government has their own autonomy in terms of roles and functions. Munslow (1997) proposes that each tier of government can form constructive partnerships with the private sector and civil society for the attainment of sustainable development. Hence this research report focused on how the state and the participatory democracy from civil society can assist with transformation this sector, through linkages and partnerships to join the formal sector of the economy.

An integrated strategy that promotes the vertical and horizontal development of SMME’s to become a formalised part of the global economy is important. The development of relevant policies must be in place that had a bias for informal sector development requires a pro-active state. These policies will inform institutional arrangements such as financial services, etc. Linkages, associations and partnerships across all sectors of the economy together with good business and management skills at the enterprise level are important for the success of the strategy. This has been discussed in the case studies regarding the craft sector. Findings from the case studies can be generalised and transferred to encompass most economic activities practiced in the informal sector of the economy as far as formalisation of this sector is concerned.

Informal sector enterprises may become more formal by enhancing their productivity and linkages with the formal sector and the export market. The informal sector’s residual status is prone to involutionary growth that is underpinned by gross under-employment. Under-development of the informal sector is linked to the transformation of the economy as a whole and especially the relation between the formal, informal and subsistence sectors.

Transformation of the whole economy would entail the blotting out the distinctions that exist between the three sectors through formalisation and making dynamic of the informal and subsistence sectors. Strengthening and exploitation of the value chains and channels in terms of productivity, formalization and export promotion must be promoted. The role of the state and associations are important for the promotion of clustering and linkages.

A successful strategy is needed to make the informal sector more dynamic and the formal sector needs to take into account the above issues. Lessons learnt from Italy, India and Thailand would also impact upon the strategy.

The Craft industry’s potential for job creation and labour absorption is one of the major attractions of this industry. It allows participants to enter at a low entry level, hence creating employment for a largely marginalized community. A large production outlay is not needed for economic activities in this industry. Hence unemployed people who join the craft industry are presented with an opportunity to join the mainstream formal sector economy. The current formal sector economy cannot absorb the increase in labour supply. Thus SMME’s the craft sector ought to be utilised and encouraged for the development and the transformation of the informal sector to join the formal sector of the economy.

This research report sought to understand the developmental approach which has been proposed by Mhone (1998) that is aimed at transforming both the allocative and the microeconomic constraints and inefficiencies that confronts the informal craft sector. Hence this approach looks at the transformation and the restructuring of the whole economy. This implies the transformation of the craft industry in the subsistence, informal and formal sectors, both individually and their linkages with each other. Hence this would finally imply the disappearance of the craft industry in the subsistence and informal sectors of the economy in African society as their economic activities become formalised.

CHAPTER7

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CHAPTER 8

APPENDIX

Questionnaire Responses and Results

ORGANISATIONAL CHARACTERISTICS

No.	Question and Options	Talking Beads	Kopper en Kraale	Enclave Model
1.	What is the core business or function of your organisation?			
	a. Craft Production	1	1	1
	b. Education and Training	1	5	3
	c. Marketing	5	5	2
	d. Business Development	5	5	2
	e. Retail	5	5	3
	f. Management	5	5	2
	g. Export	5	5	4
	h. Other	5	1	3
	Resultant = 62.5%			
2.	How long has the organisation been in existence?			
	a. 0 to 3 years			3
	b. 4 to 6 years		1	2
	c. 7 to 10 years	1		1
	d. More than 10 years			1
	Resultant = 100.0%			
3.	How would you classify your enterprise?			
	a. Small Medium Enterprise	1		1
	b. Large Company			2
	c. Closed Corporation			2
	d. Small Start-up		1	3
	e. Other			3
	Resultant = 100.0%			
4.	What is the staff complement of your organisation?			
	a. Less than 5		1	3

No.	Question and Options	Talking Beads	Kopper en Kraale	Enclave Model
	b. 5 to 10	1		2
	c. 11 to 15			1
	d. 16 or more			1
	Resultant = 50.0%			

FINANCIALS

No.	Question and Options	Talking Beads	Kopper en Kraale	Enclave Model
1.	What mechanisms did you use in order to start your enterprise?			
	a. Personal Capital	1	1	3
	b. Government Aid	3	2	1
	c. Social¸ Political and Economic Networks	2	5	3
	d. Foreign Aid	5	5	2
	e. Market Trade	4	1	3
	f. Private Sector Capital	3	3	3
	Resultant = 16.7%			
2.	What are the Financial Management skill levels within your organisation?			
	a. Poor			5
	b. Improving		1	4
	c. Satisfactory	1		3
	d. Competent			2
	e. High			1
	Resultant = 00.0%			
3.	Are there price differentials for the domestic and international markets?			
	a. Yes	1		1
	b. No		1	5
	Resultant = 100.0%			
4.	Identify the areas of known public sector funding for your sector			
	a. Skills Development	1	5	1
	b. Management Development	2	5	1
	c. Institutional Arrangements	3	5	1
	d. Sustainable Operations	3	5	1
	e. Enterprise Opportunities	1	1	1
	f. Other	5	5	3

No.	Question and Options	Talking Beads	Kopper en Kraale	Enclave Model
	Resultant = 41.7%			
5.	Identify the areas where your organisation has received public sector funding.			
	a. Skills Development	1	5	1
	b. Management Development	5	5	1
	c. Institutional Arrangements	5	5	1
	d. Sustainable Operations	5	5	2
	e. Enterprise Opportunities	1	1	2
	f. Other	5	5	3
	Resultant = 00.0%			
6.	Identify the areas of known private sector funding for your sector.			
	a. Skills Development	1	5	1
	b. Management Development	5	5	1
	c. Institutional Arrangements	1	5	1
	d. Sustainable Operations	5	5	1
	e. Enterprise Opportunities	1	1	1
	f. Other	5	5	3
	Resultant = 16.7%			
7.	Identify the areas where your organisation has received private sector funding.			
	a. Skills Development	1	5	1
	b. Management Development	5	5	1
	c. Institutional Arrangements	1	5	1
	d. Sustainable Operations	5	5	2
	e. Enterprise Opportunities	5	5	2
	f. Other	5	5	3
	Resultant = 00.0%			
8.	Identify the private sector organisations that have assisted you.			
	a. Multinational Companies	1	5	2
	b. Large South African Enterprises	1	5	1

No.	Question and Options	Talking Beads	Kopper en Kraale	Enclave Model
	c. Small Medium Enterprises	5	5	1
	d. Closed Corporations	5	5	2
	e. Small start-up enterprises	5	5	3
	f. None of the above	5	1	4
	Resultant = 8.3%			
9.	Do you have an accountant and/or an auditor?			
	a. Accountant	1	5	2
	b. Auditor	5	5	2
	c. Both	5	5	1
	d. Neither	5	1	5
	Resultant = 50.0%			

MANAGEMENT

No.	Question and Options	Talking Beads	Kopper en Kraale	Enclave Model
1.	What is the core business or function of your organisation?			
	a. Craft Production	1	1	1
	b. Education and Training	1	5	3
	c. Marketing	5	5	2
	d. Business Development	5	5	2
	e. Retail	5	5	3
	f. Management	5	5	2
	g. Export	5	5	4
	h. Other	5	1	3
	Resultant = 62.5%			
2.	Is there a clear demarcation of roles and responsibilities in the organisation?			
	a. Yes	1		1
	b. No		1	5
	Resultant = 100.0%			
3.	Do the workers understand these roles and responsibilities?			
	a. Yes	1		1
	b. No		1	5
	Resultant = 100.0%			
4.	What are the Human Resource Management skill levels within your organisation?			
	a. Poor			5
	b. Improving			4
	c. Satisfactory	1	1	3
	d. Competent			2
	e. High			1
	Resultant = 00.0%			

No.	Question and Options	Talking Beads	Kopper en Kraale	Enclave Model
5.	What are the Strategic Management skill levels within your organisation?			
	a. Poor			5
	b. Improving			4
	c. Satisfactory		1	3
	d. Competent	1		2
	e. High			1
	Resultant = 50.0%			
6.	Do you outsource any of your work/production?			
	a. Yes	1		1
	b. No		1	5
	Resultant = 100.0%			
7.	What percentage of the work is outsourced?			
	a. 10%			1
	b. 20%			1
	c. 30%	1		1
	d. 40%			2
	e. 50%			3
	Resultant = 100.0%			
8.	Is the enterprise in partnership with other enterprises, firms or clusters?			
	a. Yes	1		1
	b. No		1	5
	Resultant = 100.0%			
9.	Identify the reason for such partnerships.			
	a. Strategic	3		1
	b. Organisational skills gap	2		3
	c. Finance	4		2
	d. Time Deadlines	1		1
	e. Contractual Obligation from client	4		4
	f. Other	5		3
	Resultant = 41.7%			

No.	Question and Options	Talking Beads	Kopper en Kraale	Enclave Model
10.	Does a strategic plan inform management, production¸ marketing and distribution?			
	a. Yes	1		1
	b. No		1	5
	Resultant = 100.0%			
11.	Is the organisation aware of Intellectual Property Rights?			
	a. Yes	1	1	1
	b. No			5
	Resultant = 100.0%			
12.	Are the products manufactured registered and patented with the DTI?			
	a. Yes	1	1	1
	b. No			5
	Resultant = 00.0%			
13.	Indicate the organisations strategic vision:			
	a. Becoming a large enterprise in formal economy	5	5	1
	b. Franchising operations	1	5	2
	c. Developing into a co-operative	1	5	2
	d. Organisation status remains unchanged	5	5	4
	e. Other	5	1	3
	Resultant = 10.0%			

MARKETING

No.	Question and Options	Talking Beads	Kopper en Kraale	Enclave Model
1.	What are the Marketing skills levels within your organisation?			
	a. Poor			5
	b. Improving		1	4
	c. Satisfactory	1		3
	d. Competent			2
	e. High			1
	Resultant = 00.0%			
2.	What are the Business Development skill levels within your organisation?			
	a. Poor			5
	b. Improving		1	4
	c. Satisfactory	1		3
	d. Competent			2
	e. High			1
	Resultant = 100.0%			
3.	Do you target the domestic or international market?			
	a. Domestic		2	2
	b. International			2
	c. Both	1		1
	Resultant = 100.0%			
4.	What marketing mechanisms are utilised by the enterprise?			
	a. Print Media	1	1	4
	b. Internet and e-mail	4	2	3
	c. Government Agreements	3	5	1
	d. Multinational Agreements	2	5	2
	e. Local Networks	1	1	3
	f. International Networks	2	5	3

No.	Question and Options	Talking Beads	Kopper en Kraale	Enclave Model
	g. Broadcast Media	5	5	4
	h. Other	5	5	3
	Resultant = 25.0%			
5.	Is the Internet used for distribution?			
	a. Yes			1
	b. No	1	1	5
	Resultant = 00.0%			

POLICY

No.	Question and Options	Talking Beads	Kopper en Kraale	Enclave Model
1.	Are current government policies sufficient for your enterprises development?			
	a. Yes			5
	b. No	1	1	1
	Resultant = 100.0%			
2.	Identify areas of future public sector support?			
	a. Policies for financing through banks	3	4	1
	b. Reduce constraint of zoning requirements	2	1	1
	c. Provision of facilities to allow health and safety compliance	1	1	1
	d. Policies for human capital development¸ support services and subsidies	2	2	1
	e. Safety net for recession in subsistence and job loss sectors	4	3	1
	f. Provision of infrastructural facilities to develop modes of production	1	1	1
	g. Other	4	5	3
	Resultant = 42.9%			
3.	Is the current private sector support sufficient for your enterprises growth?			
	c. Yes	1	1	5
	d. No			1
	Resultant = 00.0%			
4.	Identify areas of future private sector support?			
	a. Banks to provide financing	2	5	1
	b. Funding facilities to allow health and safety compliance	2	5	1
	c. Support human capital development¸ support services and subsidies	1	5	1
	d. Support infrastructural facilities to develop	1	1	1

No.	Question and Options	Talking Beads	Kopper en Kraale	Enclave Model
	modes of production			
	e. Other	1	5	3
	Resultant = 60.0%			
5.	Rank government support to your organisation in the following areas:			
	a. Skills Development	1	5	1
	b. Management Development	5	5	1
	c. Institutional Arrangements	5	5	1
	d. Enterprise Opportunities	1	1	1
	e. Other	4	5	3
	Resultant = 10.0%			
6.	Rank Private sector support to your organisation in the following areas:			
	a. Skills Development	1	5	1
	b. Management Development	5	5	1
	c. Institutional Arrangements	1	5	1
	d. Enterprise Opportunities	5	5	1
	e. Other	4	5	3
	Resultant = 10.0%			
7.	Identify the government spheres that have assisted your organisation			
	a. National Government	2	1	1
	b. Provincial Government	1	5	1
	c. Local Government	5	5	1
	d. Parastatals	3	5	1
	e. None of the above	5	5	3
	Resultant = 30.0%			
8.	Identify the government departments that have assisted you:			
	a. Department of Arts and Culture	1	1	1
	b. Department of Education	5	5	3
	c. Department of Labour	5	5	3

No.	Question and Options	**Talking Beads**	**Kopper en Kraale**	**Enclave Model**
	d. Department of Trade and Industry	1	5	2
	e. Department of Environmental Affairs and Tourism	2	5	2
	f. Other	5	5	4
	g. None of the above	5	5	5
	Resultant = 64.3%			

QUALITY

No.	Question and Options	Talking Beads	Kopper en Kraale	Enclave Model
1.	Rank the successful implementation of the organisations strategy			
	a. Poor		1	5
	b. Improving	1		4
	c. Satisfactory			3
	d. Good			2
	e. Excellent			1
	Resultant = 2.5%			
2.	Rank the organisations market expansion			
	a. Poor		1	5
	b. Improving	1		4
	c. Satisfactory			3
	d. Good			2
	e. Excellent			1
	Resultant = 2.5%			
3.	Does the organisation have mechanisms for client feedback?			
	a. Yes	1		1
	b. No		1	5
	Resultant = 50.0%			
4.	Rank the organisations response to customer issues			
	a. Poor			5
	b. Improving	1		4
	c. Satisfactory			3
	d. Good			2
	e. Other			1
	Resultant = 1.25%			
5.	Can the organisation measure the impact of			

No.	Question and Options	Talking Beads	Kopper en Kraale	Enclave Model
	training programmes on its operations?			
	a. Yes	1		1
	b. No		1	5
	Resultant = 50.0%			
6.	Rank the level of organisational impact of the training programmes			
	a. Poor			5
	b. Improving	1		4
	c. Satisfactory			3
	d. Good			2
	e. Excellent			1
	Resultant = 12.5%			
7.	Is the organisation faced with expanding profitability?			
	a. Yes	1		1
	b. No		1	5
	Resultant = 50.0%			
8.	Are the profits re-invested into the expansion of the organisation?			
	a. Yes	1		1
	b. No		1	5
	Resultant = 50.0%			

<u>SKILLS</u>

No.	Question and Options	Talking Beads	Kopper en Kraale	Enclave Model
1.	Are the members of the organisation multi-skilled?			
	a. Yes	1	1	1
	b. No			5
	Resultant = 100.0%			
2.	Do the organisations members have a certain degree of task specialisation?			
	a. Yes	1	1	1
	b. No			5
	Resultant = 100.0%			
3.	What are the Craft Production skill levels within your organisation?			
	a. Beginners	2	5	2
	b. Intermediate	1	5	1
	c. Satisfactory	3	1	2
	d. Highly	4	5	3
	Resultant = 75.0%			
4.	What are the Administrative skill levels within your organisation?			
	a. Poor			5
	b. Improving			4
	c. Satisfactory		1	3
	d. Competent	1		2
	e. High			1
	Resultant = 50.0%			
5.	What are the Education and Training levels within your organisation?			
	a. Poor			5
	b. Improving			4

No.	Question and Options	Talking Beads	Kopper en Kraale	Enclave Model
	c. Satisfactory		1	3
	d. Good	1		2
	e. High			1
	Resultant = 50.0%			
6.	Does your organisation belong to MAPP SETA?			
	a. Yes	1		1
	b. No		1	5
	Resultant = 50.0%			
7.	Does your organisation belong to any other SETA?			
	a. Yes			5
	b. No	1	1	1
	Resultant = 100.0%			
8.	Do you offer any education and training programmes to your staff?			
	a. Yes	1		1
	b. No		1	5
	Resultant = 50.0%			
9.	Indicate the content areas of training programmes attended.			
	a. Customer Relations	4	5	4
	b. Packaging and Distribution	2	5	4
	c. Marketing	3	5	3
	d. Business Training	1	5	1
	e. Financial Skills	2	5	1
	f. Design and Innovation	5	5	2
	g. Production Skills	1	5	2
	h. Other	4	1	3
	Resultant = 50.0%			
10.	Are the training programmes certified?			
	a. Yes	1		1

No.	Question and Options	Talking Beads	Kopper en Kraale	Enclave Model
	b. No		1	5
	Resultant = 50.0%			
11.	What are the skills that are lacking in your organisation?			
	a. Customer Relations	2	3	4
	b. Packaging and Distribution	3	2	4
	c. Marketing	3	1	3
	d. Business Skills	4	2	1
	e. Financial Skills	3	3	1
	f. Design and Innovation	1	1	2
	g. Production Skills	4	1	2
	h. Other	1	5	3
	Resultant = 18.8%			
12.	What skills need to be strengthened in your organisation?			
	a. Customer Relations	2	3	4
	b. Packaging and Distribution	3	2	4
	c. Marketing	2	1	3
	d. Business Skills	1	2	1
	e. Financial Skills	1	3	1
	f. Design and Innovation	1	1	2
	g. Production Skills	4	1	2
	h. Other	4	5	3
	Resultant = 50.0%			
13.	What type of education and training courses would you like your SETA to offer?			
	a. Customer Relations	2	5	4
	b. Packaging and Distribution	2	2	4
	c. Marketing	1	2	3
	d. Business Skills	1	1	1
	e. Financial Skills	1	1	1
	f. Design and Innovation	1	1	2
	g. Production Skills	2	1	2

No.	Question and Options	Talking Beads	Kopper en Kraale	Enclave Model
	h. Other	3	4	3
	Resultant = 56.3%			