

A Consistent Rental Policy for Informal Trading in eThekweni Unicity



PREAMBLE

This document deals with the formulation of a consistent rentals policy for informal traders across the eThekweni Unicity. The policy in this document is still in draft format and will only be finalised after broad consultation has taken place.

The draft policy has been prepared following discussions and interviews with some of the key role players involved in the informal trader economy. Desk top research has been conducted and the lessons of experience of national and international cities, with particular reference to Cape Town and Johannesburg, have also been considered and applied in drafting this policy.

The process for preparing the policy has been purposefully designed in such a way that an independent consultant first drafts the policy before it is distributed for broad based deliberation and comment. This has not been done to pre-empt any of the positions of the stakeholders or to bias the results in favour of any particular interest group, but has been done in order to focus and direct the discussions around the key issues and topics pertaining to the informal traders. The policy will only be finalised after all stakeholders had ample opportunity to comment of the draft.

The policy is formulated in terms of the instruction and directions of the Business Support Unit of the eThekweni Municipality as expressed in the Terms of Reference. An extract of the salient features of the Terms of Reference is attached as Annexure A to this document.



TABLE OF CONTENTS

PREAMBLE.....1

TABLE OF CONTENTS..... 2

SECTION ONE: INTRODUCTION..... 3

SECTION TWO: CONTEXTUALISING THE RENTAL POLICY..... 5

 2.1 A DEVELOPMENTAL APPROACH TO THE INFORMAL ECONOMY..... 5

 2.2 RENT AS A MANAGEMENT TOOL.....6

 2.3 THE MEANING OF RENT 7

 2.4 THE SCOPE OF THE RENTAL POLICY..... 8

SECTION THREE: A MODEL FOR RENT DETERMINATION.....10

 3.1 ALTERNATIVE RENTAL MODELS 10

 3.2 THE GOALS OF THE RENTALS POLICY..... 12

 3.3 THE RENTALS MODEL AND ITS BASIC STRUCTURE..... 12

SECTION FOUR: SETTING THE BASE RENTAL LEVELS..... 18

 4.1 COST OF FACILITIES AND SERVICES..... 18

 4.2 AFFORDABILITY LEVELS AND EXISTING RENTALS..... 20

SECTION FIVE: TOWARDS A RENTALS POLICY.....22

 THE INFORMAL ECONOMY IS HERE TO STAY..... 22

 INFORMAL TRADERS ARE SMALL BUSINESS PEOPLE..... 22

 THE ABILITY OF INFORMAL TRADERS TO PAY..... 22

 THE PHASING IN OF PROGRESSIVELY HIGHER RENTAL IS NOT AN OPTION..... 23

 A TWO TIERED INFORMAL ECONOMY..... 23

 IN CONCLUSION..... 23

SECTION SIX: COLLECTION AND NON-PAYMENT OF RENT.....26

 6.1 EXISTING PRACTICES..... 26

 6.2 TRENDS IN COLLECTION AND MANAGEMENT PRACTICES..... 27

 6.3 EXPANDING THE EXISTING COLLECTION SYSTEM..... 28

 6.4 THE NON-PAYMENTS OF RENT..... 29

SECTION SEVEN: IMPLEMENTATION RECOMMENDATIONS31

A Consistent Rental Policy for Informal Trading in eThekweni Unicity



SECTION ONE: INTRODUCTION

This document deals with the establishment of a consistent policy for all street traders across the eThekweni Unicity. The policy deals with the structure of rentals, the setting of the levels of rental, the methods of rental collection and issues surrounding the non-payment of rentals.

The existing rental system that is currently applied in the Unicity is fragmented leading to ad hoc decisions and the application of uncoordinated principles in the management and regulation of the informal traders. The existing system emerged over a number of years mostly from the application of operational considerations by the then independent local municipalities in the metropolitan area, and it took place in the absence of an overriding policy and strategy. The result is that the existing rentals that are charged at the various sites and markets in the city are disparate and leads to unnecessary management complexities, confusion and dissatisfaction among the traders and other stakeholders.

The level of rental collection from informal traders in the Unicity is low. The informal trader census conducted reports in 2003 that only 20% of the traders paid rent. Of further concern is the fact that only 6% of the traders have trading permits. It is unclear as to whom the remaining 14% (20% less 6%) traders are paying their rent. Most of the traders in the survey indicated that they were dissatisfied with the existing rental system. They felt that there was a need for consistency and fairness in paying rents, the allocation of sites and the issuing of permits. The perceived unfairness of the informal trader system was closely related to the large number of illegal or unauthorised traders that operate in the city. It is reasonable to assume that the uncoordinated rental policy that currently operates in the Unicity and the low levels of law enforcement contributes to the low level of rental payment.

It has therefore become necessary to urgently address the implementation of a consistent rental policy and system across eThekweni. The formulation of the rental policy is taking place within the context of Durban's

A Consistent Rental Policy for Informal Trading in eThekweni Unicity



Informal Economy Policy that was formulated in October 2000. It is important that the rental policy and system that is devised take the following requirements into consideration:

- the policy must be rational and easy to understand by the traders and it must enjoy broad based support from all the key stakeholders;
- the policy must be easy to implement and to manage by the municipal personnel;
- the policy must be seen to be fair and supportive of the developmental approach that the municipality has towards the informal economy;
- although simple to understand and implement, the policy must give adequate expression to the complexities and flexibility of the informal markets;
- the policy must be supportive of new informal traders and entrants into the economy;
- the policy must be reflective of the business approach that the municipality is adopting to the informal economy;
- the policy must account for the facilities and services that the municipality provides to the informal economy; and
- the rental policy must be fully integrated and aligned to other related informal policies of the Unicity, such as the registration and site allocation policies and procedures.

The remainder of this document outlines the broader context within which the policy operates; it defines the scope of the policy; it investigates alternative policy approaches and it recommends rental structures and levels. The rental collection methods and treatment of non-payment issues are dealt with in the final sections of the document.

A Consistent Rental Policy for Informal Trading in eThekweni Unicity



SECTION TWO: CONTEXTUALISING THE RENTAL POLICY

The rental policy for informal trade must work towards the achievement of the goals and objectives of the Unicity's Informal Economy Policy. The rental policy should also fit in with the approaches that the municipality have to other related issues and initiatives. The purpose of this section is to establish a common understanding between all stakeholders on the goals that the municipality have with respect to the informal economy and the parameters within which the policy is to operate.

2.1 A DEVELOPMENTAL APPROACH TO THE INFORMAL ECONOMY

Durban's Informal Economy Policy states that the municipality is moving towards dealing with informal traders as small business people. The Unicity is consequently committed to the growth and development of the informal economy. The first point of departure of the municipality in the policy for the informal economy is that it should promote the creation of job opportunities and is as such supportive of innovative programmes that would contribute to the development of the informal economy.

The municipality fully accepts that the informal traders are here to stay and that they could and should make a positive contribution to the metropolitan economy and contribute positively to the richness of the urban fabric. In this sense the municipality is adopting a developmental approach to the informal economy and would want to see a move of informal workers into the formal economy. Some of the important realities that follow from this approach are:

- the informal economy offers diverse opportunities for absorbing unemployed persons and accepting new entrants into the economy. The rental policy should therefore make a positive contribution towards maximising the employment opportunities and not be widely restrictive in promoting informal activities;

A Consistent Rental Policy for Informal Trading in eThekweni Unicity



- the formality and rule-bound procedures of the municipality needs to be reconciled with the diversity, fluidity and rapid changing environment of the informal economy;
- the informal economy provides a means for the survival of many poor people while it also creates opportunities for the development of entrepreneurs; and
- it implies that a value is to be placed on the different informal trading sites.

2.2 RENT AS A MANAGEMENT TOOL

The rental policy is one of a set of the tools available to the municipality to manage and develop the informal economy. There are four broad tools that are available to the municipality to manage the informal traders. These tools are the registration of traders; the allocation of sites; the structure and level of rental charges and enforcement of by-laws and regulations. The tools available to the municipality by which the informal trade economy can be promoted and developed are the provision and development of sites and markets for trading; the provision of facilities and infrastructure and; the supply of supporting services.

The rental policy is therefore to complement, and be complemented by, the other management and development tools of the municipality with respect to the informal economy. The effectiveness of the rental policy therefore largely depends on the success with which the registration and allocation tools are implemented and applied. The full integration and alignment of the rental, registration and the allocation procedures and mechanisms is therefore a prerequisite to the effective management of the informal traders. This means that the implementation of this rental policy and the non-payment of rent cannot be effectively addressed on its own, but needs to be dealt with in context of the other management tools.

A Consistent Rental Policy for Informal Trading in eThekweni Unicity



2.3 THE MEANING OF RENT

The Informal Economy Policy states that the term 'rental' commonly refers to the payment for a *place*. The policy however advocates a move away from this common understanding of the term towards the payment for a *right to operate*. The Informal Economy Policy consequently recommends a change in the term from 'rental' to 'registration fee' or 'operator's fee'. This approach advocated by the Informal Economy Policy is, however, confusing and flawed, and it is therefore necessary to clearly define the meaning of the term 'rent' as it is applied in this policy.

The term 'rent' and 'rental policy' is used here to refer to the payment for the right of access and use of an informal trader site, whether as part of a street, an informal market area or a mobile unit. This policy makes a distinction between a registration or operator's fee and rent. The former is understood to be part of an administrative process during which informal traders are registered and thereby obtain the 'right to operate'. The right to operate, however, only becomes effective once an approved site has been obtained and the rent for the site, or mobile unit, has been paid¹.

Rent in this policy is therefore taken to reflect the 'price' that a trader has to pay in order to gain access to a particular site, or mobile unit, and it is accompanied by a particular set of facilities and services. Seen from the municipality's point of view, rent is the 'price' at which a site or mobile unit together with a particular combination of facilities and services, are made available to informal traders.

A Consistent Rental Policy for Informal Trading in eThekweni Unicity



¹ It is argued in this policy that since the 'right to operate' of a trader cannot be exercised separately from having access to a site, or alternatively an approved mobile unit, that the registration, allocation of sites and rental payment procedures be integrated into a single procedure. This is in line with the recommendations of the Informal Economy Policy that calls for the establishment of a one-stop-centre.

The structure and level of the rent that is set for a site and its facilities and services depends on a number of factors. One of which is the economic value of the site. There are, however, other important factors that the municipality also need to take into consideration, such as the developmental objective of encouraging new entrants to also gain access to trader sites. The structure and level of rent is the subject of subsequent sections of this policy.

2.4 THE SCOPE OF THE RENTAL POLICY

The rental policy formulated in this document focuses on the informal street, market and mobile unit traders and does not address the home-based operators, flea markets, marquees, hives and incubators, special events, special areas and periodic markets.

The rental policy relates by definition only to "authorised" or "legal" traders and is not applicable or of relevance to the large number of unauthorised informal traders that operate throughout the Unicity. This is important and relates back to the fact that the rental policy is but one of the set of tools available to the municipality for the management of the informal traders and, to the fact that the high level of illegal traders undermine the credibility of any rental system that is introduced.

A Consistent Rental Policy for Informal Trading in eThekweni Unicity





SECTION THREE: A MODEL FOR RENT DETERMINATION

3.1 ALTERNATIVE RENTAL MODELS

There are a number of different models that could be used to provide a framework for determine the rentals in the municipality and that gives expression to the principles that is to be applied. Such different models are the following:

- A model that would most accurately reflect the market value of sites, and which inherently takes account of all the important market factors, is an **auctioneering model**. Sites that become available are auctioned to the highest bidder. The auctioneering process automatically gives expression to important market factors such as the scarcity of sites, the location of the site, the demand for sites and the value that traders assign to a site due to the opportunities that the site offers. Although this auctioneering model is most effective in determining the market value of the sites, it tends to favour wealthier traders and give little opportunity to the poorer and inexperienced traders to gain access to good trading sites. The poorest and most disadvantaged traders would always be displaced to the lower value sites with lessor trading opportunities. The model of auctioning sites therefore undermines some of the socio-economic objectives of the municipality and is not seen to be a fair and equitable model.
- A further rental model is that of applying a **flat and equal rental rate system that applies** to all trader sites irrespective of its location or site size. The only distinguishing factor would be the level of service that is available at the site. The main advantage of this model is that it is easy to understand and simple to implement administratively. This model has however already proved to be seen to be unfair and is not acceptable to the traders or officials.

A Consistent Rental Policy for Informal Trading in eThekweni Unicity



- A model closely related to the above is a '**no-rental model**'. The current level of payment of rentals is very low and the site rentals are already heavily subsidised. Since the municipality currently gains little revenue from rentals it is debateable whether any rentals should be charged at all. The benefits of this model are that all administrative costs and complexities related to the collecting, monitoring and enforcement of rental, are done away with. The importance of the site allocation procedures and the registration of traders as management tools increases in this model, and the need to enforce the procedures and regulations remain as important as always. The disadvantages of this model however is that the application of business principles to the traders is lost and the little revenue that is generated, is foregone.
- A model for determining rentals that is favoured by some stakeholders is one where the rentals are determined through a process of **collective bargaining** between the traders, their associations and the municipality at street, city precinct or metropolitan level. This model requires the introduction of complex systems of negotiation, the building of capacities of officials and traders alike in negotiating skills and therefore is a danger that the same principles are not applied uniformly throughout the city.
- The last and preferred model is one that contains elements from all the above and that gives expression to the various **developmental goals and objectives** of the municipality and the traders. In this model a simple yet differentiated rental structure is devised that applies the same principles consistently throughout the city and that takes account of all the key factors determining the value of the trader sites. The difficulty of this model is that it does not accurately reflect the market value of sites, but it does give the municipality the opportunity to achieve its developmental objectives. The remainder of this section deals with the composition of this model.

A Consistent Rental Policy for Informal Trading in eThekweni Unicity



3.2 THE GOALS OF THE RENTALS POLICY

Durban's Informal Economy Policy states that informal traders are to be viewed as small business people and that it is important to place a value on the different informal trading sites. The principle of rental payment is well accepted by the traders although few actually pay the rentals. The principle of differentiating between the rentals for different sites has also been adopted by the traders and the municipality would like to expand the differentiated rentals to include street traders, itinerant traders and those people trading from built markets.

The following important criteria are suggested in the Informal Economy Policy for the development of the rentals structures:

- the policy suggests that rentals per site will be linked to size, desirability of location and the level of the services that are provided;
- the level of the rentals are to be linked to the cost of providing the sites and services to the traders, bearing in mind that the need for the municipality to subsidise new trading opportunities;
- a basic rental should be set for street traders. Differential rentals could then be set for the different service levels that are provided. The components of a basic package should include a shelter, solid waste removal, water, toilets, lighting and storage facilities.

3.3 THE RENTALS MODEL AND ITS BASIC STRUCTURE

3.3.1 Factors determining rentals

In order to formulate the basic structure of the rentals model it is necessary to take account of the factors that impact on rentals.

A Consistent Rental Policy for Informal Trading in eThekweni Unicity



The most obvious factors are those that influence the value of the sites as trading sites. There are, however, also additional criteria that the municipality may want to take into consideration in determining the rentals. The most important of the factors and criteria that could influence the rentals are the following:

- The **macro and micro location of the site**. The location of the site is one of the most obvious determinants of the value of the site and therefore impacts on the potential rent that the site could generate. The macro location refers to the position of the site within the broader metropolitan area, such as the location of the site in the CBD as opposed to sites that are located in Pinetown, Umlazi, KwaMashu or Clairwood where the overall potential of the sites are seen to be lower than in the CBD. The micro local of the sites refer to the specific location of the site with respect to the position in the street, be it on the street corner or in a less favourable location such as mid-block that is further removed from the main pedestrian and traffic flows.
- The **demand for and supply of sites** impact directly on the level and nature of rentals that could be charged. The current situation is that the demand for good trading sites far exceeds the supply of sites with the effect that market related rentals could be pitched higher than what may be desirable from a developmental point of view.
- The value of the site to the traders due to the **nature of the infrastructure, facilities and services** that is available at the sites. The availability of a shelter or table on the site or the accessibility to water and electricity on the site, are important determinants of the value of the site and hence the rent that the site could generate.
- The **size of the site** may be important in determining the value of the site as a trading space. Larger site tend to attract higher value due to the greater market exposure that the site offers and the potential for storing a larger volume of stock on-site.

A Consistent Rental Policy for Informal Trading in eThekweni Unicity



- The **nature and value of the goods** that could be sold from the site. This factor relates closely to the location of the site with respect to particular niche markets, such as the location of the site in the music market as opposed to the herb or vegetable markets. In some instances the rent for a site is determined in terms of the value of the goods that are displayed or sold. The value of the stock and the value of the goods sold are used as a mechanism to estimate the inherent potential of the site, based in the assumption that high potential sites attract higher sales and therefore also a need for larger stockholding. Some areas such as Johannesburg, uses a system of differentiating between sites based on the location of the site and in terms of how profitable the trader that operates from the site are.
- The **frequency of trading** from the site where the trader is located. The rental structure in markets that only meet periodically would be different from those markets that operate daily. Also the nature and character of the market would have an impact on the rental values that different sites can attract. General hawker markets such as the Bangladesh market in Chatsworth would attract lower rentals that the more sophisticated Beach Front area.
- There are a number of additional **exogenous social-developmental factors** that could be used to distinguish between different rental values for sites. These factors are used to influence the composition of the informal trader market in order to achieve socio-economic development goals. Factors that would fall into the category are gender, age and race differences of the traders that apply for access to sites and its associated facilities and services. It is, however, not considered to be appropriate to accommodate these factors in the rentals policy and they could better be dealt with in the allocations and registration procedures.

3.3.2 A Base Rentals Model

In the interest of developing a simple yet sophisticated model that accounts for the most important factors that impact on rentals, it is necessary to formulate a basic structure within which such rentals can be

A Consistent Rental Policy for Informal Trading in eThekweni Unicity



determined. Such a structure is shown in the matrix below by posing the main locational features of the sites against the provision of facilities and services.

The matrix for the different rental categories are differentiated for the different market areas in the Unicity such as the CBD, Umlazi, KwaMashu and Pinetown. Further refinement of the rental categories would take place with respect to the site sizes and specific facilities and services that are supplied to a site. It should also be noted that the matrix indicates that each of the build markets needs to be determined independently, albeit within the context of the basic model structure as presented in the matrix.

BASE MODEL PER MARKET AREA INDICATING RENTAL CATEGORIES

MAIN LOCATIONAL FEATURES OF THE SITES		BASIC SITE Without facilities or services	SITE WITH SHELTER and storage	FACILITIES electricity, water and sanitation	SERVICES security and protection services
Street trading sites	Low intensity sites	A1	A2	A3	
Street trading sites	High intensity sites	B1	B2	B3	
Mobile units	Low and high intensity areas	C1			
Build Markets ²	Differentiated by market	D1	D2	D3	D4

The matrix identifies or classifies the trading markets into 13 base rental categories. It should be noted that the built market areas (the “D” category) would need to be specified for each of the markets.

It follows from the above that the structure of the rental for each site and mobile unit will be determined by taking account of the following factors:

- the **macro location** of the site in terms of the market area as expressed in terms of the CBD, Umlazi, KwaMashu and others.

³ The build markets refer to markets such as the Umlazi Units, Bombay Walk, KwaMashu: eMahawini and Peoples Market and the Clairwood Market.

A Consistent Rental Policy for Informal Trading in eThekweni Unicity



- the **micro location** of the site in terms of the street and mobile positioning differentiated by the trading intensity of the site⁴;
- the **level of services and facilities** that are provided at the sites;
- the level of **specialisation and market potential of the build markets** and the frequency of the market trading days;
- the **size of the individual sites** as compared to the average sites in the area; and
- **additional factors** as may be relevant to specific sites.

3.3.3 Application of the Rentals Model

Section Four of this document deals with the setting of levels of rental payments as expressed in the rental model. It would, however, be necessary to develop a set of weights and measures based on the existing rental levels between the different market areas, before the base model could be applied to specific sites.

In order to apply the basic rentals model to each individual trade site it would be necessary to compile a comprehensive database of all the sites recording the basic characteristics of the sites as required by the model. The most important factor is the trading intensity of each site.

Additional factors that need to be taken into account in the application of the rentals model are the following:

⁴ The trading intensity of the sites could be determined in a number of ways involving agreements with the street committees or the classification of the sites into high and low intensity levels by officials. The most important fact that determines the classification of sites are the pedestrian volumes passing the site as compared to the other sites in the vicinity.

A Consistent Rental Policy for Informal Trading in eThekweni Unicity



- the rentals charged would be an inclusive amount incorporating all fees and charges that the traders have to pay that are related to obtaining the right to trade and gaining access to facilities related to the trading activities. This means that there should not be a separate charge for the registration of traders the rental of tables and usage of additional facilities.
- an additional component to the rental payment that may be introduced is a refundable deposit that is due on the first day of trading together with the first rental payment.
- rentals are payable in advance. This means the traders only gain access to the sites and the right to trade once the rental payments have been made. Traders should therefore not be in a position by which the rentals are allowed to accumulate before making payments. A default in rental payment or late payment means that the trader forfeits the right to trade and access to the site.
- The rental payment secures the trader the right of having access to the additional services of the municipality such as training and capacity building services, information distribution and mentoring services that the Business Support Unit provides.



SECTION FOUR: SETTING THE BASE RENTAL LEVELS

There are a number of factors that need to be taken into consideration in determining the level at which the rentals are to be introduced within the base rental framework outlined in the previous section. The most important of these factors are:

- The extent to which the rentals are to contribute to the revenue of the Unicity. Important in this respect is the cost of the provision of the sites, facilities and services and the extent to which such costs are to be recovered, or alternatively, the extent to which rental income should contribute to the funding of new site and service developments.
- A further important factor is the affordability levels of the informal traders. Although impressive figures are often quoted to illustrate the importance of the informal sector and the significance of the contribution that it makes to the economy of the city, it is still a fundamental fact that informal workers are generally poor and ill resourced. It is therefore important that the rentals be pitched at a level that is affordable to the traders.
- Closely related to the above factor is the development objective of the Unicity to encourage new entry into the informal economy as an alternative to unemployment. This implies that rental should be at a level to accommodate new entrants into the informal economy.

4.1 COST OF FACILITIES AND SERVICES

Estimating the cost of providing sites, facilities and services to the informal traders are difficult and complex to determine. For the purpose of this analysis an average cost per site is derived from the cost estimates and budget provisions that are

It is important to point out that the rentals only apply to the legal or authorised traders that have been allocated a site. Illegal traders are not impacted by the rentals and rental levels. The 2003 Informal Trader Census indicated that as many as 47% of the traders interviewed operated from areas that are not demarcated sites. The large number of illegal traders operating in the Unicity undermine the credibility of the rental system and leads to the non-payment of rentals. It is therefore important that a sound enforcement strategy be implemented together with the revision of the rental strategy.

A Consistent Rental Policy for Informal Trading in eThekweni Unicity



made for a selection of the build markets. The estimated average monthly cost per informal trading site is shown in the table below. The cost information on which the estimates are based is shown in Annexure D.

ESTIMATED ADJUSTED AVERAGE COST OF SITES, FACILITIES AND SERVICES (R/AND PER SITE PER MONTH)

COST ITEMS	Mobile Units	Street Site without facilities and services	Street site with facilities	Market site with facilities	Market site with full facilities and services
Management and administration	50,00	50,00	50,00	50,00	50,00
Unit, Shelter and storage	25,00	-	55,00	55,00	55,00
Electricity	-	-	-	68,00	68,00
Water	25,00	25,00	25,00	100,00	100,00
Sanitation	30,00	30,00	30,00	66,00	66,00
Cleaning	50,00	50,00	50,00	100,00	195,00
Security and protection services	-	-	-	-	362,00
Repairs and maintenance	-	-	10,00	10,00	31,00
Rates	-	-	-	50,00	73,00
TOTAL	180,00	155,00	220,00	499,00	1000,00

Source: Estimates by Urban-Econ based on budgeted costs for selected build markets

It is important to note that the estimates in the above table are derived from the budgeted costs for sites located in a cross section of build markets. The cost estimates shown in the table should be treated with caution and be used as a guide to the costs that are associated with the provision at the various sites, facilities and services. Further detailed research needs to be undertaken to improve the cost estimates per site. The most important assumptions made in estimating the cost are the following:

- the cost of land has not been included in the estimates;

A Consistent Rental Policy for Informal Trading in eThekweni Unicity



- the cost estimates per site are most sensitive to the number and density of sites in an area, the nature of the specific facilities and services that are provided, the frequency and extent of the services and location of the sites. The estimates are based on assumed clusters of trading sites of 50 per cluster.
- the cost of shelter and storage space have been based on a capital redemption calculated over 5 years and at 12% interest.

4.2 AFFORDABILITY LEVELS AND EXISTING RENTALS

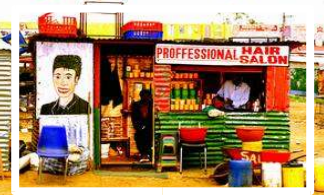
Little empirical data is available that indicates the income levels, and hence the affordability levels, of informal traders. The 2003 Informal Trader Census survey indicated the levels of rental that traders were paying to various interested parties. The census indicated that only 20% of the traders interviewed were paying rent. Of the 20% traders that were paying rent, 26% paid less than R 40 per month; 17% paid between R 40 and R 80 per month; 32% between R 80 and R 200 per month; 6% between R 200 and R 400 per month and 16% paid more than R 400 per month. This means that about 85% of all traders paid either no rental or less than R 40 per month. Although this is by no means an indication of the levels of rental that the traders will be able to afford or not, it does provide some indication of the resistance that may be expected from the traders once they are expected to start paying rentals. The highest numbers of high rentals (those in excess of R 400 per month), were paid by the Warwick Morning Market traders. The Morning Market also had the highest percentage of rent paying traders (42%) of all the areas interviewed.

The existing rentals that are being charged to traders vary considerable between the various sites and markets. The table below indicates some of the base rentals currently being charged.

It is estimated based on the preceding analysis that the levels of subsidy in-terms of the official rentals charges varies between 94% for street trading sites to 50% for market sites. In terms of the actual rentals

paid, the subsidy level may for practical purposes be taken to be 100%.

A Consistent Rental Policy for Informal Trading in eThekweni Unicity



RENTALS BEING CHARGED

AREA	RENTAL CHARGES
	(Rand per Month per site)
Street trading without shelter	R 10
Street trading with shelter	R 35
Clairwood Hive	R 110
Umlazi SME Units	Between R 215 and R 594
Bombay Walk	Between R 10 and R 35
Emahawini Business Units	Between R 143 and R 1222

RENTAL SUBSIDY PER SITE BASED ON OFFICIAL SITE CHARGE RATES

Trader Sites	Cost of Site and Services Rand per Month	Official Rentals Charged (Average)	
		Rand per Month	% Subsidy
Street Sites without Facilities	155	10	94
Street Sites with Facilities	220	35	85
Markets with Facilities	500	250	50
Markets with Facilities and Services	1000	500	50

A Consistent Rental Policy for Informal Trading in eThekweni Unicity



SECTION FIVE: TOWARDS A RENTALS POLICY

THE INFORMAL ECONOMY IS HERE TO STAY

The point of departure of the policy is that the informal economy is here to stay for the long term. This view is in line with the vision of the Informal Economy Policy and is realistic given the nature and state of the national and metropolitan economy. The levels of unemployment are in some areas as high as 45% to 70%, and that is not going to change in the short term. It is therefore important to understand that the informal sector is an alternative for unemployment and is going to be part of the urban fabric for a long time to come.

INFORMAL TRADERS ARE SMALL BUSINESS PEOPLE

The Unicity has adopted the position that the informal economy traders are to be considered to be small businesses. Thus although it is accepted that the informal sector is an important alternative to unemployment and therefore caters for the poor and impoverished, the city does not consider the provision of facilities and services to this sector to fall in the realm of social welfare. The sector is seen to make an important contribution to the economy of the city. The implications of this position are that a policy of zero rentals is not an option. This in spite of the fact that it is often argued that the collection of the rent costs more than the revenue is that is generated by the rent.

THE ABILITY OF INFORMAL TRADERS TO PAY

The analysis in the previous sections has shown that economic rentals, at which cost recovery takes place, would in most instances be unrealistically high and exceeding the ability of the traders to pay such rentals. This is, however a generalisation that does not necessarily apply to the upper end of the spectrum of informal traders. Indications are that the lower end of the informal trader spectrum, ie typically the pavement hawkers, would not be able to pay economic rentals as determined in the previous section. Some of the more sophisticated traders that operate in the niche and periodic markets, may, however, well be able

A Consistent Rental Policy for Informal Trading in eThekweni Unicity



to pay economic rentals that even exceed cost recovery levels.

THE PHASING IN OF PROGRESSIVELY HIGHER RENTAL IS NOT AN OPTION

It is often argued that the economic rentals should be introduced into the informal economy in a gradual and phased basis because of the inability of the traders to pay economic rentals from the beginning. This view originates for the laudable, but flawed, view that the informal markets should, in time, be developed and upgraded to become a “formal” market. Although it is correct to assume that some individual traders will grow, develop and eventually move out of the informal economy, this is not the case for the informal economy as a whole. The informal economy is here to stay in the long term, as an alternative to unemployment and it is an opportunity for new entrants to participate in the economy.

A TWO TIERED INFORMAL ECONOMY

It follows from the above that informal trader rentals may always have to be subsidised. There may be a case to be made for the development of two types of informal economies ie i) a “real” informal economy catering for the bottom poor end of the spectrum and ii) a second intermediate informal economy that accommodates the upcoming entrepreneurs and more successful traders. This two tier structure already exists to some extent in the form of the general street traders and secondly those traders that operates in the build markets.

IN CONCLUSION

It follows from the above arguments that:

- the rentals in the informal economy would in all probability always have to be subsidised by the Unicity. It is important that the value of the subsidy be quantified and that arrangements between the different Unicity Departments be formalised as to how the subsidy is to be accounted for;

A Consistent Rental Policy for Informal Trading in eThekweni Unicity



- rentals should be charged and be differentiated in terms of the location and cost of facilities and service delivery to the traders;
- provision should be made for a two tier rental system with differentiating subsidy levels catering for i) an informal street trading market and ii) the more sophisticated build market areas. It is not recommended that increases in rentals be phased in over time in the same informal market area, but that the two tier system of rental subsidisation cater for the growth and development of the informal economy;
- opportunities to privatise components of the informal markets, or to involve the private sector in PPP-relationships in the markets should at all time be considered. This could most effectively be done through the involvement of the trader associations and street committees. This would contribute to greater efficiencies in the informal markets and thereby reduce the overall subsidy levels of the municipality;
- the payment of rentals must at all times take place together with the site allocation process and the process of registering traders. Rental payment should be made in advance of the occupation of the site;
- it would be necessary that sound management structures be implemented at a level where the informal market areas can be logically clustered. The clusters should relate to the different rental categories as is illustrated below;
- a database system of recording all the trader sites and the characteristics for determining the specific rental levels will need to be introduced;
- the implementation of a sound and effective enforcement system to monitor the payment of rentals, is critical to the successful implementation of a rentals policy and collection system. This may even entail the introduction of dedicated informal sector law enforcement officers; and
- Guidelines for the implementation of a rental structure is shown in the following table. The guidelines take the affordability levels into account and the level at which future subsidies may be pitched.

A Consistent Rental Policy for Informal Trading in eThekweni Unicity



GUIDELINES FOR MINIMUM RENTAL LEVELS (RAND PER MONTH)

MAIN LOCATIONAL FEATURES OF THE SITES		BASIC SITE Without facilities or services	SITE WITH SHELTER and storage	FACILITIES electricity, water and sanitation	SERVICES security and protection services	% Subsidy
Street trading sites	Low intensity sites	30	45			80%
Street trading sites	High intensity sites	60	90			60%
Mobile units	Low and high intensity areas	70				
Build Markets	Differentiated by market	110	150	350	700	30%

- A formula for calculating rentals per site would consist of the following parameters:
 - The **macro location** of the site within the broader Unicity. A weighting factor based on existing differentials between the different market areas would;
 - The **micro location** of the site differentiated in terms of the volume of pedestrian in terms of the volume of pedestrian traffic that pass the site;
 - The specific level and quality of facilities and services that are available to the site;
 - The relative size of the site; and
 - The base rental as reflected in the table above, inclusive of the percentage subsidy.



SECTION SIX: COLLECTION AND NON-PAYMENT OF RENT

6.1 EXISTING PRACTICES

The present system of rental payment for informal traders in the eThekweni Municipality area is organised around formal pay points in the city. Present pay points in the Durban CBD are Martin West Building, Shell House (sundries), the Early Morning Market (Warwick Junction) in addition to post offices and municipal pay points throughout the metropolitan area.

People with bank accounts can pay at any branch of one of the large supermarkets. Those without bank accounts or nearby post offices suffer the inconvenience, and loss of income, which are caused by the long queues of people waiting to pay for other municipal services at municipal pay points.

Although, the vast majority of street traders agree with the principal of payment, many have not paid for months or years. Consequently, under present budgetary and financial policy, it is not possible to earmark money paid in rentals for the further development of trading facilities.

The general indications are that the existing rent collection system is reliable and generally trusted by the traders. The major complains against the existing system are the fact that the traders have to travel far to the pay points and wait in long queues to make the payments, and that illegal traders that do not pay rent enjoy the same privileges as the rent paying traders.

A Consistent Rental Policy for Informal Trading in eThekweni Unicity



6.2 TRENDS IN COLLECTION AND MANAGEMENT PRACTICES

The existing system is based on the principle that the individual traders pay rent directly to the municipality although it may be collected by the post office and other entities acting as agents of the municipality. Alternative mechanisms involve among others the outsourcing of the collection and management of the traders to external role players.

There are three major trends in the management of street trading areas involving outsourcing by the local authorities: the outsourcing of street trading management to street trader organisations; the outsourcing of management to property owners; and the creation of dedicated markets.

The first model can be seen in parts of Cape Town, where the street traders' organisations effectively manage activities on the street, and the traders pay their site rentals directly to the organisation and not to the municipality. The rates charged have been judged to be quite high, and unaffordable to poorer traders. The Cape Town City Council saw outsourcing as a preferred option for management of street trading, which was not considered to be a core function of the City administration. There had been resistance to this arrangement from traders in some areas of the city who wished to deal directly with the city authorities, and pointed out that the system was one which was open to abuse. The leaders of the associations are generally Muslim, and the feeling among black non-Muslim traders is that their chances of getting sites are quite low.

The outsourcing of management functions to property owners has been the model developed in significant parts of the Johannesburg inner city, where two systems are in place. In the first, landowners can apply for a sidewalk lease from the local council, and can then erect their own structures upon it, and can manage the traders outside the buildings they own. The second model is based on Business Improvement Districts, which are precinct-based systems of management, dominated by the private sector. A private company manages the area, focussing on crime, waste and informal trade. Rental collection takes place through the management organisations.

A Consistent Rental Policy for Informal Trading in eThekweni Unicity



This latter system seems to work well because the streets are more orderly, there is stricter enforcement of the by-laws, there are more security guards visible and crime is said to have declined in these areas. Traders are protected by law, and cannot be removed, but the permit pricing structures could in fact have the effect of keeping poorer traders out of the areas. The property owners run the BID companies, without any form of trader representation on the management structures.

In Johannesburg the Inner City Street Trading Management Strategy has been developed as a form of public-private partnership. Markets are being set up for street traders in disused buildings in the inner core of the city. Companies are formed to manage them, with 30% of shares allocated to the street traders. To be effective a strict policing that involves additional costs are introduced.

The major principles to which a rent collection system should adhere to are the following:

- The rental collection system should be seen to be fair, visible, reliable and the traders should have confidence in the system;
- the rent collection method should be inexpensive to operate; and
- the system should allow for a range of mechanisms in order to maximum the payment opportunities for the traders with out increasing the cost of the service.

6.3 EXPANDING THE EXISTING COLLECTION SYSTEM

Based on the above findings it is suggested that the existing rental collection system be retained and expanded. The existing method of collection do not appear to a major problem in spite of the claims that it is difficult for the traders to get to the pay points and that productive time is lost by standing in long queues.

A Consistent Rental Policy for Informal Trading in eThekweni Unicity



Changing the collection method while, at the same time, introducing a new rental structure would be too involved to undertake all at once. The alternative mechanisms of rent collection, such as the new management formats discussed earlier and the use of new technology are generally more complex, sophisticated and expensive, than the existing collection system.

Thus, the principles of the existing collection system seem to be sound and understood by all and be retained. The following refinements may, however, be made to the existing system:

- the number and location of the pay points be increased and made easily accessible to the traders, mainly by entering into agreements with more formal retailers that are located in the vicinity of the informal trading areas. In addition to this, the municipality's account type for the traders should be changed to become a 830-type account that allows payment at all the pay points where water and electricity accounts can be paid.
- the rental payments must take place at the beginning of the contract period be it a month or annually. Rents should not be allowed to accumulate for a number of months before payment is made. This implies that improved enforcement practices should be practiced;
- traders should be encouraged to pay rentals for periods longer than one month by the introduction of a discount system when more than one month's rental is paid;
- a decentralised billing system should be introduced that reminds traders to make their payments on a monthly basis.

6.4 THE NON-PAYMENTS OF RENT

A culture of non-payment of rentals currently exists although there is a general acceptance and recognition by the traders and their associations, officials and other formal sector businesses that rental payments should

A Consistent Rental Policy for Informal Trading in eThekweni Unicity



take place. The culture of non-payment may be traced to historical factors where that informal economy emerged from a resistance environment; from a perceived unfairness of the system where non-paying traders enjoy the same privileges as the paying traders; the non-enforcement of the regulations; reported difficulties associated with gaining access to the pay points and reported affordability issues.

Measures that should be introduced to address the non-payment of rentals are the following:

- a renewed communication and awareness creation action should be launched making the rental regulations and levels known to all the role players and stakeholders. The importance of paying rent and the need for income to fund further developments need to be brought to the attention of all the role players;
- a renewed programme to enforce the regulations should be introduced. The enforcement of the regulations needs to take place both with respect to dealing with the large number of illegal traders as well as dealing with the non-payment of rentals. The implementation of law enforcement officials dedicated to informal trade should be further investigated; and
- closely related to the above is the application of the principle that rental payments are due at the beginning of the month and that late payments means that the traders forfeit their right to a trading site.



SECTION SEVEN: IMPLEMENTATION RECOMMENDATIONS

The implementation of the new rentals policy and rentals structure should take place in an integrated way, giving ample attention to the technical aspects, communication and the buy-in of the role players into the initiative. It is anticipated that the programme of implementation could extend over a 12 month period. It is important that the full cooperation of the all the role players be obtained and that each step of the programme is visible and transparent. The main action step are listed below and shown in a summary programme in the following table.

- Obtain broad based approval of the rentals policy from all role players;
- undertake an improved analysis of the cost profiles of the various informal trader sites and markets;
- obtain agreement between the municipal departments of how the subsidisation of the traders will be accounted for in the respective budgets;
- obtain formal approval of the rentals policy from Council;
- an integrated strategy in terms of which the site allocation mechanisms, registration procedures and rental payment systems are integrated into one management programme ie the outstanding policy issues of the Informal Economy Policy should be completed;
- communication strategy informing all the role players of the eminent changes; preparing the role players for the site surveys and assessment of the individual sites;
- plan for the implementation of the rentals policy by finalising the rentals formula,
- compile the database recording all the site parameters required to implement the rentals formula;
- complete the detail assessment of all site rentals;
- workshop the new policy and rentals with the traders;

A Consistent Rental Policy for Informal Trading in eThekweni Unicity



- improvement of the law enforcement actions and the investigation of the possibility of appointing dedicated informal trader law enforcement officials;
- expansion of the number of pay points;
- plan for the further development and upgrading of the informal markets;
- implementation of the rentals per site.

It is recommended that the rental policy be implemented initially in a pilot project area such as Isipingo. It is important that an area of a manageable size and complexity be selected for the pilot area.

A Consistent Rental Policy for Informal Trading in eThekweni



RENTALS POLICY IMPLEMENTATION PROGRAMME

ACTION STEPS	2004								2005			
	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	March	April
· Obtain broad based approval												
· improved analysis of the cost profiles of sites												
· obtain agreement between the municipal departments												
· obtain Council approval												
· formulate an integrated management strategy												
· implement a communication strategy												
· finalising the rentals formula,												
· compile the database of all site parameters												
· complete the detail assessment of all site rentals;												
· workshop the new policy and rentals with the traders;												
· improvement of the law enforcement actions												
· expansion of the number of pay points;												
· plan further developments and upgrading												
· implementation of the rentals per site.												

