



The formalization of the informal sector economy: Panacea or Chimera?

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Abstract.

In 2011 author Robert Neuwirth identified the global informal sector economy as having a combined Gross Domestic Product (GDP) that is equivalent to the second largest economy in the world behind the United States of America (USA).

Studies have shown that the informal sector economy is prevalent in Africa and India which are both considered to be emerging market economies with potential for exponential growth. The GDP of a country is calculated using a total of a countries production of goods and services; however production in the informal sector economy is unaccounted for. The inclusion of their production could potentially boost the economic growth of these emerging market economies.

This study aims to observe whether the informal sector economy should be formalized or left as it is in its current state. Despite the ‘problem statement’ in the previous paragraph, which appears to be in favour of formalization, there are advantages and disadvantages for both formalizing the informal sector economy and leaving it in its current state. The objective of this study is to come up with a sustainable strategy of how to manage and administer the informal sector economy as in its current state it is proving to be unsustainable.

A two phased approach was used to produce the findings which included interviews with experts and interviews with entrepreneurs operating in the informal sector economy.

These findings provided suitable recommendations to be made as to how to manage and administer the informal sector economy.

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Keywords: formalization, informal sector economy

Declaration.

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

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Success is the sum of small efforts, repeated day in and day out.

Robert Collier

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Chapter 1.

Introduction of the Research problem.

1.1. Background to the research problem.

Does the informal sector economy present a problem or does it present an opportunity for all stakeholders affected by it (Bettcher, 2009)? Should it be formalized or should it be left in its current state? Because the informal sector economy accounts for approximately 50% of the Gross Domestic product (GDP) in various emerging economies, it continues to remain a challenge for the relevant stakeholders with particular reference to governments as to how it should be managed.

In an attempt to address the challenge as to how to manage the informal sector economy it is tempting to assess how the advanced and developed economies manage the economy. The assumption is that the state of their economy is a reflection successful policy implemented to deal with such challenges, however methods of used by developed economies cannot be blanket to accommodate the dynamics in emerging economies. This is because the structure and nature of the informal sector economy is completely different to that of formal sector economy (Daniel, 2011). The current barriers of entry which exist in the formal sector economy instituted by the developed economies prohibit the informal sector economy from participating in the 'mainstream economy'. These formal barriers include access to finance and credit, social protection, limited access to infrastructure, technology, skills, education and training (Kuchta-Helbling, 2000). Kuchta-Helbling (2000) is of the opinion that until those barriers are removed, democratic governance and economic growth will continue to be obstructed. Kuchta-Helbling is supported by Davies (2010) who states

that the barriers of entry are hindrances that keep the informal sector economy separate from the formal sector economy.

1.1.2. Why the Informal Sector Economy Exists.

Bosma & Levie (2009) reported that entrepreneurship in developing countries is driven by need as opposed to want (*necessity rather than opportunity*). Furthermore the overwhelming number of informal sector economy enterprises which operate at a survival level will continue to exist as long as high unemployment rates, poverty, lack of government support, lack of education and formal sector economy barriers exist. The informal sector economy provides an important alternative to unemployment in Africa which is caused by a disproportional dependence of labour market entrants on employment in the formal sector economy (Bosma & Levie, 2009). The formal sector economy does not have the capacity to absorb the current labour force and the continued weakening of the formal sector economy in Africa has resulted in a reduction in its capacity to absorb new labour market entrants (Ligthelm, 2008). Ligthelm (2008) supports Manning (1996) in the view that low labour market absorption in the formal sector economy results in unemployment and therefore an alternative means of income for survival. Therefore these are the primary influences responsible for the exponential expansion of the informal economy.

1.1.3. Importance of the Informal Sector Economy.

Firstly, according to the United Nations Economic Commission for Africa (2006), the increase in the informal sector economy in Africa is not sustainable. Furthermore it has negative effects on Africa's economic growth and developmental agenda. The informal sector economy is part of a country's mere "survival" strategy for poor households because it plays a passive role in development and acts as a temporary substitute for social protection during the formal sector-led growth process (Devey, 2003).

Secondly, entrepreneurship in the informal sector economy is an important source of economic activity with the potential to alleviate poverty, sustain the livelihoods of the unemployed population of Africa and create job opportunities (Acs and Virgill, 2010). It is therefore important to encourage entrepreneurship amongst the entrepreneurs in the informal sector economy in Africa because the informal sector economy serves as an important distribution channel of goods to the consumer (Bohme & Thiele, 2011).

Thirdly, businesses that operate within the informal sector globally account for a combined annual GDP of ten trillion US dollars. If the informal sector economy were a country; it would have the second-largest economy behind the United States of America (USA) (Neuwirth, 2011).

Fourthly, the economic sector has the dynamic forces which produce innovation and economic activity. These dynamic forces include the resourcefulness, the relationships and the reason (*knowledge*) of the entrepreneurs. In Kenya, this informal spirit is known as 'Jua Kali'. Because informal enterprises operate at a grass root level, they have a deep understanding of the local context and how it operates. Their small scale allows for versatility and agility to continuously adjust their methods of production according to the resources and materials available as well as the purchasing power of their customers (Daniels 2011).

Although the informal sector economy has the potential to significantly contribute towards its country's GDP, it is prevented from doing so because it is structurally disconnected from the 'GDP economy'¹ (Mbeki 2003). Due to the inefficient structures existing in the informal sector economy, it is incapable of sustaining self-generated growth and development. The inefficient structures refer to include uneducated personnel, no access to resources and no access to infrastructure. If the informal sector economy is to become sustainable and function optimally it is important for all stake holders, including government, the private sector and informal sector

¹ The GDP economy is a concept used to describe the entire economy. The research makes a distinction between the formal sector and the informal sector economy. These two economies combined form the GDP economy.

entrepreneurs to engage and develop sustainable solutions for the long term to include the informal sector economy into the GDP economy (Acs and Virgill, 2010).

1.2. Research motivation.

1.2.1. Purpose of the research.

In the introduction we indicated that in its current state the size and nature of the informal sector economy is not sustainable. The purpose of the research was to answer the main research questions which are whether we should formalize the economy, or leave it in its current state.

The purpose of this research is to develop sustainable solutions to address the informal sector economy. Despite the advantages that the informal sector economy provides for its entrepreneurs, the current state of the informal sector economy represents a problem. The aim of the research is to explore the advantages and the disadvantages of the informal sector economy, explore the advantages and the disadvantages of formalization and ultimately decide whether formalization is a sustainable solution to the informal sector economy or whether the current advantages provided by the informal sector economy are sufficient enough to sustain it in its current state.

Because the informal sector economy could potentially be a significant contributor to the GDP economy in emerging economies one argument is that it could potentially play a “critical role in the job creation of the country’s economy” (Chen, 2007, p. 1). The informal sector economy has grown and transformed in unexpected industries and locations globally facilitating economic growth. (Chen, 2007).

The alternative argument is that the informal sector economy is attractive because it of its informality (Farrell, 2004). It would therefore lose its dynamic characteristics if it

complied with the “cumbersome procedures and regulations” associated with the formal sector economy (Farrell, 2004, p. 27).

For the purposes of this research the ‘informal sector economy’ and ‘formalization’ will be defined in Chapter two.

1.2.2. Research scope.

The research scope describes the extent of this research and will focus on the informal sector economy and the concept of formalization. The research was conducted through an exploratory study achieved through unstructured interviews experts in the field of the informal sector economy. The experts interviewed comprised of a sample of academics, representatives from both the public and the private sector economy. Semi structured interviews were also conducted with a sample of informal sector economy entrepreneurs as the respondents.

Chapter 2.

Literature Review.

2.1. Introduction.

In the previous chapter, the Informal sector economy and the concept of formalization was introduced. The existence, nature and importance of the informal sector economy was also discussed. The potential implications of formalizing the informal sector economy were also introduced.

In this chapter, the concepts of an informal sector economy and formalization will be defined using existing literature from previous research. The sustainability of an enterprise is critical for its long term success. The objective of the study is to determine whether formalization is the most sustainable strategy to manage enterprises operating in the informal sector economy.

2.2. The Informal Sector Economy.

The informal sector is defined as activities are “not recorded or imperfectly reflected in official national accounting systems” (Losby, Else and Kingslow, 2002 p. 2).

The idea and thought of the informal sector was initially presented by the International Labor Organization (ILO) in the Kenya Mission Report which it presented in 1972. This report defined the informal sector as a way of conducting business informally (ILO, 1972).

Informal sector activity is prompted by six characteristics including; firstly, an ease of entry as there are low barriers to entry. Secondly, this sector is unregulated and therefore the markets operating in it are highly competitive. Thirdly, there is a reliance on indigenous resources, innovation and creativity of entrepreneurs as they have

either limited or no access to resources and are dependent on their resourcefulness for their survival. Fourthly, there is a massive demand for informal establishments including their products, convenience in location and well as job creation. Fifthly, informal sector activity includes small scale operations from entrepreneurs whose skills are acquired outside the formal sector and lastly informal activity is usually labour intensive which is a result of limited resources and an inability to access capital (Kuchta-Hebling, 2000).

Thirty years later the meaning and the concept of the informal sector has evolved. The increased sophistication of the informal sector has enabled it to function as an economy which “exists separately from the formal sector economy” (Callaghan, 2012, p.5123). The informal sector economy is therefore defined as an all-inclusive market system, based on the production of goods and services which can be both lawful and unlawful however which are not included in the official national Gross Domestic Product (GDP) (Singh, 2010).

2.2.1. The Informal Sector Economy: (Characteristics, size and capacity).

The concept of the informal sector is broad and it covers an extensive range of labor market activities (Vahapassi, 2004) that combine three diverse groups of entrepreneurs who all have different motives. The first group consists of entrepreneurs who are unable to find employment opportunities in the labour market and resort to entering the informal sector economy for “survival” (Pedro & Erwan, 2006 p. 1548). For them engaging in the informal sector is not an option rather it is a necessity and if they had an opportunity for formal employment would more than likely abandon their informal sector activity in favour for formal employment (Pedro & Erwan, 2006).

The second group of entrepreneurs enter the informal sector economy to avoid the legal implications associated with operating in the formal sector economy. They enjoy the autonomy, flexibility and freedom offered by the informal sector economy

(Williams & Nadin 2010). One of the greatest incentives of not registering informal sector enterprises is to escape tax regulation (Williams, 2007).

The only unlawful characteristic of the informal sector economy activity is that the entrepreneurs who operate in it declare either partial amounts or no amounts of their monetary transactions when they should be declared. Although this is technically unlawful, it is still considered 'legal trading'. Anything out of the scope of 'legal trading', for example drug trafficking, falls outside the informal economy into the criminal economy (Chen, 2007).

The third group of entrepreneurs include those who operate in the criminal economy this activity is considered unlawful and illegal. It comprises of underground activity and includes crime and corruption. These activities are not registered by statistical offices (Pedro & Erwan, 2006). The third group of entrepreneurs will be excluded for the purposes of the research.

The informal sector economy depends on small scale individual entrepreneurship (Schneider & Klinglmair, 2005). The size of the informal sector economy varies from the estimated 4-6% in the high-income (*developed*) economies to over 50% in the low-income (*emerging*) economies (Adeyinka, 2006). In wealthy urban areas, 58% of early-stage entrepreneurs participate in informal sector economy transactions compared with the 84% in poor rural areas (Williams & Nadin, 2010).

The explanations behind the significant size of this economy include retrenchments from private enterprises in the formal sector economy, unavailability of employment (including governments inability to create employment), early retirement packages given by the civil service and parastatal organizations, urban migration and illegal immigration (Adeyinka, 2006). According to the South African Reserve Bank the reason for the exponential growth and development of the informal sector economy were the "elimination of influx control and the withdrawal of regulatory measures" by government institutions which made it easier to enter and operate in the informal sector economy (Ligthelm, 2006, p. 50).

In contrast to the formal sector economy, the informal sector economy is underdeveloped and has a minimal contribution to the GDP economy despite a great contribution potential. It also contains a large percentage of the South African population meaning that it has massive socio-economic implications. For this reason it requires urgent attention (Mbeki, 2003).

2.2.2. The significant implications of the Informal Sector Economy.

The importance of the informal sector economy activities in the GDP economy has been recognized by researchers, the public sector and the private sector. The informal sector provides ten jobs for every one job provided by formal sector employment; however informal sector economy 'employment' is not sustainable or long term (Adeyinka, 2006). The informal sector economy is estimated to account for about 75% of the total employment in sub Saharan Africa. The main economic activity in the informal economy is retail trade and most entrepreneurs manage stalls, kiosks or hawk goods as part time or full time activity by males, females and children of both sexes in urban and semi urban areas (Adeyinka, 2006). The informal sector economy has become an "important element in the South African "Government's development policy and plans to fight poverty" (Ligthelm, 2010, p. 137).

The existence of the informal sector results in a fiscal problem and there is emerging evidence that businesses operating in the informal sector are less efficient (de Paula & Scheinkman, 2007). The explanations behind the lack of efficiency is a result of their size, inability to scale, no access to resources, no access to infrastructure, no access to finance, and no access to legal protection provided by the government. These limitations structurally disconnect the informal sector economy from the formal sector economy and the GDP economy. This detachment renders the informal sector economy incapable of generating and sustaining its own growth and development (Mbeki, 2003).

These consequences of the inefficiencies in the informal sector economy in low income, emerging economies are generating incentives for the formalization of the informal sector economy. This formalization is viewed as an important step to increase aggregate productivity (de Paula & Scheinkman, 2007). Mbeki argues that it is crucial to implement bold macroeconomic reforms to boost the competitiveness of the informal sector economy as this will enable that economy to grow. The economic reforms cited by Mbeki refer to an introduction of formalization structures into the informal sector economy. Stallings & Wilson (2000), argue that by formalizing the informal sector economy, jobs will be created and South Africa will be opened up to the world markets. South Africa has the advantage of modern infrastructure supporting the efficient distribution of goods and services throughout the Southern African region and this infrastructure must be exploited (Ligthelm, 2006).

The informal sector economy also consists of immigrant entrepreneurship which introduces innovation, competitiveness and a positive output in terms of total factor productivity into a market (Losby, Else & Kingslow 2002).

The function of the informal sector economy is both significant and debatable. Although it creates jobs and reduces both unemployment and underemployment, (Neuwirth, 2011), these very jobs are low in income terms and the job security is limited. Although it strengthens and encourages entrepreneurial activity (Daniels 2011), it does so at the detriment of state regulations compliance, undermining both tax and labour regulations. Although it is crucial in poverty relief (Acs and Virgill, 2010). in many cases informal sector jobs are not a sustainable wealth creator.

2.2.3. Linkages between the Formal and Informal Sector Economy.

(Valodia, 2008) argues that the informal sector economy is fundamentally connected to the formal sector economy. Activities in the formal sector economy have a significant impact on businesses in the informal sector economy. A considerable amount of enterprises in the informal sector economy either have production or

distribution relationships with formal sector economy enterprises in terms of supply, whether it is through products (*finished goods*) or services (*transactions or sub-contracting*). Davies et al (2009) adds that the informal sector economy purchases raw materials from the formal sector economy, adds value to the raw materials and sells the finished product through the informal sector economy. Furthermore, many formal sector economy enterprises hire wage workers under “informal employment conditions therefore somewhere along the supply chain the informal sector economy depends on the formal sector economy” (Chen, 2007, p. 2). Such supply chain linkages include fees paid by informal sector economy entrepreneurs as rental for trading on public property. The fees paid by informal sector economy entrepreneurs to operate their enterprises indicate that they are willing to pay a fee to trade. This fee resembles the fees paid by formal sector enterprises. (Chen, 2007).

Although most transactions within the informal sector economy may not exist within the domain of the official statistics neither are these transactions known to the tax authorities, they are still subject to the rules of the market representing another linkage between the formal sector and the informal sector economy. These rules of the market determine the demand and supply hence the price and quantities of the good or service that the informal sector transactions adhere to (Daniels 2004).

Makaria (1997) argues that a healthy economy and society comprises of a variety of activities and institutions which include diversity in the use of human skills, production methods and organisation. These diverse activities have both tight and loose linkages, offer flexible structures therefore providing equal opportunities to entrepreneurs in both the informal sector economy and the formal sector economy (Makaria, 1997). Potential These institutions should lessen rigidities between the two economies and synergies should be optimised (Daniels, 2004), because the vibrancy and richness offered by the informal sector economy cannot be combined with the rules and regulations existing in the formal sector economy (Makaria, 1997).

2.2.4. South African government engagement in the Informal Sector Economy.

The South African government has implemented a new framework that recognizes key areas for job creation. This framework is known as the New Growth Path and its objectives are to provide solutions to unemployment, inequality and poverty (van Aardt, Ligtelm and van Tonder 2011). The target set is to create five million jobs in the next ten years and aims to reduce unemployment from 25% to 15%. Critically, this employment target can only be achieved if the social partners and government work together to address key structural challenges in the economy including the informal sector economy (van Aardt et al., 2011). Government has implemented a second strategy is to organize informal sector economy entrepreneurs into a “formal trading environment” (Antonites, 2007, p. 337). Special markets have been constructed in Yeoville, Hillbrow, Berea and at Metro Market. Additional markets are in the process of development at Jack Mincer Square/Park Central Taxi Rank, Faraday, Westgate Station and the city centre (Antonites, 2007).

2.3. Regulation of labour in the Informal Sector Economy.

Regulation is defined as the prospective uses of public resources and public authority to improve the economic status of economic groups such as industries and labour (Stigler, 1971). Tanzi (2005) defined regulation as the government’s processes and procedures of enforcing the rules of the game. The government provides regulation to stimulate and endorse social objectives, such as the protection of people, private and public property, and economic objectives such as the production of goods and services in the formal sector economy (Tanzi, 2005). Regulation eradicates the existence of market failures *,such as the informal sector economy which is structurally disconnected from the GDP economy,* arising from informational asymmetries, economies of scale in production, incomplete markets, and externalities (Loayza & Rigolini, 2011).

As communities develop economically and socially their links often weaken giving room for exploitative behaviour (Loayza & Rigolini, 2011). This then creates a demand for formal regulation to control the relationships within the labour market (Eamets & Masso, 2005). Economic agents may not fully assume the social costs and benefits of their self-fulfilling actions, and adequate market regulation is required to raise social welfare (Loayza & Rigolini, 2011).

2.3.1. Government regulation in the Informal Sector Economy.

Approaches to labour market regulation are led by two opposing schools of thought namely the institutionalist and distortionist views (Freeman, 1993). The 'institutionalist' view identifies job security arrangements, minimum wages, and collective bargaining as providing the necessary social protection for workers for encouraging productivity growth. This is achieved through training and the development of industry-specific skills. Furthermore it provides a means of alleviating the effects of a collapse in aggregate demand. The institutionalist view has been implemented to facilitate the current labour markets in the formal sector economy in South Africa. The 'distortionist' perspective resembles the informal sector economy and emphasizes the benefit of abandoning regulation in favour of allowing the market to determine the processes. The concern of the distortionist perspective is that institutional forms of regulation obstruct adjustments to economic shocks and discourages hiring for cost saving advantages (Betcherman, Dar, Luinstra and Ogawa, 2001).

The regulation of labour markets can affect the rate of job creation and retrenchments; levels of employment and unemployment; productivity, wages, and profits; and the degree of social protection and justice afforded to employees of the formal sector economy which the entrepreneurs operating in the informal sector economy do not enjoy. The key issue for policy makers is to gain an insight and understanding to the likely outcomes of different regulatory approaches if they are implemented in the informal sector economy. Different modes of regulation have their own strengths and weaknesses (Betcherman et al., 2001).

By operating outside the legal and regulatory frameworks, the informal sector economy enjoys the benefit of avoiding onerous regulation an example of such is taxation; however by operating outside the legal and regulatory frameworks they do so at the expense of social protection in the form of labour regulation and services that the government provides for the formal sector economy (Betcherman et al., 2001). Furthermore informal sector economy entrepreneurs withstand the punitive realities of market economies including an uneven market power (*bargaining position*), efficiency and equity discrimination (*no access to resources including capital*), insufficient information due to lack of education and infrastructure and an inadequate insurance against risk (Betcherman et al., 2001).

According to Ordonez (2010), the informal sector economy is closely linked to “resource misallocation as a result of governments inability to enforce effective tax and regulation policies” (p. 38) on all enterprises. This results in a small tax base for the government. The small tax base consisting of highly productive firms carry high tax burdens which have a negative effect on aggregate productivity. The negative implications are that the taxes relocate resources into less productive establishments (Ordonez, 2010). The market effect of the informal sector economy is a problem and it has a negative effect on the formal sector economy as well (Ordonez, 2010).

2.4. Taxation.

Taxation is defined as any charge upon an entities purchase of inputs, its transfer or ownership of assets, its earnings, or it’s right to do business (Oakland & Testa, 1996). The result of this charge would be a reduction in the entities bottom line. According to this definition, business taxes can be seen to yield a flow of revenue to state and local governments (Fisher, 2002).

The South African Revenue Service (SARS) argues that taxation is necessary to provide the national government with the funds for public sector expenditure and benefit. This includes the provision of social and economic services to citizens in the public as well

as the private sector (SARS, 2012). In its current position it is crucial that SARS increases its revenue by broadening its taxation base to enable government structures to perform their duties effectively (Ho, Wong and Tong, 2012). This may require an exploration of taxation opportunities in the informal sector economy, provided that the increase in revenue adds value (*improved service delivery*) to the entrepreneurs operating in the informal sector economy (Ho et al., 2012).

Enterprises have to pay a fee in order to benefit from the services that governments have to offer (Diamond & Mirrless, 1971). Not only does taxation endorse fairness through the recovery of the costs of such services, it also improves economic efficiency by stimulating the prices of goods and services to emulate their full costs of production. Such prices allow people to make suitable choices among consumer goods therefore increasing welfare (Oakland & Testa, 1996)

Governments objective should be to reduce the tax gap, which is the difference between the tax collected by the government and the tax due to the government. "Theories of optimal production in an economy have usually assumed that an efficient tax system can allow the government to achieve any desired redistribution of property" (Diamond, Mirrless, 1971 p. 8).

Dessy & Pallage (2003) disagree and argue that in countries where 60% of the labour force comprises of entrepreneurs operating in the informal sector economy findings reveal that the sector should be left in its current state. Therefore any attempts to formalize the informal sector economy by taxing the enterprises should be abandoned (Dessy & Pallage, 2003). Attempts to ban the informal sector economy through financial regulation are challenges only few governments, especially authorities governing emerging market economies would survive. This is because the overall GDP economy is heavily dependent on the informal sector economy (Dessy & Pallage, 2003).

A suitable tax design for economic markets with a large informal sector economy remains a huge challenge for government (Emran & Stiglitz, 2005). The substantial size

of the informal sector economy in emerging market economies suggest that a broad-based tax such as the value-added tax (VAT) may be ineffective as it increases the costs of production (Boadway & Sato, 2008). A “linear policy” is not the solution to the informal sector economy (Dessy & Pallage, 2003, p. 8).

2.4.1. Tax evasion.

Feige (1989), defines tax evasion as total unrecorded income which includes all unlawful incomes generated through trading in forbidden economic activity, income produced in non-price market (bartered) economic activity which is considered to be lawful according to the state and any economic activity considered lawful by the state however for various reasons escapes taxation authority (Feige, 1989). Studies show that tax evasion and unregistered labour are predominant features in the informal sector economy.

Feige, (1989) describes the informal sector economy a highly entrepreneurial sector that proficiently escapes responsibilities including taxation and government. The informal sector economy has also been labelled as a destabilizer of a countries socio economic model by denying government of its lawful revenues and illegally reallocating income from the honest to the dishonest citizen (Feige, 1989). Rogerson (2007) argues that the informal sector economy does not receive the same services rendered to the formal sector economy and taxation is the price paid to buy the benefits in the form of services rendered by the government (Diamond & Mirrless, 1971). The World Bank (2012) disagrees with Feige (1989), stating that, by not paying taxes the informal sector economy is not necessarily evading tax, it is preserving its income and therefore it’s activity is classified as coping and/or or survival activity and not illegal business.

2.4.1.1. Hard To Tax HTT system.

Russia and Ukraine have established a basic taxation system called Hard To Tax (HTT) aimed at informal establishments (Feige, 1989). The purpose of the HTT system is to reduce the compliance burdens which arise from complex taxation systems. The HTT system may also encourage the growth of small businesses whilst providing these tax payers with basic education to enhance their taxation knowledge in the hope that they will eventually graduate to become members of the regular business taxpaying population.

As previously stated the objectives of this special tax regime are to discourage the growth of the informal economy and to increase the revenues from this sector to ultimately equalize the tax burden between the formal and informal sectors (Feige, 1989). The opposing forces of the formal and informal sector economies do not allow for a “one-size-fits-all” solution. The HTT regime does however adequately incorporate the activities in the informal sector.

Burkina Faso is an emerging market economy with a significantly large informal sector economy has recently implemented a different tax bracket directed towards the informal sector economy in an attempt to collect income from this sector and it has been endorsed by the World Bank (Ihrig & Moe, 2001).

2.4.1.2. The challenges of taxation in the Informal Sector Economy.

Emerging market economies are characterised by weak tax administration and inefficient implementation techniques causing considerable obstacles in adopting and/or adding a new taxation system. This is because the implementation of a new tax system requires both information and special skills to administer effectively. It is important not only focus on the size of the informal sector in determining between tax regimes, but also to consider the effects of allowing the government to devote huge resources into tax administration. However to optimize taxation policies each tax should be applied for transactions for which it was best suited (Peñalosa & Turnovsky, 2005). Furthermore, in developed economies taxation should be focussed on capital income however in developing economies taxation should be focussed on labour income (Peñalosa & Turnovsky, 2005).

2.5. The importance of finance in the Informal Sector Economy.

Academics, scholars and government policies have all agreed that the provision of credit to the entrepreneurs operating in the informal sector economy is an essential tool for raising capital and subsequently improving their incomes through investing in productive resources and infrastructure (Atieno, 2001).

Aryeety (2002) argues that despite the implementation of extensive macroeconomic reforms directed at the informal sector economy for the economic growth and development of many African countries, they still continue to struggle. Informal sector economy enterprises struggle because they have no access to financial resources. When they experience low income levels an inability to re-investment in working (*operational*) capital threatens their sustainability and ability to survive (Atieno, 2001).

It is important to realize that credit provision is not a one size fits all solution and that the terms and conditions a credit facility has established for businesses in the formal sector economy business may not be applicable to enterprises in the informal sector

economy (Atieno, 2001). Formal sector financing is an imperfect substitute for the informal sector economy.).

The current challenges faced by entrepreneurs of the informal sector economy include exploitation by loan sharks and other illegitimate market operators. Because desperate informal sector economy entrepreneurs lack access to conventional sources of credit, they become exploited (Tsai, 2004). The challenges facing government are the opposing and incompatible strategies of large scale macro-financing (*industrialization and urbanization*) and small scale micro-financing (*agricultural*). Government does not have the capacity to administer both types of financing and the current government policies support macro financing at the expense of micro financing. Government attempts to merge the two strategies result in savings being redistributed from rural to urban areas which limits the supply of rural credit (Tsai, 2004).

2.5.1. Micro Financing: Is that the solution.

In Ghana and Tanzania, the banking sector only accounts for approximately about 5.5% of the entire national population therefore excluding the majority of the population who live below the poverty line and engage in the informal sector economy (Basu, Blavy and Yulek, 2004).

Microfinance Institutions (MFI's) have been established in these countries to meet the increasing demands of the informal sector economy. MFI's have been defined as financial institutions established for the benefit of small enterprises, the informal sector, the poor, and households who have been barred access to formal sector establishments (Basu et al., 2004). Micro-finance is defined as the provision of financial services including savings, credit and insurance to the poor especially to women who normally do not have easy access to formal financial institutions (Sanyang & Huang, 2008).

There is sufficient evidence in sub-Saharan Africa to believe that the poor, particularly those in the rural sector, value both deposit and credit facilities (Basu et al., 2004). It is therefore unwise to assume that the informal sector economy is un-bankable and un-creditworthy (Atieno, 2001). This statement is supported by the existence and the growth of cooperative banking, combined savings and credit facilities. There is generally a strong relationship between formal and informal MFI's in some cases institutions in the formal sector economy making use of savings from traditional MFI's operating in the informal sector economy. In some cases, the former have also become bankers to the latter (Basu et al., 2004). It is therefore wise to capitalize on the entrepreneurial acumen of the informal sector economy (Atieno, 2001).

In Africa long before the establishment of formal institutions, society relied on group-based savings (Basu et al., 2004). The obligation to repay borrowed capital rested on peer pressure and joint liability as opposed to the collateral used by the institutions in the formal sector economy to guarantee capital repayment. MFI's rely on short maturity for repayment, high frequency of payments, and, at times, a compulsory security deposit to encourage timely loan repayments (Basu et al., 2004). In 1983, the Grameen Bank was launched in Bangladesh India as a micro lending operation directed at female who operate at a grassroots level (Rahman, 1999). The Grameen Bank is an institution aimed to alleviating poverty by providing credit to poor households (Morduch, 1999). The success of the Grameen Bank model has been through the provision of subsidies.

Governments support through effective financing policies is fundamental in the promotion of micro financing in Africa. Government's role includes ensuring that the essential laws, regulations, and institutions for the licensing, regulation, and effective administration of the sector are in place. The importance of government intervention stems from a strong correlation between the effectiveness of government policy with regard to micro financing and the success of micro financing in individual African countries (Atieno, 2001).

Kenya has initiated a programme aimed at funding credit to small scale enterprises (Daniels, Mead and Musinga, 1995). However a survey conducted of small and microenterprises in Kenya declared that 32.7% of the entrepreneurs surveyed identified a lack of capital as their principal constraint and that 10% had ever received credit (Daniels et al., 1995). Although causality cannot be inferred a priori from the relationship between credit and enterprise growth, it does illustrate the importance of credit in enterprise development. The failure of financial institutions in the formal sector economy to meet the credit needs of enterprises in the informal sector has emphasized the importance of a financial system for informal sector enterprise development (Atieno, 2001).

Micro financing is not without its limitations as government objectives generally differ from the needs of informal sector enterprises (Tsai, 2004). The government has failed to recognize the importance of grassroots segmentation which affects the distribution and the provision of services to the informal sector economy enterprises. Microfinance facilities comprise of a combination of social, political, and economic incentives that are dependent on the specific socio economic environment in which they operate however microfinance programs are not designed and structured to the socio economic needs of informal sector enterprises instead are designed towards a guarantee of cost recovery for the institution. (Tsai, 2004).

Sanyang (2008) argues that formal sector economy institutions have an abundance of financial resources and should engage with government as potential stakeholders in the provision of finance to the informal sector economy. Private sector enterprises should subsequently diversify their loan portfolios and expand their capacity to provide credit to the informal sector economy. Formal institutions must therefore abandon their existing policy of focussing on default problems and loan administration costs and link their operations with credit seeking entrepreneurs in the informal sector economy to increase their customer base. Credit providers operating in the informal sector economy have insurance mechanisms designed to guarantee capital repayment, however they lack adequate financial resources to enable them to expand their coverage. It is therefore necessary to provide a policy environment that affords the

necessary incentives for the growth of enterprises in the informal sector economy (Sanyang, 2008).

2.6. Importance of skills development and education in business.

Entrepreneurs are not affected by levels of formal education however there is a positive correlation between entrepreneurship performance and levels of education (Van der Sluis, & Van Praag, 2008). Entrepreneurs should therefore invest in education to equip them in running successful enterprises.

(Kirby, 2004) argues that the traditional education system continues to fail in developing the skills and attributes required by entrepreneurs to run successful businesses suggesting that the emphasis needs to be shifted from educating "about" entrepreneurship to educating "for" it. Furthermore, entrepreneurship skill should not be viewed as either new venture creation or small business management but rather as creativity and change. This argument agrees with Daniels (2011) interpretation of the informal sector economy introduced in chapter one, in that its structure allows for versatility, agility to continuously adjust their methods of production according to the resources and materials available as well as to the purchasing power of their customers. When entrepreneurship skill is viewed as a process of creativity and change it proposes that educational institutions should amend the current process of learning to enable students to develop their right brain entrepreneurial capabilities as well as their left brain analytical skills. Business schools need to weaken the thought processes so as to encourage and stimulate the entrepreneurial imagination (Chia, 1996).

According to Birch (2004), entrepreneurship cannot be taught however it can be encouraged through apprenticeship. Business schools teach on how to be operational and 'good servants' and barely touches on strategy, risk appetite and the correct motivations for being an entrepreneur (Aronsson, 2004). Birch (2004) is of the opinion that selling, working with people, and creating a product or service cannot be learnt in the classroom especially if it is being taught by lecturers who have never themselves

started a business. The best faculty of learning is one's own business. "Budding entrepreneurs can be influenced when they are affiliated with a culture of entrepreneurship" (Aronsson, 2004, p. 290).

An opposing view argues that education provides students with the necessary motivation, knowledge, and skills essential for launching a successful enterprise (Lee, Chang and Bae Lim, 2005), however a country's unique cultural context plays a significant role in the extent of entrepreneurship. High school students residing in the United States of America (USA) are more likely to follow a career in entrepreneurship as they are raised and continue to grow up with a close affiliation to entrepreneurship. American entrepreneurs are great cultivators of entrepreneurial spirit which has significantly contributed to the economic growth of the USA by creating and successfully managing numerous enterprises as opposed to Korea a country lacking entrepreneurship as a result of a non-existent culture of entrepreneurship (Lee., et al 2005). The findings of a study conducted to observe the effects of entrepreneurship education on American and Korean students reveal that Korean students were able to procure similar entrepreneurship skills, abilities and qualities after embarking on entrepreneurship education (Lee., et al 2005). These findings suggest that entrepreneurship skills can be learnt (Lee., et al 2005). Ibicioglu, Baysal and Sait Ozkul (2005) support the findings that entrepreneurship skills can be learnt and add that entrepreneurship is a fundamental strategy in improving a country's competitiveness, influence and innovation. It is therefore crucial to use entrepreneurship education as a catalyst towards economic growth and development.

It is fundamental that aspiring entrepreneurs learn the value of theory regarding entrepreneurship however theory does have its limitations. Coupled with theory aspiring entrepreneurs can and will also learn by doing (Fiet, 2000).

2.7. Importance of location in business.

The former CEO of Nokia Mr J Nieminen once stated “When an Inventor in Silicon Valley opens his garage door to show off his latest idea; he has 50% of the world market in front of him. When an inventor in Finland opens his garage door, he faces three feet of snow” (Nieminen , 1984).

Findings from existing literature suggest that the location of an enterprise contributes to its competitiveness (Krueger, 2006). Porter identifies the geographic location of an enterprise as a key element determining its productivity despite the recent challenges of the “death of distance” hypothesis (Cairncross, 2001, p. 41). The death of distance hypothesis states that the changes in technology, the internet and wireless connections, disqualify distance as an excuse not to conduct business (Cairncross, 2001). The death of distance hypothesis is not applicable to the informal sector economy as the informal sector economy is not equipped with the appropriate infrastructure that enables the hypothesis to hold. The informal sector economy does not have access to basic internet.

Other factors that determine the location of informal sector economy enterprises include access to the suppliers and customers and the social and economic costs of operating in a location (Kettles, 2006). The location of an enterprise has a direct effect on the total economic activity of an enterprise (Krueger, 2006).

According to Antonites (2007), the South African government has identified special economic trading zones to organize the informal sector economy into a “formal trading environment” (p. 337). Such specialised locations could potentially provide the appropriate infrastructure, access to markets together with other facilities that could to enhance competitiveness of the informal sector economy (Dhingra, Sinha and Singh, 2009). The special trading zones resemble the Special Economic Zones (SEZ)

established in India. These SEZ's have emerged as popular strategies, adopted by various other emerging market economies, to increase their trade competitiveness.

The consistent and growing competition amongst the enterprises operating in SEZ's has pressured these enterprises to consistently innovate and discover find new methods and "strategies to remain competitive and to survive" (p. 2). Furthermore, SEZ's have provided efficiency in business transaction through advanced infrastructure and other facilities to enhance trade competitiveness of the country (Dhingra et al., 2009). Additional benefits include an availability of infrastructure, access to a market with heavy pedestrian traffic, tax concessions, government and institutional support and a close proximity to suppliers.

2.8. Formalization.

Although there is a massive informal sector economy in South Africa, the formal sector economy still dominates in output and according to the Human Sciences Research Council (HSRC, 2012), output and employment are growing more at a faster pace in the formal sector economy than the informal sector economy.

The formal sector economy is defined as "an institutional framework of economic activity" (Castells & Portes, 1989, p. 13). It is regulated by the institutions of society in a legal and social environment. Chen (2007) defines the formal sector economy as a system comprising of regulated economic units, protected workers and a formal regulatory environment comprising of government policies, laws, and regulations.

The formalization will be defined using the registration process of a formal sector company in South Africa. There are two types of companies incorporated under the Act these are non-profit companies (NPC) and profit companies. Table A will give a definition of the two types of companies under THE COMPANIES ACT, NO. 71 OF 2008 and a description of each (CIPC, 2012). THE COMPANIES ACT, NO. 71 OF 2008 will be defined and discussed below.

Table A.

	Non Profit Company:	Profit Company:
Definition:	NPC's are companies that are established for public benefit including cultural, social, communal activities or group interests. One key differentiator between NPC's and companies for profit are that the income (including profit) and property generated by the NPC is not distributable to its incorporators, members, directors, officers or persons related to any of them. For the purposes of the research no informal sector economy enterprise registers without an intention of generating a profit.	Profit companies are companies that are established with a profit motive. Profit companies may distribute profits to its incorporators, members, directors, officers or persons related to any of them.
Categories:	None	<ul style="list-style-type: none"> • Private Companies • Public Companies • Personal Liability Companies • State Owned Companies

(CIPC, 2012)

Private Companies (Pty) Ltd: are companies with a limited transferability of shares. They are also prohibited to offer securities to the public (CIPC, 2012).

Public Companies (Ltd): are companies with an unlimited transferability of shares. They are allowed to offer securities to the public. The freedom to trade their shares in public means that public companies have to adhere to more rigorous rules and regulation to protect the public shareholders from any potential risk (CIPC, 2012).

Personal Liability Companies (Inc): are companies where the directors and past directors are jointly and severally liable together with the company for any debts and liabilities arising during their periods of office. Unlike Private and Public Companies, the directors of Personal Liability Companies do not enjoy protection from the debts owed by the company and they (*directors*) become personally liable for the debts of the company (CIPC, 2012).

State-Owned Companies (SOC Ltd): is either a company defined as firstly, a “state-owned enterprise”, previously known as a parastatal (www.dpe.gov.za, 2012). An example of a state owned enterprise is Eskom, South African Airways and Transnet (www.dpe.gov.za, 2012). Secondly, a company owned by a municipality would classify as a State-Owned Company. State Owned Companies adhere to the regulations of a public company as they are funded by the government (*tax payers money*) (CIPC, 2012).

Co-operatives: are distinct forms of an enterprise that provide services and/or products exclusively to its members. Profits, known as surpluses in a co-operative, and they are divided among members. Co-operatives are an example of group based savings (Basu et al., 2004). An example of a ‘co-operative’ operating in the informal sector economy is a stokvel. A stokvel is a “savings or investment society to which members regularly contribute an agreed amount. The individual members of the stokvel receive a lump- sum payment either in turn, or in times of need” (*Aitchison, 2003 p. 28*).

One of the fundamentals of the formal sector economy is that enterprises have to adhere to stringent rules and regulations set by THE COMPANIES ACT, NO. 71 OF 2008. THE COMPANIES ACT, NO. 71 OF 2008 is a piece of legislation and/or constitutions of rules which regulate companies formed in South Africa (Smith, 1999).The regulation of companies in the formal sector economy are in the companies act and the Government Gazette.

Instead of focusing on formalizing the informal sector economy an inquiry leading to a better knowledge and understanding of the living conditions and the difficulties experienced in both the formal sector economy and the informal sector economy should be made (Frota, 2007). These five fundamental questions should be considered which will determine whether formalization is the ultimate solution. (Frota, 2007)

- 1.) How should the formalization process be approached?
- 2.) Who should be targeted?
- 3.) Should there be a preference on certain types of economic activity because they are a “safer” and/or more consistent?
- 4.) What measures are needed to be evaluated?
- 5.) Are the formalization process changes beneficial and, if so, to whom?

2.9. Conclusion.

All the stakeholders identified (public sector, private sector and informal sector economy entrepreneurs) should engage in identifying solutions to enhance the long term sustainability of the informal sector economy.

This chapter reviewed literature supporting the definition of the informal sector economy and formalization respectively. It also reviewed the characteristics of the informal sector economy, the relationship that the informal sector economy has with the formal sector economy, possible strategies to increase the capacity and therefore the sustainability of the informal sector economy, the current environmental conditions in which the informal sector operates in. The implications of formalizing the informal sector economy or leaving the informal sector economy in its current state were also reviewed.

The next chapter will identify the research questions identified for the purposes of this study.

Chapter 3.

Research Questions.

3.1. Introduction.

In the previous chapter, the definition of formalization and the informal sector were defined for further understanding. The informal sector economy constitutes a significant potential contributor into the gross domestic product of the national economy and provides means for survival from the population that is marginalized from the formal sector economy. It is crucial to increase the role of the informal sector economy as a contributor to the GDP economy whether it is through partial or full integration the informal sector economy to the GDP economy.

Formalization is the introduction of an institutional framework of economic activity with regulation implications. The informal sector economy is all-inclusive market, based on the production of goods and services which can be both lawful and unlawful however are not included in the official national Gross Domestic Product.

It was revealed from previous research that attempts to formalize and create a structure to the informal sector economy are being implemented.

3.2. Research Question.

3.2.1. Main Research Questions.

3.2.1.1. Should the formal sector economy be formalised?

3.2.2.2. Should the informal sector economy be left as is in its current state?

To answer this research question, information on the existing conditions of the informal sector economy and the sentiments of the entrepreneurs operating in it was required. This information was acquired through two phases consisting of a panel of

experts and phase two consisting of informal sector entrepreneurs who were both interviewed.

Chapter 4.

Research Methodology.

4.1. Introduction.

In the previous chapter, the research question that was tested in the research was presented. The main research questions focus on whether the informal sector economy should be formalized therefore adhering to the same structures and regulations operating in the formal sector economy or whether the informal sector economy should be left in its current state

The research questions were answered using a two phase approach.

This chapter will provide an explanation of the methodology used to test the question presented in chapter three.

4.2. Research defined.

Research extends beyond the technicalities of gathering information. It is rooted in answering unanswered questions presented in chapter three and/or creating that which does not currently exist (Goddard, 2004). In this study, research became a process of discovery and allowing entry into territories beyond the restrictions of the known, for the researcher and previous studies. Research is an “art of scientific investigation” (Kothari, 1985, p. 2). Because inquisitiveness is the mother of all knowledge, the method which man employs for obtaining the knowledge of the unknown is called research. (Kothari, 1985).

Research is a scientific activity in that it is highly systematic, technical and procedural. Research involves defining and redefining literature ,which was achieved in chapter two, formulating research questions ,achieved in chapter three, collecting, organizing and evaluating data ,achieved in chapters four and five, making deductions ,achieved

in chapter six, and finally reaching conclusions ,achieved in chapter seven (Kothari, 1985, p. 2).

4.3. Research Methodology defined.

‘Research Methodology’ may be understood as a science as it is a study of how the research is conducted scientifically. The Research Methodology used in this research studied and presented the process adopted by the researcher in pursuit of studying the research question along with the logic behind the process (Berg, 2004). In the Research Methodology phase the researcher was consistently analyzing and exploring the research question until a solution and conclusion was reached. (Industrial Research Institute, 2010).

The Research Methodology used by the researcher was also dependent on the “nature of the problem” (Noor, 2008, p. 1602). The Research Methodology used for the purpose of this study will be discussed and justified in detail in this chapter. For a complete and inclusive experience of the Research Methodology it was critical for the researcher to know the appropriate research methods and methodology comprehensively. The knowledge assisted the researcher in the research design and the research methodology required for this study. It was therefore crucial to constantly evaluate the basis of decisions made before implementation (Berg, 2004).

4.4. Research Approach.

The research question was addressed using an exploratory qualitative study method.

Qualitative is described as a “descriptive non numerical method of collecting and interpreting information” (White, 2002, p. 49). Denzin & Lincoln (2005) define qualitative research as research that implies an emphasis on processes and meanings that are not rigorously examined and measured in terms of quantity, amount, intensity or frequency. There are instances particularly in the social sciences where researchers

are interested in insight, discovery and interpretation rather than hypothesis testing (Newman & Benz, 1998). Therefore the researcher was not concerned about numbers or patterns with regards to data collection, rather the insight, discovery and understanding that was prioritized (Denzin & Lincoln, 2005). Qualitative research has a multi method focus in that it requires an interpretive and naturalistic approach to its subject matter. This means that qualitative researchers study things in their natural settings, attempting to make sense of, or interpret phenomena in terms of the meanings people bring to them (Newman & Benz, 1998). Informal sector economy entrepreneurs were interviewed in their respective places of work allowing the researcher to witness their natural setting and therefore develop a theory that will explain what was experienced.

Because qualitative research investigates how people live and manage their daily lives no two situations are the same and every phenomenon is unique. Qualitative designs have one subject, one case or one unit is the focus of investigation over a period of time (Schmidt, 2004, p. 253). Patton (2002) stated that in qualitative research no set rules for the sample size exist because the degree of validity, meaningfulness and insight is dependent to a greater extent on the richness of the information gathered as opposed to the size. A small sample is therefore preferred in an attempt to preserve the richness when it comes to description. This harvests a higher internal validity however the external validity may be limited (Saunders, Lewis and Thornhill, 2009).

Exploratory research is a technique used to approach and carry out a social study therefore reporting on what has been learnt. It extends beyond merely listing the “pros and cons associated with a set of over exhausted and oversimplified either or choice, qualitative research or quantitative, inductive or deductive, descriptive or predictive” (Stebbins, 2001, p. 2).

Exploratory research is used to decide whether or not a phenomenon exists (Welman & Kruger, 2003). For the purposes of this research the informal sector economy has been defined and it has been established that it does exist. Exploratory research was used to gain an understanding of the informal sector economy phenomenon and for the researcher to familiarize themselves with this phenomenon. The researcher also investigated the nature of the informal sector economy in order to “gain insight and understanding” (Malhorta, 2010, p. 104), as to why it exists. For the purposes of this study the exploratory research used complimented the research methodology (*qualitative*) chosen because they both focused on gaining an insight and an understanding to the research problem.

4.5. Research process.

The research was divided into two phases in order to answer the research question.

The aim of phase one is to receive critical professional academic opinions from experts with extensive knowledge on the informal sector economy. This meant gaining a critical understanding of the impact of the informal sector economy and the consequences that it has on the formal sector economy. Furthermore to understand the synergies of possibly engaging the informal sector economy with formal sector economy. Phase one also presented a discussion of possible strategies to administer the informal sector economy. Furthermore it assisted the researcher in identifying questions that can be incorporated into the questionnaire for phase two the sample interviewed.

Phase two comprises of the findings from the personal interviews held with entrepreneurs operating in the informal sector economy. The purpose of phase two was to gain insight and understanding with regards to the motives behind informal sector economy activity. Phase two also established whether the informal sector economy should be formalized and regulated therefore functioning like enterprises in the formal sector economy or to leave the informal sector in its current state.

4.6. Phase one.

4.6.1. Purpose.

According to Welman and Kruger (2003), the purpose of research is to:

4.6.1.1 Describe: How things are and that is defining the nature of the object that is being studied. For the purposes of this research this involved describing the nature and the conditions in which the informal sector economy exists.

4.6.1.2 Why things are the way that they are and to also explore the relationships between things. For the purposes of this research a thorough explanation why the informal sector economy exists.

4.6.1.3 Predict: To use the information gained to predict phenomena and the future of the informal sector economy within the region studied. For the purposes of research it was to identify the best strategic routes that should be taken to deal with the informal sector economy. These strategic routes (*to formalize the informal sector economy or to retain the current informal sector economy structure*) will also help identify the actions that should be taken to find a solution to the phenomena. These strategic routes are identified in chapter five which will be presented in chapter six and discussed in chapter seven.

The purpose of conducting the expert interviews in phase one was to gain an insight and an understanding of the informal sector economy, to discuss possible strategies in administering the informal sector economy and to assist the researcher in identifying questions that can be incorporated into the questionnaire for phase two the sample interviewed (White, 2002, p. 30).

4.6.2. Population.

The population for phase one includes all experts and specialists including the public sector, the private sector, labour specialists and academics with extensive knowledge and insight in the informal sector economy.

4.6.3. Sample size.

Because it is not possible to interview every member of the research population the research needs to be confined to a limited number of channels through the use of a sample. It is crucial that the sample (*sampling units of experts chosen*) is representative of the entire population (*sampling frame of every expert with extensive insight in the informal sector economy*). Samples are useful because they save money and time (White, 2002, p. 60). The experts were identified taking into consideration that identifying a sample when using qualitative research excludes random sampling.

The five experts chosen were specialists with extensive knowledge on the informal sector economy. These experts ranged from academics, government officials and private sector employees.

The method of sampling used for the expert interviews was Non-random/ Non Probability sampling also known as purposive sampling (White, 2002). The researcher needed to sample with a “definite purpose and the approach was subjective” (p. 63), this is also known as judgmental sampling. The researcher identified the sample they understood to deliver the greatest insights and quality information to satisfy the research objectives (White, 2002).

The names of the respondents were pre-determined by the researcher using their professional credentials and their knowledge of and involvement with the informal sector economy.

4.6.4. Unit of analysis.

In phase one the unit of analysis was the viewpoint, knowledge and the understanding of the experts in the field of the informal sector economy.

4.4.5. Data gathering.

The research made use of primary data to collect the information. Primary data is defined as first-hand information allowing the researcher to discover more about the informal sector economy, the observable phenomena (Driscoll, 2011). One of the advantages of using primary data for collection was to specifically to address the problem in question which is how the informal sector economy should be managed (Malhorta, 2010). Using the scientific method, the researcher developed research questions in chapter three and collected measureable, observable and replicable data. The primary research allowed the researcher to gain “virgin knowledge” (Driscoll, 2011, p. 153) acquired using unstructured interviews which will be presented and analysed in chapters five and six respectively.

Primary research was also useful as the researcher was studying a local problem that is significant in South Africa and Africa. By making use of primary data, the researcher was able to discover how larger socio economic issues played out at the local level (Driscoll, 2011). These socio economic issues will be presented and analysed in chapters five and six.

Phase one of the research process consisted of five expert interviews conducted using unstructured interviews.

Unstructured interviews are most useful when the researcher’s objective is to gain an in depth understanding of a particular phenomenon, the informal sector economy within a particular social, economic or cultural context (Lofland, Snow and Anderson, 2006). The unstructured interview technique also complimented the qualitative research design and exploratory data analysis technique and primary data collection as

they all placed an emphasis on gaining insight and understanding of the informal sector economy.

To conduct a successful unstructured interview, it was critical that the researcher had a clear idea of the aspects that she wished to explore which was to understand the “dynamics” (Saunders et al., 2009, p. 321) of the informal sector economy and to make a recommendation of whether it should be formalized or whether it should remain in its current informal state. Because the respondents were unrestricted and had the freedom to discuss (*freely*) the events, behaviour and beliefs in relation to the informal sector economy it was essential that the characteristics the researcher wanted to explore were clear (Malhorta, 2010).

The greatest challenge experienced by the researcher concerning unstructured interviews was that the researcher’s control over the conversation had to be kept at a minimum (Malhorta, 2010). The researcher did however guide the conversation in an attempt to relate to the experiences and perspectives that were relevant to the problems of interest to the researcher and the research questions.

Unstructured interviews are extremely valuable for studies attempting to find patterns (Lofland et al., 2006). The research objective was to find patterns that would assist in explaining the current informal sector economy phenomenon and in the future generate models on how to formalise the informal sector should that be the recommendation made in chapter seven.

Out of ten interview requests, only five interviewees were able to participate. Appendix 1 exhibits the interview guideline that was used for phase one. This interview guideline was prepared based on findings from the literature review in chapter two.

The interviews were conducted on a one on one basis. The researcher presented the respondents with a non-disclosure document which was signed by both parties. The

researcher supplemented the written conditions stipulated in the non-disclosure document with a verbal explanation of the interview process.

The purpose and the objective of the research were explained. The researcher assured the respondent that his/her identity was and would remain anonymous and that any notes taken or recordings made of the interview were confidential. The researcher also explained to the respondent that his/her participation in the research was voluntary and that they had the freedom to withdraw at any time.

The researcher explained what was expected from the respondents including the amount of time that was required for the interview which was between 60 minutes – 90 minutes. The researcher made reference to the interview guideline to conduct the interview. Although the interview guideline was useful, the interviews were interactive, and the questions were formulated based on the individual responses of the respondents. The researcher adhered to the questions in the interview guidelines however at times had to restructure certain questions based on the responses of the respondents and the willingness by the respondents to answer certain questions. The researcher was also able to ask additional questions that she knew would be of value for the research process.

The participants had an opportunity to express themselves and respond in their own words, as opposed to limiting the options of respondents by forcing them to choose from fixed responses which is the technique used by quantitative methods (Saunders et al., 2009). The researcher needed to capture verbal and non-verbal communication such as facial expressions and attitudes by the respondents and required maximum attentiveness during the interview process (Saunders et al., 2009).

The researcher's objective of interviewing informal sector economy experts from different functional backgrounds was to obtain a different perspective on the topic and to limit functional bias. The researcher observed that the responses and/or opinions from experts interviewed from the same functional backgrounds were extremely similar.

The interviews were approximately 75 minutes each. The researcher did not experience any difficulty in finding experts to interview three out of the five interviewed were sourced from 'Linked In' a professional social network, one was a direct referral from the researcher's supervisor and last respondent was a contact of the researcher. The researcher initially sought ten experts to interview, and managed to all 'secure' ten interviews however five of the ten interviews were last minute cancellations which was one of the greatest challenges experienced by the researcher in the research process.

The following process of data collection was used by the researcher following each and every interview (Thomas, 2006).

1. To conduct the interview.
2. To transcribe the broad, extensive and varied raw data into a brief but comprehensive summary. These first two steps provided a foundation for qualitative analysis.
3. To establish clear linkages between the research objectives stipulated in the beginning of the research process and the summary findings derived from the raw data using the notes taken from the findings and to ensure that these associations are both transparent ,for the purposes of being validated to others, and defensible (justifiable given the objectives of this research) The researcher was attentive to any insightful and analytical aspects to be potentially used in future interviews and in analysis of the findings.
4. The transcripts were read and analysed on several occasions to identify themes (categories). On several occasions new themes emerged which were incorporated into the interview guide for the remaining experts to be interviewed and the questionnaire for the informal sector entrepreneurs in phase two.
5. A coding frame was established and the transcripts coded by the researcher. The coding was used to develop the categories, which were then conceptualised into broad themes. These themes were developed by studying the transcripts

repeatedly and considering possible meanings and how these fitted with developing themes.

6. Transcription took approximately three hours per interview.

4.6.6. Data analysis.

Once the data collection was complete the data was evaluated in a process called data analysis. Data analysis is defined as the detection and the tasks of defining, classifying, theorizing, explaining, exploring and planning. The data was evaluated according to the research questions being addressed (Ritchie & Spenser, 2002). Data is analysed to isolate the information connected to the components of the research problem. It therefore provides input in “developing the recommendations on how to solve the research problem” (Saunders et al., 2009, p. 42).

The data was analysed using a general inductive approach. The inductive approach is defined as a systematic procedure for analysing qualitative data in which the analysis is likely to be guided by specific evaluation objectives (Thomas, 2006). The purpose of using the inductive approach was to allow research findings to emerge from the frequent, patterned, dominant, and the significant themes inherent in raw data collected by the researcher, without the limitations imposed by structured methodologies (Thomas, 2006). The data analysis was accomplished using categorization and unitization (Lincoln & Guba, 1985).

Unitization is defined as a process whereby raw data is systematically transformed and grouped into units allowing a detailed description of significant and relevant content characteristics (Lincoln & Guba, 1985). Once the data has been unitized, these units become comparable to other units and units with similar characteristics are then grouped together into categories in a process called categorization (Lincoln & Guba, 1985). Categories can then be compared to other categories to establish relationships among them.

The data was analysed through content, narrative and comparative analysis. Content analysis systematically analyses the data collected from the interviews through the identification of themes (Welman & Kruger, 2001). Content analysis also provides new insights and coded data. Narrative analysis preserves the richness of the data allowing patterns to emerge (Saunders et al., 2009). Comparative analysis enables the comparison of the units of analysis across all the interviews conducted (Welman & Kruger, 2001).

The data analysis for all the interviews took approximately fifteen hours in total.

4.7. Phase two.

4.7.1. Purpose.

The aim of phase two was to refine and analyse the findings from the expert interviews held in phase one and to capture the findings from the personal interviews held with entrepreneurs operating in the informal sector economy in phase two. The purpose of phase two was to gain insight and understanding with regards to the motives behind informal sector economy activity. Phase two also established whether the informal sector economy should be formalized or left as is.

4.7.2. Population.

The population for phase two all informal sector economy entrepreneurs operating in South Africa and Africa.

4.7.3. Sample size.

The sample size comprised of fifty informal sector economy entrepreneurs (*respondents*) from five different locations in both the Gauteng province and North West province in South Africa. Cluster sampling was used to determine the geographical locations where the research took place and random sampling was used to determine the possible potential respondents.

4.7.4. Unit of analysis.

These respondents were interviewed using semi structured questions

4.7.5. Data gathering.

The data gathering process was achieved using primary data discussed in 4.6.5 above. The respondents were interviewed using semi-structured Interviews. Semi-structured interviews are defined as a “wide ranging category” (Saunders et al., 2009, p. 601) of interview where the interviewer initiates pre-determined interview themes however allows for flexibility in the order in which the questions are asked. Semi-structured interviews also allow the researcher to new questions that are within the paradigm of the research situation (Saunders et al., 2009).

The objective of a semi structured interview is to recognize and to appreciate the respondent's viewpoint in the informal sector economy as opposed to oversimplifying and making generalisations about behaviour (David & Sutton, 2004). The semi-structured interview made use of “open-ended questions” and the interviews were “conversational” (Saunders et al., 2009, p. 321). Semi-structured interviews offer ample flexibility to interview different respondents in a different way while still covering the same areas of data collection (Noor, 2008).

Questions were asked when the interviewer was comfortable with the appropriateness of the question. Some of the questions were prepared and others arose during the course of the interview. Because the researcher was trying to uncover new phenomenon it was not possible that the researcher was always fully prepared of the outcome of the interview (David & Sutton, 2004). During the interview process, new themes arose, one such theme was the importance of location which was not previously considered by the researcher and therefore the researcher was not prepared for the respondent's response. To satisfy the objectives of the research the researcher was obliged to explore the subject further. The semi-structured interviews allowed for a comparative analysis as the flexibility in its structure tolerated

spontaneity in which the interviewer could have asked for clarification or elaboration (Welman & Kruger, 2001).

The interviews were recorded to ensure accuracy when interpreting the data and to avoid losing data as it is not possible to make handwritten notes and capture all that was said in the interview (Schmidt, 2004).

The researcher covered five different locations in the Gauteng province and the North West province in South Africa. The researcher then moved through as many entrepreneurs in a specific location using a cluster sampling technique. Within the cluster the researcher used random sampling to choose potential respondents divided according to gender, age and industry. The researcher aim was to cover as a spectrum of geographic location, activity and demographics as possible given the research limitations.

The purpose and the objective of the research were explained. The researcher assured the respondent that his/her identity was and would remain anonymous and that any notes taken or recordings made of the interview were confidential. The researcher also explained to the respondent that his/her participation in the research was voluntary and that they had the freedom to withdraw at any time. The interviews were approximately 20 minutes long.

4.7.5.1. Research instrument.

A questionnaire served as the research instrument to obtain the relevant data to answer the research problem under investigation. The questionnaires were designed with the aim of enabling them to produce accurate, relevant and reliable information. Careful consideration was given to the questions asked, how they were asked, the order in which they were asked and finally the general layout of the questionnaire.

A suitable length of the questionnaire was recommended because the longer the questionnaire the less involved and more tired the respondent becomes (Bradburn,

Sudman and Wansink, 2004), this then affects the quality of the data. The length of the questionnaire was therefore kept at a minimum achieved by including thirteen grid questions which only required a tick of a pre-determined option in the questionnaire box. This therefore shortened the response time as the researcher was sensitive to the respondent's time; the researcher was also concerned about the quality of the answers given by the respondent.

Questionnaires were piloted and evaluated before the actual research was conducted (Bradburn et al., 2004). The researcher conducted the questionnaire under academic supervision, submitted the questionnaire to a panel of academic experts for ethical clearance. Once the questionnaire was approved and certified non offensive by the committee. The questionnaire was piloted on 3 security guards and 3 domestic assistants all working at Rand President apartments as well as 3 informal sector entrepreneurs operating outside 'Christ Embassy' church in Randburg before it was distributed to its desired sample.

The piloting of the questionnaire enabled the researcher to reword the questions therefore omitting offensive questions. A well-designed, structured and organized questionnaire allowed the data to be collected the same way from a large number of people enabling the researcher to systematically analyse the data (Bradburn et al., 2004).

The process of data collection was used by the researcher following each and every interview was identical to the process presented in phase one. (Thomas 2006)

Transcribing the data took approximately 90 minutes per interview.

4.5.6. Data analysis.

The data analysis followed the identical procedure as phase one of unitization and categorization. (Lincoln & Guba, 1985) The data was analysed through content, narrative and comparative analysis. (Welman & Kruger, 2001).

4.8. Research limitations.

Research limitations causing concerns were the credibility of the research which included bias, reliability and validity (Malhorta, 2010). The interviewer needed to ensure that their personal views did not creep into the interview (Saunders et al., 2009, p. 321), which is why it was critical that the researcher followed the discussion guide for phase one and the questionnaire for phase two.

It was essential that the researcher paid attention to any potential bias which is described as, allowing a “particular influence” to have more importance than it really “warrants” (Harper, 1991, p. 67). The research conducted made use of purposive sampling and a special sample was required to satisfy the research objectives, therefore the researcher risked the potential of being biased in choosing the sample. Bias could have potentially “crept in” (Schmidt, 2004, P. 253) because the theory “emerges” from the data (Lincoln & Guba, 1985, p. 41) and is not imposed on the data theory is also not independent of the person interpreting the data. Data does not develop theory people do (Schmidt, 2004, p. 253).

4.8.1. Sampling frame bias.

Sampling Frame Bias is caused by a poor, out of date and an inaccurate sampling frame. This could be geographically related such as interviewing people in the same geographic location, same age, and same sex therefore “narrowing the sample frame” as entrepreneurs with “similar characteristics” are interviewed (White, 2002, p. 67). The researcher mitigated against this potential bias by interviewing entrepreneurs from different locations, different ages, different sexes to diversify the sample frame and therefore capture different insights.

4.8.2. Researcher bias.

Researcher Bias is caused by complete and sincere honesty. A researcher might introduce bias by making questions too narrow therefore restricting the opportunity

for the respondent to express themselves fully the researcher may ask questions that are too broad therefore affecting the quality of the answers and making them too general and unfocussed. The questionnaire may have introduced researcher bias as thirteen questions in the questionnaire were narrowed to a maximum of five pre-determined answers.

4.8.3. Non responsive bias.

Non responsive bias arises when the researcher has “no idea how respondents would have answered a specific question because they did not respond” (White, 2002, p. 67). The researcher experienced a moderate amount of non-responsive bias; firstly from fundamental potential respondents who did not agree to an interview and secondly from the respondents who did agree to an interview, however cancelled and those respondents who were interviewed, however were reluctant to answer some questions particularly those relating to income or nationality.

4.8.4. Research Methodology.

The research methodology chosen by the researcher requires the researcher to become part of the research therefore making it difficult for the researcher to be objective.

Chapter 5

Results

5.1. Introduction.

The previous chapter explained the methodology used to test the research question asked in chapter three. This chapter will present the findings from phase one and two of the study. The purpose of phase one was to gain an insight of the informal sector economy through the expert's opinion and to help formulate the right questions for phase two. The questions were therefore asked for the purposes of gaining an insight whether the informal sector should be formalized or left as it is in its current state.

5.2. Results: Phase one.

5.2.1. Introduction: Phase one.

The purpose of phase one was to receive critical professional academic opinions from persons with extensive knowledge on the informal sector economy. Firstly, this meant to gain a critical understanding of the impact of the informal sector economy and the consequences that it has on the formal sector economy. Secondly, to understand the synergies of possibly engaging the informal sector economy with formal sector economy. Thirdly, to initiate discussion as to what strategies should be implemented to ensure the long term sustainability of the informal sector economy and how this sector economy could potentially contribute towards the GDP economy. Phase one also directly developed question for phase two that were more precise and detailed as opposed to broad.

5.2.2. Sample characteristics.

The sample consisted of two public sector representatives, two private sector representatives and one university academic with extensive knowledge in the informal sector economy. It was important to obtain a sample with a diversified functional background as it gave an overarching and consolidated opinion on the informal sector economy in South Africa

5.2.3. Informal Sector Economy defined.

A consolidated definition of the informal sector economy given by the experts was 'comprising of economic activities taking place without a 'corporate model' therefore implying that there are no systems and policies in place governing and regulating the informal sector economy. The results of the lacking systems and policies are that there are no lines of accountability and informal sector economy entrepreneurs are 'doing their own thing' and are unaccounted for.'

5.2.4. Should the Informal Sector Economy be formalized?

Experts had mixed responses regarding the formalization of the informal sector economy. Some experts strongly believed in formalizing the informal sector economy as it is thought to broaden the scope of accountability. When entrepreneurs are aware that they are being held accountable to a structure it creates discipline, enthusiasm and a sense of belonging. Informal sector economy entrepreneurs who are mindful of the fact that they are not being held accountable display a minimal effort combined with reluctance to extend the extra mile in terms on productivity leading to a fundamental question that was raised. This question was how to encourage informal sector economy entrepreneurs to account when there are no structures in place. For that reason regulation improves efficiency through accountability as accountability enhances knowledge seeking and knowledge seeking encourages efficiency.

Other experts although acknowledging that formalization was an ideal situation, authorities and institutions must be realistic about formalization by taking into account the current economic conditions. The formalization of the informal sector economy may require for the informal sector economy to be cascaded into different levels. It is also crucial to 'prepare' the formal economy by creating an environment and or conditions that are conducive to the growth and sustainability of the informal sector economy. Without an environment that is responsive towards the growth and sustainability of the informal sector economy, entry of informal enterprises into the formal sector economy may be extremely costly and detrimental to the informal enterprise.

There is therefore no benefit in illuminating the informal sector as it is a conduit for the percentage of the population who are excluded from the mainstream economy. One expert stated that the concept of formalizing the informal sector economy is tautology because it would no longer exist as the informal sector economy if it was formalized.

5.2.5. The current state of the Formal Sector Economy.

Firstly, there are barriers of entry into the formal sector economy prohibiting entrepreneurs from operating in the formal sector economy. The current state of the formal sector economy is that there not only is a lack of access to resources, there is also a lack of resources in the formal sector economy which further restrict the entry of informal sector economy entrepreneurs into the formal sector economy raising a critical question. The question raised was whether there was any merit in formalizing the informal sector economy when resources are already limited. The 'resources' referred to were natural resources, a market and an access to that market and infrastructure. Secondly, institutions in South Africa are weak. The expert explained that crime and tax evasion are examples of 'high level' activity operating in the

informal sector economy; however informal sector economy activity continues to be associated with poverty. The expert argued that it was not only poor people who engaged in ‘informal sector economy crime’ and therefore it is wrong to assume that the informal sector economy is only reserved for ‘poor people.’ The informal sector economy is an attractive sector and will continue to exist especially if the institutions continue to remain weak.

The experts interviewed unanimously agreed on allowing a natural transition of informal sector economy enterprises into the formal sector economy. One expert used the phrase; “graduating when ready into the formal sector economy”

An example of an enterprise that made the transition from the informal sector economy to the formal sector economy was ‘Mozito’s’. Mozito’s is a diner in Braamfontein, Johannesburg. The diner was birthed out of the informal sector economy and experienced phenomenal growth ‘coercing’ the entrepreneur to formalize his initially informal establishment. This formalization was a natural progression and it was not enforced by authorities and institutions. Most of the experts were of the opinion that all informal sector economy enterprises should be given the opportunity to grow and only graduate into the formal sector economy when they proved to be ready and sustainable.

The ideal solution is not to eliminate the informal sector economy all together by introducing formal structures; the ideal solution should rather provide channels which link the informal sector economy to the formal sector by allowing the more promising enterprises operating in the informal sector economy to progress, transition and graduate into formal sector economy enterprises. An effective method would be to provide incentives or alternatively make the transition more attractive from the informal sector economy to the formal sector economy. Although tangible incentives were not disclosed the role of government in facilitating the successful transition of

informal sector economy enterprises into formal sector economy enterprises was discussed. Other experts disagreed with waiting for a transition and insisted on immediate formalization.

5.2.6. The role of the government in the Informal Sector Economy.

All the experts agreed that the government plays a significant role in managing the informal sector economy and that the government is currently faced with structural challenges in the informal sector economy. Some experts supported the notion of imposing formalization to informal sector economy enterprises and the others supported the notion that the government should play a role that regulates the relationships between the formal and the informal sector economy especially. One expert emphasized that the government's role also includes the regulation of the market structures in the formal sector economy. The current oligopoly structures in the formal sector economy are not only extremely powerful, they also set the rules and regulations which dictate the terms and conditions to the informal sector economies. The terms and conditions set by the oligopolies make it not only impossible for other formal sector potentials to enter the formal market; they make it especially difficult for informal sector economy enterprises to enter the market. Informal sector economy entrepreneurs also have very little bargaining power and they require government intervention for assistance.

In addition the government could assist by creating a market for the informal sector economy because the informal sector economy competes with a more powerful formal sector economy for market share. By creating a market for the informal sector economy the government indirectly subsequently creates a market for the formal sector economy. The leverage arises as the informal sector entrepreneurs source their goods from private sector retailers operating in the formal sector economy and sell them in the informal sector economy. This results in a 'win/win situation for both sectors.

One expert argued that the city of Johannesburg is currently establishing proper demarcation areas for informal sector economy entrepreneurs. "It is governments objective for informal sector economy enterprises to operate in an organized environment where government has an influence over them in terms of regulation, however does not require formal registration".

5.2.7. Role of political segregation in creating an informal sector economy.

Historically, formal sector employment was reserved for the white minority which comprised of 19.3% of the entire population. Although a small percentage of "Bantu's" (*a term used to describe persons in the black population*) had formal sector employment the majority of the population became unemployed. The Bantu's represented 68.3% of the South African population. The remaining 12.4% comprised of the "Colored" and "Asian" populations.

The unemployed majority of the South African population resorted to the informal sector economy for financial and socio economic survival. The historical implications of the South African society are prevalent today as an overwhelming almost absolute majority of informal sector economy entrepreneurs, (*and the entire informal sector entrepreneurs interviewed*) were from previously disadvantaged backgrounds.

Political segregation marginalized the majority of the population into the homelands and townships and it is in these areas that informal sector economy activity is most prevalent therefore giving birth to the 'marginalized economy'. The perpetual effects of denying the black majority the right to education still has a negative effect on their literacy levels. Their lack of education has denied them the opportunity to find formal sector economy employment and has therefore increased their dependency on the informal sector economy.

Economic integration mechanisms need to be created to ensure an impartial interaction of all members of the formal sector and informal sector economy. The manner in which the informal sector economy will be included in the mainstream economy should accommodate the conditions faced by those in the informal sector economy.

The government cannot reverse the effects of political segregation in South Africa; however the government is in a position to implement policies and to give non-financial support especially with regards to promoting education as a priority.

All experts interviewed were in agreement that political segregation had negative economic implications for the country therefore giving birth to the terrible, challenging and unjust conditions informal sector entrepreneurs operate in.

5.2.8. How the Informal Sector Economy should be administered.

There were multiple and conflicting views on how the informal sector economy should be administered. One view is of the opinion that entrepreneurs not only survive, they thrive from informal sector economy activity primarily because it is informal. The informal sector economy should therefore not be eliminated in its entirety by imposing formal structures; instead transitions into the formal sector economy should be facilitated by government. Government's priority should be on educating informal sector economy entrepreneurs. One of the findings in phase two revealed that in 2010 government invested in all informal sector economy entrepreneurs operating in Randburg taxi rank, by sending them to study towards a 'Computer Business Management' certificate at the University of Witwatersrand.

All the experts agreed that focus should be placed on how to cultivate the potential of the informal sector economy enterprises, that they should be nurtured thus enabled to participate meaningfully in the economy. Meaningful participation was defined as more than just compliance to legal processes. Meaningful participation is achieved

through access to finance, ease of business registration, tax exemptions and other approaches to make the formal sector attractive.

One expert stated that the National Youth Development Agency (NYDA) had implemented numerous programmes to assist entrepreneur's operating in the informal sector economy transition into the formal sector economy. One such programme is 'The Micro-Financing Programme'. This programme consists of loans between R1 000 and R100 000 granted to informal sector entrepreneurs. These loans are to be repaid and work similarly to the loans from a formal sector economy financing institution. The expert emphasized the advantages of granting these loans, that they hone accountability and also offers practices and disciplines required by formal sector economy financial institutions; however the disadvantages are that borrowers lack credit discipline and fail to repay loans.

The experts suggested a concept of 'mild regulation' to administer the informal sector economy. This approach assists the entrepreneurs in the informal sector economy to recognize the benefits of formalization. This 'mild regulation' is a concept of self-regulation where the informal sector economy organizes itself within and under the conditions of its environment outside the formal regulatory systems. This concept of self-regulation could be monitored and supported by the government and the private sector to stimulate economic activity.

Another viewpoint was to assess and explore how other countries treat the regulation of the informal sector economy.

The expert representing the public sector stated that the South African government realizes that typically if an informal sector economy enterprise remains in the informal sector economy, eventually its growth will reach a ceiling and the business will eventually reach a stage of stagnancy. The government also realizes that supporting the informal sector economy indirectly influences sustainability and expansion. The

domino effect begins with government support which encourages sustainability and sustainability encourages expansion.

Although government has a responsibility to support the informal sector economy, they do not accept that it is their responsibility to create employment, rather their responsibility is to create environments that are conducive to job creation. If government forces formalization it will result in a dismal failure.

5.2.9. Labor conditions.

Because informal sector economy entrepreneurs have no 'formal' labor representation they have very little bargaining power and are coerced into accepting terrible, challenging and unfair conditions to operate in. Despite the challenges that labor conditions in the informal sector present for both entrepreneurs and government before the labor conditions of entrepreneurs in the informal sector economy are addressed economic conditions that are conducive for the informal sector economy must be prioritized. Once the best approach to include the informal sector economy entrepreneurs in the main stream economy has been implemented, conditions that governing labor conditions in the informal sector will be formulated and implemented. This was the view of one expert.

Organized unions are for employees, informal sector economy entrepreneurs are business owners therefore a union would not be appropriate for them, this was the opinion of most experts. To increase their bargaining power entrepreneurs could organize themselves through the formation of associations and forums.

Because representation implies that entrepreneurs would be organized and regulated, it holds a striking similarity to formal sector economy entrepreneurs. The dynamic nature of the informal sector economy is that it has a high turnover and a low lifespan. This is not conducive to a permanent structure such as an organized union. There

vibrant and unstable nature of the informal sector economy will not respond well to structure and order. The informal sector economy must therefore be appreciated for its core dynamism. Informal sector economy enterprises are labor intensive and formal sector economy enterprises are capital intensive therefore when small businesses thrive there is economic growth. We cannot depend on larger companies to create jobs as their productivity is largely from technology and capital.

5.2.10. What the experts would ask the entrepreneurs operating in Informal Sector Economy.

5.2.10.1. “As an entrepreneur that does this (*informal sector economy activity*) for a living, what can the government do to encourage entrepreneurs in the informal sector economy to migrate from the informal sector economy into the formal sector economy.”

5.2.10.2. “Informal sector entrepreneurs lack discipline which is surprising for persons operating in a sector where their income is not consistent and operate in it to survive. Within that paradigm why does the informal sector economy not adhere to the business practice of treating their businesses as a separate legal entity and drawing a salary instead of consuming their entire profits? The entrepreneurs in the informal have very good ideas and that they are working towards making them a reality. Discipline will enable them (*informal sector entrepreneur entrepreneurs*) to build sustainable enterprises and not survivalist hand to mouth enterprises.

5.2.10.3. “South Africans possess a culture of handouts yet they are not receiving monetary assistance from the government. What appropriate and meaningful support do informal sector economy entrepreneurs need, what obstacles are they facing? Government needs to engage with these entrepreneurs in order to create a meaningful support package.”

Phase one formulated the right kind of questions to ask the informal sector economy entrepreneurs in phase two and revealed which areas to focus on and the direction to take as far as the informal sector economy is concerned. Phase one will be used as a guideline in phase two.

5.3. Results: Phase two.

5.3.1. Introduction.

Phase two comprises of the findings from the personal interviews held with entrepreneurs operating in the informal sector economy. The purpose of phase two was to gain insight and understanding with regards to the motives behind informal sector economy activity. Phase two will also establish whether the informal sector economy should be formalized or left as it is in its current state.

5.3.2. Sample characteristics.

The sample consisted of fifty entrepreneurs operating in the informal sector economy. The researcher given her limitations interviewed entrepreneurs from five different locations in the Gauteng province and North West province in South Africa. The sample was diversified as much as possible via age, gender, geographic location and retail sector the entrepreneurs were operating in. It was important to obtain a sample with a diversified functional background as it gave an overarching and consolidated opinion on the informal sector economy in South Africa.

5.3.3. Research responses.

Table A presents the different locations that the interviews were conducted.

<i>Geographic location</i>	<i>Number of respondents</i>	<i>Percentage %</i>
Randburg	7	13.8
Johannesburg Central Business District Pritchard street	10	19.6
Pretoria CBD	10	19.6
Brits	10	19.6
Diepsloot	4	7.8
Soweto	10	19.6
Total	51	100%

The objective of conducting interviews on multiple locations was to get an inclusive and consolidated view of the operating in the informal sector economy. Interviewing on multiple locations also revealed the importance of location in any entrepreneurship activity.

When asked why he operated in Diepsloot a 35 year old Indian male entrepreneur responded “Location, location, location is important. The average and uneducated Joe wishes he operated in Johannesburg Central Business District (CBD), however operating in the CBD comes at a premium. Yes there is heavier pedestrian traffic and the entrepreneur is guaranteed more customers however the rent in double if not triple the prices we pay here in Diepsloot, furthermore there is more competition. The beauty is in the maths. My expected income may be marginally lower than it would have been if I was operating in Johannesburg, however my expenses are exponentially lower”

Table B presents the numbers of the two genders interviewed.

	<i>Total</i>	<i>Percentage%</i>
Male	39	76.5
Female	12	23.5
Total	51	100%

There is a disproportionate number of the numbers of male and females interviewed, this will be accounted for in chapter six. The objective of separating the different genders in this analysis was to find patterns on their reasons for operating in the informal sector economy.

The researcher observed linkages between the different genders and the retail activity that they engaged in respectively.

On average there was no disparities between the different genders and reason for entry into the informal sector economy.

A 41 year old male, black entrepreneur justified his entry into the informal sector economy by stating; “I was retrenched and I lost my job, with my job I lost my dignity because I was unable to provide for my family. With this business I have regained my dignity and even more because this business is mine. I am making less money than I was making in my previous job but this business belongs to me, I built it with my own hands and now I am not dependent on anyone but me for my daily bread”

A 54 year old black female entrepreneur justified her entry into the informal sector economy by stating; “I live for my family and I have to provide for them, I experienced a financial drought. For a while nature was against me and my survival but I was forced to go against nature and find a way to survive. This is my means to survive. My family depends on it”

Table C presents the ratio between South African and non-South African entrepreneurs operating in the informal sector economy.

	<i>Total</i>	<i>Percentage %</i>
South African	31	61.8
Non South African	20	38.2
Total	51	100%

The objective of separating South African's and non-Africans was to get a perspective of the number of non-South African informal sector economy entrepreneurs were operating in South Africa.

When asked why he was operating in the informal sector economy in South Africa a 31 year old male Kenyan entrepreneur responded; "I was displaced from my country during the 2002 political uprising, there was no opportunity in Kenya and the only opportunity was to starve to death and many people chose that option. I chose to live but I could not live at home, so I came to South Africa" He also added; "Although I would love to go home, I appreciate the strong rand. The economic value of one rand far exceeds that of its Kenyan counterpart one shilling and it gives me and my family (who is in Kenya) a higher purchasing power. When I send three hundred rand home my family is comfortable, it is better than three hundred shillings"

When questioned about his success as an informal sector economy entrepreneur operating in South Africa he responded; "The advantage of being an immigrant in South Africa is that the tourist (*this gentleman ran his enterprise in Hartebeespoort which has a significant tourist penetration*) appreciates what is different and the art that I sell is from Kenya and it is different so I am more successful than the South African entrepreneur because he is boring and the tourists have seen what he has to offer. When the new BMW comes out the people will buy the new BMW because it is exciting and different. They no longer care about the old BMW, I am the new BMW, he (*the South African entrepreneur*) is the old BMW. People love Kenyan art and I am

running a business fuelled by people’s passion. I am proud of making money to send back home. It gives me dignity”

Table D presents the ages of the entrepreneurs interviewed.

<i>Age in years</i>	<i>Number of respondents</i>	<i>Percentage %</i>
0 < 20	0	0
20 < 30	18	35.3
30 < 40	18	35.3
40 < 50	7	13.7
50 < 60	5	9.8
60 < 70	3	5.9
Total	51	100%

The objective of this table was to capture the age that was most prevalent with informal sector economy activity.

The researcher observed that there were no respondents under the age of 20 years old. The researcher also observed that 70.6% of entrepreneurs operating in the informal sector economy were classified as the youth. *(Between the ages of 20 – 35)*

When asked about her outlook on operating in the informal sector economy a 23 year old, black, South African female entrepreneur stated; “What is a black diamond, I thought I knew because I thought that I was a black diamond. I am young, black and educated but diamonds do not sit on the side of the road in these conditions selling Russians (pork sausages) to make a living. I went to school and I passed, I went to university and I finished my degree but this government has failed in providing me with a job.

Table E presents the races in which the Informal Sector Economy entrepreneurs fell into.

<i>Race</i>	<i>Number of responses</i>	<i>Percentage %</i>
Black:	49	94.1
White:	0	0
Colored:	0	0
Asian: (Indian)	3	5.9
Other:	0	0
Total	51	100%

The objective of this table was to disclose the races that entrepreneurs operating in the informal sector economy fell into. There were limitations that may have had an impact on the findings of this research which will be discussed in chapter six.

When a 27 year old male, black entrepreneur was asked on whether he was surprised at the racial composition of the entrepreneurs operating in the informal sector he responded;

“The only time I have ever seen a white man is in an expensive car or on the television shaking hands with a rich black man trying to convince everybody that he (the white man) is really distributing his wealth to benefit the entire black population” Apartheid really established the white man as the custodian of wealth in South Africa. Even though the government is trying to reverse the effects of apartheid on the black population the money is being shared by those people who were at the right place at the right time, so yes there are a few black people who are being made rich by BEE policies but it is a minority of the majority. So yes I am not surprised that many people operating in the informal sector economy here in Diepsloot are black.”

Table F presents the level of education of Informal Sector Economy entrepreneurs.

<i>Level of education</i>	<i>Number of respondents</i>	<i>Percentage %</i>
No Schooling	0	0
Primary School	10	19.6
High School	28	54.9
College	3	5.9
University	9	17.6
Other	1	2
Total	51	100%

The objective of this table was to disclose the level of education of the entrepreneurs operating in the informal sector economy.

The majority of the sample either completed high school, or left school during high school.

Out of the twenty eight entrepreneurs in the ‘high school’ category only five completed matric (*Grade twelve*). Two South African women left school during high school because they fell pregnant. One lady from Botswana left during high school because of cultural reasons. (*Arranged marriage*) The rest of the sample left school because they either could not afford to go to university (75%), they had no desire to study further (25%) or they had to find a job in order to start providing for their families (86%). (*Most entrepreneurs who quoted the first two reasons also quoted the third reason as a reason for not completing their studies either at a secondary or tertiary level*)

Out of the nine entrepreneurs in the ‘university’ category only two South Africans completed university. They are operating in the informal sector economy because they are unable to find a job in the formal sector economy. The one entrepreneur, a 41 year old, black, South African male who was previously working for a construction company was retrenched. The other entrepreneur was previously quoted, a 23 year old black, South African female. In reference to her education she stated; “I took out a loan

because I was confident that once I graduated from university, I would find a job and pay the loan back. Although I cannot find a job, I still have to pay my loan back”.

The three entrepreneurs in the ‘college’ category were informal sector economy entrepreneurs who completed a certificate in Business Management and Information Systems at the University of Witwatersrand (WITS) financed by the South African government.

The one entrepreneur in the ‘other’ category was a 28 year old, black Congolese male who obtained a Master’s degree in Financial Economics and is currently studying Strategy through PSG Konsult. He sold shoes in Prichard Street Johannesburg CBD to finance his studies. When asked whether he had a fear of being overqualified and the rationale of studying even further despite his low paying job he responded; “I make more money selling shoes on the side of the road in the informal sector economy than I would make in a corporate office in South Africa. In South Africa, educated foreigners are discriminated against and underpaid. Here (*referring to his business*) I command my own prices. as employees mistreat and discriminate against foreigners. He was simply studying in South Africa to go back home and get a better job. And there was money in South Africa to finance his studies.

One entrepreneur in the ‘high school’ category was a 22 year old black Malawian male entrepreneur who was forced to leave school in grade 10 as a result of his parents passing. This incident left him with no resources to complete high school. Shortly after his parents passing, he started a fruit and vegetable retail store in the informal sector economy in Malawi as his lack of education and his age denied him the opportunity to find a job in the formal sector economy. His first entrepreneurial venture was unsuccessful; he was subsequently called to South Africa by his ‘brother’. (*close family friend*) He says “I was enticed by the perception that there is better income earning opportunity in South Africa. I am lucky I don’t have any responsibility back at home, although I only make enough money to survive, I am saving a little money to go back

and finish high school". In South Africa he ran an enterprise identical to the enterprise that he ran in Malawi.

Table G presents the entrepreneurs desire to complete their education.

<i>Desire to 'complete' your education</i>	<i>Number of responses</i>	<i>Percentage %</i>
Yes	40	78.4
No	11	21.6
Total	51	100%

The objectives of this table were to show the number of informal sector economy entrepreneurs who had a desire to complete their education.

The researcher clarified to the respondents that what was meant by 'completing' ones education was whether the respondents felt as if they had reached the end of their education journey and not whether they had completed secondary education or tertiary education. The researcher explained that one person may feel as if they completed their education journey in High School and therefore has no desire to go back to school. However someone else who may have an undergraduate degree may feel as if they have not completed their education journey and therefore continue with a post graduate qualification.

Although many entrepreneurs felt that they had not completed their education journey, they were not prepared to go back to school.

Table H presents the length of time the Informal Sector Economy enterprises have been in operation

<i>Length of time in years</i>	<i>Number of responses</i>	<i>Percentage %</i>
0 < 1	16	31.4
1 < 5	16	31.4
5 < 10	3	5.8
10 < 15	8	15.7
15 < 20	6	11.8
20 <	2	3.9
Total	51	100%

The objectives of this table were to present the length (in years) of operation of informal sector economy enterprises.

A 62.5% majority of the enterprises sampled were younger than five years and 31.4% were younger than one year.

One 47 year old South African male entrepreneur who had been in business for seventeen years stated; “The secret to my success and longevity in business was meeting demand with supply and knowing what the customer wants. In the beginning all I could afford was sanitary goods. I started with sanitary goods because there was a demand for sanitary goods, as I started making money I realised that there was a demand for cool drink so I expanded into the cool drink market and hot drinks in winter so I went into that. I always invested my money proportional to demand and to meet that demand with supply. Now I have branched into hiring out DVD’s now because there is a demand from the market”

When asked whether she thought that her two week old business would be successful a 23 year old female entrepreneur responded; “I don’t know. I have located myself in a busy area and I have no competition. We sell Russians just outside Shoprite in Diepsloot and people buy pap from Shoprite and Russians from us because we sell Russians cheaper than Shoprite does. Some of our customers buy chips from KFC and Russians from us. Because our product compliments the products sold at the mall

(Diepsloot Mall) and that they are sold at a cheaper price I do expect my business to be around for a very long time”

Table I presents the number of entrepreneurs who were operating their first enterprises or who had attempted previous enterprises that had failed.

	<i>Total</i>	<i>Percentage %</i>
Yes	26	51
No	25	49
Total	51	100%

The objectives of this table were to disclose the number of entrepreneurs who were in their first attempt of business or whether they had attempted a business before.

The ratio between first businesses and more than first businesses was almost equal. The researcher did not observe a pattern between the ages of the entrepreneurs and their number of attempts at establishing enterprises.

Table J presents the weekly turnover of the Informal Sector Economy entrepreneurs.

<i>Weekly turnover</i>	<i>Number of respondents</i>	<i>Percentage %</i>
R0 < R100	0	0
R100 < R500	7	13.7
R500 < R1 000	7	13.7
R1 000 < R2 000	16	31.4
R2 000 <	3	5.9
Don't know	13	25.5
Fluctuates	5	9.8
Total	51	100

The objectives of this table were to show the turnover generated by the informal sector economy entrepreneurs.

The one entrepreneur who generated a monthly turnover greater than two thousand rand was a 35 year old Indian (non-South African) male entrepreneur who operated an electronic store in the informal sector economy. He sold televisions, radio's DVD

players, earphones remote controls ex cetera ex cetera. His monthly turnover was in excess of fifty thousand rand. When asked about the success of his enterprise he responded “South African’s are lazy and have absolutely no business acumen, they also have a sense of entitlement from the government with are three paralyzers of success in business”.

Table K presents the number of entrepreneurs who reinvested into their enterprises.

<i>Reinvest</i>	<i>Number of respondents</i>	<i>Percentage %</i>
Yes	16	31.4
No	35	68.6
Total	51	100%

The objective of this table was to give an indication of the number of entrepreneurs who re-invested in their enterprises.

The researcher observed that initially 85 % of the entrepreneurs interpreted re-investing as purchasing trading stock. Only eight (15%) entrepreneurs understood that by re-investment the researcher meant the investing of current profits as additional capital; into the business to facilitate expansion. Although the researcher clarified the difference between purchasing stock and re-investing many still argued that purchasing stock is re-investing into the business.

Two black male entrepreneurs aged 28 years old (non-South African) and 33 years old (South African) drew salaries and re-invested the rest into their enterprises.

One 64 year old black South African male entrepreneur was reinvesting towards another similar business closer to home as he was nearing retirement. His daughter was going to inherit the current enterprise.

One 34 year old black South African female entrepreneur reinvested only when profits were “permitting”.

Table L presents the initial method of finance chosen by the entrepreneurs start their enterprises.

<i>Method of initial finance</i>	<i>Number of respondents</i>	<i>Percentage %</i>
Savings	34	66.6
Friends and Family	14	27.5
Loan	1	2
Other	2	3.9
Total	51	100%

The objective of this table was to show the method of finance chosen by the entrepreneurs to fund their enterprises.

The findings show that 94.1 % entrepreneurs would not even consider a loan from any financing institution. All 94.1% respondents “feared” the bank. One 47 year old black South African male entrepreneur stated; “There are many species of sharks in the world, the one I fear the most is the loan shark. I have been shackled to the restraints of budgeting however experienced more freedom than a debtor imprisoned in the intestines of a bank”

The two entrepreneurs in the ‘other’ category consisted of an employee who did not know the method of finance used by his employer and a 35 year old black, South African female entrepreneur who ran a hair salon. She started with a pair of scissors that she stole from a shop operating in the formal sector economy and a comb.

The entrepreneur in the ‘loan’ category was from a 28 year old black male entrepreneur from Cameroon. He received a loan from his home country to start his shoe retail enterprise in South Africa. He had no access to finance in South Africa as documents were not in place (*Bank Statements*)

The entrepreneur in the 'savings' category used savings to fund his business however his savings were insufficient. He then received a credit advance from his supplier

A 29 year old black, non-South African female entrepreneur stated; "Some say that being a foreigner means that it is difficult to get credit. This is true, even if all your documents are in order, even opening an Edgars account or trying to obtain a cell phone on contract is impossible"

Table M presents the amount of capital used to start a business.

<i>Amount of money for start-up</i>	<i>Number of respondents</i>	<i>Percentage %</i>
R0 < R100	4	7.8
R100 < R500	10	19.6
R500 < R1000	8	15.7
R1 000 < R2 000	7	13.7
R2 000 <	22	43.1
Total	51	100%

The objective of this table was to give an indication of the amount of money spent to start an enterprise in the informal sector economy.

27% of capital was spent to start the enterprises was between two thousand rand and three thousand five hundred rand. There were 15.7% of the 43.1% who invested more than two thousand rand who invested significant amounts of capital into their enterprises. One of the entrepreneurs was a 35 year old Indian male who invested one hundred and thirty thousand rand. He bought an existing informal sector economy enterprise. The other was also a male Indian entrepreneur who had invested two hundred thousand rand into his business. They both invested the money from savings.

One entrepreneur quoted previously started her enterprise with R0.00 only a comb and a pair of scissors.

Table N presents the number of entrepreneurs who paid for rent and storage.

	<i>Rent</i>	<i>Storage</i>	<i>Percentage %</i>
Yes	23	23	45.1
No	28	28	54.9
Total	51	51	100%

The objective of this table was to disclose the number of entrepreneurs who paid for rent and storage.

The equal number of entrepreneurs responding 'yes' to both rent and storage and 'no' was a pure coincidence. There was no link between the entrepreneurs who paid rent and those who paid storage. Some entrepreneurs pay rent without paying storage and other entrepreneurs paid storage without paying rent. Some entrepreneurs paid for both rent and storage and some enterprises paid for none.

Table O presents the amount of money in rands spent on paying rent and storage.

	<i>Rent</i>	<i>Percentage %</i>	<i>Storage</i>	<i>Percentage %</i>
R0.00	25	49	23	45.1
R1 < R100	10	19.6	7	13.7
R100 < R500	3	5.9	12	23.5
R500 < R1 000	5	9.8	9	17.7
R1 000 <	8	15.7	0	0
Total	51	100%	51	100

The objectives of this table were to disclose the amounts of money spent in rent and storage.

One entrepreneur in the 'R1 000 <' category paid ten thousand rand in rent because he was situated in a prime location.

Two entrepreneurs in the 'R0.00' category own their businesses and therefore do not pay rent.

One entrepreneur in the 'R0.00' category works from home and therefore does not pay business rent.

Table P presents the number of Informal Sector Economy entrepreneurs with bank accounts.

<i>Bank account</i>	<i>Number of respondents</i>	<i>Percentage %</i>
Yes	30	58.8
No	21	41.2
Total	51	100%

The objectives of this table were to give an indication of the entrepreneurs with bank accounts.

Out of the 41.2% of entrepreneurs who did not have bank accounts 76.2% were foreign immigrants in South Africa who were unable to open bank accounts because they were in South Africa illegally. The remaining 13.8% had a fear of banking institutions.

One 27 year old black, South African, male entrepreneur stated; "I am afraid of the bank. I have heard stories of people depositing five hundred rand but they only have access to four hundred and fifty rand and when they try and take out sixty rand the bank takes two/ three rand in bank charges. I work hard for this money and I will not share it with the bank"

Table Q presents the number of entrepreneurs who purchase their stock directly from the Formal Sector Economy and those who manufacture their own stock.

	<i>Number of respondents</i>	<i>Percentage %</i>
Pre Purchase (Private Sector)	47	92.2
Manufacturing Home Made	4	7.8
Total	51	100%

The objective of this table was to reveal the number of entrepreneurs who purchased their trading stock from private enterprises in the formal sector economy relied on the formal sector economy for their business and those who did not.

Three out of the four entrepreneurs classified in the ‘manufacturing’ category purchased their raw materials directly from the formal sector economy. One entrepreneur who manufactured African sandals received his supply from the black market (*informal sector economy market*) in Ghana.

Table R presents the number of entrepreneurs who were in favour of formalizing their enterprise.

<i>Formalization</i>	<i>Number of respondents</i>	<i>Percentage %</i>
Yes	38	74.5
No	13	25.5
Total	51	100%

The objective of this table was to disclose the number of entrepreneurs who were willing to formalize their enterprises.

The findings reveal that 74.5% informal sector economy had a desire to formalize their enterprises. One 54 year old black, non-South African, female entrepreneur in the ‘yes’ category shared that; “Many of us (*informal sector entrepreneurs*) wish to formalise their informal enterprises however we don’t know how to do it. Some consultants from the Department of Trade and Industry (DTi) come and distribute pamphlets which explain the registration process however we cannot read and cannot understand what these pamphlets are saying. What we need is a consultant who will sit with us and explain the registration process” She also added; “We also wish to benefit from the advantages of formalization, yes we will have to pay tax but we receive social protection from the police, have the options of receiving loans from the banks and an environment conducive to favourable business conditions.”

Another entrepreneur in the ‘yes’ category was a 30 year old black, South African, male entrepreneur who operated an internet café. He was fully employed as a Safety Officer at Transnet however he was on leave at the time of the interview. He shared; “My father gave me the idea to open the internet café in the informal sector economy

and I am generating a decent turnover but despite paying tax I do believe that my turnover would increase if I formalized my business and operated in Randburg Mall”

One entrepreneur in the ‘no’ category was a 34 year old black, non-South African male who said; “I know how to operate the informal sector economy, I do not know how to operate in the formal sector economy. I enjoy the familiarity in the informal sector economy and I have no desire to formalise my business.”

Table S presents the reasons entrepreneurs operate in the Informal Sector Economy.

<i>Why are they in the Informal Sector Economy</i>	<i>Number of responses</i>	<i>Percentage %</i>
Survival	46	90.2
Business Opportunity	5	9.8
Total	51	100

The objective of this table was to account for the reasons entrepreneurs were operating in the informal sector economy.

31.4% entrepreneurs in the ‘survival’ category held jobs in the formal sector economy however their basic wage was insufficient for basic survival. Another 39.4% entrepreneurs in the ‘survival’ category had formerly been retrenched from the formal sector economy. The remaining 29.2% in the ‘survival’ category were unsuccessful in finding employment in the formal sector economy.

One 27 year old black, South African, male entrepreneur stated “The disadvantage about operating in the informal sector economy is that you (*entrepreneurs*) are forced to offer services at really low rates for two reasons. Firstly, you (*entrepreneurs*) are serving a very cost sensitive market and secondly your (*entrepreneurs*) business has been successfully duplicated by another entrepreneur one hundred meters from your (*entrepreneurs*) doorstep forcing you to become competitive and due to the structure of the informal sector economy we (*entrepreneurs*) can only compete on price because

our market does not care about quality, they care about which entrepreneur will save them money, even if it is fifty cents”

One 23 year old black South African female entrepreneur stated “In the informal sector economy a monopoly cannot exist, if someone comes up with a clever concept your business model will be duplicated no China man (*Chinese entrepreneur*) needed.

Table T gives an indication of the number of entrepreneurs who would abandon their Informal Sector Economy activity if a job opportunity in the Formal Sector Economy arose.

<i>Job opportunity arises</i>	<i>Number of respondents</i>	<i>Percentage %</i>
Give up Informal Sector Economy	10	19.6%
Stay in the Informal Sector Economy	41	80.4%
Total	51	100 %

The objectives of this table were to give an indication of the number of entrepreneurs who would abandon the informal sector economy given the opportunity to work in the formal sector economy.

Out of the 80.4 % entrepreneurs in the ‘Stay in the informal sector’ 70.6% chose this category because although they would personally leave their informal sector economy enterprise in favour for the formal sector economy, however they would hire someone to keep their enterprise operational. The remaining 29.4% saw extensive opportunity operating in the informal sector economy at a personal level and perceived themselves as ‘true entrepreneurs’.

One 54 year old black, non-South African, female entrepreneur and a 33 year old black South African male entrepreneur both stated that “I would have to assess the nature and salary of the job opportunity first” The 33 year old entrepreneur elaborated his previous statement; “I have been in the formal sector economy job market and it is not

all that glamorous, I am actually earning more in the informal sector economy. The problem however is that the conditions that we (*informal sector economy entrepreneurs*) operate in, sometimes I am tempted to leave but then I remember why I left the formal sector economy”

A 35 year old black non-South African female entrepreneur stated that; “For me this (*operating in the informal sector economy*) is temporary, if I can get a job, a real job here (*South Africa*) and back at home (*Mozambique*) I will leave the informal sector economy”

5.4. Conclusion.

The findings in phase two provided extensive insight from the entrepreneurs in the informal sector economy and their perception of operating in this sector. The findings in phase one presented high level insight on possible strategic solutions that should be considered for the sustainability of the informal sector economy and how the informal sector economy could potentially contribute to the GDP economy.

Both the findings in phase one and phase two will be discussed in chapter six. These findings will be compared and contrasted from the literature provided in chapter two ensuring that a complete and comprehensive strategic solution is derived on how to manage the informal sector economy.

Chapter 6.

Discussion of Results.

6.1. Introduction.

The previous chapter presented the results that answered the research question stated in chapter three. This chapter will discuss the findings presented in chapter five in relation to the previous research conducted on this topic which was discussed in chapter two. The study conducted a two phase approach. Phase one narrowed the scope of the questions to be asked in phase two by refining the questions to be asked to the entrepreneurs operating in the informal sector economy.

The findings in this chapter will be discussed and refined according to the literature before a final decision will be made.

6.2 Discussion of the findings from phase one.

6.2.1. Informal Sector Economy defined.

The experts defined the informal sector economy as “comprising of economic activities that take place without a ‘corporate model’ therefore implying that there are no systems and policies in place which govern and regulate the informal sector economy. In chapter two it was stated that the informal sector had no structure, policies, procedures and legal implications referring to the ‘systems’ stated by the experts (Williams & Nadin 2010).

The consequences of the lacking systems and policies are that there are no lines of accountability therefore informal sector economy entrepreneurs are ‘doing their own thing’ and their actions are unaccounted for. In this definition the expert introduced

the notion of accountability not previously explored in the research. Accountability is defined as “Holding individuals and organizations responsible for performance and is measured as objectively as possible” (Paul, 1991, p 2). The definition contains a concept of a “higher power” that created the standards and assesses the performance of the accountability object (Kearns, 1994 p. 186). Accountability is an important concept in defining the informal sector economy as when informal sector economy entrepreneurs are ‘doing their own thing’ not according to any standards and/or expectation, there is no motivation to exert oneself in terms of effort and efficiency is lost.

6.2.2. Should the Informal Sector Economy be formalized?

Experts had mixed responses regarding the formalization of the informal sector economy. Some experts strongly believed in formalizing the informal sector economy as it is thought to broaden the scope of accountability. The experts identified discipline, enthusiasm and a sense of belonging as three key characteristics held by entrepreneurs operating in the formal sector economy and is lacked by those in the informal sector economy. From the findings in chapter two, the regulations existing within the formal sector economy are inflexible and are not suitable to accommodate the dynamic nature of the informal sector economy (Daniel, 2004).

The expert added those Informal sector economy entrepreneurs who are mindful of the fact that they are not being held accountable display a minimal effort and a reluctance to go the extra mile in terms on productivity, which is defined as the relationship between input and output (Tangen, 2002, p. 1). Productivity consists of four variables ensuring that output is greater than input. These variables are; productivity, performance, profitability and efficiency (p. 3). Although productivity was not defined in chapter two the concept of productivity agrees with the literature provided by de Paula and Scheinkman (2007) who specified that there is emerging evidence that businesses operating in the informal sector economy are less efficient than those in the formal sector economy and that that formalization would increase

aggregate productivity and the inefficiencies which exist in the informal sector economy.

A fundamental question of how to encourage informal sector economy entrepreneurs to account when there are no structures and/or authorities to in place to be held accountable to, was raised. Government regulation directed towards the formalization of the informal sector economy needs to be implemented as regulation stimulates and endorses social objectives, such as the protection of people, private and public property, and economic objectives such as the production of goods and services in the formal sector economy (Tanzi, 2005). The expert concluded that regulation improves efficiency through accountability as accountability enhances knowledge seeking and knowledge seeking encourages efficiency.

Other experts ,although acknowledging formalization as an ideal situation, insisted that authorities and institutions should be realistic about formalization by taking into account the current economic conditions. Instead of focusing on formalizing the informal sector economy an inquiry leading to a better knowledge and understanding of the living conditions and the difficulties experienced in both the formal sector economy and the informal sector economy should be made (Frota, 2007). One expert argued that government policies aim to ensure that informal sector economy entrepreneurs are not in a situation worse off situation than their current situation therefore it is not feasible formalize the informal sector economy in case the entrepreneurs end up worse off than their current situation. It is therefore better to create an environment facilitating formalization than imposing formalization directly.

The formalization of the informal sector economy may require for the informal sector economy to be cascaded into different levels. Previous literature in chapter two addressed and defined the 'levels of the informal sector economy' as lawful and unlawful with survivalist entrepreneurs and opportunist entrepreneurs operating under lawful and criminal entrepreneurs operating under unlawful (Pedro & Erwan, 2006). By cascading into different levels the expert was referring to separating the

different informal sector enterprises into “immature, premature and mature” Immature informal sector economy enterprises are those which are not ready to enter the formal sector economy and still require the ‘incubation’ offered in the informal sector economy. The incubation refers to protection against the exposure to the regulation and responsibility that comes with operating in the formal sector economy. Premature informal sector economy enterprises were defined as enterprises operating comfortably in the informal sector economy however were not adequately prepared to operate in the formal sector economy. Mature informal sector economy enterprises were defined as enterprises that were equipped to cross over into the formal sector economy. The example given of an informal sector economy enterprise ‘graduating’ and transitioning into the formal sector economy was ‘Mozitos’ a now established diner in Braamfontein, Johannesburg. Mozitos was birthed out of the informal sector economy and experienced phenomenal growth which ‘coerced’ the enterprise to formalize. This formalization process was a natural progression and it was not imposed by authorities and institutions. All the experts were of the opinion that all informal sector economy enterprises should be given the opportunity to graduate into the formal sector economy. This notion was supported by Ligthelm (2010) who stated that informal sector economy enterprises when ready should graduate into the formal sector economy.

To facilitate the transition into the formal sector economy and/or to successfully incentivize informal sector enterprises to cross over into the formal sector economy one expert stated that it is also crucial to ‘prepare’ the informal enterprise by creating an environment and or conditions that are conducive to the growth and sustainability of the informal sector economy. Government needs to assess the dynamics of operating in the informal sector economy as these dynamics could potentially be barriers to operating in the formal sector economy. Once these dynamics have been assessed and understood they should lead the government into steering the direction that should be taken. This direction could potentially be formalization or it could be leaving the informal sector economy as it is. The direction could also potentially be focusing on informal sector economy enterprise transitioning into the formal sector

economy. They added that without an environment that is responsive towards the growth and sustainability of the informal sector economy, entry of informal enterprises into the formal sector economy may be extremely costly and detrimental to the informal enterprise. The government is currently implementing a strategy to organize informal sector enterprises into “formal trading environments” (Antonites, 2007, p. 337).

One expert disagreed with the concept of formalizing the informal sector economy by arguing that there is no benefit in “illuminating the informal sector economy as it is a conduit” beneficial for the population which is excluded from the mainstream economy. Therefore the question of formalizing the informal sector economy is tautology because if the informal sector economy was formalized it would no longer exist.

6.2.3. The current state of the Informal Sector Economy.

Firstly, there are barriers of entry into the formal sector economy prohibiting entrepreneurs from operating in the formal sector economy. The current state of the formal sector economy is that there not only is a lack of access to resources, there is also a lack of resources in the formal sector economy which further restrict the entry of informal sector economy entrepreneurs into the formal sector economy. An expert therefore raised the critical question of whether there is any merit in formalizing the informal sector economy when resources are already limited. The ‘resources’ referred to were natural resources, market and infrastructure. Secondly the expert added that institutions in South Africa are weak. Peñalosa & Turnovsky, (2005) stated that emerging market economies are characterised by weak tax administration and implementation causing considerable obstacles in adopting new taxation systems designed specifically for the informal sector economy and concluded that it was a matter of capacity. The expert added that although crime and tax evasion are examples of high level activities operating within the informal sector economy, the informal sector economy continues to be only associated with poverty. It is not only

poor people who engage in crime and therefore it is wrong to assume that the informal sector economy is only reserved for 'poor people.' The informal sector economy will continue to exist especially if institutions remain weak. It is therefore not feasible to regulate the informal sector economy or to incorporate the informal sector economy into the formal sector economy unless appropriate and fool proof infrastructures have been implemented.

A majority of the experts argued that formalization of the informal sector economy will not create jobs opposing findings by Chen (2007) who stated that structured and formalization of the informal sector economy could potentially play a critical role in the job creation of the economy.

Most experts identified the ideal solution as not to eliminate the informal sector economy all together by introducing formal structures; rather to provide channels of linking the informal sector economy to the formal sector as stipulated earlier. The transition into formal sector economy enterprises can be facilitated through incentives making the transition from the informal sector economy to the formal sector economy more attractive. Daniel (2004) suggested that the introduction of institutions to lessen rigidities between the formal sector and informal sector economies which encourage both sectors to leverage off each other's synergies. Makaria (1997) argued that the vibrancy and richness offered by the informal sector economy cannot be combined with the rules and regulations existing in the formal sector economy. Makaria (1997) supports a recommendation from one of the experts interviewed which was that the registration of an informal enterprise is merely paper work and legal compliance this is the simple definition of formalization and is not conducive to the structure of the informal sector economy. The entrepreneurs operating in the informal sector economy require support from the government and the private sector to function effectively and sustainably. This support could arise from an informal sector friendly regulation policy implemented by the government

6.2.4. The role of the government in the Informal Sector Economy.

The experts all agreed that the government plays a significant role in managing the informal sector economy however they are currently faced with structural challenges in the informal sector economy. Instead of imposing formalization policies to informal sector economy enterprises, the government should play a role that regulates the relationships between the formal and the informal sector economy especially because it has been established that links between the informal sector and formal sector economies do exist (Chen, 2007). An expert recommended that there should be procurement, sub-contracting initiatives resembling those of Black Economic Empowerment (BEE) type initiatives to create the necessary linkages between the small and the big regulated by supporting institutions Chapter two introduced the New Growth Path as government's solution to unemployment, inequality and poverty (van Aardt et al., 2011). Antonites (2007) stated that government has established special trading markets in Johannesburg CBD with new markets outside Johannesburg currently in development.

Government's role also includes the regulation of the market structures in the formal sector economy. The current oligopoly structures which dominate the formal sector economy are not only extremely powerful, they also set the rules and regulations which dictate the terms and conditions to the informal sector economies. These rules and regulations benefit the oligopolies at the expense of the informal sector economy enterprises and because the informal sector economy entrepreneurs have very little bargaining power and are unable to challenge and contest these terms and conditions. They therefore require the government to assist them. Furthermore the rules of the market determine the demand and supply hence the price and quantities of the good or service that the informal sector transactions adhere to (Daniels 2004). These market rules and regulations are determined for the formal sector economy and are not customised to accommodate the informal sector economy. This market failure requires government's urgent attention.

The last recommendation made by the experts was for the government to assist the informal sector economy by creating a market for the informal sector economy. The informal sector economy currently competes with a more powerful formal sector economy for market share. By creating a market for the informal sector economy the government indirectly and subsequently creates a market for the formal sector economy. The leverage arises as the informal sector entrepreneurs currently source their goods from private sector retailers operating in the formal sector economy and sell them in the informal sector economy. The informal sector economy becomes a strategic distribution channel for formal sector enterprises resulting in a 'win-win' situation for both sectors.

6.2.5. Role of political segregation in creating an Informal Sector Economy.

The experts unanimously agreed that the informal sector economy in South Africa is the economic consequence of colonization and political segregation. The informal sector economy increased exponentially when the majority of the population was excluded from formal sector opportunity reserving the countries abundant resources and assets for the minority of the population. The majority were also denied education opportunities which meant that they were ill prepared to effectively and efficiently operate in the formal sector economy. They then resorted to the informal sector economy.

The experts recommended an equal investment in economic reintegration as is being spent of political and social reintegration. This means increasing capacity and efficiency in the Department of Education which must spill over to government funded schools. Students must not be without textbooks. Furthermore, regulations must be enforced on public and private enterprises to provide bursaries, internships and employment opportunities for the previously disadvantaged population. The government is in a position to implement policies and to give non-financial support especially with regards to promoting education as a priority.

6.2.8. How the Informal Sector Economy should be administered.

There were multiple and conflicting views on how the informal sector economy should be administered. One expert was of the opinion that entrepreneurs not only survive, they thrive from informal sector economy activity primarily because it is informal and as a result they have learnt the dynamics of operating in the informal sector economy. Farrell (2004) stated that it was the informal structure of this economy that made it attractive. If the economic environment of the informal sector economy is changed without changing the social (*educational*) dynamics of the economy entrepreneurs will be displaced. Therefore the informal sector economy should not be eliminated in its entirety by imposing formal structures.

Van der Sluis, & Van Praag (2008), stated that entrepreneurs are not affected by levels of formal education however there is a positive correlation between entrepreneurship performance and levels of education and therefore entrepreneurs should therefore invest in education to equip them in running successful enterprises. To encourage a movement from the informal sector economy to the formal sector economy is government must invest in the education of informal sector economy entrepreneurs. One of the findings in phase two revealed that in 2010 government sponsored all informal sector economy entrepreneurs operating in Randburg taxi rank to study towards a 'Computer and Business Management' certificate at the University of Witwatersrand however this will be elaborated on later in phase two.

The experts also agreed that focus should be placed on how to cultivate the potential of the informal sector economy enterprises, nurture them thus enabling them to participate meaningfully in the economy. Meaningful participation into the economy goes beyond mere compliance to legal processes. Meaningful participation could be achieved through access to finance, ease of business registration, tax exemptions and other approaches to make the formal sector attractive.

The National Youth Development Agency (NYDA) has implemented numerous programmes to assist entrepreneur's operating in the informal sector economy transition into the formal sector economy. One such programme is 'The Micro-

Financing Programme' which consists of loans between R1 000 and R100 000 granted to informal sector economy entrepreneurs. These loans are to be repaid and work similarly to the loans from a formal sector economy financing institution. The expert emphasized that the advantages of granting loans are that they hone accountability and also offer practices and disciplines required by formal sector economy financial institutions; however repayment of these loans is low. The low repayment stems from the fact that debtors feel entitled to the loans as this capital is generated from tax which is ultimately paid by 'them'. Another challenge identified by the expert was that 80% of the black population in South Africa are black listed and are therefore non fundable, the predicament of the NYDA is that should they refuse to fund the non-fundable majority then there would be no relevance of the NYDA, therefore every case has to be assessed individually. The NYDA's target group is young entrepreneurs aged between 14 and 35 years, however these ages do not agree with the findings in phase two of this research which were that there were no entrepreneurs under the age of 20.

Basu et al (2004) stated that MFI's, defined as financial institutions established for the benefit of small enterprises, the informal sector, the poor, and households who have been barred access to formal sector establishments, were established in countries to meet the increasing demands of the informal sector economy. These benefits include savings, credit and insurance to the poor especially to women who normally do not have easy access to formal financial institutions (Sanyang & Huang, 2008).

Alternatively, other approaches recommended by the experts for administering the informal sector economy are through a process of 'mild regulation'. Mild regulation is a process assisting the enterprises in the informal sector economy to recognize the benefits of formalization. 'Mild regulation' is a concept of self-regulation occurring should and when the informal sector economy organizes itself within and under the conditions of its environment, outside the formal regulatory systems. This concept of self-regulation could be monitored and supported by the government and the private sector to stimulate economic activity. Another viewpoint by an expert involved

conducting an assessment and exploration of how other countries have successfully regulated of the informal sector economy.

The South African government realizes that typically if an informal sector enterprise remains in the informal sector economy, its growth will be prohibited and the business will eventually reach a stage of stagnancy. (Acs and Virgill, 2010) defend this statement as they stated that in many cases enterprises in the informal sector jobs are not a sustainable wealth creators. The government also realizes that supporting the informal sector economy indirectly influences sustainability and expansion. The domino effect begins with government support (*financial and {non-financial such as policies and regulation}*) which encourages sustainability and sustainability encourages expansion. One expert also argued that as the economy improves the informal sector decreases and therefore by supporting the informal sector economy the government is indirectly eradicating it. These informal sector participants if supported will eventually graduate to the formal sector creating a bigger pool of revenue for the government that the government can use to support the existing informal sector. It is important to define regulation and not to confuse regulation with registration. The government can still regulate without being registered and one cannot regulate without providing facilities. The government needs to provide infrastructure.

Although government has a responsibility to support the informal sector economy, they do not accept that it is their responsibility to create employment; rather their responsibility is to create environments that are conducive to job creation. If government forces formalization it will result in a dismal failure.

6.2.9. Labor conditions.

Because informal sector economy entrepreneurs have no ‘formal’ labor representation they have very little bargaining power and are forced to accept terrible, challenging and unfair conditions to operate in. Despite the challenges that labor conditions in the informal sector present for both entrepreneurs and government one expert argued that before the rights of workers are attended to, conducive economic conditions and environments must be established for them to operate in must be prioritized. And one of government’s greatest challenges is the juggling of competing priorities. Once the best approach to include the informal sector economy participants in the main stream economy has been assumed of and implemented, conditions that govern labor conditions in the informal sector will be formulated and implemented.

This expert argued that organized unions are for employees, informal sector economy entrepreneurs are business owners therefore a union would not be appropriate for them. To increase the bargaining power of informal sector entrepreneurs they themselves should organize themselves through the formation of associations and forums.

An expert argued that the dynamic nature of the informal sector economy means that there is a high turnover and a low lifespan and therefore is not conducive to a permanent structure such as an organized union. The vibrant and unstable nature of the informal sector economy will not respond well to structure and 'order'. The informal sector economy must therefore be appreciated for its core dynamism. The views of the experts resembled the 'distortionist' perspective of labour regulation (Betcherman & Ogawa, 2001). The distortionist perspective emphasizes the benefit of market processes and is concerned that institutional forms of regulation obstruct adjustments to economic shocks and discourage hiring for cost saving advantages. Informal sector economy enterprises are labor intensive and formal sector economy enterprises are capital intensive therefore when small businesses thrive there is economic growth. Informal sector economy enterprises cannot depend on formal sector economy enterprise to create jobs as their (formal sector enterprises) productivity is largely derived from technology and capital.

6.2.10. What the experts would ask the entrepreneurs operating in Informal Sector Economy.

6.2.10.1. "As an entrepreneur that operates in the informal sector economy for a living, what can the government do to encourage entrepreneurs in the informal sector economy to migrate from the informal sector economy into the formal sector economy?"

6.2.10.2. "Informal sector entrepreneurs lack discipline which is surprising for persons operating in a sector where their income is not consistent and operate in it to survive. Within that paradigm why does the informal sector economy not adhere to the business practice of treating their businesses as a separate legal entity and drawing a salary instead of consuming their entire profits? The expert added; "The entrepreneurs in the informal have very good ideas and that they are working towards making them a

reality. Discipline will enable them (*informal sector entrepreneur entrepreneurs*) to build sustainable enterprises and not survivalist hand to mouth enterprises”.

6.2.10.3. “South Africans possess a culture of handouts yet they are not receiving monetary assistance from the government. What appropriate and meaningful support do informal sector economy entrepreneurs need, what obstacles are they facing? Government needs to engage with these entrepreneurs in order to create a meaningful support package.” Instead of focusing on formalizing the informal sector economy an inquiry leading to a better knowledge and understanding of the living conditions and the difficulties experienced in both the formal sector economy and the informal sector economy should be made (Frota, 2007).

Phase one presented a high level discussion of the results from Chapter five. The results combined with the literature produced rich strategic solutions of how the informal sector economy should be managed. The experts introduced a third potential research question which was to create a hybrid of formalization of the informal sector economy and leaving it in its current state. This hybrid would be to create formal trading environments where they can benefit from the infrastructure; regulation and social protection however do not lose their dynamic structure and versatility. These structures are similar to the SEZ's that were introduced in chapter two.

In the findings of the research in phase one and in phase two there were results that agreed with the literature in chapter two and there were results that did not agree with findings from chapter two. There were also new findings. A discussion of the findings from phase two will be deliberated.

Research responses from phase two.

Table A presents the different locations that the interviews were conducted.

<i>Geographic location</i>	<i>Number of respondents</i>	<i>Percentage %</i>
Randburg	7	13.8
Johannesburg Central Business District Pritchard street	10	19.6
Pretoria CBD	10	19.6
Brits	10	19.6
Diepsloot	4	7.8
Soweto	10	19.6
Total	51	100%

The objective of conducting interviews on multiple locations was to get an inclusive and consolidated view of the operating in the informal sector economy. Krueger (2006) stated that the location of enterprises contribute to their competitiveness. The findings of this research agree with Krueger (2006) as many informal sector economy street vendors stressed the importance of location in business. Interviewing on multiple locations also revealed the importance of location in entrepreneurship activity.

When asked why he operated in Diepsloot a 35 year old Indian male entrepreneur responded “Location, location, location is important. The average and uneducated Joe wishes he operated in Johannesburg Central Business District (CBD), however operating in the CBD comes at a premium. Yes there is heavier pedestrian traffic and the entrepreneur is guaranteed more customers however the rent in double if not triple the prices we pay here in Diepsloot. This finding agreed with (Rolfe, Woodward, Ligthelm and Guimaraes, 2010), that the preferred location (*urban areas*) charges premiums of 50% non-preferred locations (*rural areas*) because there is a higher per capita income and demand density in developed urban areas. The entrepreneurs continued the beauty is in the maths. My expected income may be marginally lower than it would have been if I was operating in Johannesburg, however my expenses are exponentially lower”.

This research identified location as critical for the informal sector economy entrepreneur as their businesses rely heavily on physical transactions, this because they do not have the appropriate infrastructure to support electronic transactions. Furthermore, their businesses are not specialized and are therefore easy to duplicate and there is no loyalty to one specific entrepreneur as there are many entrepreneurs doing the same thing.

Table B presents the numbers of the two genders interviewed.

	<i>Total</i>	<i>Percentage</i>
Male	39	76.5
Female	12	23.5
Total	51	100%

There is a disproportionate number of the numbers of male and females interviewed because the researcher experienced that female entrepreneurs were reluctant to be interviewed forming a significant research limitation for the researcher. Khan & Sinha (2008) stated that within China, India, Brazil, and South Africa (CIBS) there is an positive relationship between the informal sector economy and the large share of females operating in it because of a lack of equity policies by the governments of respective the countries. This research however through mere observation on all locations where interviews were conducted witnessed that there were more males operating in the informal sector economy than females

The researcher observed linkages between the different genders and the retail activity that they engaged in respectively. Female informal sector entrepreneurs were restricted to food retail, clothing retail and home-ware retail, male informal sector entrepreneurs were more diversified in their activity.

One average there was no disparities between the different genders and reason for entry into the informal sector economy; they entered the informal sector for the same reasons which will be analyzed in detail.

A 41 year old male, black entrepreneur justified his entry into the informal sector economy by stating; “I was retrenched and I lost my job, with my job I lost my dignity because I was unable to provide for my family. With this business I have regained my dignity and even more because this business is mine. I am making less money than I was making in my previous job but this business belongs to me, I built it with my own hands and now I am not dependent on anyone but me for my daily bread”

A 54 year old black female entrepreneur justified her entry into the informal sector economy by stating; “I live for my family and I have to provide for them, I experienced a financial drought. For a while nature was against me and my survival but I was forced to go against nature and find a way to survive. This is my means to survive. My family depends on it”

Table C presents the ratio between South African and non-South African entrepreneurs operating in the Informal Sector Economy.

	<i>Total</i>	<i>Percentage %</i>
South African	31	61.8
Non South African	20	38.2
Total	51	100%

The objective of separating South African’s and non-Africans was to get a perspective of the number of non-South African informal sector economy entrepreneurs were operating in South Africa. Schneider F, Enste D (2000) stated that immigrants have a direct relationship with the size of the informal sector economy. The larger the number of immigrants in a country, the larger the size of the informal sector economy in that country.

When asked why he was operating in the informal sector economy in South Africa a 31 year old male Kenyan entrepreneur responded; “I was displaced from my country during the 2002 political uprising, there was no opportunity in Kenya and the only

opportunity was to starve to death and many people chose that option. I chose to live but I could not live at home, so I came to South Africa” He also added; “Although I would love to go home, I appreciate the strong rand. The economic value of one rand far exceeds that of its Kenyan counterpart one shilling and it gives me and my family (who is in Kenya) a higher purchasing power. When I send three hundred rand home my family is comfortable, it is better than three hundred shillings”

When questioned about his success as an informal sector economy entrepreneur operating in South Africa he responded; “The advantage of being an immigrant in South Africa is that the tourist (*this gentleman ran his enterprise in Hartebeespoort which has a significant tourist penetration*) appreciates what is different and the art that I sell is from Kenya and it is different so I am more successful than the South African entrepreneur because he is boring and the tourists have seen what he has to offer. When the new BMW comes out the people will buy the new BMW because it is exciting and different. They no longer care about the old BMW, I am the new BMW, and he (*the South African entrepreneur*) is the old BMW. People love Kenyan art and I am running a business fuelled by people’s passion. I am proud of making money to send back home. It gives me dignity”

This research agrees with the notion that immigrant entrepreneurship introduces innovation, competitiveness and a positive output in terms of total factor productivity into a market (Losby, Else & Kingslow 2002). Unlike the South African population, immigrants do not have expectations from the government and are willing to put in extra effort to survive.

Table D presents the ages of the entrepreneurs interviewed.

<i>Age in years</i>	<i>Number of respondents</i>	<i>Percentage %</i>
0 < 20	0	0
20 < 30	18	35.3
30 < 40	18	35.3
40 < 50	7	13.7
50 < 60	5	9.8
60 < 70	3	5.9
Total	51	100%

The objective of this table was to capture the age that was most prevalent with informal sector economy activity. (Marcouiller, de Castilla and Woodruff, 1995) stated that the young and the old were more likely to engage in informal sector activity leaving the prime aged to work in the formal sector economy. This research observed that the majority of the sample ages were within the prime ages and 70.6% informal sector economy entrepreneurs were between the ages of 20 years old and 40 years old. The researcher observed that there were no respondents under the age of 20 years old.

When asked about her outlook on operating in the informal sector economy a 23 year old, black, South African female entrepreneur stated; “What is a black diamond, I thought I knew because I thought that I was a black diamond. I am young, black and educated but diamonds do not sit on the side of the road in these conditions selling Russians (pork sausages) to make a living. I went to school and I passed, I went to university and I finished my degree the government has failed in providing me with a job. This research agrees with the notion that the urban informal sector is dominated by individuals in the 20 years old to 40 years old age range (Bikales, Khurelbaatar & Schelzig, 2000).

Table E presents the races in which the Informal Sector Economy entrepreneurs fell into.

<i>Race</i>	<i>Number of responses</i>	<i>Percentage %</i>
Black:	49	94.1
White:	0	0
Colored:	0	0
Asian: (Indian)	3	5.9
Other:	0	0
Total	51	100%

The objective of this table was to disclose the races that entrepreneurs operating in the informal sector economy fell into. There were limitations that may have had an impact on the findings of this research. A considerable amount of informal sector activity happens in the townships. Out of the six locations the sample was extracted from, two were black townships. The researcher did not conduct research in Colored or Indian townships therefore having an effect on the findings. However the researcher did derive a significant portion of the sample from four metropolitan trading areas and the findings were that a majority of the traders were black by race.

When a 27 year old male, black entrepreneur was asked on whether he was surprised at the racial composition of the entrepreneurs operating in the informal sector he responded; “The only time I have ever seen a white man is in an expensive car or on the television shaking hands with a rich black man trying to convince everybody that he (the white man) is really distributing his wealth to benefit the entire black population” Apartheid really established the white man as the custodian of wealth in South Africa. Even though the government is trying to reverse the effects of apartheid on the black population the money is being shared by those people who were at the right place at the right time, so yes there are a few black people who are being made rich by BEE policies but it is a minority of the majority. So yes I am not surprised that many people operating in the informal sector economy here in Diepsloot are black.” The research agrees with the economic implications of political segregation that was discussed in phase one of the findings. When the majority of the black population was socially and politically sidelined during apartheid the economic consequences were an

enlarged informal sector economy. Eighteen years following democracy the economic effects of the segregation is still proving to be a challenging gap to condense.

Table F presents the level of education of Informal Sector Economy entrepreneurs.

<i>Level of education</i>	<i>Number of respondents</i>	<i>Percentage %</i>
No Schooling	0	0
Primary School	10	19.6
High School	28	54.9
College	3	5.9
University	9	17.6
Other	1	2
Total	51	100%

The objective of this table was to disclose the level of education of the entrepreneurs operating in the informal sector economy.

74.5 % of the sample has no tertiary education and without specialist skills required by the formal sector economy the demand for the low skill level entrepreneurship that exists in the informal sector economy will remain high. This research agrees with the findings from (Quinn & Rubb, 2006) who stated that there was a positive relationship between an individual's education and their employment, earnings, wages, and the economic growth of a country. In addition Quinn & Rubb (2006) assert that the level of education of an individual will affect their occupation because certain specialised jobs require certain levels of tertiary education. One such example in South Africa is that despite the high unemployment levels, there is still a massive shortage of doctors (Wildschut, 2010). There is an insufficient amount of individuals studying this specialized skill resulting in a shortage of doctors. The research agrees that the fact that 74.5% of the sampled population are without tertiary education supports the notion that there will therefore be a big demand in low level informal sector economy entrepreneurship that does not require specialized skills that can only be acquired through education.

A 47 year old South African black male entrepreneur operating in Randburg stated that “Education justifies the premiums in salaries. The hardest and most uncomfortable jobs are reserved for persons with no education. A lack of education just means that you get exploited.” The 25.5% entrepreneurs who had either attended and not completed or attended and completed their tertiary education comprise of entrepreneurs who were unable to find jobs therefore supporting the notion that the government does not have sufficient capacity to facilitate redistribution and one such example is job creation for the majority of the population (Nattrass & Seekings, 2001).

In addition, if the entrepreneurs in the informal sector economy are all without formal tertiary and specialized education, with specialized skills that only tertiary education can provide, it is not possible for this sector economy to grow, progress and prosper.

Table G presents the entrepreneurs desire to complete their education.

<i>Desire to ‘complete’ your education</i>	<i>Number of Responses</i>	<i>Percentage %</i>
Yes	40	78.4
No	11	21.6
Total	51	100%

The objectives of this table were to show the number of informal sector economy entrepreneurs who had a desire to complete their education. Although many entrepreneurs felt that they had not completed their education journey, they were not prepared to go back to school.

Table H presents the length of time the Informal Sector Economy enterprises have been in operation.

<i>Length of time in years</i>	<i>Number of responses</i>	<i>Percentage %</i>
0 < 1	16	31.4
1 < 5	16	31.4
5 < 10	3	5.8
10 < 15	8	15.7
15 < 20	6	11.8
20 <	2	3.9
Total	51	100%

The objectives of this table were to present the length (in years) of operation of informal sector economy enterprises.

Ligthelm (2005) estimated a 40 % survival rate for informal sector enterprises to last over five years. A 62.5% majority of the enterprises sampled were younger than five years and 31.4% were younger than one year. However 31.4% of informal sector economy enterprises have been in existence for more than ten years and the research does not agree with (Simons & Lake, 2006) who stated that enterprises in the informal sector economy are temporary structures. Instead the findings are more in line with findings from (Rolfe et al., 2010) which found that 39% informal sector economy enterprises were in business for at least five years.

When asked whether she thought that her two week old business would be successful a 23 year old female entrepreneur responded; “I don’t know. I have located myself in a busy area and I have no competition. We sell Russians just outside Shoprite in Diepsloot and people buy pap from Shoprite and Russians from us because we sell Russians cheaper than Shoprite does. Some of our customers buy chips from KFC and Russians from us. Because our product compliments the products sold at the mall (Diepsloot Mall) and that they are sold at a cheaper price I do expect my business to be around for a very long time” these findings contradict the findings by (Rolfe et al., 2010) who stated that informal sector economy enterprises located near shopping centres or malls have lower income and sales. The findings of this research argue that

the entrepreneur was leveraging off the synergies offered by enterprise in the formal sector economy (Daniels, 2004). Although the 23 year old entrepreneur held a Bachelor in Commerce qualification because she was still unable to find employment expected to establish herself in the informal sector economy. She stated “I expect to be around for a very long time.”

Table I presents the number of entrepreneurs who were operating their first enterprises and those who had attempted previous enterprises that had failed.

	<i>Total</i>	<i>Percentage %</i>
Yes	26	51
No	25	49
Total	51	100%

The objectives of this table were to disclose the number of entrepreneurs who were in their first attempt of business or whether they had attempted a business before.

The ratio between first businesses and more than first businesses was almost equal. However the high percentage of the number of entrepreneurs who had established ventures that had failed is evident of the importance for government to create an economic policy that creates economically viable enterprises which do not require government subsidies (Rolfe et al., 2010). This statement is agreement with the general concession from the experts in phase one of the importance for government to create environments that are conducive towards the growth and prosperity of enterprises operating in the informal sector economy. The researcher did not observe a pattern between the ages of the entrepreneurs and their number of attempts at establishing enterprises.

Table J presents the weekly turnover of the Informal Sector Economy entrepreneurs.

<i>Weekly turnover</i>	<i>Number of respondents</i>	<i>Percentage %</i>
R0 < R100	0	0
R100 < R500	7	13.7
R500 < R1 000	7	13.7
R1 000 < R2 000	16	31.4
R2 000 <	3	5.9
Don't know	13	25.5
Fluctuates	5	9.8
Total	51	100

The objectives of this table were to illustrate the turnover generated by the informal sector economy entrepreneurs.

58.8% of the entrepreneurs generated a weekly turnover in terms of revenue and not profit of less than two thousand rand a week. These findings agree with (Rolfe et al., 2010) that in South Africa, the median income for informal retail micro-enterprise falls below the minimum wage. 25.5% of the sample did not know their weekly turnover.

Table K presents the number of entrepreneurs who reinvested into their enterprises.

<i>Reinvest</i>	<i>Number of respondents</i>	<i>Percentage %</i>
Yes	16	31.4
No	35	68.6
Total	51	100%

The objective of this table was to give an indication of the number of entrepreneurs who re-invested in their enterprises.

The researcher observed that initially 85 % of the entrepreneurs interpreted re-investing as purchasing trading stock. Only eight (15%) entrepreneurs understood that by re-investment the researcher meant the investing of current profits as additional capital; into the business to facilitate expansion. Although the researcher clarified the

difference between purchasing stock and re-investing many entrepreneurs still argued that purchasing stock was considered re-investing into the business. Their argument was that based on the premise that they could take the money generated from business activity and re-invest it in something else such as another enterprise, a stokvel or a lottery ticket. They argued that they were not obliged to re-invest into the business, instead they chose to re-invest in the business.

The findings of this research are in agreement with (Rolfe et al., 2010) that although most informal sector economy enterprises are established for survival other entrepreneurs enter into the informal sector economy to generate a “sustainable livelihood” (p. 1). (Pedro & Erwan, 2006) also made this distinction. The entrepreneurs who reinvest into their enterprises are those who wish to generate a sustainable livelihood and the entrepreneurs who do not re-invest into their enterprise are purely living hand to mouth and engage in the informal sector economy for survivalist reasons.

Table L presents the initial method of finance chosen by the entrepreneurs start their enterprises.

<i>Method of initial finance</i>	<i>Number of respondents</i>	<i>Percentage %</i>
Savings	34	66.6
Friends and Family	14	27.5
Loan	1	2
Other	2	3.9
Total	51	100%

The objective of this table was to illustrate the preferred method of finance chosen by the entrepreneurs to fund their enterprises.

The findings show that 94.1 % entrepreneurs would not even consider a loan from any financing institution. All 94.1% respondents “feared” the bank. One 47 year old black

South African male entrepreneur stated; “There are many species of sharks in the world, the one I fear the most is the loan shark. I have been shackled to the restraints of budgeting however experienced more freedom than a debtor imprisoned in the intestines of a bank”

In phase one an expert stated that 80 of the black population was black listed and therefore not fundable which could possibly explain why only 2% of the sample population funded their enterprise using a loan. The findings of this research therefore agree that informal sector economy enterprises have no access to financial resources and that when they experience low income levels an inability to re-investment in working (*operational*) capital may threaten their sustainability and ability to survive (Atieno, 2001). This lack of access to finance could be a result of their status as black listed or because structures and institutions that are tailored towards their needs do not exist (Tsai, 2004).

Table M presents the amount of capital used to start a business.

<i>Amount of money for start-up</i>	<i>Number of respondents</i>	<i>Percentage %</i>
R0 < R100	4	7.8
R100 < R500	10	19.6
R500 < R1000	8	15.7
R1 000 < R2 000	7	13.7
R2 000 <	22	43.1
Total	51	100%

The objective of this table was to give an indication of the amount of money spent to start an enterprise in the informal sector economy.

27% of capital was spent to start the enterprises was between two thousand rand and three thousand five hundred rand. There were 15.7% of the 43.1% who invested more than two thousand rand who invested significant amounts of capital into their enterprises. One of the entrepreneurs was a 35 year old Indian male who invested one hundred and thirty thousand rand. He bought an existing informal sector economy

enterprise. The other was also a male Indian entrepreneur who had invested two hundred thousand rand into his business. They both invested the money from savings. This finding was consistent with (Rolfe et al., 2010) Who stated that the best chance to informal sector economy entrepreneurial success seems to be locations in urban areas, with male ownership as males predominantly acquire greater start-up capital.

This research also concluded that the explanation behind 96% start-up capital in the informal sector economy falling below ten thousand rand was because capital generated in the informal sector economy was predominantly generated from savings. One 64 year old male entrepreneur had been saving R500 a month for eight years so he could generate R60 000 to build a shop in his home town in the North West province. He still has two years of savings before he accumulates his desired amount. In total it will have taken him ten years to generate R60 000 as opposed to an entrepreneur operating in the formal sector economy who could have acquired that capital in '10 minutes' through a loan in a financial institution. This is evidence of the massive inefficiency gap existing in the informal sector economy.

Table N presents the number of entrepreneurs who paid for rent and storage.

	<i>Rent</i>	<i>Storage</i>	<i>Percentage %</i>
Yes	23	23	45.1
No	28	28	54.9
Total	51	51	100%

The objective of this table was to disclose the number of entrepreneurs who paid for rent and storage.

The equal number of entrepreneurs responding 'yes' to both rent and storage and 'no' was a pure coincidence There was no link between the entrepreneurs who paid rent and those who paid storage. Some entrepreneurs pay rent without paying storage and other entrepreneurs paid storage without paying rent. Some entrepreneurs paid for both rent and storage and some enterprises paid for none. This table illustrates the linkages between the formal sector economy and the informal sector economy and supports the literature by (Davies et al., 2009) stating that a considerable amount of

enterprises in the informal sector economy have either production or distribution relationships with formal enterprises in terms of supply, whether it is through products (*finished goods*) or services (*transactions or sub-contracting*).

Table O presents the amount of money (in rands) spent on paying rent and storage.

	<i>Rent</i>	<i>Percentage %</i>	<i>Storage</i>	<i>Percentage %</i>
R0.00	25	49	23	45.1
R1 < R100	10	19.6	7	13.7
R100 < R500	3	5.9	12	23.5
R500 < R1 000	5	9.8	9	17.7
R1 000 <	8	15.7	0	0
Total	51	100%	51	100

The objectives of this table were to disclose the amounts of money spent in rent and storage.

One entrepreneur in the 'R1 000 <' category paid ten thousand rand in rent because he was at a prime location. This finding was in agreement with findings from (Rolfe et al., 2010) that spaces located in urban areas can charge premiums of over 50% stemming from the "higher per capita income and demand density in developed urban areas" (p. 18).

Table P presents the number of Informal Sector Economy entrepreneurs with bank accounts.

<i>Bank Account</i>	<i>Number of Respondents</i>	<i>Percentage %</i>
Yes	30	58.8
No	21	41.2
Total	51	100%

The objectives of this table were to give an indication of the entrepreneurs with bank accounts.

Out of the 41.2% of entrepreneurs who did not have bank accounts 76.2% were foreign immigrants in South Africa who were unable to open bank accounts because they were in South Africa illegally.

The remaining 13.8% had a fear of banking institutions.

One 27 year old black, South African, male entrepreneur stated; “I am afraid of the bank. I have heard stories of people depositing five hundred rand but they only have access to four hundred and fifty rand and when they try and take out sixty rand the bank takes two/ three rand in bank charges. I work hard for this money and I will not share it with the bank”

Table Q presents the number of entrepreneurs who purchase their stock directly from the Formal Sector Economy and those who manufacture their own stock.

	<i>Number of respondents</i>	<i>Percentage %</i>
Pre Purchase (Private Sector)	47	92.2
Manufacture Home Made	4	7.8
Total	51	100%

The objective of this table was to reveal the number of entrepreneurs who relied on the formal sector economy for their business and those who ‘did not’. These findings correlate with earlier findings of the linkages that exist within the formal sector and the informal sector economy (Valodia, 2008). These findings from the research agree with (Daniels, 2004) that both sector economies must continue to leverage off each other. Furthermore in phase one an expert stated that by supporting the informal sector economy the government is indirectly supporting the formal sector economy. Furthermore these findings agree with the expert from phase one in the fact that the informal sector economy serves as an important distribution channel of formal sector goods and services to markets that they are unable to access, i.e. (grass-root markets).

Table R presents the number of entrepreneurs who were in favour of the formalization of their enterprises.

<i>Formalization</i>	<i>Number of respondents</i>	<i>Percentage %</i>
Yes	38	74.5
No	13	25.5
Total	51	100%

The objective of this table was to disclose the number of entrepreneurs who were pro formalization.

The findings reveal that 74.5% informal sector economy had a desire to formalize their enterprises. One 54 year old black, non-South African, female entrepreneur in the ‘yes’ category shared that; “Many of us (*informal sector entrepreneurs*) wish to formalise their informal enterprises however we don’t know how to do it. Some consultants from the Department of Trade and Industry (DTi) come and distribute pamphlets which explain the registration process however we cannot read and cannot understand what these pamphlets are saying. What we need is a consultant who will sit with us and explain the registration process” She also added; “We also wish to benefit from the advantages of formalization, yes we will have to pay tax but we receive social protection from the police, have the options of receiving loans from the banks and an environment conducive to favourable business conditions.”

The findings from Table R illustrate the literature from Tanzi (2005) who emphasized the need for government intervention through regulation as a means of stimulating and endorsing social objectives, such as the protection of people, private and public property, and economic objectives such as the production of goods and services in the informal sector economy.

Table S presents the reasons entrepreneurs operate in the Informal Sector Economy.

<i>Why are they in the informal sector economy</i>	<i>Number of responses</i>	<i>Percentage %</i>
Survival	46	90.2
Business Opportunity	5	9.8
Total	51	100

The objective of this table was to account for the reasons entrepreneurs were operating in the informal sector economy.

31.4% entrepreneurs in the 'survival' category held jobs in the formal sector economy however their basic wage was insufficient for basic survival. Another 39.4% entrepreneurs in the 'survival' category had formerly been retrenched from the formal sector economy. The remaining 29.2% in the 'survival' category were unsuccessful in finding employment in the formal sector economy. These findings agree with the literature provided by Pedro & Erwan, (2006) which was that the first group of entrepreneurs who trade in the informal sector economy because of necessity and an inability to find employment in the formal sector economy. The inability of these entrepreneurs to find employment in the formal sector economy justifies the viewpoint that government does not have the capacity to create jobs. Professor Adrian Saville (2012) stated that in South Africa, the government has not created a single job since 1985.

One 27 year old black, South African, male entrepreneur stated "The disadvantage about operating in the informal sector economy is that you (*entrepreneurs*) are forced to offer services at really low rates for two reasons. Firstly, you (*entrepreneurs*) are serving a very cost sensitive market and secondly your (*entrepreneurs*) business has been successfully duplicated by another entrepreneur one hundred meters from your (*entrepreneurs*) doorstep forcing you to become competitive and due to the structure

of the informal sector economy we (*entrepreneurs*) can only compete on price because our market does not care about quality, they care about which entrepreneur will save them even if it is fifty cents” One 23 year old black South African female entrepreneur stated “In the informal sector economy a monopoly cannot exist, if someone comes up with a clever concept your business model will be duplicated no China man (*Chinese entrepreneur*) needed. Any sane and logical person only operates in this economy because he has no other options of generating an income”. The respondent concluded.

A further 9.8% of the entrepreneurs operating in the informal sector economy do so because they see a business opportunity in it. One respondent had full time employment in the formal sector economy working at Transnet, however he saw an opportunity of generating additional income through the formal sector economy. He operated an internet café in Randburg Taxi rank. This entrepreneur fell in the second group of entrepreneurs identified by (Williams & Nadin, 2010). These entrepreneurs enter the informal sector economy to avoid the legal implications associated with operating in the formal sector economy. They enjoy the autonomy, flexibility and freedom offered by the informal sector economy (Williams & Nadin 2010).

Table T gives an indication of the number of entrepreneurs who would abandon their Informal Sector Economy activity if a job opportunity in the formal sector economy arose.

<i>Job opportunity arises</i>	<i>Number of respondents</i>	<i>Percentage %</i>
Give up Informal Sector Economy	10	19.6%
Stay in the Informal Sector Economy	41	80.4%
Total	51	100 %

The objectives of this table were to give an indication of the number of entrepreneurs who would abandon the informal sector economy given the opportunity to work in the formal sector economy. Perdo & Erwan (2010) identified the entrepreneurs who would

be more than to likely abandon their informal sector activity in favour for formal employment a entrepreneurs who entered the informal sector economy for survivalist reasons.

Out of the 80.4 % entrepreneurs in the 'Stay in the informal sector' 70.6% chose this category because although they would personally leave their informal sector economy enterprise, they would hire someone to keep it operational. The remaining 29.4% saw extensive opportunity operating in the informal sector economy at a personal level and perceived themselves as 'true entrepreneurs'.

One 54 year old black, non-South African, female entrepreneur and a 33 year old black South African male entrepreneur both stated that "I would have to assess the nature and salary of the job opportunity first" The 33 year old entrepreneur elaborated his previous statement; "I have been in the formal sector economy job market and it is not all that glamorous, I am actually earning more in the informal sector economy. The problem however is the conditions that we (*informal sector economy entrepreneurs*) operate in, sometimes I am tempted to leave but then I remember why I left the formal sector economy"

A 35 year old black non-South African female entrepreneur stated that; "For me this (*operating in the informal sector economy*) is temporary, if I can get a job, a real job here (*South Africa*) and back at home (*Mozambique*) I will leave the informal sector economy"

For them engaging in the informal sector is not an option rather it is a necessity and if they had an opportunity for formal employment would more than likely abandon their informal sector activity in favour for formal employment (Pedro & Erwan, 2006).

6.4. Conclusion.

The main research question of: should the informal sector economy be formalized or left as it is in its current state? Is addressed and answered in this chapter. The experts suggested building an environment that is conducive to mild regulation however will not interfere with the dynamic nature of the informal sector economy. The entrepreneurs generally favoured formalization as opposed to leaving the informal sector economy as it is. That finding suggests that in its current state the informal sector economy is unsustainable.

Chapter 7.

Conclusion.

7.1. Introduction.

The previous chapter discussed the findings of the research which supported some of the findings from the literature in chapter two and some findings contradicted some findings of the literature presented in the chapter though. This Chapter will re-introduce the research problem and discuss the background and the objectives of the study. A summary of the main findings will follow with recommendations to the government and all stakeholders involved as to how to manage the informal sector economy phenomenon. The limitations of the study will be highlighted and future recommendations will be derived and discussed. This chapter will end with a conclusion of the study.

7.2. Research background and objectives.

Emerging market economies consist of two economies namely the formal sector economy and the informal sector economy. However when the GDP economy is calculated, this is done on only the formal sector economy, omitting a large portion of the potential contribution to the economy by the informal sector. Globally the informal sector economy accounts for a combined annual GDP of ten trillion US dollars (Neuwirth, 2011). Therefore there is an urgent need to prioritize the informal sector economy because of its importance to the socio-economic stability of the country (Tokman, 2007). The informal sector economy comprises of entrepreneurs who are filling the gaps that the government is unable to fill, by providing means of survival as well as importing distributive channels of formal sector goods and services to markets that are inaccessible to them.

The objectives of this research have introduced three possible solutions. Firstly to formalize the informal sector economy, secondly, to leave the informal sector economy as it is in its current state and thirdly to neither formalize it nor leave it as is, but rather to create an environment that is conducive to both types of the economy where both economies can thrive and not for one to work against the other. Government needs to facilitate methods of increasing the contribution of the informal sector economy into the overall GDP economy, whether it is through full integration or partial integration (Tokman, 2007).

The objective was answered in a two phase approach. The first phase provided a critical understanding of the impact of the informal sector economy and the consequences that it has on the formal sector economy. It also enabled a thorough understanding of the synergies of possibly engaging the informal sector economy with formal sector economy. Lastly, it initiated discussions as to what strategies to pursue to ensure the long term sustainability of the informal sector economy. Phase one also directly developed questions for phase two that were more precise and detailed as opposed to broad. The second phase interviewed entrepreneurs and subsequently captured the findings for the purpose of the research. The information gathered from the literature in chapter two and interviews in both phases in chapters five and six, respectively, have been consolidated to advise the government as to how to manage the informal sector economy.

7.3. Main findings.

7.3.1. Role of government.

The government has an exceedingly important role to play in the regulation of the informal sector economy through. The government has the authority to implement of policies that promote the growth and the progression of this economy. The policies implemented require balance and cannot favour the informal sector economy over the

formal sector economy. The policies must encourage and facilitate a leverage of synergies between the two economies.

The government must recognize that the informal sector economy needs to benefit from the social protection that regulation promotes however bearing in mind that it is not possible for the informal sector economy to adhere to the same stringent policies existing in the formal sector economy. One of the experts introduced a new concept of 'mild regulation', defining it as a process of assisting the enterprises in the informal sector economy to recognize the benefits of formalization. Through self-regulation the informal sector economy organizes itself within and under the conditions of its environment, outside the formal regulatory systems. This concept of self-regulation should be monitored and supported by the government and the private sector in order to stimulate and optimize economic activity.

A consistent theme throughout the entire research has been the creation of conducive economic environments achieved through meaningful participation in the 'GDP economy'. Meaningful participation extends beyond mere compliance to legal processes. It is achieved through access to finance, ease of business registration, tax exemptions and to other approaches that will make the formal sector attractive. Meaningful participation can also be achieved by cascading the informal sector economy into three different levels: "immature, premature and mature" depending on the enterprises ability to withstand the regulatory environment of the formal sector. Immature enterprises represent the one extreme of enterprises operating in the informal sector economy in that are not adequately prepared to operate in the formal sector. Mature enterprises represent the other extreme, which are equipped to operate in the formal sector economy.

7.3.2. Role of education.

There has been mounting evidence from the literature in chapter two and the findings in chapters five and six respectively that education plays a critical role in the success of conducting an enterprise. In addition, if all of the entrepreneurs in the informal sector

economy are without formal, tertiary education, with specialized skills that only tertiary education institutions can provide, it is not possible for this sector to advance and contribute favourably to the GDP economy. High level modern innovations such as mobile technology, Facebook, Sony, Manufacturing Capacity all required specialized skills provided by education. Without these high level skills, the informal sector economy will remain 'that economy' that is only reserved for low level skilled individuals without the capacity to advance to an innovative high level, productive, efficient and performance based economy. This research agrees with the findings from (Quinn & Rubb, 2006) who stated that there was a positive relationship between an individual's education and the economic growth of a country.

7.3.3. Interconnected nature of the Informal Sector Economy.

The most valuable insight acquired about the interconnected nature of the informal sector economy is that the informal sector economy acts as an important and strategic distribution channel for the formal sector economy. The formal sector economy opens up the market for the formal sector economy by distributing products and services produced in the formal sector economy into grassroots markets previously inaccessible to the formal sector economy. The interconnected structure of the formal sector and informal sector economy validates the fact that they cannot be viewed in isolation as two distinct economies for two prevalent reasons. Firstly, the previous justification and secondly, supply chain linkages including the fees paid by informal sector economy entrepreneurs as rental for trading on public property (Chen, 2007).

7.3.4. Role of access to finance.

The findings of this research illustrated that, most informal sector economy entrepreneurs only generate sufficient revenue for survival therefore assuming that there is insufficient funding to re-invest into the enterprise and potentially to expand. Atieno (2001) in the literature findings in chapter two argued that the conditions in the informal sector economy, at times, do not allow entrepreneurs to generate sufficient

revenue to fund their working capital. Ligthelm (2005) predicted that only 40% of informal sector economy enterprises make it over five years because of the restrictions arising from a lack of access to finance. It is a universal theory that applies even in the formal sector economy that the greatest reason why businesses fail is because of cash flow shortages (Watson, Hogarth-Scott and Wilson, 1995).

7.3.5. Role of historical political segregation.

The economic implications of political segregation were a developmental insight. The domino/perpetual effects of political segregation through the denial of education make it all the more challenging to reverse the effects of political segregation. Without, adequate education the previously disadvantaged is ill equipped to efficiently manage the countries resources and they will continue to be side lined and marginalized into the low level economy.

7.4. Recommendations.

7.4.1. Recommendations to the government.

Government, (*through the Department of Trade and Industry and the Department of Economic Development*) must continue to invest heavily in initiatives such as the New Growth Path (van Aardt et al., 2011) and formal trading environments (Antonites, 2007) in an attempt to integrate the informal sector economy into the GDP economy. The government should not impose the stringent regulations ,stipulated in the literature in chapter two, to the informal sector economy through a process of direct formalization. The government should not leave the informal sector economy in its current state either as the informal sector economy is stagnating in its current environment. The government needs to introduce a framework of policies where informal sector economy entrepreneurs benefit from social protection (*Life insurance, pension plans*) offered in the formal sector economy. Government must also invest in facilitating the establishment of institutions to provide finance to this sector economy

using different forms of collateral. The government is advised to use the model of the Grameen Bank in Bangladesh. The Department of Education has an important role to play however this role will be discussed in 7.4.2.

Government must also introduce the concept of mild regulation that was discussed earlier, procurement policies similar BEE policies towards the private enterprises in the formal sector economy to encourage engagement with the informal sector economy. Government must construct an all-inclusive policy that is so dynamic and flexible that it also represents the interests of the formal sector economy. The policy must focus on leveraging off the synergies of the two economies.

Lastly the government must introduce regulations that eliminate the exploitative behaviour of cartels as they have a detrimental effect on the prosperity of informal sector economy enterprises.

7.4.2. Recommendations to the entrepreneurs in the Informal Sector Economy.

The entrepreneurs in the informal sector economy must organize themselves into forums and associations to increase their bargaining power. They must then use this bargaining power to negotiate with government (Department of Education) on potentially increasing their education levels, skills and proficiency. The Department of Education received 22% of the national (2010-2011) budget a total amount of R165 billion (<http://www.info.gov.za/aboutsa/education>, 2012).

The South African government has established Sectoral Education and Training Authority institutions which provide skills and training development at no cost. Entrepreneurs must use these channels provided by government and take an active interest in enhancing their education levels and training. SETA.

Entrepreneurs must also use their bargaining power to negotiate for an access to finance. They must also acquire a discipline of adhering to formal sector economy

business practices whilst in the informal sector economy. This will enhance their accountability.

7.4.3. Recommendations to private enterprises in the Formal Sector Economy.

Private enterprises in the formal sector economy are advised to co-operate with government's policies of integrating the informal sector economy into the GDP economy. Furthermore they must and use their expertise to advise the government on how to create effective and efficient policies that would be benefit for both them and the informal sector economy. The private sector should also and engage with the informal sector economy in acknowledgement that their product is gaining access to previously inaccessible markets. Private enterprises have a greater bargaining power as well as access to resources, they are encouraged to share their resources with the informal sector economy and avoid exploitative behaviour therefore work towards leveraging off the synergies established between them and the informal sector economy.

Furthermore, all private companies are obliged to contribute a percentage of their profits to corporate social investments (CSI). Instead of investing in non-productive, unsustainable and dependent charities that simply consume the funds without any productive output, private sector enterprises should invest in the informal sector economy to boost their productivity, output, growth and competitiveness. This investment constitutes a form of redistribution of economic resources however achieved through CSI as opposed to additional tax burdens as an attempt to redistribute resources and to finance the development of the informal sector economy. Private companies should prioritize contributing to informal sector enterprises especially those who distribute their products. By supporting them they would be indirectly marketing themselves and creating a brand awareness and perception within a previously untapped market.

7.5. Research limitations.

The limitations of pursuing an exploratory study using qualitative research methods are that because the researcher becomes a part of the research it is difficult for the researcher to remain objective. They therefore place themselves at a risk of being subjective. Qualitative research also prefers a small sample in an attempt to preserve the richness in description and to preserve the quality of the information. This method therefore harvests a higher internal validity however the external validity may be limited.

The research made use of a judgement sample and the likelihood of the sample of being representative is low as the choice of respondents is determined by the researcher. The research also made use of cluster sampling, however due to geographic constraints the sample chosen was not representative of the entire South African population. The research consisted of no respondents from rural areas and therefore the findings generated in chapter five (*from the urban respondents*) cannot be generalized to suit the needs of entrepreneurs operating in the rural informal sector economy as their needs may differ. Furthermore the research was only conducted in two provinces in South Africa, Gauteng and the North West Province respectively. In South Africa *for example*; Durban has a large population of 'Indian' informal sector economy entrepreneurs and Cape Town has a large population of 'Coloured' informal sector economy entrepreneurs. Because the findings in chapter five identified that at times cultural and racial backgrounds played a significant role in why entrepreneurs operated in the informal sector economy, the research potentially lost out on unique and interesting findings by not interviewing those respondents.

Further limitations included an unwillingness of respondents to answer certain questions, language barriers and time constraints. In qualitative research the

researcher needs time to understand, comprehend and to gain an insight on what was being observed, however the long the interview affects the quality of answers given.

7.6. Implications for future research.

The limitations of this research created an opportunity to enhance the research process for further research on this topic. Future research on this topic must be conducted using a larger sample size, with particular focus on the rural informal sector economy where a large scale of this activity takes place. By doing this, the future research will achieve a sample that is more representative of the entire population in South Africa. . Furthermore similar and unique studies should be conducted in all countries with a large informal sector economy especially in Africa.

To increase the objectivity in the future research, it is suggested that is at least two researchers with the same objectives conduct the study and analyse it using their two different and unique perceptions.

Towards the end of the research, the researcher realised that there is potential for private sector operating in the formal sector economy to play a significant role in the sustainability of the informal sector economy and to possibly integrate of the informal sector economy into the GDP economy of South Africa. The future research should engage with the private sector economy to define their role in how to create sustainable informal sector enterprises and how they can potentially contribute into the GDP of South Africa.

Future research should focus on building a model identifying the role of the public sector, the private sector and the informal sector economy entrepreneur in sustaining the future of enterprises operating in the informal sector economy. This model can start off from the recommendations stipulated in 7.4.3 of this research.

7.7. Concluding remarks.

The Formalization of the Informal Sector economy, Panacea or Chimera?, No it is not panacea; as the informal sector economy in its current state is not in a position to adhere to the same registration and regulation policies endured by the private sector economy. The structure of the informal sector economy is too dynamic to operate under such stringent regulations. Neither is it chimera; as the informal sector economy in its current state is unproductive and uncompetitive and needs an economic makeover. The entrepreneurs in the informal sector economy remain under the poverty line; there are too many socio economic problems with the current state of the informal sector economy. The government needs to implement an all-inclusive policy which benefits the formal sector and informal sector economy respectively enabling them to both make an optimal contribution towards the output and GDP of the country.

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Appendices.

Appendix 1: Unstructured interview with experts. (Please see below)

Appendix 2: Semi-structured interview with Informal Sector Economy entrepreneurs.
(Please see below)



Interview questions prepared as a research requirement for the purpose of my MBA

Formalization of the Informal Sector Panacea or Chimera?

- 1.) Why Should we/ Should we not formalize the Informal sector?
- 2.) Do you as an expert in the SMME enabling environment believe in a careful formalization of certain informal structures, do you believe that there will always be an informal sector economy?
- 3.) Nothing functions effectively without regulation. However the entire purpose of the informal sector (Therefore with regulation there would be no informal sector) Is there perhaps a more diluted maybe form of regulation in the informal sector economy please comment
- 4.) Talking about regulation and just to introduce this from a historical perspective, the informal sector economy is also called the peripheral or the marginalized economy. This is because of apartheid as you are aware that the formal sector economy was only reserved for whites forcing the black people to enter into the informal sector economy for survival. With a clear mandate from the government to transition into a smooth democracy, do you now think this also means to include this informal sector into the main stream the same way black people are now included from a political and socio-economic perspective?
- 5.) To make the informal sector economy more inclusive and more democratic is there an organization such as a 'trade union' that represents the laborers of the informal sector economy. If there is no union, should there be one?
- 6.) If you had a question for a retail trader in the informal sector economy, let's assume that there is something that you wish to know that you currently do not know, what would it be?



**GORDON
INSTITUTE
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SCIENCE**



**Questionnaire prepared as a research requirement for the
purpose of my MBA**

DEMOGRAPHIC INFORMATION:

(Please Tick)

South African	<input type="checkbox"/>
Non South African	<input type="checkbox"/>

1.) Gender:

Male	<input type="checkbox"/>
Female	<input type="checkbox"/>

2.) What is your age?

3.) Which of these languages do you prefer to speak? (Please Tick)

isiZulu	<input type="checkbox"/>
isiXhosa	<input type="checkbox"/>
Afrikaans	<input type="checkbox"/>
Sepedi	<input type="checkbox"/>
Setswana	<input type="checkbox"/>
English	<input type="checkbox"/>
Sesotho	<input type="checkbox"/>
Xitsonga	<input type="checkbox"/>
Siswati	<input type="checkbox"/>
Tshivenda	<input type="checkbox"/>
isiNdebele	<input type="checkbox"/>

4.) What is your race?

Black	
White	
Coloured	
Asian	
Other	
If other please specify:	

5.) When did you leave school? (Highest education qualification)

No Schooling:	
Primary School: (Please Specify grade/ standard you left)	
High School: (Please Specify grade/ standard you left)	
College:	
University:	
Other: (Please specify)	

6.) Is this your first business?

Yes	
No	

6.1 If it is not your first business, what other businesses have you owned?

7.) How long have you BEEN in this business?

8.) Do you own the business

Yes	
No: What is your position in the business	

9.) If it is not your 1st business why did you leave your 1st business?

10.) How long did you stay at your 1st business?

11.) Which industry in the informal sector do you fall under?

12.) How many people work in this business?

13.) How much money did you spend to start the business?

14.) Where did you get the money from?

15.) How do you spend the money that you make everyday?

16.) How much do you spend to put back in the business?

17.) How much money do you make a week / weekly turnover?

18.) How much rent do you pay to sell here?

19.) Do you have a storage facility?

Yes	
No	

19.1 If you answered yes how much do you pay?

19.2 If you answered no how do you get your goods to the market place every day?

20.) Did you ever go to a bank or any other credit / loan facility to ask for capital?

Yes	
No	

20.1 Did they agree to give you a loan?

Yes	
No	

20.2 If not what were their reasons for not giving you the loan?

21.) Do you have a bank account?

Yes: (Which Bank)	
No	

22.) Where do you get your supply from?

23.) Do you want to go back to school?

Yes	
No	

23.1 Please support your answer?

24.) Do you believe that people who started their own businesses need to be trained and educated?

Yes: Why?	
No: Why?	

25.) Would you Consider formalizing your business?

Yes	
No	

25.1 Please support your answer
