

CHAPTER TWO

THE INFORMAL SECTOR IN SOUTH AFRICA

2.1 INTRODUCTION

The informal economy in South Africa differs in important ways from that in other African countries and elsewhere in the world. In South Africa, manufacturing and services comprise the smaller portion of overall activities, and trade in fresh produce and manufactured goods (such as clothing and cosmetics) comprise the larger portion. A high proportion of South African traders deal with goods not produced by themselves. Seven out of 10 (in Durban) who sold food or other products were selling fruit and vegetables and meat or poultry, Lund and Skinner (1988).

2.2 THE EXTENT OF THE INFORMAL SECTOR IN SOUTH AFRICA

The informal sector of South Africa is a growing source of employment. Approximately 1,7 million people work in this sector, of whom 1,3 million work for their own account. Africans generally, and African women in particular, are the dominant group in this sector. Eight in every ten females (82%) in the informal sector are in elementary informal occupations such as street vending, domestic work and scavenging (Central Statistical Services, 1995).

Fourteen percent of all economically active people in the Eastern Cape work in the informal sector compared to the national situation, where 29% work in this sector. Among all those in the sector in Eastern Cape, 71% are workers for their own account, and 29% are employees.

The involvement of workers in the informal sector varies by province. Figure 2.2 indicates the proportion of workers, and who are found in the informal sector. It indicates that the Eastern Cape has the second largest percentage of workers (23%) involved in informal sector, after the Northern province (25%). The national figure is 17% (Hirschowitz and Orkin, 1996). The same authors found that, informal sector workers in the Eastern Cape tend to cluster into certain economic sectors (Figure 2.3). For example, about 73% of female own account workers in the informal sector are found in the personal services sector while 18% are found in trade, catering and accommodation. Relatively few males and females (6%) are in small-scale informal manufacturing.

The concentration of informal sector workers into certain distinct economic sectors is also a national feature: in South Africa as a whole, more than three-quarters of female own account workers (77%) are found in personal services, while 40% of males are found in the trade, catering and accommodation sector (Figure 2.3). Relatively few males (8%) and females (5%) are in small-scale manufacturing.

According to Rudman (1990), the informal sector in South Africa has a first and third world element and includes white home industries, consisting of about 300 000 families. Studies undertaken in various parts of the country show that street traders account for 40-50 percent of all the business transacted in the informal sector (Rudman 1990).

Figure 2.2: Workers for own account in the informal sector by economic sector and gender in South Africa. (Source: October household survey, 1995)

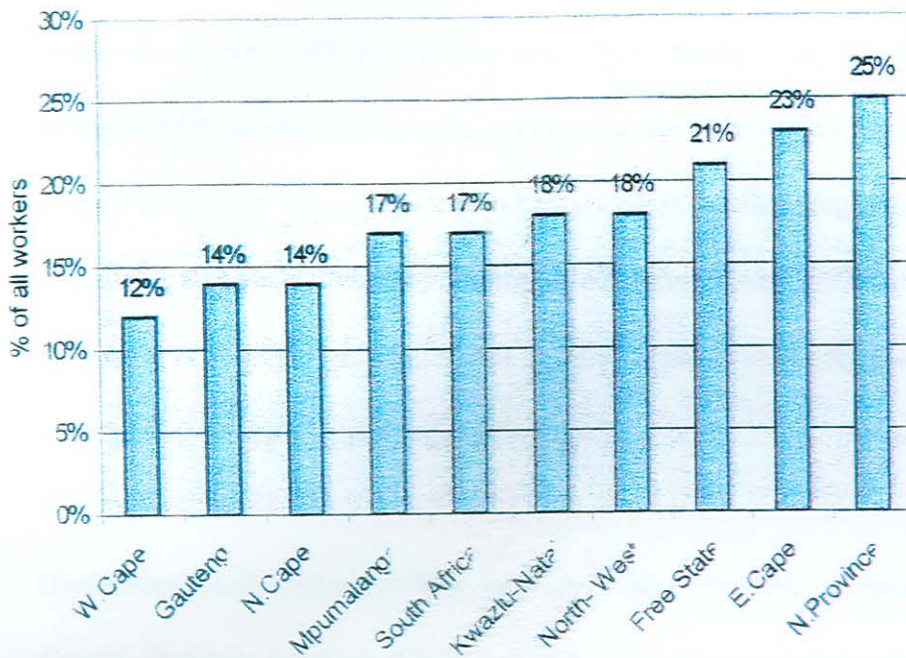


Figure 2.1: Workers involved in the informal sector as a percentage of total number of workers in each province (Source: October household survey, 1995)

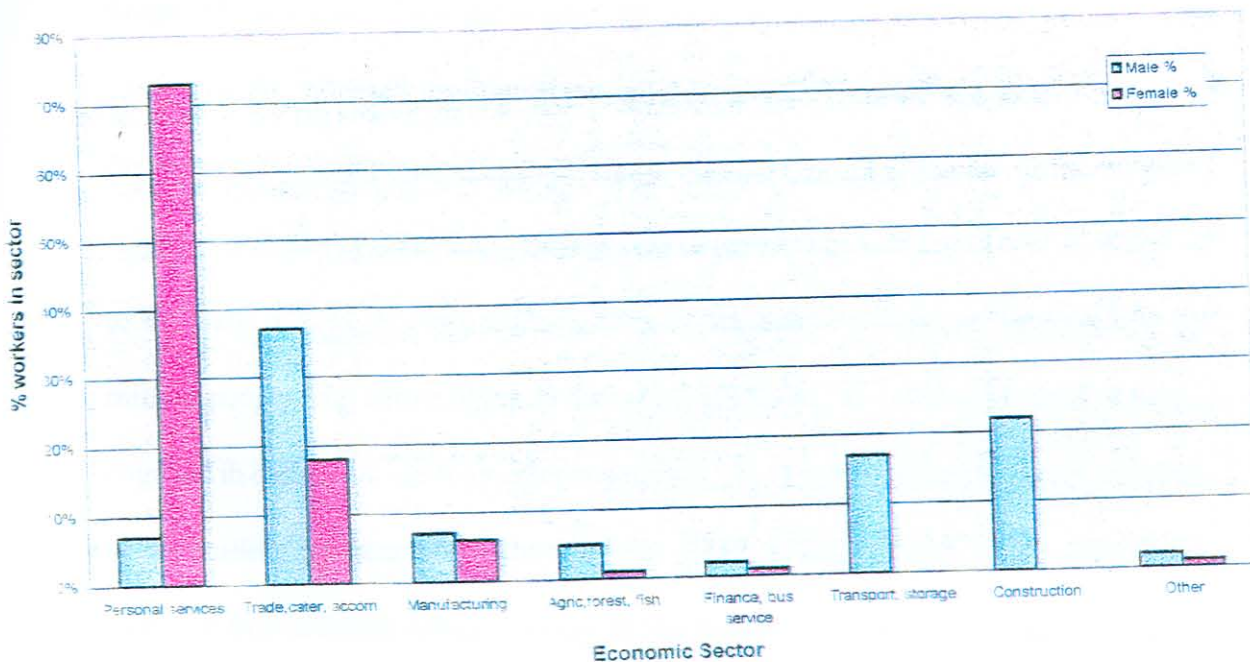


Figure 2.2: Workers for own account in the informal sector by economic sector and gender in South Africa (Source: October household survey, 1995)

A calculation of the market value or sales that informal traders constitute in urban areas indicates a figure of R9, 84 billion a year. The economy of the black urban community of South Africa is one of the largest economic systems in Africa ,behind Nigeria, Egypt, Algeria and Libya. This means that informal traders handle a staggering 33 percent of the disposable income of all blacks employed in the formal sector. The same author is of the opinion that, this fast growing sector is the area that is going to give the formal sector most growth in real terms. (Rudman 1990)

Hartzenberg and Leiman (1990) show data from the first comprehensive survey of Central Statistics Services (CSS) indicating that, unrecorded economic activity in the former South Africa alone amounted to R 16 billion in 1989, or 8% of Gross Domestic Product (GDP). Coetzee (1990) estimates that the contribution of the informal sector to South Africa's gross domestic product varies between 3 to 25 percent. Silber (1993) using figures released by the Economic Research Unit of the Small Business Development Corporation (SBDC) states that the informal sector accounts for a staggering 75,7% of all business enterprises in South Africa today. The total contribution to the GDP is 17%, or close to R 45-billion. This figure is based on an estimated 3,5 million people who earn a living in the informal sector. The number of South Africans engaged in ethical but unrecorded economic activity is expected to rise from 3,5 million to 7,5 million by year 2005, the informal sector is here to stay. Silber (1993) also indicates that in South Africa the very strong formal sector and a informal sector, are trying to meet.

Morrell (1990) stipulates that hawking has traditionally been a livelihood practiced by people at the lower end of social scale. In the late 19th and early 20th centuries hawking existed in the Eastern Cape. East European immigrants, proletarianized Afrikaners and Indian laborers dominated hawking. Hawkers who had greater resources were able to use the trade as the first step to economic fortune, while others lived a hand to mouth existence.

With the development of the South African economy, access to capital increasingly became a prerequisite for accumulation. Changes of upward economic mobility via hawking declined. At the same time Africans, hitherto self-sufficient on the land, began to move to cities and turned to hawking. Up until the Second World War (1939) whites dominated hawking in Umtata, but thereafter they appear to have faded out. At the same time African hawking began to increase as pressure on peasantry rose.

2.3 CHARACTERISTICS, IMPORTANCE AND ECONOMIC IMPACT OF THE INFORMAL SECTOR

2.3.1. The relevance and the role of hawkers in the marketing chain

The stages of marketing as summed up by Rhodes (1979) are production, assembly, processing, wholesaling, retailing and consumption. Hawkers form the vital link between wholesaling and consumption through retailing. Kohls and Uhl (1985) state that marketing to the hawker is a process of gaining competitive advantage over market rivals, improving sales profits and satisfying consumers.

Bartering had the problem of exchange of value and therefore needed a universally acceptable medium of exchange. This led to complexities in the marketing process. For example, a gap between potential participants was created in space, time, knowledge, ownership and value. The gap indicated that marketing activities were needed to bridge the gap between participants in the marketing process (Marx and Van Der Walt, 1989).

In the environment of the hawker are big retailers ever ready to sink these small traders, yet they get their fair share of the market of agricultural products. This is partly due as stipulated by Karaan and Myburgh (1992) to the fast developing urban townships, the mushrooming of urban informal settlements and the demand for agricultural products in this market, i.e. the accelerated congestion of an ever increasing population around major cities. These people form the bulk of the hawker's customers and create the ability for hawkers to fit into the marketing scene.

In the stages of marketing the hawker is the last link to the user, and in the distribution sector the hawker retails in small and convenient quantities to the customer. The word "retail" comes from the French word "re-tailer" meaning to cut into smaller parts. This definition is valid and aptly describes the hawker. The hawker is involved in direct selling which embodies the essence of free enterprise and allows one to run one's distribution business, make as much money as wished, without the difficulties and bureaucracy associated with formal business (Clarke, 1996).

These sellers are described by various terms, such as: hawkers (Who either moves from place to place or remains at a point selling goods - (in this exercise fruit and vegetables) vendors, petty traders, micro entrepreneurs, traders or peddlers. They obtain a batch of produce either on credit or with their own money and offer it to passers-by until cleared (Abbot, 1987). They collect in bulk and redistribute in individual customer lots, (Rodger, 1974). They collect goods in different places and in the least expensive manner and are therefore able to supply their customers at cheaper rates, they promote convenience to everyone and reduce the cost of merchandising to the lowest limit, (McCulloch, 1989). In order for agricultural products to have value, they need to be distributed to places where they are needed and used at the right time in the right quantities. The hawker plays an immense role in this regard by organising sales and distribution and exposing goods for sale, (Rodger, 1974).

According to (Hansen, 1967) they are of importance to the seasonal grower or those seeking to reach small and scattered markets since they know such markets better than the produce and secure distribution quickly. Summed up, they give place utility to products.

Rhodes (1974) notes that they are managers of substantial shelf and floor space in which thousands of items are available for sale. They are buyers for consumers and not sales agents for producers because they try to buy what their customers want to buy. According to Kohls and Uhls, 1985 they buy products for resale directly to the ultimate consumer, they are the producers' and personal representatives to the consumer, perform a complex job and are the most numerous of the marketing agencies.

They are also the wholesaler's principal partners in the marketing process and place products before individuals for acceptance or rejection. They are the gatekeepers and channel captains of the food industry because of their size, power and strategic position. Their activities represent the final stages of food marketing with activities like dispersion, the addition of possession utility to food products, and the facilitation of consumers' choice of desired food product assortment.

It can be deduced from the foregoing that they are of valuable service to the customer who can't afford to buy in bulk because their goods are in small affordable units to meet the pockets or purchasing power of the non-affluent. They link the farmer or wholesaler on one hand and the user on the other in the distributive sector of marketing.

2.3.2. Economic importance of the informal sector

Anderson (1987) quoting Bairoch (1976) states that the problem of intense urban migration and the government's inability to cope has led to urban unemployment. The towns are seen as melting pots where tribalism yields to nationalism, where industrious men and women can develop themselves regardless of their family background. Where unemployment is rife, crime and prostitution are often the means of survival. But the informal sector frequently offers an alternative solution by occupying people productively through hawking (i.e. produce a distribution services). Their products are often adequate in price and quality to cater for the needs of the poor. Anderson (1987) recognises the impact of this sector on the economy through the following reasons:

- (a) Where there is a high unemployment and shortages of capital, capital is used productively and labour intensive employment created.
- (b) The unemployed youth is given a fair chance to learn a trade within the value system of their culture.
- (c) To cater for the basic needs of the poor, the production units are close to the market and familiar with the needs of the market.
- (d) Industrious entrepreneurs with sufficient schooling may channel their ambitions and have a chance to succeed.
- (e) Self-reliance - training which respects traditional values and prepares the young for self-employment, produce goods and services that satisfy the basic needs of the population and reliance on local resources.
- (f) To millions of people in centres all over the world, the informal sector offers the only legal way of making a living and surviving.

The informal sector is the economic seedbed where entrepreneurship is fostered and new ideas tried out. The sector's activities contribute to an endogenous and self reliant development, provides training for the young who respect traditional values and offers the best preparation for self employment (Anderson, 1987).

The bulk of traders in the distributive sectors of fruits and vegetables in the province means their dependants and many others indirectly derive their economic survival from this sector.

Nihan and Jourdain (1978), who state that informal incomes provide livelihood for thousands of people, confirm this. It must be recognised that it does not only act as an invaluable shock absorber smoothing out the jars and jolts of the development process but also plays a role of great intrinsic importance for all those who have deliberately chosen to work in it.

Anderson (1987) observes that the sector fulfils most objectives of development. These include economic growth, through high capacity - capital ratio, which positively affects the saving rate of the economy to allow formal funds to be used in the formal sector. Non-economic resources and capabilities are fostered, entrepreneurship, innovation and creative ideas are provided. The sector provides chances and channels for everyone to succeed irrespective of background and qualification and distribution of wealth. The workforce is remunerated enough for a reasonable standard of living. The sector provides about 20 - 70 % of all employment offered in urban economies of developing countries.

According to Fraser (1991) they help to meet the demands of an increasing urban population where their activities are mostly concentrated. This is so because according to Abbot (1962) as economies become more developed and urbanised, they call for an efficient marketing system. Mellor (1966) stipulates that three developmental changes bring to the fore the importance of marketing.

Commercialisation allows marketing of larger produce and rising incomes to create corresponding increased demand. Rising incomes also increase demand for marketing services, which have higher income elasticities than the farm produce itself with the resultant effect of marketing charges being larger than the portion of total consumer expenditures for agricultural products.

The marketing systems play a vital role in agricultural development, (Heyer,1976). Studies by Fraser (1991) reveal that with improved productivity and more specialisation in the field of primary production, a demand for services provided by the marketing system is created, therefore it is important for the two to develop simultaneously. Arnon (1981) argues that the shortage of marketable surplus impedes development of an efficient marketing system.

Anthony *et al* (1979) are of the opinion that production of marketing surplus and concomitant specialisation in crops are a reality if there is a willing buyer of the extra input. Abbot (1962) states that urbanization will lead to consumers demanding services which producers can't meet resulting in specialised marketing enterprises looking for avenues for profitable ventures. This results in an immense contribution to the advancement of the living conditions of producers and consumers (Fletcher, 1965). Fraser (1991) states that incomes derived from sale of marketable surplus help to meet the needs of these small entrepreneurs.

These needs as recognised by Smith (1978) include improved diet, payment of school fees, buying clothing and other consumer goods. Increased incomes have a multiplier effect, (Cracknell 1985) and may boost demand for inputs, services and create job avenues especially around villages, they also curtail the rural exodus to cities for non-existent jobs, broaden the tax base and contribute to general social and economic equity.

The role of these hawkers becomes more enhanced because, according to Fraser (1991), the residents in the large and small areas of the former Ciskei (an integral part of the Eastern Cape) are almost entirely dependent on purchased foodstuffs. Their impact would continue to be felt, as urban population would increase in excess of 3/5 (60 %) with a consequent increase in demand for produce by year 2000 as estimated in the Swart Report (1983) as in (Table 2.1).

TABLE 2.1: Population distribution (Ciskei) for 1984 and projected figures for the year 2000

| Year | Urban | Rural | Total |
|------------|---------|---------|-----------|
| 1984 | 381 944 | 530 217 | 912 161 |
| Percentage | 4,9% | 58,1% | 100% |
| 2000 | 711 000 | 427 000 | 1 138 000 |
| Percentage | 62,5% | 37,5% | 100% |

(Source: Directorate of Planning, 1985b Swart 1983)

Bauer and Yamey (1968) state that the activities of traders (including those that deal in fruits and vegetables) and their extension of marketing facilities encourage an increase in production for home consumption and entice an increased number of small scale farmers into the money economy. Bauer and Yamey (1968) also feel they have extended the area of the exchange economy and have provided increasing numbers of people with the opportunities, means and incentives to improve their material well being. Abbot (1984) feels that these private entrepreneurs, if given the chance, are likely to accelerate the pace of development.

A leading newspaper in the region The Daily Dispatch (1995) in an editorial, recognises the following impacts: hawking does not only promote a much-needed spirit of entrepreneurship and healthy competition, it also provides a source of income to many who would otherwise be unemployed in an economically depressed region. Additionally, it offers a variety of alternatives at cheaper prices to cash-strapped consumers and adds a new vibrancy to the atmosphere of a city centre, which has long been in danger of fading away.

The vendors belong to the informal sector, which is a heterogeneous set of productive activities that share the common feature of employing a number of people. These people are unable to find jobs in the modern sector and must generate their own employment with relatively little access to the factors of production that complement labour supply (Mezera, 1981).

This group is made up of the surplus labour forces i.e. those who are not absorbed in the formal labour market and have to find alternative ways to survive and generate income (Placencia, 1985). According to Escobar (1986) they play a key role in the distribution of agricultural products and reproduction of the labour force by generating income for the vendors. This sector also complements the formal sector production and commerce, because they constitute a great network that allows formal distributors to avoid expenditures on infrastructure, transportation, labour and other costs needed for the circulation of commodities. Their activities allow rapid circulation, which indirectly favours faster turnover of capital, thus increasing formal sector profits and accumulation.

2.3.3. General characteristics of hawkers

Hawkers form part of the informal sector, which is generated out of a need to survive, vis-vis the lack of an alternative in the shape of a formal sector job (Placencia, 1994). According to Hugon (undated) statistically they form part of the set of activities that fall outside empirical means of investigations. They consist of producers working without a fixed location, who do not pay licenses or taxes, are excluded from social regulations and or keep no accounts.

Among others, they are more flexible and informal. They are self-employed, combining the roles of worker, manager and owner in a single individual; relations with suppliers, clients and the state are informal or hard to pinpoint. They lack contracts and their hours of operation are flexible. Most combine different activities in one i.e. they sell different farm produce following seasonal changes.

Business tends towards discontinuity, variability and flexibility due to lack of capital. They use time simultaneously for domestic and business needs and do not observe legal conventions. They have lower educational attainments and generally higher illiteracy rates. Some have no fixed location and use of market stalls is rare. Products are domestically produced or acquired through wholesale middlemen. Most of the time they buy on a daily or weekly basis and have a limited scale of operation therefore do not require intensive labour.

Access to credit is limited and they depend on moneylenders, friends, relatives and fellow hawkers as sources of credit or financial bailouts. They are dispersed extensively therefore difficult to mobilise into organisations. They lack entrepreneurial or management skills and follow market principle of convenient location and quick service. They may generally sell for less because they are able to bypass development and promotion expense, Bird *et al* (1981). This creates the problem of free riding or surviving at the expense of the big guns in retailing.

2.4 SUMMARY

The majority of participants in the South African informal sector rely on goods produced by others. About 1.7 million people are engaged in this sector and accounts for 76% of all businesses in South Africa. The sector handles nearly 33% of the disposable income of all Blacks employed in the formal sector.

Hawking in the region has existed since time immemorial. Whites dominated the sector initially in the late 19th century but Blacks form the majority currently. The majority in this sector are distributors of food including fruits and vegetables and very few are in manufacturing. People see the informal sector as a fertile ground and a source of employment in the absence of formal job openings. The Eastern Cape has the second largest number of people working in the informal sector and this trend is on the increase.

The people involved are very modest in their operations. They provide goods in affordable quantities to their clients who cannot buy in bulk. They also occupy a very strategic point in the marketing chain as the link between wholesalers and consumers.

Through their activities, jobs are created and income is earned. These provide livelihoods for several households and contribute to the general economic development, growth and better standards of living. Their activities compliment the formal sector and also serve the need of the poor. Despite their relevance in the marketing chain and their economic impact, they are handicapped in numerous ways, which impede progress and sustainability. The factors that influence business success should be reinforced to enhance the sector.