

**The challenge of formalising the local economy: South African township  
retail industry**

**By**

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## **ABSTRACT**

After more than two decades of democracy, South Africa is still faced with challenges of unemployment, poverty and inequality. The informal sector is one that presents opportunities for making a positive contribution towards solving social problems that South Africa is faced with. While the informal sector is large and offers flexibility in employment, it is associated with low productivity and poor governance as traders in the informal sector are not obliged to register their businesses and therefore cannot make tax contributions. The lack of formalisation of the informal sector not only impacts the government for not being able to account for the sector, but it also creates barriers for those trading in the sector.

The study adopted qualitative research methods to gain insights into describing and exploring the meaning research participants use to construct and interpret their world of reality, such as formalising the informal sector to stimulate economic growth in South African Townships. A total of 15 semi-structured interviews were conducted with business owners in the retail informal sector, managers of big corporates in retail in the formal sector and government employees from various departments who were represented by those in relevant positions such as directors, heads of departments, regional and board members. Interviews were analysed by means of thematic analysis.

The key findings from literature indicated that the informal sector is broad and there is no *one* definition of the informal sector. It was also established that there is a direct relationship that exists between the state and the informal sector, however there is an indirect relationship that exists between the formal and informal sector as further explained in institutional and stakeholder theory. The lack of development in the informal sector can be attributed to the non-existence of policies to guide and regulate the existence of the informal sector. The insights shared from the interviews pointed to the applicability of the proposed model in terms of formalising the informal sector

## **Keyword**

Formalisation, informal sector, formal sector, regulations, economic growth

## **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

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**29 March 2021**

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## **Chapter 1: Problem Identification and Purpose**

### **1.1 Introduction and Description of Problem**

It is remarkable to observe the rate of growth of informal sector activities and more notably in township areas. The formalisation of the informal sector is critical in realising the benefits which it could provide and it is two-fold. Firstly, the government would be able to account for businesses that exist within the informal sector, thus ensuring that a bigger tax contribution is achieved. Secondly traders in the informal sector would have an opportunity to have businesses that are registered, legitimate and recognised by authorities. Furthermore, formalisation of the informal sector would give traders in the informal sector an opportunity to expand their businesses and ensure that they become sustainable in the future. This can be used as an anchor to reduce high levels of poverty in township areas by creating formal employment for people which would allow them to register with the relevant labour department, and achieve critical social support. Policy makers therefore need to consider the prospect of formalising the informal sector as a mechanism to grow the township economy. The benefits of formalisation of the informal sector would reflect positively on the overall economy of the country.

The three spheres of government (local, provincial, national) do not have set policies that address challenges in the informal sector (Fourie, 2018). There is much effort and commitment needed towards implementing policy pronouncements in favour of formalising the informal sector and growing the township economy. The informal sector as compared to the formal sector is not well coordinated. Although there are businesses in the formal sector that continue to thrive without being affiliated to any trade union, the absence of trade unions in the informal sector affect trading of the sector as unions play an active role in representing the interests of their members, and where needs be contribute positively towards policy towards policy development (Fourie, 2018). There is a need to explore practical ways to formalise the informal sector and thus grow the township economy (Rakabe, 2016). The study will strive to describe and explore the impact of formalising the informal sector, by means of conducting interviews with individuals and organisations. The study will be conducted in Seshego, a township outside Polokwane in Limpopo province as a platform to realise the purpose and objectives of the study.



The selection of this study was based on i) factors that make up the economy and present opportunities for growth ii) economies with potential for entrepreneurship development iii) government contribution and commitment to this sector. The informal sector in South Africa makes a significant contribution to the labour force. In the first quarter of 2020, the formal sector (non-agriculture) employed 11 282 million people and the informal sector (non-agriculture) was responsible for the employment of 2 921 million people (StatsSA, 2020). The informal sectors' contribution has remained constant at 16%-18% between the period of 2008 to 2014 (Rogan & Skinner, 2017).

In an attempt to grow and develop the township economy, considerations need to be made to formalise the informal sector. Williams, Horodnic & Windebank (2015) suggests that a considerable amount of people often look at the prospects of being employed in the informal sector or starting a business in that sector as a result of retrenchments, or as additional income to formal work. For this reason, it is important for authorities to assess critical aspects that contribute to the growth in the sector and strategise on practical ways to revitalise the township economy. There is a need to determine if South Africa's current informal sector policies are practical to implement by considering characteristics of the informal sector, and challenges that traders in the informal sector experience in their world of reality (Rogan & Skinner, 2017).

It is often perceived that the formal sector presents better opportunities and higher salaries than the informal sector, based on the view that people will work in the informal sector not out of choice but for survival. However, Jones & Tarp (2015) had an opposing view as they concluded that the type of employer is not as important as the choice of occupational sector. A comparison of satisfaction levels of farmers in the formal and informal sector was established and resulted in both having similar disadvantages irrespective of the sector. There are some isolated cases, where traders in the informal sector have higher returns than those in the formal sector (Jones & Tarp, 2015). The inconsistencies that occur present an opportunity for the informal sector to be formalised. Policy makers therefore play a critical role in shaping different sectors that make up the economy. That being the case, the emphasis is on the commitment by authorities for policy development in the economic sphere that is directed at formalising the informal sector.

The formalisation of the informal sector from a business perspective means that all the firms in the informal sector that have not been registered as businesses, would now need to do so. As a result of this registration, these businesses would be obliged to pay tax. The government would therefore collect revenue from the taxes paid, placing them in a position to increase public spending and providing better service delivery. This could also lead to more jobs being created. Informal businesses that have been registered and are in possession of all other relevant compliance documents would now be legitimised. This would allow them better access to opportunities in terms of being able to qualify for funding from formal institutions and therefore be able to qualify for both financial and non-financial support from various government institutions. Firms would also be able to expand their businesses and possibly employ more people thus decreasing the rate of unemployment. As businesses would now be legitimised, they can affiliate to various associations that would protect their interests. GDP and the crime rate are both important measures of success or failure of the country. When there is a high rate of unemployment, the crime rate increases, and it decreases with greater levels of employment (Andresen, 2015). To this end, unemployment is a factor that can be positively addressed by the formalisation of the informal sector.

## **1.2 Purpose of Research**

The purpose of this research is to establish the insights of traders in the informal sector and understand what meanings they associate with and attribute to the definition of the informal sector. This is also to establish factors that hinder formalisation and the impact that formalisation would have on the formal sector from authorities in government, as they are responsible for policy development and implementation. This will be achieved by identifying the main challenges that hinder the growth and development of entrepreneurs in the township, who are categorised as informal traders. The study will focus on the retail sector in the township, as the retail sector has been identified as the largest contributing sector to the township (Charman, 2017).

The aim of this study is to determine the overall impact that formalisation of the informal sector will have on formal and informal traders, government and the development of policies. This research also aims to gain knowledge and understanding of policies that exist in the informal sector. In addition to that, the

research aims to establish new insights into contributing factors to policy making, the role that government plays in policy development and implementation, and the extent to which policies are being implemented. The research aims to: (i) Explore and describe meanings that informal sector traders associate with the definitions of the informal sector, and the challenges traders face in formalising their retail businesses. (ii) Establish the relationship that exist between the state, formal and informal institutions and (iii) Understand the effects that policies have on the growth and development of the formal and informal sector.

### **1.3 Research Problem**

The formalisation of the informal sector by the government needs to evaluate the impact that this process will have on all parties involved. This will be analysed from an informal sector, government and policy perspective. A study conducted by Assenova & Sorenson (2017) indicated that, while some of the informal traders did not register their businesses due to cost, others also indicated the cost as a factor though they acknowledge that they are not informed as to how much it actually costs to register a company. The other factor that makes informal traders reluctant to register companies is the tax that is associated with being registered. In this regard, formal institutions need to ensure that those operating under informal institutions have access to the correct information.

In terms of work performance, traders in the formal sector outperform their counterparts in the informal sector. This is attributed to growth, experience and opportunities that are accessible to traders in the formal sector. The process of formalising the informal sector would see great tax revenue from government and also ensure that traders in the informal sector have access to opportunities. In terms of policies, policies need to act as catalysts for change. It is through policies that regulations can be enforced (Assenova & Sorenson, 2017). Considering all the informal sector policies that the government has to date, there is still a missing gap in how the policies should be implemented. Drawing on the insights of institutional theory and as means of formalising the informal sector, the government needs to develop policies that will serve as a guideline for firms that offer incubators programmes for informal traders. These policies need to encourage the registration of businesses so as to ensure compliance and move towards formalising the informal sector (Ogunsade & Obembe, 2016). This is encouraged by institutional theory.

## **Chapter 2: Literature Review**

### **2.1 Introduction**

The informal sector in South Africa is rapidly growing due to the sector having low barriers to entry resulting from unregistered businesses, businesses established in residential areas, businesses being close to market, cost benefits and other noticeable factors that enhance the trading of businesses in the informal sector, more specifically those operating in a township setting (Mukwarami, 2017). Due to these low barriers to entry, people have been able to start-up businesses in the informal sector. These businesses have subsequently contributed positively to the creation of jobs and the social cohesion of those residing in rural and township areas in South Africa. Given the magnitude and rapid growth of the informal sector, government has raised concerns about the regulation of businesses within the informal sector (Etim, 2020), which has led to challenges in formalising this sector. The bureaucracies associated with the formalisation of the informal sector contribute to some of the factors that encourage resistance of traders in the informal sector to formalise their businesses. Reducing these bureaucracies could possibly increase the odds of traders in the informal sector of formalising their businesses. In his State of the Province address in 2020, the Premier of Gauteng, David Makhura, pronounced that his government will prioritise the growth and development of the informal sector, particularly in townships as part of the inclusive economy (State of the Province Address, 2020). This political statement signifies commitment by the government and provides insight into considerations of the state with regards to prospects of formalising the informal sector and growing the township economy.

The existence of the informal sector is a reality acknowledged by studies Sambo (2018), Meyer, Meyer & Molefe (2016) and Mukwarami, (2017) and it is commonly associated with a well-known phenomenon in developing countries and in particular in townships in South Africa. The informal sector is characterised by two main components that signify mainly, (i) employees that work in establishments that employ fewer than five people and income tax is not deducted from their salaries or wages; and ii) employer accounting for own workers and people working in household businesses who are not registered for either income tax or value-added tax (StatsSA, 2020). A brief summary of the characteristics of the type of trading that

exists in the informal sector is listed below, based on the enterprise activities, credit, operating site and employment.

**Table 1**

***Characteristics of the informal sector (Etim,2020)***

<b>Category</b>	<b>Description</b>
<b>Enterprise Activities</b>	Unregulated
	Small scale and mostly family operated
	Low barriers to entry
	Lack of institutional support
<b>Credit</b>	Not subsidised
	Low cost in administration and operations
	No surety required
<b>Operating site</b>	Use of public space and residential place
	Use of buildings and structures that are not authorised
	Depends on family for labour
<b>Employment</b>	No official contract
	Not covered by legislation and security systems
	Most people who own the businesses also work for themselves
	No trade unions or organisations
	Low income and wages

The primary objective of this literature review is to explore the impact of formalising the informal sector, thereby ensuring that the sector would transform from the state of being informal to formal with intended benefits that would accrue from formalising the sector, notwithstanding the challenges that exist within the informal sector. From a theoretical perspective, the literature review is primarily made up of two main parts. The first will highlight the participation of the informal sector through the lens of institutional theory. Secondly, informal sector policies will be evaluated through the lens of institutional gaps while assessing the role of various stakeholders through the stakeholder theory.

## **2.2 Defining the Informal Sector**

Before the study takes a dive into understanding the impact of formalising the informal sector, it is imperative to understand how this sector is defined. Literature has provided us with varied meanings of the informal sector and the various schools of thought namely the dualist, legalist, structuralist and voluntarist schools which are discussed below.

### **2.2.1 Dualist School**

The dualistic school of thought was constructed on the perspectives mainly influenced by Keith Hart who described the informal sector as being marginalised and having no direct link with the formal sector Hart (1973). Informal sector traders are therefore not integrated in any formal sector planning and development (Brown & McGranahan, 2016). The labour market within the dualistic school focuses on the industrial and agricultural segments. The industrial segment refers to a capitalist approach in terms of the economy, and the agricultural segment focuses on the last level within the agricultural segment, which is farming for subsistence. Dualists believe that the informal economy is triggered by two factors namely; the rise in population and the growth rate in modern industrial development. Dualists argue that, as the population rises, the opportunities to flourish in subsistence farming reduce and as a result people migrate into more urban areas in an effort to find formal employment. The urban areas present a challenge for these migrants because they do not have the skills, experience and level of education required to be integrated into the formal market. These factors drive people towards the informal sector and they are left with no choice but to operate in this sector for economic survival (Marinescu & Valimăreanu, 2019). Dualists suggest that the main factor that can be attributed to the existence of the informal sector is unemployment. This results from the inability of the formal sector to create jobs or be able to absorb people in the workplace. The only other alternative that exists for people as a result, is participating in the informal sector (Sakarombe, 2020). The unemployment rate is therefore inversely proportional to the rate of work within the formal sector.

Within the South African context, there has been an increase in the population over the past seventeen years with an estimated growth rate of 1% to 1.4% between the period of 2002 and 2019 (StatsSA, 2019). This is in relation to the rate of unemployment which is understood to have declined in the years between 2002 and 2008, but has been on the rise from 2008 to 2020. During the period between 1995 and 2002 the unemployment rate was particularly high and the population growth rate was higher than that of the working age population (Ferreira & Rossouw 2016). Predominantly mining and farming contributed positively towards employment. However, due to the rise in population, these industries are no longer able to appoint as many people as they would have formerly, and to a greater extent, other industries within the formal sector are failing to fill the gap (Ferreira & Rossouw 2016). Based

on the perspective of the dualistic school of thought, and given the current correlation between formal employment and the population growth rate, South Africa is more inclined to echo the sentiments of dualism.

### **2.2.2 Legalist School**

The legalist school of thought was mainly influenced by Hernando de Soto (1989). The legalists perspective of the informal sector is that traders in the informal sector chose to operate there because they do not want to be registered entities, as registered entities have cost implications. Furthermore, traders in the informal sector choose to operate in this way as they do not want to be bothered with all the compliance issues, complicated administration, and costs in terms of formalisation. In addition to that, legalists believe that bureaucracies prevent businesses in the informal sector from being formalised. In order for firms to be formalised, the state needs to play a more active role in ensuring that the process of formalisation is less stringent (Marinescu & Valimăreanu, 2019). Traders in the informal sector tend to become reluctant to formalise their businesses as they do not see the value-add, advantages or benefits that can be associated with having formalised businesses. Informal sector traders not only view the process of formalisation as bureaucratic, but they are concerned with the strict regulations that they will need to adhere to, once being formalised and categorised as formal traders.

With respect to remuneration, the informal sector unlike the formal sector has got no definite prescribed minimum wage. Informal sector traders are mainly self-employed (Marinescu & Valimăreanu, 2019). As entities in the informal sector are not registered, employees in the sector are appointed informally, which negatively impacts their livelihood as they are not eligible to be registered with the labour department or any formal institution. Similar to the dualistic school of thought, the legalist school of thought looks at the contribution of employment from both the formal and informal sectors, but emphasises that, since the barriers to entry into the informal sector are so low, traders in the informal sector should be hailed as heroes as they manage to survive from their small businesses (Marinescu & Valimăreanu, 2019). Legalists also recognise the bigger role that the informal sector plays in terms of employment. They advise that the informal sector should form part of the economy and should not be viewed as a second low-class choice. The informal sector should be recognised as people who acknowledge that they need to be employed and use

the informal sector to establish their businesses at low costs (Mau-Quei & Cameron, 2019).

### **2.2.3 Structuralist School**

The structuralist school of thought was influenced by Manuel Castells and Alejandro Portes (1989). In the structuralist school of thought, capitalism and capitalist growth is the main motive behind the existence of the informal sector. People in the rural areas migrate to the urban areas in the hope of finding employment. Due to a lack of opportunities in the formal sector, people opt for work in the informal sector (Mau-Quei & Cameron, 2019). The dualistic, legalist and structuralist views all recognise that people migrate from rural to urban areas for formal employment, but at times end up in the informal sector due to the lack of employment within the formal sector. The structuralists however brings forward an additional component that the other two schools of thought do not consider. Structuralists consider production and distribution within the formal and informal sector. They argue that the main difference between the formal and informal sector lies in the way the products are produced and distributed. This school of thought recognises the informal sector as having a link with the formal sector because the informal sector supplies products and services to people who work in both the formal and informal sector, because of the low prices offered by traders in the informal sector which allows affordability for the poor and middle-class people. Traders in the informal sector sell products that they buy from retailers in the formal sector (Marinescu & Valimăreanu, 2019).

The benefits of the informal sector according to the structuralists school of thought is as follows: (i) Ability to increase the purchasing power of the middle class, (ii) Poor people are able to buy products because they are cheap as compared to products in the formal sector, and (iii) It benefits the formal sector because they are able to keep wages at low costs. The growth of the informal sector in accordance with this school of thought is attributed to the capitalist development within the formal sector as opposed to that lack of economic growth or the inability of the sector to create jobs. To formalise the informal sector, structuralists suggest that the government needs to have policies that address the relationship between large corporations in the formal sector with the firms that operate in the informal sector.



#### **2.2.4 Voluntarist School**

The voluntarist school of thought as influenced by William Maloney (2004), similar to that of the legalist, is of a view that traders in the informal sector choose to operate in the informal sector because they do not want to pay tax, abide by commercial regulations, pay rent/ electricity or pay any other cost that they would have otherwise been obliged to pay if they were operating formally (Marinescu & Valimăreanu, 2019). The difference between the legalist and the voluntarist is that the former focuses on the stringent processes that prevent informal sector traders from being formalised, while the latter argues that the decision for traders to form as part of a particular sector is based on the cost/benefit analysis of each sector. If the benefit of operating in a particular sector far outweighs the cost, then the decision will be made based on that (Sakarombe, 2020).

#### **2.2.5 The Applicable School of Thought**

While seeking alternative voices to unpack the definition of the informal sector, Rakabe (2016) defines the informal sector as a business that is not regulated and registered to conduct activities to meet the needs of a particular market. Other authors view the informal sector as a set of illegal yet legitimate activities through which individuals exploit opportunities (Amorós, Couyoumdjian, Cristi, & Minniti, 2016). In this way, this type of business is able to exist to meet particular demands without strict controls. Recent studies by Meyer et al. (2016) have problematised the informal sector as confronted by challenges that undermine the potential of the sector to optimise benefits, and opportunities to grow and thrive to contribute to employment creation, thereby reducing social inequality especially in a township setting. Based on the numerous perspectives in defining the informal sector, the four dominant schools of thought were used to define and differentiate different components that make up the informal sector.

Following the assorted schools of thought discussed above, the context of the study leans towards the dualistic school of thought as this school of thought suits the South African narrative from a socio-economic perspective, as well as the formation of the informal sector in the area under study. This dualist approach is driven largely by the rise in population as mentioned above and is characterised by the industrial and agricultural sectors (Marinescu & Valimăreanu, 2019). The dualist schools of thought also tables a skills shortage as a push factor for starting an informal trade, coupled with the inability for individuals to thrive in the formal sector in urban areas when

looking for opportunities (Sakarombe, 2020). This will be explored further as we assess the role of institutions in this context.

While the study seeks to understand the impact of formalising the informal sector, it is equally important to understand the structures that exist in pursuing a formalised route. This is crucial as the formalisation of these institutions may give rise to prescriptive measures that will have to be followed by the informal traders who wish to be formalised, should the odds be more favourable for business growth and development. This is where the role of institutions and the relevant stakeholders who form part of the informal trader's environment comes into play. This is explored further.

### 2.3 The Size and Main Challenges in the Informal Sector in South African

It is estimated that sixty percent of the global workforce results from the informal sector (Williams et al., 2015). In the South African context, the first quarter of 2020, indicated that the informal sector employed over 2,9 million people and this number increased by 7,7% in the third quarter of 2020 (StatsSA, 2020). The size of the informal sector in South Africa in comparison to the world is tabled below. The year 2025 has been forecast based on existing data. To better understand the size of the informal sector, Etim (2020) made a brief comparison of the size of informal sector economies for South Africa and Nigeria, and compared those to the rest of the globe. Although Nigeria and the globe indicate a slight decrease of the size of the informal sector, the informal sector in South Africa will grow slightly. In formalising the informal sector, it is expected that the size of the informal sector will decrease as traders will now be formalised.

**Table 2**

*Forecast of the size of the informal economies (per %GDP), (Etim,2020)*

Year	2011	2016	2017	2020	2025	Average (2011-2015)
South Africa	23.49	21.29	29.33	23.71	24.19	23.59
Nigeria	50.73	48.37	47.70	46.99	46.11	47.93
Global	23.10	22.66	22.50	22.11	21.39	22.35

There are various reasons why people participate in the informal sector. People participate in the informal sector mainly for survival while others voluntarily participate in the informal sector because of the benefits associated with the informal sector such as; not obliged to pay tax and not being regulated by any institutions (Jones & Tarp, 2015). The last group of people choose to participate in the informal sector because of exclusion from the state and the formal labour market (Williams et al., 2015). The informal sector is also seen as an alternative way of providing means for being self-employed, especially for those who consider it as an exit plan from the formal labour market (Williams et al., 2015).

Studies by Meyer et al. (2016), Mukwarami (2017) and Sambo (2018) indicate excessive support for the existence of the informal sector. However, certain challenges that are often overlooked by policy makers which undermine the potential growth of the sector, (Meyer et al., 2016) have pointed out challenges in the informal sector. These include the following: lack of infrastructure; lack of access to funding; lack of service delivery; and regulations by policies that do not cater for the needs of traders in the informal sector. The main challenge that appears to be homogenous across all boards, relates to the lack of access to funding, which includes financial support and expansion capital. Financial institutions use the same qualifying criteria for all traders in the informal sector, a qualifying criterion which represents businesses trading in the formal sector. For this reason, financial institutions are not able to create favourable and practical conditions for traders in the informal sector to enable them to receive adequate financial support, as traders do not have registered entities and other compliance documents that will enable them to receive assistance. Financial institutions cannot issue funds on personal basis, they issue funds based on registered entities. Formalisation of the informal sector would assist traders in the informal sector to receive adequate funding (Fowowe, 2017).

In addition to access to funding being a stumbling block, a quantitative study by Mukwarami, Tengeh & Iwu (2018) revealed that the other main challenge experienced by traders in the informal sector relates to the trading of foreign nationals in rural and township areas. Local traders in the informal sector are concerned with the growth rate of foreign-owned retail outlets and the manner in which they operate. When foreign nationals arrive in the rural and township areas, they rapidly create a network for themselves. This network allows them to collaborate and buy in enormous bulk. Bulk buying is an advantage for foreign nationals, as they receive

substantial discounts from various wholesalers. Foreign-owned retail outlets have a competitive advantage in terms of price and are able to save more money because they have greater buying power. In addition to setting low prices, they attract customers by allowing them to buy on credit. This poses a risk to natively owned outlets as they are not able to compete in terms of price and credit, which results in stagnant growth and in the worst-case scenario, a complete shutdown of these businesses (Mukwarami et al., 2018). It is therefore imperative to formalise the informal sector so as to have a record of all the businesses that exist, to assist traders to grow and expand and to ensure that regulations are put in place to guide the trading of foreign nationals in township and rural areas.

Etim (2020) summarised the challenges that are mostly experienced by traders in the informal sector in South Africa and Nigeria. The purpose of Table 3 is to determine challenges that appear to be common in the informal sector, by comparing South Africa and Nigeria. This will assist in understanding formalisation in terms of the challenges in the informal sector. As it seems that access to finance is a challenge that is experienced by both countries, formalising the informal sector will allow traders to access funds available from government and private institutions thus allowing them to expand their businesses.

**Table 3**

*Summary of challenges in the informal sector*

<b>South Africa</b>	<b>Nigeria</b>
Lack of access to finance	Lack of technology adoption and usage
Infrastructural challenges	Lack of access to finance
Lack of social protection	Low market capitalisation
Poor government policy and regulation	Lack of land/and physical infrastructure
Non-standardisation of goods/services	Lack of social protection
Unfavourable zoning laws	Poor government policies and regulation
External competitive pressures	Lack of skills and vocational training
	Lower educational qualifications
	Intense market competition

## **2.4 Institutional Theory**

A study by Williams & Shahid (2016) explains the theory of institution as follows: i) Every society operates under formal and informal institutions, ii) Operations in the formal sector as guided by rules and regulations that are organised in formal

institutions, iii) Operations in the informal sector as a society operates according to socially acceptable norms, beliefs, standards, principles, values and unwritten rules that traders adhere to. Participation of traders in the informal sector can further be elucidated through the lens of the misalignment that exists between formal and informal institutions. To further comprehend operations of the informal sector under informal institutions, the institutional theory will serve as a theoretical framework. Intuition theory results from institutional failures from formal institutions which causes asymmetry between laws and regulations as attributed to the formal sector and unwritten rules as attributed to informal institutions (Williams & Horodnic, 2018).

Berthrod (2016) gives insight on how institutional theory has moved from being a theory of stability to a theory of change. As he examines the evolution of this theory, he further emphasises the transition from a traditional preference of resource dependence as each discipline i.e economics, sociology and political science defines institutional theory in its own right. When defining institutional theory, it is equally important to outline the institutional process. Authors who assist us in doing this are DiMaggio & Powell, (2000) who identified four fragments: the collaboration of institutions in the space of operation, the configuration of alliances, an increase in the material available which organisations eventually compete for, and finally the understanding of the shared initiative that exists from members of various organisations. In an attempt to further understand the institutional process, we consider Scott (2008)'s view on the institutional theory progress to support the process defined by DiMaggio & Powell (2000) above.

Martinez, Fernandez, & Fernandez (2016) explain the importance of firms to determine their short and long-term goals. The short-term goal of the business must be to make a profit. However, for the firm to be sustainable, the long-term goal should be to balance the needs of society. Big corporates from formal institutions operating in township and rural areas impact the livelihood of people residing in those areas. Institutions should therefore strive towards improving social imbalances in communities in which they operate in. In order to improve the status of informal institutions, a high degree of voluntarism must exist from formal institutions (Martinez et al., 2016).

### **2.4.1 An Evolving Theory: Institutional Theory Progress**

Dedicating his work to studying the progress of institutional theory for three decades, Scott (2008) based his initial points on the neo-institutional study formulated by John Meyer in 1997. While Scott (2008) valued the contributions made by writers before him, he believed that focusing on the progress made within institutional theory was equally important (Ranta, Aarikka-Stenroos, Ritala & Makinen, 2018). As part of following the progress made, he continued to study the work from writers such as Evans (2014) and Theodorakopoulos & Budhwar (2015) who evaluated the evolution of organisational change and how decision-making has been affected by institutional theory following Scott (2008)'s findings. Scott (2008) argued that institutional sociologists ran the risk of misconstruing institutional theory as a subject, encouraging him to shift the lens on the progress made, unpacked as follows:

#### **From Looser to Tighter Conceptualisation**

In order to distinguish between “old” and “new” institutions, Scott, (2008) pointed out the elements that made up institutional order as: coercive, normative, and cultural-cognitive elements.

- Coercive: Regulative elements set out rule-setting, evaluating, and authorising activities
- Normative: Elements display a prescriptive and mandatory perspective into social life
- Cultural-cognitive elements: emphasises the views constituted by the nature of social reality

All elements above contribute to the formation of institutions as each institution has a component of the elements discussed above.

#### **From Determinant to Interactive Arguments**

In the midst of conforming to institutional pressures, organisations also experienced a sense of uniformity found in this environment (Scott, 2008). In an effort to achieve institutionalisation, tools such as political attempts with the aim of achieving certain agendas through power dynamics were found (Scott, 2008).

## **From Superficial to Consequential Change**

Following the adoption of trends and norms influenced by the external environment surrounding institutions, the change that was initially deemed superficial ultimately found meaning over a period of time (Scott, 2008).

## **From Assertions to Evidence**

According to Scott (2008) institutional implementations could not be subjected to monitoring and evaluation as traditionally done in strategy or initiatives that required impact tracking. He argued that institutional implementations consisted of a number of variables which were immeasurable, such as legality. An example given by the writer was that of equity frameworks as he believed that they were aimed at correcting the imbalances of the past through affirmative action driven legislation. While institutional theory was not a theory of organisational change, it aimed to understand organisational conduct in organisations while affording an alternative perspective to better understand the densities that exist in the form of structural decision-making and subsequent actions (Evans, 2014).

An evaluation of institutional incongruence by (Williams et al., 2015) suggests that the higher the level of incongruence between informal and formal institutions, the higher the level of participation of individuals and groups in the informal sector. Every society needs to find a balance between the formal and informal institutions. The relationships that exist between formal and informal institutions is thus important in understanding the linkages between the formal and informal sector. There are different types of relationships that exist between formal and informal institutions identified as follows: i) a competing relationship ii) a reinforcing relationship iii) a neutral relationship (Lauth, 2015). For academic purposes only the first two are considered. If formal institutions compete with informal institutions, informal institutions will rise above formal institutions as they are capable of undermining the laws and regulations as set out by the formal institution. The reinforcing relationship refers to welfare for collaboration which constitutes a united front. The relationship also adds more weight in pursuing a common agenda. During the collaboration the informal sector can manipulate the formal sector and be uncontrollable (Lauth, 2015). It is in the best interest to formalise the informal sector so as to strike a balance between formal and informal institutions and ensure that there is fair trade.

The government therefore must be able to regulate the informal sector, and ensure low levels of incongruence between formal and informal institutions. In addition to this, there is a relationship between an imbalance of formal and informal institutions, and the level of morality. If there is a great imbalance between formal and informal institutions, then there will be low levels of morality. To this end however, Williams et al. (2015) suggest that the informal institution needs to lean more towards formalisation for the benefit of the state to allow the state to provide services to all its citizens while keeping low levels of morality. Similar studies by Colin (2015) also emphasise the importance of civil and state morality. Emphasis is placed on being able to educate citizens about the importance and benefits of paying taxes, and increasing awareness regarding the goods and services as provided by the state from taxes.

#### **2.4.2 Shortcomings of Institutional Theory**

Although institutional theory played a pivotal role in influencing macro-organisational studies suitable for various industries, it also faced its fair share of shortcomings. It has been argued that institutional theory has been overly expanded leaving its core purpose unfulfilled. Understanding the structures found in institutions together with the values and the objectives established by organisations remains a crucial focus of institutional theory (Shou, Zheng, & Zhu, 2016).

The analysis of the shortcomings of institutional theory was crucial to this study as the government has attempted to put in place programmes which sought to support the informal sector. If formal structures overlap in terms of deliverables then the purpose of what the structures aim to fulfil will not be accomplished. The Informal Trader Upliftment Programme (ITUP) and the National Informal Business Upliftment Strategy (NIBUS) which were aimed at making traders in the informal sector aware of the of the opportunities that exist for registered entities, as documented by the Department of Small Business Development (Monitoring and Evaluation Policy, n.d.) have not produced the desired and as stressed by Evans (2014), results that are consistent with bringing about a paradigm shift.

According to Chung, Choi & Shin (2015) organisations are influenced by social powers which is shown by institutional theory. He further declares that the key players remain social actors who possess these social powers, making them key



players in striving to achieve collaborative advantage through leading initiatives which encourage change. These may include addressing pressures such as the disintegration of policies, infrastructure and practice. While Martinez, Fernandez & Fernandez (2016) support that organisations are able to achieve their goals through institutional theory, they do however acknowledge that this theory presents a few setbacks. They argue that organisations have evolved to surrogate representations of institutions with diluted meaning.

The dualist school of thought highlighted unemployment as well as the lack of skills amongst others as being drivers of the formation of informal trade when defining the informal sector above (Marinescu & Valimăreanu, 2019). This is further supported by Williams, Horodnic & Windebank (2015) who emphasised that a number of people often find themselves in the informal sector as a result of retrenchment or the inability to find formal work. These are some of the socio-economic hurdles found in the South African context of which the eradication of these rests on the institutions that mandated to tackle these problems. With an unemployment rate of 28,48% reported for the year 2020 (Stats SA, 2020), it is clear that we will see a rise in informal trade as unemployment is a contributor to the formation of informal trade according to the dualistic school of thought. The role of institutions therefore comes into play regarding their response to the socio-economic issues and how they can support the survival-based approach implored by the people they serve. It is also important to note as highlighted by Williams & Horodnic (2018) that Institutional theory results from institutional failures from formal institutions.

The various institutions referred to in the study as well as those to be introduced in chapter 5 when presenting the data collected, show the role institutions play in the informal sector. While the study is focused on Seshego-Limpopo, a township in South Africa, it is imperative to understand the social context of where these informal traders sit together with the institutions which govern them. This is echoed by Scott (2008) who argues that institutional implementations consist of a number of variables which are immeasurable of which some can be attributed to addressing the social intricacies which exists in environments such as the informal sector.

## **2.5 An Evaluation of the Informal Sector Policies: Institutional Gaps**

Institutions as defined by Lammers & Garcia (2017) relates to formalised practices and rational beliefs that represent organisations. Policies that govern the informal sector are developed by government institutions. Studies by Williams et al. (2015) argue that in order to achieve formalisation of the informal sector, a policy approach that reduces institutional incongruence is essential. An evaluation of the effectiveness and the impact that these policies have on the informal sector is critical in determining the success and failure rate of the policies. The first point of departure is highlighting and evaluating the effectiveness of policies that exist pertaining to the informal sector. It is also important to note the length to which these policies are being implemented and the commitment by the government thereto. By so doing the history of South Africa and its impact on the formation of the past and current policies gives insight in understanding the evolution of these policies which manifest from the apartheid era.

The policies that exist in the informal sector are grey and do not cater for the needs of traders in the informal sector, rather they are structured in a way that assumes that traders in the informal sector are in possession of the relevant compliance documents (Welter, Smallbone, & Pobol, 2015). South Africa has got a rich history and has over the decades progressed from institutionalised racial segregation. In the apartheid era, regulations and policies made it difficult for people of colour to operate their businesses freely up until 1987, when new laws were passed by the National White Paper on Privatisation and Deregulation which acknowledged the existence of small businesses owned by black people. The Business Act (No. 71 of 1991) promoted a change in the informal sector by identifying and removing barriers that had been set by previous laws. As citizens embraced this new dawn, it became difficult for authorities to manage operations of informal traders within the cities. The Business Act was at a later stage amended (Amendment Act No. 186 of 1993) to allow authorities to develop regulations, and by-laws regarding street trading in the city at a local level (Skinner, 2019). The National Small Business Act which resulted from the Development and Promotion of Small Business (RSA 1995), similar to the other acts that were in existence prior to it, failed to identify challenges in the sector and therefore did not address any specific plans, and measures to enable the expansion of small businesses and increase their role in the sector. As a remedy to this, the Department of Trade and Industry, being one of the main government

departments responsible for the development of small business introduced the Ntsika Enterprise Promotion Agency to provide non-financial services to small micro medium enterprises as well as Khula Finance (now operates as a subsidiary under the governance of SEFA) to provide financial services to SMMEs. The aim of Khula Finance was to support small businesses in urban and rural areas by offering them debt funding and expansion capital for their business and in the process ensure that sustainable jobs are created (Skinner, 2019).

An example of this failed approach was proven by a study that was conducted by the World Bank two decades ago in Johannesburg (1999) and Durban (2002) which highlighted the ineffectiveness of policies implemented by the Department of Trade and Industry (DTI). Although there are institutions that are adequately equipped to assist traders in the informal sector, very little success has emerged from programmes that have been implemented. The results from the World Bank's survey indicated that in Johannesburg 81% of the traders had never received any business assistance or training. This refers to firms having had applied for loans at a formal institution and having been accepted. In Johannesburg 3.6% of respondents had been successful in their applications for funding and in Durban the figure was slightly higher at 3.9%. These low percentages are an indication of underlying problems that have been omitted in policies. The reason for this is that in developing those policies, there was very little consideration given with regards to challenges as experienced by traders in the informal sector and as a result, the requirements rather represented traders in the formal sector and not the informal sector (Skinner, 2019). Policies implemented by the DTI failed to reach the targeted people because of the misalignment of the qualifying criteria for traders in the informal sector. The government has not been successful in implementing these policies as they relied on a blanket approach to implement policies, mainly based on the criteria which are applied. The low percentages as a reflection of informal traders who were able to access funding from formal institutions is concerning. This is also acknowledged by studies conducted by Meyer et al. (2016), Molefe (2016), Mukwarami (2017) & Sambo (2018) who support the existence of the informal sector but criticise policy makers for developing policies that are not effective in their implementation strategy. As financial support in the informal sector has proven to be a critical factor, formalising the informal sector could potentially see an increase in these percentages

as a result of having the correct compliance documentation, as required by formal institutions.

## **2.6 Stakeholder Theory**

### **2.6.1 Defining Stakeholder Theory**

The stakeholder theory stems from business ethics which looks at various groups to which the corporation has a responsibility (Buchhnoltz & Carroll, 2018). Companies act and decide with the interests of all stakeholders in mind, including employees, customers, suppliers and the broader community. They impact stakeholders differently to accommodate the interests of the owners thus focus on revenue generation. The interest of stakeholders such as shareholders, employees, consumers, suppliers, regulators and the communities should always be considered in companies in all operations.

In a similar way, the government applies the same notion when providing services to its citizens especially when the subject of development comes into play. Government has got various departments and agencies that are directed at assisting traders in the informal sector. The informal sector as previously defined above, shows the various stakeholders in their value chain, from the customers they serve, to the communities they find themselves operating in, as well as the various regulatory structures that govern their trade.

According to Buchhnoltz & Carroll (2018) stakeholder theory can be distinguished in three forms:

1. **Normative:** Provides a reason why corporations should take into account stakeholder interests
2. **Descriptive:** Attempts to ascertain whether corporations actually do take into account stakeholder interests
3. **Instrumental:** Attempts to answer the question of whether it is beneficial for the corporation to take into account stakeholder interests.

The perceived importance of stakeholders is achieved through power to influence organisational operations, whilst legitimacy assesses stakeholder's action and urgently focuses on the degree to which stakeholder claims are perceived.

Phillips, Freeman & Wicks (2003) unpack these forms further, and they refer to those organisations that have an obligation as *normative* stakeholders. In this group, the organisation ensures their well-being. These are those individuals who are frequently considered in stakeholder agendas as they usually take the form of funders, employees and customers and members of the community. Derivative stakeholders can be defined as the individuals or groups who may put the organisation at risk or contribute to its success. A direct or moral stakeholder relationship does not exist between the organisation and this group and includes collectives such as competitors and the media (Phillips, Freeman & Wicks, 2003). The author concludes that the aim is not for the organisation to ensure the benefit of derivative stakeholders but also understand the extent of their influence on the organisation and its normative stakeholders.

Formal ethics programmes in organisations include compliance, values, external and protection orientation and informal ethics are centred around ethical culture (change and learning) and climate. A leader needs to incorporate both formal and informal management ethics, thus exhibiting personal traits, character and altruistic motivation of a moral person. Ethical leadership has seven distinct dimensions: fair treatment, power sharing, role clarification, people orientation, integrity, ethical guidance, and concern for sustainability (Brown & Treviño, 2006).

Phillips, Freeman & Wicks (2003) decided to focus on what stakeholder theory is not rather than what it is. The authors first highlighted that the theory meant different things to different people which either provoked praise or scorn based on their various experiences. While the authors recognise the advantages and disadvantages of stakeholder theory, their aim was to address the misconceptions of the theory while assessing its true contribution to management and organisations at large. In his definition Freeman (2015) challenges the traditional view of stakeholder theory being the shareholder view where the shareholders who are the owners of the company are the first in line where needs are concerned and that their interests are taken care of through increased value. This further supports Phillips, Freeman & Wicks's (2003) view of varied definitions of the subject. Freeman (2015) takes it a step further and argues that stakeholder theory consists of a number of players which include the state, employees' trade unions, financial institutions, the communities the company organisation finds itself in and customers. He further stresses that competitors in some instances are a stakeholder as they have the

potential to affect and influence the company or organisation and its other stakeholders. As the informal sector is broad, and has various subsectors that have different stakeholders. Companies that invest in businesses in the rural and township areas do that as they recognise informal traders as their partners and have a social responsibility towards growing and develop those businesses. Furthermore, big corporates who invest in businesses that operate within the same space as they do in the informal sector, do not view those businesses as competitors but rather as complements (Dentoni, Bitzer & Pascucci, 2016).

### **2.6.2 Stakeholder Theory Criticised**

Managerial opportunism has been cited as a threat to organisations in the name of serving the stakeholders in the stakeholder theory fold (Phillips, Freeman and Wicks, 2003). In addition to the shortcomings highlighted above, Phillips et al. (2003) outlined that stakeholder theory was primarily concerned with the distribution of financial outputs as the frequent measuring tool of the impact made by the theory was how much each group got, usually associated with a monetary benefit. With this in mind, they took the argument a step further by stating that decision-making was a concern for stakeholder theory, as well as those who stood to benefit from the results of those decisions. They concluded by stressing that the approach was just as important as the desired goal in stakeholder theory.

## **2.7 Trading During a Pandemic: The Informal Sector and COVID-19**

In the beginning of March 2020, the South African government placed the country under lock down for six weeks with the hope of curbing the spread of the SARS-CoV-2 virus. South Africa rapidly grew to being the most affected country in Africa following the first reported case on March 5<sup>th</sup> (Stiegler & Bouchard, 2020). One of the most striking socio-economic challenges faced by South Africa is that of unemployment with a staggering unemployment rate of 28,48% reported for the year 2020 (StatsSA, 2020). The hard lockdown exacerbated this, leaving those with formal employment at risk of losing their jobs or taking pay cuts. The National Development Plan expressed the view that the informal economy would fare relatively well during a crisis, as it “provides a cushion for those who lose formal sector jobs or need to supplement their formal incomes during crises “During the 2008-9 financial crisis, employment in the informal sector not only declined but declined by more than in the formal sector.” (National Planning Commission, n.d.)

The informal sector was even harder hit when the population was encouraged to stay at home, which meant decreased economic activity for this sector. According to the World Economic Forum (2020), more than two billion people work informally as reported by the International Labour Organisation (ILO), equating to 62% of the global workforce, further placing them at greater risk from the economic crisis birthed by the pandemic. The pandemic highlighted the vulnerability and biases that are faced by traders operating in the informal sector. Poor to middle class households and particularly those who reside in the townships buy essentials from both the formal and informal sector because of the price variations. Informal sector traders are able to sell on credit, contribute to the social integration of the community, offer low prices and are known to be convenient stores because of their long trading hours (Battersby, 2020). Similarly Wegerif (2020) has noted that these shops are usually within walking distance of their customers and provide products in flexible quantities, to cater for the customer's specific needs. Despite the positive contribution made by the informal sector, some of the businesses in the retail sector were restricted from operating. The lockdown allowed those who provided essential services to continue business as usual. Supermarkets were regarded amongst businesses providing essential services but informal traders such as street vendors and spaza shops selling fresh produce and other products were not recognised as providing essential services. In addition to that, when the regulation was amended, only shops owned by South Africans were allowed to trade. Given the vast number of foreign-owned shops, this meant that at least 80% of the shops would close down, which not only had an impact on business owners, but impacted the livelihood of those who depended on these stores for essentials. People had to travel much further to formalised supermarkets, thus spending more money on transportation and putting themselves at risk by using public transport and in turn undermining the purpose of the lockdown.

Regulations were reviewed in line with respective lockdown levels. In terms of the regulations as prescribed under the Disaster Management Act, 2002(Act 57 of 200) which stipulated conditions under which spaza shops could operate, including having a permit issued by the relevant municipality (Wegerif, 2020). Along with the permit, businesses had to be registered with the South African Revenue Services (Battersby, 2020). As a result of this exclusion, many traders could not operate as their businesses were not registered. The forceful registration of businesses also meant that people had no choice but to formalise businesses, which was not a preference

for all people as it had been by choice to trade informally. The lockdown regulations as set out by the government have highlighted prejudice and biases towards the informal sector, while big corporates in the formal sector continue to thrive (Battersby, 2020). Traders in the informal sector suffered a great deal because of municipalities that failed to have a permit system in place and those who did have systems in place, had unreasonable requirements to obtain the permit, such as expecting the business to operate from a business site whereas most of the spaza shops are within residential areas (Wegerif, 2020).

## **2.8 Conclusion**

The importance of formalisation of the informal sector has been outlined by the theoretical framework based on institutional theory. As formalisation of the informal sector is the basis for the study, concerted effort was directed to this concept. Formalisation of the informal sector can only be realised once there is a policy approach that aims at reducing institutional incongruence. The process of formalising the informal sector will result in the government collecting more revenues in taxes. It will also add as a benefit to employees in the informal sector as their employers will be obliged to register them under the Department of Labour. The economy of South Africa will benefit from this process as more people will be employed and the levels of inequality in the townships will decrease.

The informal sector has been shown to have low barriers to entry and this low-level of barriers is regarded as providing an opportunity for entrepreneurs to establish their businesses (Rakabe, 2016). A number of foreign nationals have set up their businesses in the townships demonstrating this potential. Equally, the establishment of supermarkets by large corporations in the townships needs to be seen as opportunities for the government to ensure that they create and implement policies that protect the interests of local aspiring entrepreneurs in the informal sector (Charman, 2017).

Understanding the already existing challenges and key determinants within the informal sector, which became evident during the hard lockdown, is imperative for policy makers in order to assist in the growth and development of businesses that currently operate under the informal sector by gradually formalising them. The negative impact that COVID- 19 had on traders in the informal sector must be viewed



as an opportunity by the government to integrate and align the informal sector with the formal sector. It is of no value to force traders to formalise their businesses if they do not understand the associated benefits of formalisation, or if their efforts in trying to grow their businesses is undermined by government policies. The effects as experienced by COVID-19 could be long lasting, taking it even longer for the government to step in and have a greater regard for a sector that is responsible for more than 60% of the global workforce, with the potential to contribute more to the overall economy (Williams et al., 2015).

## **CHAPTER 3: RESEARCH QUESTIONS**

This section of the study aims to answer three research questions that have been derived from literature. Each research question was developed to address the problems that exist across the informal sector and the contribution of the public and private sector.

### **3.1 Research Questions**

**Research Question 1: Explore and describe meanings that informal sector traders associate with the definitions of the informal sector, and the challenges traders face in formalising their retail businesses.**

The informal sector as defined by Rakabe (2016) is 'businesses that are unregulated and not registered with the relevant agencies. Other authors define the informal sector as illegal but having legitimate activities (Meyer et al., 2016, & Mukwarami, 2017). This question therefore aims to interpret the definition of the informal sector based on the experience of traders in the informal sector and establish and highlight any new insights that have not yet been considered. Research question 1 also aims to distinguish what people understand by defining the informal and formal sector. Furthermore, the research question will highlight any concerns raised by participants in formalising the informal sector as well as any challenges and opportunities that will result from this process. The question will also determine the business rationale behind formalising the informal sector from the perspective of government and the informal sector.

**Research Question 2: Establish the relationship that exists between the state, formal and informal sector.**

This research question aims to establish the nature of the relationship that exists between the state, formal and informal sector, based on traders in the formal and informal sector, as well as the state. This question also aims to understand the competition, conflict and harmony that exists between the formal and informal sector and the role of the state with respect to protecting the interests of traders in the informal sector. In this question, the hope is to establish the factors that may aid and support the formalisation of the informal sector. The role of institutions will serve as a guide as intuitional theory results from institutional failures, from formal institutions.

Informal institutions operate on unwritten rules (Williams & Horodnic, 2018). The lessons learned from failures will be taken into consideration.

**Research Question 3: Establish the effects that policies have on the development and growth of the informal sector and township economy.**

The policies that exist regarding the informal sector will be identified through this question. This research question aims to establish the different viewpoints concerning the failure or success of the implementation of those policies on the informal sector and if those policies undermine or enable access to capital and other non-financial support for traders in the informal sector. Another aim is to determine the various stakeholders who form part of the informal sector by drawing from stakeholder theory. The stakeholder theory stems from business ethics which looks at various groups to which the corporation has a responsibility (Buchhnoltz & Carroll, 2018). This data will also build on the existing literature.

## **CHAPTER 4: PROPOSED RESEARCH METHODOLOGY AND DESIGN**

### **4.1 Introduction**

This section of the study focuses on the research methodology and design. In this section a qualitative research design was used. This method of research was selected with the aim of gaining a deeper understanding of the meanings associated with the challenges in formalising the informal sector by considering the different views and perceptions based on experiences from the formal and informal sector as well as the state. Semi-structured interviews were conducted by using a blended approach of face-to face interviews as well as online interviews necessitated by the pandemic. The literature review formed a basis for the research methodology, the instrument designed for data collection purposes and a guide in terms of how the interviews were conducted.

### **4.2 Research Methodology and Design**

#### **4.2.1 Rationale for the Chosen Methodology**

The study followed the philosophy of interpretivism which is applicable to qualitative research. It guides the insight and experiences of individuals and groups on a particular phenomenon that form an important basis for understanding the social reality of their experience (Lewis & Saunders, 2018). This approach was suitable for this research because of the concept of formalising the informal sector and in developing the township economy to enable entrepreneurs in the township to actively participate in the economy. Understanding the impact of formalising the informal sector would lead the study to strengthening the growth of the economy, and would enable entrepreneurs in the townships to actively participate in the economy. The specific issues related to that were explained through the established literature, and were further explored through qualitative data collection strategies of semi-structured interviews.

The research followed an inductive approach which involved building a theory from analysing the findings from the collected data (Lewis & Saunders, 2018). This approach was preferred because it is applicable for qualitative methods and it is flexible in its methodological approach (Liu, 2016). The study did not have a hypothesis, instead detailed general observations were made and followed a bottom-

up approach. Various themes were derived from the data collected, which was then utilised to draw a conclusion.

The study followed a qualitative, mono method for the research methodology. The qualitative mono method uses a single collection technique to collect data. This was used to describe and explore the meaning research participants used to construct and interpret their world of reality, such as formalising the informal sector to stimulate economic growth in South African Townships (Leedy &Ormrod 2015). Face- to-face and online interviews were used to get a depth of understanding in the formalisation of the informal sector.

Qualitative research does not require nor depend on the use of statistical procedures to achieve results. It therefore offers a depth of understanding concerning the participants' feelings, experiences, events and meaning in discussing challenges, barriers and opportunities in the informal sector (Rahman, 2017). This was suitable for this study as the researcher was allowed to make deductions based on the researcher's understanding and interpretation of the occurrences.

The research was designed in a manner that followed an exploratory study, which focused on seeking greater insights and understanding and allowed for questions to be asked for the purpose of clarification. The questions asked enabled a new perspective which could be useful in trying to find the best solution for the identified problems (Lewis & Saunders, 2018). In this study, the exploratory nature helped to find out more about the impact of formalising the informal sector. The purpose of this research was to get insight from government policy makers and informal sector traders on the impact that formalisation would have on them, at an individual and institutional level.

A cross-sectional study was adopted because it allowed interviews to be conducted with a sample of people over a short period of time, as cross-sectional studies focus on a moment in time. Due to time constraints, different population groups were studied at a single point in time and no follow up interviews were conducted (Fawcett & Pocket, 2017). The interview setting for qualitative research can be structured, semi-structured or unstructured. By using the semi- structured interviews, participants were able to express themselves freely. In terms of government organisations, this type of research assisted in determining the functioning roles and responsibilities of those organisations as well as methods that were utilised to

measure the commitment towards formalising the informal sector based on what has been achieved to date. Interviews were conducted by means of face-to-face interactions, or digital platform due the current global pandemic.

### **4.3 Population**

The population refers to the group of individuals that have characteristics that can be distinguished from other individuals. Population also refers to a set of group members (Lewis & Saunders, 2018). For this study, the population were participants who were selected based on their willingness to participate. The population included informal traders in the retail sector as this sector is the dominant sector in townships and it forms a critical part of the community's social welfare (Fourie, 2018). Retail traders in the informal sector were selected on the basis of being business owners of the stores and having established those stores from inception. This was to get as much information as possible from the primary source. The population also included big corporates trading in the retail formal sector. The population that was identified for the formal sector can be described as: Managers and Business development practitioners who formed part of establishing formal retail businesses in a township setting. With respect to the state, representatives from government departments that develop and implement policies and strategies in the informal sector formed part of the study. These representatives from government included the following: Head of Departments, Head of Research Unit/Director, Regional Manager and Chairperson of the Board. The focus of the study was on a particular township (Seshego) based in Polokwane-Limpopo. The choice of Limpopo was based on the interviewer's place of convenience.

### **4.4 Unit of Analysis**

The proposed unit of analysis for this study was the impact of formalisation policies on the township economy.

The data sources for the unit of analysis were categorised as follows:

4.4.1 Individuals who owned retail businesses (spaza shops) in the townships. This was to better understand the challenges of retail businesses in the informal sector, and the inability of those businesses to grow. This was also to establish the reasons for their informality. Furthermore, this added

insight to the reasons behind the closure of some of these businesses over the years, as identified by (Manyaka-boshielo & Africa, 2019). In addition to this, the research was conducted in a unique period, during the COVID-19 period, it was therefore important to hone into the informal sector's experience following the impact of this global pandemic. This was also an opportunity to establish government's support in this sector.

4.4.2 Representatives from big corporations in retail (Spar/Truworths) who established their business in the township areas. This was to establish their relationship between the formal and informal sector, in a township setting, and to further determine the regulation and policies that they adhere to in terms of establishing their businesses in the township. In addition to this, it was important to understand if a reciprocal relationship existed between the private sector and the informal sector from a development perspective.

4.4.3 The government organisations were represented by individuals who have knowledge about local economic development initiatives such as those responsible for strategy and policy development regarding the informal sector. These included the following: The Department of Small Business, Limpopo Department of Economic Development and Tourism, Small Enterprise Finance Agency (SEFA) and Industrial Development Corporation (IDC). This was to gain a deeper understanding on the policies, strategies, and initiatives the government has invested in with regards to the informal sector.

#### **4.5 Sampling Method and Size**

The study used a non-probability sampling technique to select the participants. In non-probability sampling, the selection of the sample in the informal sector was based on the grounds of existing knowledge of the population about the history of their business as well as the success or failure of any assistance by government institutions (state owned enterprises-or any other formal institution) that they had received to date. The selection of sample in the formal sector was based on the individuals being in senior positions, who had a better understanding of the organisation. The sample with respect to officials in various government departments was based on individuals who were in management and executive positions, and who were experts in the field. This meant all participants were hand-picked based on

the fact that they were relevant to the topic and possessed specific information pertinent to the research project. The exact sample size in this research was not decided before the commencement of the data collection phase. The actual number of participants (informal sector retail traders, formal sector traders, government employees) was decided through data saturation. Saturation of data occurs when, after data collection and evaluation of the collected data has been done, research participants do not add anything new. It is when redundancy is observed that the researcher discontinues the data collection phase. (Venter & Van Zyl, 2017). Participants in this study participated on a voluntary basis, no rewards or payments were made. The number of interviews conducted was 15. Only one interview was allowed per individual. Table 4 represents the sample that was selected for the study. Comprehensive details of the participants will be provided in Chapter 5.

**Table 4**

*Description of the Selected Sample*

<b>Sector</b>	<b>Organisation</b>	<b>Position</b>	<b>Number of Respondents</b>
<b>Informal sector-Retail</b>	Spaza shops	Owners of the business	9
<b>Government</b>	Limpopo Department of Economic Development and Tourism	HOD	1
	Department of Small Business Development	Head of Research Unit/Director	1
	Industrial Development Corporation	Regional Manager	1
	Small Enterprise Finance Agency	Chairperson of Board	1
<b>Formal Sector Retailer</b>	Spar	Manager New Business	1
	Truworths	Regional head	1
<b>Total</b>			<b>15</b>

**4.6 Measurement Instrument and Data Collection Tool**

For the purpose of this research the data collection strategy that was used was semi-structured interviews, using an interview schedule and a set of interview questions. The researcher was the main instrument for data collection using semi-structured interviews, guided by the interview schedule. The interview schedule is a tool or guide with questions to be posed to research participants to explore the phenomenon



of formalising the informal sector. The research questions informing the study were used to formulate the interview guide.

#### **4.6.1 Informal Sector Traders**

The interview schedule for traders in the informal sector consisted of eight questions with an estimated time of 45 minutes per interview. This study was directed at owners of enterprises in the informal sector based in townships. A pilot study consisting of two sets of interview questions for this particular sector was conducted to test the research instrument, which allowed for changes that needed to be considered prior to final implementation of the research interviews.

The aim of conducting the pilot test was to ensure validity and ensure that it was achieved. (Gani, Rathakrishnan & Krishnasamy 2020). The pilot also assisted in detecting possible flaws and potential problems that may have arisen during the interview. The effectiveness of the interview guide was therefore tested during the pilot study. Appendix 4 provides a guide for the interview questions that were directed to the informal sector traders.

#### **4.6.2 Government**

The researcher interviewed government representatives from the following departments: The Department of Economic Development and Tourism, the Department of Small Business Development, Industrial Development Corporation and Small Enterprise Finance Agency to determine whether there was consideration of formalising the informal sector and whether or not government policies enabled or promoted the existence of businesses in the informal sector. One interview was used as a pilot for this sector. Appendix 5 provides a guide for the interview questions that were directed to government department employees.

#### **4.6.3 Formal Sector Traders**

The last interviews were directed at big corporates in the formal sector. No pilot was used for this particular sector as they were the last sample of population to be interviewed, and at this stage the interviewer was more comfortable at conducting interviews. Appendix 6 provides a guide for the interview questions that were directed at representatives in the formal sector.

## **4.7 Data Gathering Process and Procedures**

Data was collected by means of semi-structured, in-depth interviews of individual participants. Before their implementation, ethical considerations were established. Permission for the study was sought from the University of Pretoria for an ethical Clearance Certificate; and individuals and organisations were approached to participate in the study on a voluntary and anonymity basis as described by Creswell (2017). Inclusion criterion involved potential participants in the study and what the characteristics of the participants should be. Non- probability sampling was used to select participants who were randomly selected based on their location and willingness to participate. The interviews were semi-structured. No experiments were required for this study. The study included: Owners of Spaza shops who were 18 years or older and who stayed in the study area of Seshego; who had an informal retail sector business that had been established over a year or more with these same criteria applied to the big corporations in the formal sector. All participants had to have knowledge and experience of involvement with the informal sector in the township, and both male and female informal traders who were available were included. With respect to the formal sector retailers, interviews were conducted with Spar and Truworths employees. From government's perspective, the following departments were considered for the study: The Limpopo Department of Economic Development and Tourism (LEDET), The Department of Small Business, Small Enterprise Finance Agency (SEFA), and the Industrial Development Corporation (IDC). The process for conducting the interviews included the following: taking notes, using open-ended questioning style, giving the interviewee a chance to ask questions, making direct observations and recording the interview. The study took ethical concerns into consideration and strived to meet the trustworthiness criteria.

### **4.7.1 Semi-Structured, In-Depth Interviews**

Face-to-face interviews and online interviews were the main data collection method and the researcher was the main research instrument. The researcher used semi-structured interviews. The main advantage of using a semi-structured interview was that the interviewer could ensure certain topics were covered, while still leaving sufficient freedom to explore other ideas. The face-to-face semi-structured interviews were loosely structured and consisted of open-ended questions that defined the area to be explored and also allowed the interviewer and the interviewee divergence of

opinions to pursue an idea in more detail. Each interview was transcribed verbatim and thematically analysed concurrently (Venter & Van Zyl, 2017). In this study, interviews were conducted primarily with informal traders in the township, formal sector traders in the township and relevant government departments.

#### 4.8 Analysis Approach

Data analysis is the process through which meanings are generated from the data and conclusions are drawn (Creswell, 2017). Before data analysis was pursued, the interviews were transcribed verbatim to enable examination of the text (Venter & Van Zyl, 2017). Thematic Analysis was used as it is a process of identifying patterns or themes within qualitative data. Findings were summarised into themes and each theme had a sub-theme (Maguire & Delahunt 2017). The advantage of thematic analysis is that it is not tied to any particular epistemological or theoretical perspective thereby making it a very flexible method (Maguire & Delahunt 2017). Creswell (2017) provides the eight basic steps to be followed in qualitative data analysis, as proposed by Tesch. The data analysis followed Tesch's eight steps for data analysis which is represented in table 5 below.

**Table 5**

*Tesch's Approach Tesch (De Vos, 1998)*

Steps	Description of Each Step
1	The researcher must read the whole transcript and write down some ideas that come to mind as the researcher goes through the transcript.
2	From the interviews the researcher needs to select one interview, the researcher needs to make meaning of the information in the interview. Any thoughts that the researcher has must written in the margin.
3	The researcher needs to make a list of all the themes and categorise. Similar themes will then be put together.
4	The list is then matched with the data by means of coding. The themes need to be abbreviated by codes. These must be written next to appropriate segments of the transcript.
5	The researcher needs to find the most descriptive for the themes and categorise them. Draw lines between categories to indicate relationship.

6	A final decision for the abbreviation for each category is then made by the researcher and the codes are put in alphabetical order.
7	Data material that belongs to each category is assembled and preliminary analysis is performed.
8	The researcher will recode the existing material or data if it is necessary to do so.

#### 4.9 Quality Controls

All research, including qualitative research has ethical implications. The search for new information to solve problems must comply with scientific standards (trustworthiness). It is not enough to pursue sound and scientific study. The study should also be ethical. Fawcett & Pocket (2017) state that contemporary expectations are to include the essential requirement that all scientific research is conducted ethically. Creswell (2017) writes that researchers need to anticipate the ethical issues that are likely to arise during their studies, as they relate about how they as researchers should conduct themselves. For instance, information and results of the study were linked to the identity and privacy of the participants; personal and private information of the participants was not shared with other parties or written about in the report; and participants should not be exposed to significant risks (physical, psychological, social, economic or legal) or avoid harm. The following ethical issues were addressed during the study: anonymity, autonomy, beneficence, confidentiality, informed consent, no-harm and safety, justice and privacy (Creswell, 2017, Williams, 2015; Fawcett & Pocket, 2017).

The interviewer conducting the interviews did not persuade the interviewee to direct their responses in a particular manner. There were no elements of being biased towards the interviewee while conducting interviews. Bias is the inclination to misrepresent the views of other people to serve selfish interest or it can also mean the deliberate distortion of findings. All the interviews were recorded and the participants were made aware of this prior to the commencement of the interview. The questionnaire was administered in a standardised manner to ensure validity and reliability.

#### **4.10 Interview Guidelines**

In preparation of the interviews, the following guidelines were used. A convenient location was selected so as to ensure that the interviewee was comfortable. The interviewer was dressed appropriately. The interviewer also showed interest in the conversation by listening attentively. A consent form was developed and attached as Appendix 3.

#### **4.11 Limitations**

The limitations that existed in the current study included the sample being drawn from a population of informal traders from a particular township (Seshego) based in Limpopo, which is only one of nine provinces. The results of the views of participants in Seshego may not be generalisable to informal traders in other township areas or those of the informal sector. Smaller sample sizes tend to raise issues of generalisability of the entire population (Rahman, 2017). In terms of obtaining information from government organisations, every attempt was made to include the participation of high-level people in order to get clarity on policy matters. Members in government were reluctant to participate in interviews and withheld information that was critical to the study, even though the ethics of the study were communicated in advance. Furthermore, the research conducted presented information that was subjective because individuals may have interpreted information in many different ways.

##### **4.11.1 Language differences**

Some of the traders in the informal sector could not articulate themselves in English. This issue was addressed by the interviewer translating the questions and responses into Northern Sotho, as this was the most widely used language of communication in the township. Despite there being an influx of foreign nationals trading in the informal sector (Mukwarami et al., 2018) who could have added value to the study, the interviewer could not get their perspective as they could not communicate in English nor could they understand any South African official language. Of the interviews conducted, only one was a foreign national trader.

#### **4.11.2 Access to Big Corporates in the Formal Sector: Inadequate Size of Sample Formal Sector Traders**

Collecting data in the formal sector was challenging as gaining access to the relevant people proved to be difficult. Big corporates were not willing to participate in the interview. The reasoning was that they did not feel comfortable giving out company information for the purpose of a study. Of the initial target of five interviews with big corporates, only two were conducted.

### **Chapter 5: Results**

#### **5.1 Introduction**

In this chapter, the results presented reflect the Research Questions formulated in Chapter 3. The findings from the 15 semi-structured interviews will be outlined in this section. A consistency matrix tool was used to formulate the interview questions which were further mapped against the research questions in order to maintain consistency between the selected methodology, collected data and literature for analysis.

#### **5.2 Description of Sample**

A total of 15 respondents participated in the data collection process. The respondents consisted of informal traders, officials of government departments as well as representatives from the private sector who could be considered as trading in the retail formal sector. The participants were selected strategically for the benefit of this study. The informal sector traders were selected randomly based on the qualifying criteria established in Chapter 3. The state has got various departments, subsidiaries and agencies that are responsible for developing policies, strategies and regulations that govern trading of the informal sector. Government departments were selected based on the role that they had in the informal sector. To better understand the relationship and link between the formal and informal sector, interviews with formal traders in the retail space were conducted. The focus was on formal traders that operated in township areas, and in areas where informal traders were able to operate and have consequently had to shut down as a result of the establishment of new malls/ shopping centres. The respondents are tabled below to provide an informative view of each participant.

**Table 6***Interviewee Profiles*

<b>Interview No.</b>	<b>Respondent</b>	<b>Company</b>	<b>Position</b>	<b>Nationality</b>
1	A1	Informal Sector Trader	Owner of the business	SA
2	A2	Informal Sector Trader	Owner of the business	SA
3	A3	Informal Sector Trader	Owner of the business	SA
4	A4	Informal Sector Trader	Owner of the business	SA
5	A5	Informal Sector Trader	Owner of the business	Foreign-owned (Somalian)
6	A6	Informal Sector Trader	Owner of the business	SA
7	A7	Informal Sector Trader	Owner of the business	SA
8	A8	Informal Sector Trader	Owner of the business	SA
9	A9	Informal Sector Trader	Owner of the business	SA
10	B1	Limpopo Department of Economic Development and Tourism (LEDET)	HOD	SA
11	B2	Department of Small Business Development	Head of Research Unit/Director	SA
12	B3	Industrial Development Corporation (IDC)	Regional Manager	SA
13	B4	Small Enterprise Finance Agency (SEFA)	Chairperson of the Board	SA
14	C1	SPAR	Manager New Businesses	SA
15	C2	Truworths	Regional head	SA

### 5.3 Presentation of Results

The results are presented as guided by the Research Question of the study as outlined in Chapter 3 together with the interview questions.

### 5.4 Results for Research Question 1

Explore and describe meanings that informal sector traders associate with the definitions of the informal sector, and the challenges traders face in formalising their retail businesses.

Research question 1 aimed to distinguish what people understood in defining the informal and formal sector. Furthermore, this question would highlight any concerns raised by participants in formalising the informal sector as well as any challenges and opportunities that might result from this process. This will assist in highlighting any factors that have not been considered.

Key questions from the research instrument which was posed to the interviewees are presented below:

- What is your definition of the informal sector?

**Table 7**

#### ***Definition of Informal Sector***

Rank	Construct	Number of people who mentioned it	Frequency
2	Small players	5	8
1	Unregistered	3	9
4	Survival	2	2
3	No support from government	3	3
5	For unemployed people	1	1
7	Black business	1	1
6	Low standards	2	2

Saunders & Lewis (2018) defined an inductive approach as one that consists of gathered data analysis of the results from the construction of theory. An inductive approach is therefore used when analysing this question.



### 5.4.1 Small Players

When asked for their definition of the informal sector, a number of the respondents who fell within the informal trader category defined the informal sector as one that consisted of small business owners as shown in the responses below:

A1: *“We, as small businesses (i.e spaza shops) are the informal sector. So, we identify as the informal sector because our businesses are small and we are at a very low standard unlike big businesses.”*

A2: *“The informal sector just describes people who start really small businesses from virtually nothing. It can be selling loose potatoes or tomatoes, without any regulation just working for themselves. They are driven to do this because they are living in serious poverty.”*

A4: *“I believe it would be the small/medium businesses owned by black people and I believe myself to be an informal sector trader.”*

A5: *“When you’re in the small business environment like us, the government doesn’t really help us. So we do everything ourselves.”*

A8: *“According to me, it is us with small business. We’re able to help each other so we can all eat and gain experience especially with working with people.”*

Out of the nine informal traders interviewed, five of them deemed themselves small players as shown above.

### 5.4.2 Unregistered Businesses

Some of the responses to this question took the regulatory route, they associated informal with unregistered as presented below:

A3: *“For me I would say businesses in the informal sector are those that are not registered. So, for me, when a business is registered it immediately falls under the formal sector. So because I’m registered, I wouldn’t really call myself an informal business trader. I am just very small scale.”*

A7: *“The informal sector in my description, it mostly “incovers” unemployed people that are trying by all means necessary to make it in this tough environment. So like without any funding or assistance from anywhere, they’re just trying to make it through the business sector. (So if you’re registered does that make you formal or informal?) I think if you are registered it is just a matter of being in compliance with regulations, with the law, but in order for you to become a formal trader I think you need to get assistance from government. Your business needs to be at a certain capacity, like level wise, as in it is big enough, but so long as you’re still on the ground to be, like these spaza shops, I don’t consider them as formal. They are still at a lower level, in the informal sector.”*

A9: *“According to my understanding, the informal sector is any business that can be run without being registered, without being recognised by the government. (So as soon as you register the business then you’re formal?) Yeah, that’s the understanding.”*

#### **5.4.3 Regulation as a Barrier to Growth**

- In your viewpoint, what do you think the impact will be in formalising the informal sector?

**Table 8***Formalisation of the Informal Sector*

Rank	Construct	Number of people who mentioned it	Frequency
6	Conditionalities fair treatment from formalisation	2	4
6	Unfair treatment	1	2
4	No difference will be felt if government formalises the informal sector as some of the informal traders already have registered businesses and SARS compliance certificates	1	2
3	Informal sector traders lean towards formalisation if there are benefits from government	2	2
4	Will formalise if there is assistance from government, must be done with the right approach	2	7
5	Empowerment and opportunities as a result of formalisation will be realised	5	6
2	Lack of accountability from the state regarding the informal sector	4	9
4	Lack of faith in government	2	3
1	Government needs to play an active role	3	11
2	Impact of formalisation on employees employed by owners of businesses in the informal sector	9	9

The previous question revealed some negative connotations linked to the informal sector as defined by the informal traders themselves. While trying to assess if the formalisation of this sector would possibly yield some good, making this step worth the informal trader's while, presented below are the following responses from the interview question.

*A1: "Since I started this spaza shop, representatives from SARS once came and pushed us to register to pay taxes, this was in 2003. So every year I submit my tax returns and if I don't, I know there will be trouble. What bothers us is that are these foreign-owned spaza shops not registered, as well as those spazas that were established after those representatives came to us because they seem to be more successful as compared to us who are registered."*

*So if the government were to register us all and treat us all the same then I would welcome them formalising the informal sector, because it is unfair for us to work and pay taxes whereas there are people doing the same job as us but are not paying any taxes.”*

It is clear that the respondent is not entirely anti-formalisation, all the informal trader is requesting is fairness at play. Fair governance is lacking in the informal sector as mentioned by the respondent citing reasons linked to the differing treatment between the registered and unregistered traders. In addition to that, it can also be deduced that there are traders in the informal sector, who have registered their businesses. In terms of the definition of what differentiates the formal and informal sector, the difference mainly lies in the registration of businesses, tax compliance and all other registration with relevant bodies. The traders registered their entities with the hope of formalising their businesses. This implies that all the required compliance documentation is in place, yet traders have still not seen the benefits of being formalised. It also seems that traders in the informal sector would lean towards formalisation if there were set benefits that would arise from formalising their businesses.

*A2:” If they formalise this sector then what difference will it make? The main objective is to sell, when you open any business the aim is to have people buying what it is you are selling so you can have an income. Whether they formalise it or not, will it make people buy?”*

*A6: “It will depend on the promises they make to us. Given that we’re poor it will depend on what they promise us with us agreeing to being part of the formal sector, we will not agree to just anything.”*

The following respondent made it clear on how formalising the sector would be of benefit to them as informal traders, by addressing their needs for further growth and development:

*A7: “It depends to what extent are they formalising it. What are they bringing to the table? They just can’t bring laws to govern this informal sector without bringing the funding and the training and stuff. What do they bring to the table as the government because they have to bring something.”*

As part of trying to understand how the informal traders ranked the importance of registration, if they saw a need at all, we asked if their businesses were registered and out of nine informal traders, the split was as follows:

**Table 9**

*Registered Entities*

Registered	No registered
9	0

The table above shows us that the informal traders find merit in registering their businesses even though they still refer to themselves as informal traders based on the above definitions given. In addition to this, compliance seems to be an issue to some as they battle in some instances to keep up with the requirements and submit relevant returns etc. as seen in A7's response.

*A7: "Yeah it is registered. (So you pay tax?) Uhm, unfortunately not. It is just registered. I just don't pay tax. The other thing about that is what COVID- 19 has taught us, I mean it has left a scar especially us business people. We've seen no assistance whatsoever from government."*

#### **5.4.4 Empowerment and Opportunities Arise**

Some positive views came through the interviews amidst the lack of faith in the government as well as the institutions who are tasked with ensuring the development of the informal sector. The respondents below shed some light and optimistic views on formalising the sector:

*A3: "I say it's great, well at least for me. It is about empowerment. It will also push me to work better and work smarter so that I can compete with people, for lack of a better way to say it, in my league. Also, in formalising the informal sector, they need to educate them on how to carry on their businesses."*

*A4: "Yeah, maybe it could be good to be recognised because presently we are not recognised."*

*A5: "I would appreciate it because it would mean I would be under a certain amount of control from them and we'd pay SARS and all these government things we have to pay and we'd be safe."*

The reception to formalising the sector is mostly positive from the responses given by the participants who have been defined as informal traders. A concern for most of the informal traders is access to increased opportunities and assistance from the government and its agencies as voiced by the respondents below:

*A8: "I would not have a problem with it. I mean like us we're registered, we pay SARS. So for me that wouldn't be a problem as they'll be creating more jobs and maybe we'd get more people buying from us."*

*A9: "It would be a great thing, but remember there's only one thing you must understand, there is a certain approach from our government, which is killing us. When they say they are supporting us, they will be giving us debt. We want something that will stabilise our businesses. When we need their support, we want maybe to say if you go there and buy something in bulk and you show your papers that you're registered then that thing when you buy it should be 50% off so you can make enough profit from it. So rather I tell you that you must come and apply for a loan, then when you're unable to pay for the loan then you're declared insolvent and it makes your life difficult. We want support in a way that they meet us halfway and not make things difficult."*

Empowerment can be extended over and above the informal traders, through the creation of job. Out of the nine informal traders interviewed, their ability to employ others can be presented as follows:

**Table 10**

*Registered Employees*

<b>Employed Assistant</b>	<b>Yes</b>	<b>No</b>
	7	2
Registered employees with Department of Labour	2	5

The data collected shows that when the informal sector thrives, the better the chances of addressing other social ills such as poverty which is most often driven by unemployment. When these informal businesses thrive, so do the communities they serve as this translates into more jobs created, contributing to reducing the employment rate.

**5.4.5 Accountability from the State**

The government argues that for better control of the informal sector, it would be practical for traders in the informal sector to be registered, thus formalising them. They also initiate programmes that are directed towards encouraging traders in the informal sector to register their businesses.

*B1: “So all these programmes in the township and rural economy are part of ensuring we formalise this sector at the end”*

The government departments argue that the lack of registered entities in the informal sector also makes it difficult to measure the sector in its totality and to account for the exact contribution which the informal sector makes towards the economy. The measurement of the informal sector is based on estimated figures.

*B2: “The contribution of the informal sector is measured from purchases made from the formal sector wholesaling and retailing. In the formal sector the amount of people buying from Jumbo, Buyrite etc are people based in the informal sector. It is more accurate to measure the buying from wholesalers as opposed to trying to get information from asking traders in the informal sector how much they make. Take a look at Jumbo, the majority of people buying there are from the informal sector”*

B2: *“So, here's a key learning of this, the informal sector is an extension of the formal sector it is the last mile of distribution”*

B3: *“You can tell that there is money circulating in the informal sectors but it is difficult to measure it”*

B4: *“We draw the numbers from Stats SA, they are responsible for that, but I do not know how they establish their figures since people are not registered on the database”*

#### **5.4.6 Consequence of Lack of Formalisation during the Pandemic**

For traders in the informal sector to access funds that were allocated to the sector during the pandemic, one of the key requirements was that the entity needed to be registered. This did not only have an impact on accessing funds, but in terms of trading during certain levels of the lockdown, one needed to produce a particular permit. This permit was issued by various municipalities. As part of the submission documents towards obtaining the permit, the municipality required compliance documents of company registrations, a SARS tax clearance certificate and exact area of location where the business operated.

B1: *“We have assisted in giving COVID relief funds to some of the registered businesses. We have provided training in partnership with Coca-Cola. We have provided financial as well as non-financial support to small business”*

B3: *“And for COVID they also had relief funds for informal businesses but you will recall one of the qualifying criteria was that they should be registered with the local municipality. So, if they not registered, it again becomes problematic. In the same breath you can't blame government, because everyone will come in, claim some money, it is difficult to prove that somebody has a business if it is not registered”*



#### 5.4.7 Formalising and the Formalisation Effect on Employees

Traders in the informal sector seldom operate their shops alone. The owners of the businesses in the sector employ people but seldom register those people with the relevant labour department, or issue them with formal employment contracts. Of the nine interviews that were conducted amongst traders in the informal sector, two of the traders worked alone. Five of the traders in the informal sector who were interviewed admitted to having employed workers in the business but have not registered those workers as employees with the relevant labour department.

*A4: "I do have employees but no they are not registered"*

*A5: "I have like three or four employees. No, they are not registered because they don't work here for long"*

*A6: "We have two employees. They are not registered. We only register the ones that work long enough, some people do not last long enough for us to teach them the work and then register them. We have only registered two people so far."*

*A7: "Yeah currently I have two. I have not yet registered them. For the sake of compliance, I will register them. Even though to me it doesn't make sense but I will register them."*

*A9: "Yes I do, I have the one Zimbabwean lady. No she is not registered"*

Some of the business owners in the informal sector have noted the importance of registering their employees with the relevant labour department. One of the respondents recognises the importance of registering employees, and particularly registers their employees so that in the period that they are not able to work for whatever reason, they could at least have access to UIF (Unemployment Insurance Fund)

*A3: "I have four employees and they are registered with the Labour Department. So, they're able have access to UIF"*

The respondent below has noted the difficulty in keeping up to date with registering employees, because some come in on a temporary basis and find employment elsewhere. Another difficulty arises from workers who are not comfortable with

submitting their personal details/documents to their employer. Instead when requesting documentation from workers, some end up not coming back to work.

*A8: “In December we have 9 in the cement selling business of thing and 2 in the spaza shop but now they’re less because some of them left. Yes, we do register some of them. Some of them work on a temporary basis so we couldn’t register them and some people when you ask them for documents in order to register them but they end up disappearing.”*

## 5.5 Results for Research Question 2

Establish the Relationship that Exists between the State, Formal and Informal Sector.

Research question 2 aimed to identify all the challenges that traders in the informal sector are faced with. This would assist in determining factors that have not been considered.

Key questions from the research instrument which was posed to the interviewees are presented below:

- Explain the Role of the State in Relation to the Informal Sector.

**Table 11**

*Role of State in Relation to Informal Sector*

Rank	Construct	Number of people who mentioned it	Frequency
1	Lack of support from government for traders in the informal sector	8	17
2	Assistance received by traders in the informal sector from government	1	5
9	Support from private sector for traders in the informal sector	2	4
8	Development and growth opportunities	2	5
7	Collaboration	2	6
6	Stakeholders	2	7
1	No support from government	5	6
5	Failures by municipalities	4	9
3	Consultation	2	8
4	Misaligned departments	2	2

### 5.5.1 Government Initiatives

The government has got financial and non-financial support that it offers towards the informal sector. The Department of Small Business Development in particular is responsible for facilitating the development and growth of small business, so they can contribute positively to the economic growth and job creation. Furthermore, the government agencies have a mandate that comes from the department of Small Business Development for a certain period to assist the informal traders with their needs. The data collected shows that there is a clear misalignment in the manner in which the state is assisting the informal sector and the needs of the traders in the informal sector. The respondent below highlights some of the initiatives such as workshops held by the Limpopo Department of Economic Development Environment and Tourism in collaboration with the National Youth Development Agency (NYDA) with the Department of Trade and Industry (DTI).

*B1: "For informal traders I'll be honest with you, they're not much, but we're planning on introducing more in the next financial year. Given the expectance of COVID- 19, currently what we have, remember our department, the Department of LEDET, we're having the agency we call LEDA. So at the level of LEDA, it's where national support takes place. They're taking them, giving them business advice, we have workshops for them and support their business organisation. Like last year we took a few of them that wanted to do benchmarking for themselves, they were coming from Waterberg to Skhukhune to do benchmarking so as a department we were able to support them with cars and accommodation. So, these are the things we've done to support them but they're not much. In terms of financial support, it is that one I said to you that most of them have working equipment that costs around R10 000 and then all the district informal traders have benefited in that programme. During the month of November, we have partnered with Coca-Cola. Coca-Cola gave them training free of charge which is going to end at the end of March and they had to be in the programme for a period of six months and must submit their portfolio of evidence. It was mainly meant only for the workers, the street vendors and other people within that space. When we do workshops, last year around October we had a workshop where we called other agencies and the NYDA to share with them information the policies we have and also in November at Mopani District we were able to have a workshop with DTI just to highlight to the informal traders the importance of formalizing. If they don't formalize, there's opportunities that they are missing."*

B1: *“With the number of people that have been assisted, our collaboration with the Department of Small Business, from the scheme of spaza shops as I have said we have assisted more than 1000 and then from the scheme of fruits and veggies we have assisted more than 100 and from the scheme of butcheries and confectionaries we have assisted not more than 50, if I’m not mistaken, that’s the funding that people have received.”*

B1: *“Municipalities are not assisting them, because we’re expecting as the government that municipalities must assist the informal traders especially when it comes to building for them stores which have water and electricity and storage”*

B2: *“There are various programmes that the department has got in place. To be more specific the plans are highlighted under TREP programmes. Township, and Rural Enterprise Programmes which outlines all the programmes that the department currently has.”*

There seems to be a disconnect in the role of government and the various departments who are tasked to assist the informal sector. The respondent cited a number of government agencies who collaborate in developing and implementing the development programmes in the informal sector. The next respondent who is from the Small Enterprise Finance Agency (SEFA) mentioned that the informal sector falls within their mandate, they are mainly responsible for issuing financial resources for small businesses.

B4: *“The informal sector falls within our mandate. And in terms of how we work on that, SEFA is guided by the legislative framework which has been established. Operationally what we have found, I mean this is my second year at the board of SEFA, from an operational and structural point of view, SEFA has two channels of delivery from an operating model. We have what we call a direct lending channel. That’s where people in retail are directed to. Then there is a wholesale lending channel, where we go into partnerships with third parties. And we have agreements with them for particular funds. We are then able to dispense and to deliver on that mandate. In fact, the wholesale lending channel is the one that gives us the highest number of jobs created, it enables us to penetrate and go into areas that we have not been able to go into.”*

B4 *“The main ones that we work with at the moment is a company called Phakamani, and the other one is SEFF. They are responsible for finding corporates and small players in the sector”*

B3: *“The problem is that these structures are not coordinated.”*

The outsourcing of services within government departments and agencies results in an increased chain of command, and an additional allocation of resources towards outsourcing the work. The identification of informal sector traders that can be assisted by SEFA has been outsourced to two companies (Phakamani and SEFF) by SEFA. One of the most pressing issues found in developmental support is funding, a primary mandate of SEFA. The informal sector continues to experience challenges with regards to this as seen below:

A1: *“In my business, since I established it, the main challenge I’ve come across is not having enough funds and space to improve my establishment so that it grows from being a spaza shop to being something bigger. Even if I were to find a bigger space to operate in, finances would have still been a problem.”*

A4: *“Funding is the most important thing so if you don’t have capital for your business it won’t work out.”*

It is clear that there is a desperate need for developmental support for the informal sector, formal institutions and government. The government is the first point of contact in meeting these needs. A government department that has heeded this call is The National Department of Small Business Development as shared below:

B2: *“There are various programmes that the department has got in place. To be more specific the plans are highlighted under TREP programmes. Township, and Rural Enterprise Programmes which outlines all the programmes that the department currently has.”*

Unlike respondent B1 who is also a representative of a government department, the respondent above highlighted the programme which targets rural areas where most of these informal businesses are found.

Of the nine informal sector traders that were interviewed, six of them have not received any kind of assistance from the private and government sectors.

A1: *“I have not received any kind of help”*

A2: *“Ever since I started my business I have never received any kind of assistance from anyone. Plus when we started, we were often arrested for “operating without a license”. The “big shop owners” would report us and the police would come take our stock and make us pay a fine to get it back. So we have never received any help”*

A5: *“No I have not”*

A6: *“We have received no help. All that the municipality wants to know is when we’re going to pay them rent. Even banks haven’t helped although I’ll admit I have not tried them”*

A7: *“None whatsoever. I’ve never applied. The thing is I have always told myself I do my things based on strategy. My strategy was I go work, I accumulate certain funds, I save up, after saving up I start something, because me working 9 to 5 is not my plan. Even if somewhere somehow I managed to fail, I picked myself up and start over again. so now I’m just hoping I don’t fail”*

A9: *“No, I never got anything from them. The only time you see government people are when they come check if you’re in compliance with COVID 19 regulations and this SAPS and SANDF. Similarly, we don’t have any person/institutions that come to us and teach us how to save such thing”*

The government provides non-financial services under an agency called SEDA. SEDA mainly assists small businesses with registering companies, training in particular fields, developing business plans, understanding all the compliance documents that are required in terms of starting a business, as well as compliance in terms of the operations of a business. One of the informal sector traders were fortunate enough to have received training from SEDA

A3: *“So I’ve had help from SEDA. They have been amazing. They have trained us, myself and staff. They have helped upgrade our skills and have given them tools for improvement, for free, whereas I would not have been*

*able to do the same. I also received a loan from LimDef but a very long time ago”*

Two of the respondents have received assistance from the private sector, in an effort to grow their businesses.

*A4: “I have filled in forms to receive COVID 19 Relief funds but I have not received anything, not even feedback. But I have received a loan from YOCO of R30 000 and they gave me swiping machines so from every swipe they keep a certain percentage of the money”*

*A8: “Yes, I got help from a private institution; the people that install solar thing once came here and gave us the shade we work under. They gave us equipment of which we still use some of it today; they even recommended us for jobs at other companies”*

Policies that govern the informal sector are developed by government institutions. These policies are aimed at promoting the growth, and development of traders in the sector (Lammers & Garcia, 2017).

### **5.5.2 Segregated Planning**

**Table 12**

*Protection of traders in the informal sector*

<b>Rank</b>	<b>Construct</b>	<b>Number of people who mentioned it</b>	<b>Frequency</b>
3	Protection	2	10
2	Unprotected labour	9	20
1	Foreign trading	15	29
3	Trading by big corporate in rural and township areas	1	2
5	Bulk buying	4	4
7	Fake products	1	1
5	Price	4	5
6	Formal businesses	2	4
4	Affiliation	9	9

- How does the state protect the interests of the informal sector as compared to the formal sector?

Some of the respondents took the time to unpack who needs protection and to what extent. As this can be ambiguous, the respondent representing a government department with a responsibility to provide this protection elaborated as follows:

*B2: "The protection needs to be understood in terms of who and what. You could be referring to big corporates and foreign nationals etc.*

*Now, there are various dimensions to this, the first dimension is: Who do you need to protect the informal traders against? The first point is formal businesses, basically the big corporates.*

*Formal sector: Who are these formal businesses, they are the large-scale wholesalers, manufacturers, retailers that are established in business centres. Now, why does government have to protect them. Because these guys are now going from the urban city centres into the township and rural areas, opening up in places like Thulamela. My question to you is that when big malls being established, what do you think happens to informal traders who were operating there before?"*

Respondent B2 provides a comparative view between the formal and informal traders and how the existence of one may have a negative impact on the other. In this case the establishment of more formal business generally has a negative impact on the informal sector as they are left with reduced market to serve further supported below:

*B2: "Correct. Another important issue is the protection against foreign traders. What do they need protection against these guys from? Firstly, illegal trading, secondly bulk buying and then, they need protection against illegal corrupt and anti-competitive practices."*

The government seems to also be aware of the lack of trust between them and the informal sector. Government has been known for increased red tape, making it difficult for the sector to trade with ease and improved channels for growth. Respondent B2 confirms this below:



B1: *“The main challenge with this is when you call informal traders and you want to show them opportunities for example, they think we want to formalise them so as a result they are not coming on board. “*

The political climate in South Africa contributes to the kind of decision that the government is able to take. In terms of protecting the local traders against the trading of foreign nationals in the informal sector, and especially in the township areas, it is something that is difficult to do because there are various political parties who will term protection aimed at local traders as being against the foreign traders, which then causes differences of opinion. SEFA also states that the Department of Small Business Development although moving swiftly towards dealing with the issues of the influx of foreign- owned businesses in the informal sector, acknowledge that the Department of Home Affairs also needs to assist in terms of ensuring that people enter the country legally, with the correct working permit.

B1 *“Now, let me start off in this way, there is too much noise in South Africa. Almost everybody claims to be an expert on something. If we're not dealing with that, then we are dealing with people that cry foul that there is no democracy and that we are suppressing free market and all sorts of stuff. The minister of Small Businesses came out very sharply on this matter. And in fact had been arguing that governments need to designate certain traits to South African only. You would have seen in terms of the latest list of rare skills as published by the Department of Home Affairs to say that if you are to come to this country as an immigrant, we would be amenable to grant you the status, because at least you are delivering a rare skill. So, from the government's there has been a lot of work done to make sure that we defend the space for small businesses and especially South African black businesses.”*

B1: *“There is a big push from the Minister to defend that space but unfortunately it is happening within a context of very strange environment, and with all the opposition parties also wanting to stand their grounds. People tend to confuse the need for government to protect and African businesses with xenophobia. It's also very strange to see even people like EFF, in defending this pan Africanism, and that South Africa is open to all Africans, pushing back and saying that it will be wrong for government to regulate that space. In the promoting Africanism, we should not be defending the interest of foreigners more than our own.”*

The issue of foreign nationals trading in the informal sector has posed a challenge for local traders in the sector. It is frustrating for locally owned business to operate in the same space as the foreign nationals in the informal sector. Due to the fact that the barriers to entry in the informal sector are so low, it e makes it easy for foreign nationals to trade in the informal sector. Three of the traders in the informal sector felt strongly about the negative impact of the trading of foreign nationals in this sector.

*A2: "Foreign-owned spazas are also taking customers from us."*

Foreign nationals have diversified and have over the years managed to enter into every business that exists in the informal sector, especially those businesses that are based in the township areas. Foreign nationals have buying power as they are able to purchase stock in groups, which allows them to have bigger discounts as compared to a locally owned business owner, who buys stock as an individual. Due to the fact the foreign-owned shops receive higher discounts on their stock, they are therefore able to sell their products at a much cheaper rate than those who would have otherwise have purchased products on an individual basis. This is described by the informal sector below.

*A7: "The main challenges we face in business are these foreign nationals who try by all means to go into all these industries that we want to get into. They see something then they want to get into it. They see a car wash then suddenly they want to start car washes. I mean when they started, they came here selling blankets and curtains and stuff but right now I mean they even have accommodations, I mean they are everywhere. So, for us it's a bit of a challenge. The other challenge we have is that we black people are few and the foreign nationals are a lot. They also own the wholesalers and sell to their own at discounts or on credit which means they can sell their things cheaper. They do not do the same for us. They don't give us discounts or sell to us on credit, it is take it or leave it."*

Foreigners, unlike local traders in the informal sector, form a community where they are able to buy in bulk and protect each other against anything that can occur in the sector. This is described below by a foreign national trader in the informal sector.

*A5: "We are the only ones looking out for us. We have to hustle to get the best and safest places for us as foreign-owners of spazas. It's just us as foreign-owners we're united and protect each other whatever way we can."*

The government acknowledges that it is difficult for local traders to compete with foreign national traders on price because they have very high buying power in the wholesale space. The government would subsequently like to support local informal sector traders in order to allow them to be able to compete with those foreigners who trade in the informal sector, as explained by SEFA below

*B4: "In the informal sector, we would say that we want to fund 70% of South African owned business, but in essence we would like to fund 100% South African businesses, just as a way to help our own enterprises to be able to compete and survive the pressure that they face from these foreign nationals (especially Somalians in the township settings). The foreigners have made it very difficult for local owned spaza shops to trade because they have an advantage or buying power."*

Another issue that was raised by one of the traders concerning the trading of foreign nationals in the sector, is the sale of fake products, and the inability for health inspectors to be able to do regular inspections at these shops, where they would have found that a lot of the products are not safe. The market segment that the spaza shops target are those people who are concerned about price and not really the quality of the product. Customers in the informal settlements buy the cheapest products, even if they are aware that those products are counterfeits. The informal sector trader below describes how it is frustrating for him to sell quality products at no commission, but people will still not buy them because they are not the cheapest in the market.

*A9: "The other one is that when you sell originals and with a good price, they don't want it, they complain that you're expensive. They choose to buy from foreign nationals. The other one that is so challenging and painful is that foreign nationals don't mind selling something that has no commission. I don't know how they calculate their things but when I check my product I see maybe I can get R1 or R2, they complain that I'm expensive. I think foreign nationals have a way of getting these things, not how we buy them because you can't buy something using your petrol and then selling it at the same price. I think they use fake products. But people still choose to go to them. I think health inspectors should go to every single business and check the products they are selling our people. We have health inspectors at a district level but they don't come to our spaza shops."*

### **5.5.3 Absence of Local Government Support**

One could argue that the lack of trust in the government is valid as some of the institutions which are established in these communities for the empowerment of sectors such as the one under the study, have not delivered on mandatory services, and have therefore continued to fail in providing the necessary support. The respondent below unpacks it further:

*B1 “Municipalities are not assisting them, because we’re expecting as the government that municipalities must assist the informal traders especially when it comes to building for them stores which have water and electricity and storage. The third challenge is in terms of municipalities. Municipalities must assist informal traders, they must have a proper permit where they’re working. There must be a system in place to also help these people grow and sustain their businesses., so these are some of the challenges. Also, from the provincial level we need to establish a dedicated funding for the informal business, in which now we’re submitting a proposal that in the next financial year we at least need to start with R2.5 million to assist informal traders only in Limpopo”.*

According to Evans (2014) and (Chung, Choi & Shin, 2015), organisations are influenced by social powers which is shown by institutional theory. He further states that the key players possess social powers, which allows them to achieve collaborative advantage through leading initiatives which encourage change.

### **5.5.4 Unprotected labour**

Traders in the informal sector are also faced with an institutional challenge because there are no organisations in the informal sector that have organised themselves as trade unions. Traders in the informal sector and particularly those in retail do not have representation from trade unions because there are no trade unions that represent the interests of the traders in the informal sector. Informal sector traders are therefore not affiliated to any particular organisation that will assist them when they have got grievances. Traders in the informal sector do not have a voice when it comes to matters such as high prices, difficulty in gaining access to credit, threats or eviction by municipalities. Not being affiliated to any organisation not only affects the owners of the businesses but it affects the workers as well, because unlike the formal sector, they cannot affiliate to any organisation that will protect their interests as well.

All of the interviewees in the informal sector stated that they are not affiliated to any organisation as indicated below.

A1: *“No I am not, we as spaza shop owners do not have an organisation that represents our interests.”*

A2: *“No I am not. We once tried to form something of the sort when foreign-owned spaza shops started becoming a problem but nothing ever came of it because the government never looked out for us or helped us in any manner.”*

A3: *“No, I am not. In my industry there are organisations but I’m not interested.”*

A4: *“I was a member of NAFCOOC. It was a national body that represented small businesses but now it is no longer active.”*

A5: *“Not really, it’s just us as foreign-owners we’re united and protect each other whatever way we can.”*

A6: *“We have heard of someone who apparently fights for us but I don’t know anything about them so I am not registered with any organisation. “*

A7: *“Not yet. “*

A8: *“No I am not “*

A9: *“Like I said, where we are there is no information coming. So need a structure to represent us because we don’t have.”*

Another factor that resulted from not having structuralised organisations or unions within the informal sector became evident during the pandemic when it was difficult for spaza shops to continue trading, as they did not have the necessary permits that allowed them to work. Teachers and nurses were protected by their trade unions and they came out strongly in terms of what they wanted to achieve and emphasised that their members would not work as long as they had not received the correct PPE. In the informal sector, people were not allowed to operate, this killed their business as most of them trade for survival. If spaza shops were found to be trading or open after the stipulated hours, the stock would be confiscated and the owner arrested. This from participant A2, who owns a spaza shop.

A2: *“When lockdown started and restrictions came into pass, we couldn’t even sell other things to supplement the loss of income. Business has been slow as fewer people come to buy. I am an old man and I take care of my mother. Although I had obtained the permit to operate during the pandemic, the situation was still bad. The other day my mother fell in the sitting room and I left the spaza shop open. It was already 6 o’clock. When the army went past my house they noticed that the spaza shop was still open after 6 o clock. They were banging the doors. They found me in the house trying to assist my mother because she is an old woman. They took my stock and arrested me. I had to ask my neighbours to accompany my mother to the hospital as they took me to the police station with my stock. They held me for two hours and let me go. I was able to get my stock on a fine of R 1000. But only the following day. It was a mess cause the following day my mother was still in hospital and I had to go get stock. When I tried to explain to them that I forgot to close the shop and did not realise that it was 6 o clock, they did not buy my story. I told them that I forgot about the time because my mother, an elderly woman needed attention as she had fell.”*

All the participants in the informal sector indicated that they are not affiliated to any organisation or trade union that can protect their interests.

A1: *“It has affected us a lot in that business is not doing as well as before. We did work during the strict lockdown but business did not do as well as it usually does.”*

A3: *“It has been great. I have gone into new markets and gained new customers. Compared to where I started, I’m quite happy with the impact level 5 lockdown had on my business. I think right now it’s on me to carry on and build from this success, understand my new markets and ensuring I meet the needs and wants of my customers. I need to make sure that with improving my business I’m still able to meet the needs of my community.”*

A4: *“It has been bad, especially because we are also in the liquor industry. We had to tell our staff to stay home because we can’t afford to pay them.”*

A5: *"It has affected us a lot, it is bad, people don't visit shops as much because they're scared they might catch the virus and curfew restrictions have also made it bad."*

A6: *"It has not been favourable towards us. Right now, we're in January. January has no business all over. Our people do not know how to budget for January. They have told themselves and accepted that January is a month of struggle and they are not willing to do anything about it. January there is no work, February people have to save the little that they have so that take their kids to school, March was COVID 19, there was no business as we were forced to close down (due to lockdown). We became impoverished and the government did nothing for us, they don't care about us. They didn't even ask us that since we have not been able to work for 3 months, 5 months, what we have been eating, no."*

A7: *"It has been tough man, it has been very very tough. I mean we try by all means necessary to stay afloat. Right now what we're doing, so long as you can buy bread at the end of the day you'll be fine because business wise our investments are all gone. We're just hoping that one day things will get back to normal. (But were you able to operate during the lockdown when it started from level 5 in March?) No, you know we're slowly also trying to transition ourselves also in a way. We're getting used to this thing, also as you can see right now, you that this thing is not allowed in a way and slowly but surely people are getting tired of sitting around and not doing anything. They want a chill spot drink."*

A8: *"It has been negative, even then when this started last year we were granted permits so we could get people the things they wanted, but even then there really wasn't much freedom to go wherever we needed to. You know we buy our stock from foreign nationals, sometimes they would be somehow towards us and refuse to sell to us or they would tell us they have no stock themselves because of COVID 19. Another challenge is that our people don't really like to wear masks, so when we tell them to wear masks so we can sell to them they get offended. We end up selling to them because if we don't then the foreign nationals will as they do not mind whether they're wearing masks"*

*or not. They could even go around bad mouthing you in the community for refusing to sell to them without a mask.”*

*A9: “To be honest with you on that one, I don’t think any business man will tell you they were happy with the regulations. If there was a thorough consultation with us we could have figured something else. I made a bit a money from sanitising some government institutions but how many can say that?”*

### **5.6 Results for Research Question 3**

Establish the effects that policies have on the development and growth of the informal sector.

Based on the response to these questions, the researcher will gain insight about the impact that policies that focus on formalising the informal sector and growing the township economy would have. The researcher will also be able to establish the different viewpoints regarding the failure or success of policies and the commitment of the government towards formalising the informal sector and developing the township economy. This data will also assist in building onto the already existing literature. The business rationale is twofold: (i) the informal traders will benefit excessively from formalising their businesses (ii) the government in turn will be able to collect tax revenues thus building capacity to increase public spending and create employment through increased service delivery opportunities.

Key questions from the research instrument which was posed to the interviewees are presented below:

- How can current policies assist in developing the township economy?



**Table 13***Policy Development*

Rank	Construct	Number of people who mentioned it	Frequency
2	Strategies	4	31
1	Policies	4	48
1	Stakeholder engagement	1	3
5	Regulations	3	7
5	Accountability	1	2
4	Conditionalities	3	7
3	Implementation	4	15
6	Enforcement	1	1
4	Criteria	2	10

**5.6.1 Strategy Development vs Policy Implementation.**

The research question as identified above aims to analyse the policies implemented by government in relation to the informal sector. When collecting data, there was a clear indication from government's perspective of a more strategy-orientated approach versus a policy approach regarding the informal sector. The respondent below representing the Department of Small Business Development explains the reasons why the government prefers a more strategic approach as opposed to a policy led approach because the department would like to be perceived as more action-driven than just drafting policies. It is important to note that the Department of Small Business Development is the main government department that is responsible for the development of policies.

*B2: "The NIBAS is comprehensive as a policy, I am not too sure if it can be referred to as a strategy or a policy. It is more of a strategy. Okay, so I think there's a lack of policy regarding the informal sector. That's the first point of departure. The government uses a strategy because they want to be perceived as more action-oriented. In terms of policies, if you decide not to put up a policy, you are escaping your regulatory duties which is not right. South Africa, and especially the informal sector needs to be guided by policies. If for example you put up a strategy then you need to action that strategy. But if you put a policy and do nothing about the policy then people can't penalise you for not implementing the policy."*

The Department of Small Business Development also acknowledge the importance of having set policies in the informal sector as opposed to just having strategies. They emphasise the fact that a strategy, unlike a policy, has got no legal standing. People therefore cannot hold you accountable for a strategy, but if there was a clear policy regarding the informal sector then the government would be held accountable. Furthermore, the Department of Small Business Development accept that just by means of observation, the informal sector does not appear to be thriving. The respondent from the Department of Small Business Development poses certain questions to the principal investigator that are supposed to make an ordinary citizen realise the inefficiencies and basic elements of developing the sector, that the government has failed to do.

*B2 “Okay, so what we are actually doing is very important in terms of highlighting aspects related to policy and legislation, because strategy has got no legal standing. Okay, so I agree with you that policy is important. My perspective is that, strategy while being more flexible and implementation orientated lacks context, if it isn't rooted in the policy. In summary to answer whether there are policies for the informal sector, the answer is no, there is however a strategy but remember that the current strategies are not rooted in policies. Does the informal sector look well capacitated according to your own observations? By observation the informal sector does not look like it is thriving. Take Tshakhuma Market for example, based on what you see, what has the government done for them?”*

A different voice pertaining to the approach described by the previous respondent and also representative of government came through and shared the national policy implemented derived from the Department of Small Business Development and implemented by the Limpopo Department of Economic Development Environment and Tourism. He unpacks these initiatives below:

*B1: “From a national level we have a policy developed by Department of Small Business, we call it NIBUS (National Informal Business Upliftment Strategy). It is our anchor policy on a national level and from the provincial level we have developed two policies, one has been approved by EXCO which is the*

*provincial executive where the Premier is the chair of the committee. The other one is on the way also to be approved by EXCO but the first one that has been approved by EXCO we call it Township and Rural Economy Strategy. This one was approved last year (2020) around October and there was a media release to say that this policy has been developed and has been approved and will be implemented in this financial year which is starting on the 1<sup>st</sup> of April 2021. The other strategy we call the Informal Traders Strategy. It's still a draft but it has gone through all the processes of engaging the relevant stakeholders, the business community, the municipality and other sector departments and other government agencies that are relevant to implement this policy. That process has been done, we're just waiting for the policy to be taken to EXCO so anytime the policy will be approved."*

The respondent above paints a picture of stakeholder engagement as he highlights the implementation of the strategies with the communities they aim to serve together with the local municipalities who support these initiatives. Freeman (2015) challenges the traditional view of stakeholder theory being the shareholder view, where the shareholders who are the owners of the company, are the first in line where needs are concerned and that their interests are taken care of through increased value. Furthermore, it may seem that the respondent B1 is using the term policy and strategy interchangeably. Since the Department of Small Business Development has already confirmed that there are no policies that exist for traders in the informal sector, strategies should therefore be the correct term to use in terms of initiatives.

The IDC echoes the sentiments of the government having no set policies in the informal sector. There are regulations instead of policies. Those regulations that do exist within the informal sector are not well implemented. This problem however is not unique to the informal sector, but generally in South Africa the government will have good regulations, but will fail in the implementation of those regulations. This is described by a representative of the Industrial Development Corporation.

*B3: "I think as far as policies are concerned in government, it's more just the regulation around the registration and stuff. There is just a deficiency in the South African system. We do have strong and good regulations but the enforcement is a problem. The reason why you start seeing in townships people fighting because of xenophobia, is because the locals still stick to the*

*old way of doing things now. You have foreign nationals-entrepreneurs who come in, they have a particular way of doing things. As a result, locals cannot compete”*

With respect to policies in the informal sector, the responsibility lies completely with the Department of Small Business Development. All the other government departments serve as agencies that merely implement strategies as indicated by SEFA below.

*B4: “All the policies lie with the Department of Small Business itself. SEFA is merely an implementing agency. We therefore craft strategies to reach the objectives.”*

#### 5.6.2 Bridging the Gap between the qualifying criteria for traders in the informal sector and the reality of operations in the informal sector

The Limpopo Department of Economic Development Environment and Tourism recognised a gap in implementing policies and strategies that are directed specifically at the informal sector, considering that most of the strategies focus on SMMEs as a whole. They highlighted the areas which needed most attention, speaking directly to the needs of traders in the informal sector. The main concern for the department is trying to assist a particular target group but having requirements that are not realistic in terms of what that target group is able to produce, especially in terms of paperwork and compliance documents. The point is to have strategies that target traders in the informal sector with the aligned requirements, as opposed to using a blanket approach to cater for all traders under the SMME umbrella. The respondent highlights this further as follows:

*B1: “Before we developed these policies, if the province didn’t have any policy in place then we were using the national policy. As I’ve said, we were using NIBUS as the instrument of supporting the enterprises but even before NIBUS was there, in Limpopo we have Limpopo SMES Strategy its where we’ve observed the gaps in the strategy it doesn’t take care of the needs of the informal businesses. That is why we came up with the two strategies because when we look at the SMME’s strategy it will tell you that the pillar of it is to support SMME’s in the township and rural with funding, with infrastructure and so on but when you look at the requirements part you’ll find that there’s a gap Informal trader are not taken into consideration.”*

The success of this approach can be seen below as this gap was addressed in trying to serve the larger informal sector, not limited to SMMEs, or small businesses that are well established. It recognises other forms of businesses that would form part of the informal trade. One can argue that this encourages creativity and other forms of entrepreneurship which be supported outside of the traditional informal trade such as the general street trading. It recognises that there are various sectors within the informal sector, and tries to incorporate the majority of those sectors.

*B1: "So far this policy has covered the whole informal sector, remember the informal sector is very huge. There is a part of retail, there is another part of service like a car wash or mechanic. When you look at our policy, in the past they were not covering all these sectors, they were mainly focused on the townships and rural area, the street vendors and so on. Now with the policy we cover everybody even though as a government we know there are no resources we're not going to support everybody but half of the people we'll take care of them."*

One can argue that this encourages creativity and other forms of entrepreneurship which can be supported outside of the traditional informal trade such as the street vendor selling fruit and vegetables.

*B1: "Initially with our policy our main focus was the spaza shops, general dealers, those ladies that sell food on the side of the road and we would give them training and equipment for example fridges to store their stock or fryers to make chips. But now we realised that the informal sector is not just retail and that it's bigger than that we can't just focus on the retail."*

Some of the strategies implemented have yielded some positive results and can be seen by the respondent below who is an informal trader and received financial business support:

*A3: "So I've had help from SEDA. They have been amazing. They have trained us, myself and staff. They have helped upgrade our skills and have given them tools for improvement, for free, whereas I would not have been able to do the same. I also received a loan from LimDef but a very long time ago"*

It is important to consider the criteria that is used to access government resources, in an effort to bridge the gap between the qualifying criteria used for traders in the informal sector and the reality of what traders in the informal sector will be able to produce. The developmental support as offered by the department needs to be matched with the qualifying criteria. This question was posed to the Department of Small Business Development to better understand the individuals they aim to assist and if the assistance was then able to reach the intended target group:

*B2: "The question that is posed is important but it's also a tough question because that is where the main challenge is. For example (referring to the criteria for the programmes) it says qualification criteria: operating in the township or village; be informal micro business; be registered as a legal entity CIPC; SARS; have a formal business account; occupational health and safety. There is a contradiction in terms of the requirements for the targeted market. There is a misalignment in the way we are trying to resolve problems or assist people within the sector and the conditions we have set."*

As the theme suggests, there is a clear misalignment when identifying informal sector traders that the department aims to assist, and the qualifying criteria that is unrealistic for the targeted group. A more forward-looking approach can be seen from respondent B1 who tables the current criteria while making further suggestions and changes for a more realistic approach. For the most part the department is concerned with the registration of companies as they need to have a record of those companies. It also serves the department no purpose to try and assist traders in the informal sector, but pay no attention to their specific needs, and over and above that, put unrealistic requirements in place in order for them to receive funding. The Department of Small Business Development puts this into perspective below, referring to the expectations of the department and the reality that is faced by traders in the informal sector.

*B2: "Look at the criteria, its public document shared with you. To put this into perspective for you, look at Tshakhuma, if we give the traders R1000 as a grant for the relief programme, but our expectation is that before you access the grant you need to go and register. It could cost traders an estimated R5000 to register and comply with all the requirements (given that they are registering through intermediaries as they may not be familiar with processes)"*

*in addition to that, traders need to submit a cashflow, bear in mind that the grant is R1000. We simply are not doing this in the right way. It is of no use that you want to assist people but you have not taken the time to understand how they actually work and what challenges they face. Therefore, this leads to all the unrealistic conditions set and hinders progress in terms of assisting traders in that sector. Traders in the informal sector are trading for survival and they put their families first.”*

*B1: “Let me respond by saying one thing, like today I was developing one policy for the informal traders because I was doing a budget meeting today with treasury to say I need at least R2.5 million to assist informal traders and in the policy, I put in the criteria looking at what has been currently happening in terms of the categories. The current categories say that*

- 1. must be a South African citizen;*
- 2. have a basic municipal ID;*
- 3. must be willing to attend the course*
- 4. must be willing to register as a business*

*This means we’re forcing informal businesses to formalise because others they don’t want to formalise, and regardless of whether they’re formalised or not we need to support them. So, the current policy that I’m drafting, I’m moving away from forcing people to formalise but we’re saying*

- 1. must be a South African citizen*
- 2. must have a municipal permit*
- 3. must be willing to attend a course so as to gain basic business management skills*
- 4. must be willing to register the business if it is ever deemed necessary although it is not a cut and paste requirement, at least assist us by complying*

SEFA has been forthcoming and has recognised that as an agency they cannot use a blanket approach to assist traders in the informal sector. They also do not have the internal capacity to go out to the informal settlements or township areas to get more information on traders in the informal sector. As a result, they work with third parties who assist the department in identifying traders in the informal sector. Not only do

the third parties identify the traders, but they identify those trading in various sectors of the informal sector; they identify the exact number of people who require assistance in a particular area; and they identify the kind of assistance that the trader will need. Furthermore, if the third party has identified the kind of assistance that is under the framework of SEFA, SEFA is then able to assist but the aim is to put specific conditionalities for the specific sectors. For example, in assisting traders who own spaza shops, specific conditions will be considered.

*B4: “We work through various instruments. When we agree with Phakamani and SEFF we enter into an agreement that will say that SEFA will give you a bulk amount of money for the purpose of implementation of projects, based on the targets and areas to be covered. The conditionalities of that access to funding, we cap the interest rate so it becomes as affordable as possible. The finer details of that instrument is what they have the latitude to do for as long as it is within our framework, or the framework of the agreement that we entered into with them. From our side and the point that I am trying to emphasise is that for everything that we have there will be different conditionalities. We have a scheme for spaza shops, a different one for street vendors. All these come with their own conditionalities. we try to make it as burden free as possible. We actually run these things at a loss, but the issue is that we trying to create a culture of people having access to money, but not for free. Its money that people need to work for to pay SEFA, so as to maintain the sustainability of SEFA.”*



**Table 14****Value Add**

Rank	Construct	Number of people who mentioned it	Frequency
4	Developmental support	1	6
3	Value add	1	7
2	Stakeholder engagement	2	5
1	Community development	2	14
5	Fair trade	2	3
6	Collaboration	3	5
5	Formalisation	2	7
6	Incorporation	2	3
4	Consultation	3	9
5	Employment opportunities	2	4
3	Red tape	2	7

- In your experience how can these policies create value add towards individual businesses?

### 5.6.3 Developmental Support

While the study aims to establish the need for the formalisation of the informal sector, it is also worth looking into how the existing policies add value and better serve this sector. Respondent B4 outlines some of the advantages of being a registered informal trader being affiliated with the necessary bodies. In an effort to develop the informal sector and create value for traders in the informal sector, the department urges people to register their businesses. They recognise that having to comply with regulations may be a stringent exercise for many, so they have collaborated with various agencies. According to SEFA, they do not expect traders in the informal sector to walk the business journey alone. They instead encourage people to come to their offices where they will get more information, and be guided by consultants who will assist with all the paperwork. This will in turn gradually formalise the informal trader. SEFA explains this below:

*B4: "We encourage that all applicants have registered entities and comply with the necessary bodies. And we don't say do it on your own, we direct you to SEDA so that they can assist you in terms of getting all the required documents. We also do it so as to have a track record. We have one for spaza*

*shops for instance where we can assist with a grant, and a loan that can be repaid over a period of time. We have also gone to big wholesalers and entered into agreements with them, with listed products for people with spaza shops. Macro gives them a special card, and we also have an agreement with Nedbank that allows them to use a particular card when purchasing goods.”*

An opposing voice comes through from B2 who places emphasis on the potential of the informal sector through a more lenient and organic approach where growth can still take place. This view also stresses that the government can assist traders in the informal sector and allow them to thrive, thus adding value to traders in the informal sector, without formalising them:

*B2: “The leaders in the department need to play an active role in enabling traders in the informal sector without strict conditions. The gap between what we are trying to do, and what the needs of our people are needs to be closed. In supporting people in the informal sector, it does not mean that you need to formalise them. Formalisation is not the solution. People become formalised gradually and organically. Technically, when they feel it's too dangerous now to keep all that money under in their bed, and when they are exposed to other opportunities that will enable growth for their businesses, and when they realise that they can potentially get contracts if they register their businesses, that is when they start to feel the need to be a formalised business.”*

Collaboration with the government has been key in assisting some government departments in fulfilling their developmental mandate. This is reiterated by Buchhnoltz & Carroll, (2018) who emphasise the normative approach as one of the forms of stakeholder theory. In this instance, the theory provides a reason why corporations should take into account stakeholder interests. An example is shown below where respondent B1 highlights their collaboration with the private sector.

*B1: “With the number of people that have been assisted, our collaboration with the Department of Small Business, from the scheme of spaza shops as I have said we have assisted more than 1000 and then from the scheme of fruits and veggies we have assisted more than 100 and from the scheme of butcheries and confectionaries we have assisted not more than 50, if I'm not*

*mistaken, that's the funding that people have received. In terms of the non-financial support, because of our partnership with Coca-Cola, we able to register about 250 workers in Limpopo to be trained in that programme."*

#### 5.6.4 Formal and informal sector linkages

The private sector also recognises their part and answered the call to develop the communities they do business in. Spar is an example of a retail store that acknowledges that when it goes into certain areas, there will be informal sector traders operating in those areas already. For that reason, Spar incorporates those traders in their planning and business. Where traders were selling fruits and vegetables, Spar buys directly from those informal traders. Over and above that, Spar links the traders to the market where they are able to purchase the stock at low prices while maintaining good quality produce, which enables those traders to make higher profit margins. The main reason why Spar does this specifically for those trading in fresh produce is because Spar knows that even if they make a loss on the fruits and vegetables, but they are able to make much more money on the other products that they sell. By supporting informal sector traders and the community, they attract more customers. The retailer buying fresh produce from the informal sector traders, has now also become the link between traders in the informal sector and other formal markets. The retailer not only linked these traders to the formal market but he bought them bigger umbrellas and bigger stands so that they would continue to trade, despite the establishment of a new store.

The Spar model is structured in a way that allows the retailer, as the owner of the store to make independent decisions, and also allows the retailer to purchase products where they wish. However, in doing so, retailers need to be aligned to the vision and the objective of Spar which is to serve the people of the community in which it operates. Another success story of Spar, is in going into communities that have access to land and assisting farmers to produce vegetables that they will then buy from them. Spar assists in terms of various input costs and most importantly the expertise in farming. This has added great value in the communities in which they operate.

*C1 "Spar is focused on the community and the people it serves, so consultation with stakeholders is definitely done before the establishment of the store. There is a particular store in Bochum hat has just opened up and in*

*Polokwane there is Spar city centre. Centre City Spar is in the CBD of Polokwane and the success of that store was all dependent around the retailer who obviously gets the need to trade with Spar from us, collaborated with the informal sector traders- particularly those in the informal fresh produce market( trading on the streets) to work with them formally and actually help them with access to existing market as well. So, he used to be a link between the farmers and the market itself for them to get better product in better quality products. And, I mean, he would have chased them away outside his store because obviously they were vying for the same consumer, but he understood a role in helping him to get to attract more people to come in that area.”*

*“So, I think the first couple of months what he did was set them up. He got them stand, umbrellas, and over and above that that he got them quality products at affordable prices, so they could also partake in the market. So, it was also much easier for him to chase them away. But he found a way to work with them because you can understand the pie so much bigger, and he trades not only on fresh produce but he trades on groceries, bakeries and butcheries, which they don’t trade on. He was happy to lose out some of the support in terms of the produce point of view. But to gain that trust and the loyalty on that particular person in the rest of the offering that he had in store was important for the business. But, when you look at Spar itself one of the values is family, entrepreneurship and passion. And we always say we’ve got a passionate set of retailers, or a passionate set of entrepreneurs that are family oriented. And, and it brings me to another story in Giyani, Limpopo where there was no market in that area. The same retailer who was in Polokwane went to Giyani but according to Spar research, the science revealed that the market is informal and there is just no market in that area. Spar also indicated that there wasn’t enough spend to buy into the store. Nonetheless, he began to assist the community, in terms of what they were good at, they had land, and what he did, he shared his expertise from a farming point of view, so that they could be able to sell the produce in the Spar stores. So that was the relationship between him and obviously the local informal economy, which in turn were his customers, because then he supplies them at the same time. So, they supplied him the produce, he would buy the produce, he would sell it in his store, and they will come back and buy*

*what the same currency that he bought the produce on. In turn he created a market where there was none. Especially in Thoyando and Giyani. This reflected positively on Spar so much so that Spar, the group behind this. Spar started setting up pack that helps with providing professional expertise to the farmers around Limpopo and KZN, and it's going to rolled out nationally but the focus now is on Limpopo and KZN and it's called the rural hub."*

*"Spar has done a lot of good work, where we've taken guys that have got acres and acres of land and given them expertise in terms of how to farm, gave them the minimum regulation that is needed to help them to achieve their goals and to be able to get access to the market."*

The need to develop and uplift communities is not an enforced regulation when big corporates enter the informal settlement, thus taking over the market in areas where informal sector traders were able to make a living. Very seldom do big corporates consult with the communities before establishing their business in the community. This stems from the fact that they are not obliged to make those consultations themselves as they are merely tenants in a shopping centre. The expectation from some big corporates is that the person developing the area and stabling the centre should be the one consulting with the community. They do not incorporate local businesses in their planning and are not interested in assisting informal sector traders, they do not have empowerment opportunities for supply for goods and services. This is explained by the regional manager of Truworths below:

*C2: "Our business is mainly confined to operating in malls or shopping complexes usually anything over 20000 m2 so the developers will be the ones who will establish a method of consultation and such matter will be discussed and the needs and concerns of the community addressed. One thing we mostly required from us is that we employ local, meaning our staff must be from the immediate community."*

*C2: "Our interest will involve the employment of local people, as far as business is concerned our incorporation of such is limited to almost inexistent."*

In terms of the food and retail industry in South Africa, it very difficult for informal sector traders to produce their own products and be able to distribute them to the public. There is a lot of red tape pertaining to the food industry, and there are a lot of

certifications in terms of producing and packaging food. This is difficult for traders in the informal sector who would like to produce some of their products and sell them. Spar has identified this gap and has been proactive in assisting traders in the informal sector to commercialise their products. For example there is a particular man who is an informal sector trader in Venda-Thoyandou but also produces his own peanut butter. To enable this particular trader to grow, Spar has equipped him with all the relevant requirements for the production of peanut butter. They have also assisted him to obtain the certification and the relevant equipment. This trader's peanut butter is now being distributed in various Spar and local stores. This is adding value to the traders and community at large because the trader is able to employ other people thus contributing positively to the employment rate. This is explained below:

*C2 “Okay I can tell you , some of the times South Africa is guided and governed by very strict regulations especially around the food. is. There are traceabilities and certificates that you need to have in place to ensure that whatever products that you produce is safe for the consumption of your customers. And obviously the mechanism, or background in terms of how the facilities within those establishments, meet the minimum requirements of your assets and food regulations. So, what we have started doing from across Western Cape all the way to Limpopo, we started engaging with some of those local suppliers to try to get to speed with what those requirements are, in some instances, we've actually consulted with the local authorities to make them aware that there are people that would like to be part but you know what, these measures are so strict that they can't be part of. And within Spar itself, we've got all our suppliers and the big suppliers that we very strict with. When we allow the retailer, to be able to procure that product on a lesser leniency towards a local supplier. There are a couple of cases, like in Thoyandou they procure their peanut butter from a local supplier. And we try to assist to assist that supplier to comply with the regulations and the red tapes that exists.”*

## **CHAPTER 6: DISCUSSION OF RESULTS**

### **6.1 Introduction**

This chapter reveals the research findings outlined in Chapter 5. The literature reviewed in Chapter 2 will be revisited to connect with the data collected. These will be analysed with the research questions considered in Chapter 3. The conducted interviews provided extensive data for review from which emergent themes were drawn.

While analysing the data, the relationship between institutions and the existence of stakeholder theory were outlined in Chapter 4. The consistency matrix was used as a guide to ensure coherence in the data collected, literature reviewed and the analysis thereof. In this chapter, a significant addition to understanding the role of institutions, and how they strive to bring about institutional change, will be outlined through determining the level of stakeholder engagement between the formal and informal sector as well as the state. Emerging themes will also be explored further as suggested by the data collected and presented in Chapter 5. The findings remain crucial in demonstrating the links between institutional relevance in formalising the informal sector and the impact that stakeholders have on these factors. The literature and applicability of the results are discussed in the paragraphs below.

### **6.2 Results for Research Question 1**

Explore and describe meanings that informal sector traders associate with the definitions of the informal sector, and the challenges traders face in formalising their retail businesses.

#### **6.2.1 The informal Sector as a Construct**

Through data collection, there were themes that emerged in trying to establish the definition of the informal sector through the lens of traders in the informal sector, and establish a deeper understanding of their role in the economy. This was an important concept to understand because in literature, the definition of the informal sector is broad. To be in a position to assist traders in the informal sector, the definition of the informal sector needs to be thoroughly understood.

There was a clear definition given by the nine informal traders' interviews, who were of the opinion that informal traders are small players who are not usually recognised by the government as most of their businesses are unregistered and therefore not formal. In addition to that, traders in the informal sector have observed that any start-up business established by independent individuals in an informal setting, with no form of aid or support from the government is deemed informal. The frequency table shown in Chapter 5 is evidence of the perspective that these informal traders have of their industry with terms such as "small", "unregistered" and "survival" to best define the informal sector. Literature also provides us with a similar view which supports the small players and unregistered perspective:

The informal sector exists in developing countries (Sambo, 2018) and the trading of this sector is mainly found in township areas because of the ease of doing business in the township (Meyer et al., 2016 & Mukwarami, 2017). Etim (2020) defines the informal sector as various unorganised activities with the majority of the adult working force. Based on the findings according to (StatsSA, 2020), employers in the informal sector do not employ more than five employees and the employees do not pay tax as their appoint is not an official one, and over and above that, the businesses are also not registered therefore they are not obliged to pay tax. The reluctance of businesses in registering with formal entities has an impact on the employees as they cannot be recognised by formal institutions.

Literature suggests that the main factor that can be attributed to the existence of the informal sector is unemployment. The formal sector is unable to create jobs, and those who are in the workplace, also face the risk of retrenchments. The formal sector is therefore not able to absorb people, and as a result, the only other alternative for people is to start small businesses in the informal sector (Sakarombe, 2020). The unemployment rate is therefore inversely proportional to the rate of work within the formal sector. In addition to this, the informal traders used the words "survival" to describe the informal sector as mentioned by A7. He also states that starting an informal business is a way of solving unemployment in a tough environment. This is largely driven by the high unemployment rate in South Africa as supported by Sakarombe (2020).

An author who strengthens the argument and definition of the informal sector is Rakabe (2016) who explains that the trading of businesses in the informal sector is



not registered nor is it regulated to conduct any activities to meet the needs of the market. Other authors view the informal sector as a set of illegal but legitimate activities through which individuals exploit opportunities (Amorós, Couyoumdjian, Cristi, & Minniti, 2016). In this way, the informal sector is able to meet the demands of the market without strict regulations, hence the existence of various spaza shops found in the rural and township areas countrywide. Another good example are the street vendors who occupy the pavements of the busiest Central Business Districts (CBDs) who are able to sell their goods to commuters.

When comparing the above information provided by literature together with the data collected and displayed in Chapters 2 and 5 respectively, an interesting observation comes to light. The informal traders refer to themselves as such and further stipulate that an unregistered business can be categorised and form part of the informal sector, yet, all nine informal traders were confirmed to be registered either with Companies and Intellectual Property Commission (CIPC) or the South African Revenue Services (SARS). This according to traders in the informal sector proves that merely registering an entity with the relevant body does not mean that the business has been formalised. In as much as they have registered their entities, they still do not have a thorough understanding of formalisation of the business, and there have not been changes in the way they traded prior to the registration nor subsequent to registration. Those who have registered their businesses also do not see the relevance of registering their employees with the relevant labour department. The appointment of these employees remains informal. The fact that they operate in the township makes them feel that their businesses can never be formalised, as they see businesses in the township as being informal, small and able to operate without any measures in place.

In defining the informal sector, the government was cited by most respondents, either by virtue of regulation or aid. It is clear from the data collected that the role of government remains crucial in the informal sector agenda. Respondent A7 supports this statement by mentioning that in order for a trader to form part of the formal sector, he has to get assistance from the government. The government therefore needs to play a more active role in formalising the informal sector. One respondent who was not keen on the government's role and ability to support the informal sector was respondent A1 who emphasised the downside of being registered, and did not see the relevance nor the significance of being a registered trader. This came about as

a result of the respondent having observed his competitors within his space who are not registered, yet continue to thrive in their businesses. He states that he was forced to register his spaza shop business in 2003, in the year that the government was forcing small business in the townships to be registered. The disappointing aspect of the matter is that government only forced people to register their businesses in that particular year and at that particular township, a programme that both started and ended that year. There is therefore no consistency from government in terms of what they are hoping to achieve regarding the informal sector. As foreign businesses have penetrated the informal sector, Respondent A1 referred specifically to the foreign-owned businesses who are not registered yet have the liberty to continue trading without any restrictions posed on them. These challenges are usually found in rural or township areas where there are high unemployment numbers. As part of their survival, the informal traders set up their businesses in these communities and build relationships with customers, so that they have continuous support.

Other authors (Jones & Tarp, 2015) echo the sentiments of those who participate in the informal sector for survival. They argue that while people participate in the informal sector mainly for survival others voluntarily participate in the informal sector because of the benefits associated with the informal sector such as not being obliged to pay tax and not being regulated by any institution. Others however participate in the informal sector because of exclusion from the state and the formal labour market (Williams et al., 2015). It has been emphasised that the informal sector is also seen as an alternative way of creating the means for being self-employed, especially for those who consider it as an exit plan from the formal labour market (Williams & Horodnic, 2018)

While reviewing literature, the government presented the 2020 State of the Province Address for Gauteng where the premier of the province, David Makhura, acknowledged the existence of the informal sector and added that they contribute greatly to solving the unemployment problem. He further vouched his support in prioritising the growth and development of the informal sector, particularly in townships as part of the inclusive economy (State of the Province Address, 2020). Though this might be simply a political statement, it does however signify the interest by government and provides insight into considerations of the state with regards to prospects of formalising the informal sector and growing the township economy. Fast track to a year later, the premier of Gauteng gave the State of the Province Address

for 2021 that highlighted some of the progress that the province had made in support of businesses in the informal sector, and growing the township economy. Amongst these were having developed an Act (The Township Economic Development Act) that seeks to create developmental regulations and by-laws that will make it simple, easy and cheap to formalise 90 % of informal businesses, which will enable them to access financial and non-financial assistance from various institutions. This was done through a process of public participation and consultation. In addition to that the province of Gauteng has allocated funds in the townships for wi-fi, established infrastructure projects for the benefit of traders in the informal sector and SMMEs, and linked at least 350 fruit and veg informal retailers to the formal market through collaboration (State of the Province Address, 2021).

### **6.2.2 Enablers of the Informal Sector**

According to the literature reviewed, traders in the informal sector make an informed decision to trade in the informal sector for the following reasons: they do not want to pay tax, they do not have an interest in abiding by commercial regulations, they do not want to operate in areas where they will need to pay rent and high electricity bills, nor do they want to pay any other costs that can be associated with businesses that trade in the formal sector. These are the views of the voluntarist school of thought as influenced by Maloney (2004) and the legalist school of thought as influenced by Hernando de Soto (Marinescu & Valimăreanu, 2019). Respondent A1 confirmed this attitude in his response to formalising the informal sector, by referring to the foreign-owned businesses, which are not registered and continue to pose a threat to local informal traders who make the effort of being compliant through registration. The emphasis is placed on the ease of doing business as an informal sector trader, especially in a township setup, proving that anybody can do it, because there are no regulations. However, an interesting view came through from respondent A5 who is a foreign informal trader. In his definition of the informal sector, he highlights the lack of government assistance for traders in the informal sector. He acknowledges that because he is of foreign descent, it would be difficult for government to support him as a foreigner who owns a small business, and assist him in terms of the growth and development of his business. Although starting a business in the informal sector was easy in the beginning, of late it has become difficult because police can summarily demand documentation, and in the worst-case scenario confiscate stock. Due to the lack of government support for foreign traders, foreign traders have resorted to

forming an alliance amongst themselves that represents unity. This unity amongst them ensures that they are protected from xenophobic attacks, have high buying powers and generally protect each other's interests.

The two responses from respondents A1 and A5 above, validated the voluntarist school of thought expressed by Maloney (2004). As a result of not being provided the necessary assistance to trade by the government, there is a greater advantage for the informal trader who wishes to not register their business so that they are not bound in the stringent regulations that come with registration, and which would ultimately leave them formalised. This is reiterated by respondent A5 who continues to operate under a registered entity but still has no licence to trade, and further supports A1's claim made earlier on the differences with those who choose to escape the red tape. Another author who endorses this view is Soto (1989, 2000) who forms part of the legalist school of thought. The legalist's perspective of the informal sector is that traders in the informal sector chose to operate there because they do not want to be registered entities, as registered entities have cost implications. Furthermore, traders in the informal sector choose to operate in this way as they do not want to be bothered with all the compliance issues, complicated administration, and costs in terms of formalisation (Soto 1989, 2000).

### **6.2.3 Empowerment Opportunities**

The assessment of the informal trader's reaction to the formalisation of the sector included some positive reactions where some of the respondents were open to change and the idea of being formalised. Traders in the informal sector did however place conditionalities under which they would like to be formalised. Traders in the informal sector would be formalised provided that the government would provide them with the necessary support regarding the formalisation process. Respondents such as A3 stated that formalising the sector would open opportunities for empowerment, taking it a step further and mentioning that it would also push him to work better and smarter. As highlighted in Chapter 2, the South African government has implemented a few initiatives to support the needs and opportunities informal traders such as A3 may have. The government has institutions that provide financial and non-financial support for traders in the informal sector, under the umbrella of SMMEs.

The respondent from the Department of Small Business Development highlighted an important factor regarding formalisation of the informal sector. The view is that if the informal sector is formalised then the informal sector will die. He therefore does not think that formalisation of the informal sector is the solution to challenges as experienced by those in the sector. A concern was also raised when trying to establish if traders in the informal sector want to be formalised or not. He further goes on to state that the government should be able to assist people without forcing them to become formal, as this may not be what they want for their businesses.

The Department of Trade and Industry (DTI) was previously the main government department that was responsible for the development of small business as well as those businesses that operate under the informal sector. It was revealed during interviews conducted with the Department of Small Business Development, that they are the main department that's responsible for the development of traders in the informal sector and not the DTI as literature had revealed. The DTI worked with various agencies to ensure that programmes were being well implemented. The DTI worked closely with Ntsika Enterprise Promotion Agency to provide non-financial support to traders in the informal sector as well as those who formed part of SMMEs. For financial support, Khula Finance was the agency selected to provide financial services to SMMEs. The aim of Khula Finance was to support small businesses in urban and rural areas by offering them debt funding and expansion capital for their business and in the process ensure that sustainable jobs are created. Khula has now moved to the Small Enterprise Financial Agency (SEFA). SEFA is mandated by the Department of Small Business Development to support businesses with financial needs. The opportunities that are presented by agencies regarding the financial and non-financial support, can only be accessed by firms that have been formalised (Skinner, 2019).

As shown in Chapter 5, the empowerment in this sector expands to the individuals that are employed by informal traders in the informal sector. From the interviews conducted, seven of the nine participants had employees working with them. Although some of the employers have not registered their employees, they are offering them the means and opportunity to provide for their families. By having initiatives such as Khula Finance mentioned above and discussed at length in Chapter 2, the informal sector is able to expand its businesses therefore creating more jobs with the increased demand and opportunities the expansion brings through

the capital provided. This however cannot be achieved if there is reluctance by traders in the informal sector to become formalised. One of the main challenges that traders in the informal sector cited was the issue of finance. They argue that they cannot expand their businesses because they do not have the financial means to do so. The agencies that provide financial assistance to traders in the informal sector cannot give that support on a personal level. Agencies will give support at a business level, given that all business compliance documents are in place. Giving out loans to assist traders in the informal sector on a personal level instead of a business level poses a huge risk for government as they need to be able to account for the money spent.

#### **6.2.4 Conclusive Findings for Research Question 1**

Close parallels can be drawn between literature as it defines the informal sector, and the definition given by traders in the informal sector. It is evident that the informal sector is birthed by socio-economic challenges, especially in a country like South Africa where issues such as unemployment remain one of the most pressing challenges the country battles. A survivalist approach is seen in the data collected and further supported by literature's view of the informal sector. In this section, we see how the informal sector has taken strides in establishing its businesses with minimal support and the impact it has on the economy, formalised or not. The reality is that traders in the informal sector will not be able to access assistance from government if they are reluctant to register their entities, and ensure that they have all the necessary compliance documents.

### **6.3 Results for Research Question 2**

Establish the relationship that exists between the state, formal and informal sector

#### **6.3.1 Government as an Agent for Empowerment**

The study looks at the informal traders based in Limpopo. While exploring the impact of formalising the sector, the study seeks to understand the role of government where the informal sector is concerned. In Chapter 5, it was highlighted that part of the data collection process was to probe government's role in creating an enabling environment for the informal sector to thrive and if formalising this sector would

indeed yield beneficial results for the traders as well as the various stakeholders involved.

Institutional theory has been selected as the underpinning framework of the study as it seeks to explore the role of institutions together with the institutional gaps that exist in formalising the informal sector. The following definitions were reviewed in Chapter 2 to break down the theory to its simplest form: Williams & Shahid (2016) explain the theory of institution as follows: i) Every society operates under formal and informal institutions, ii) Operations in the formal sector as guided by rules and regulations that are organised in formal institutions, iii) Operations in the informal sector as a society operates according to socially acceptable norms, beliefs, standards, principles, values and unwritten rules that traders adhere to. The author clearly defines the role that formal institutions play in developing the rules and regulations in any institutional setting. It was therefore important for the study to search for the voice of the government who in this instance, is responsible for setting the rules and regulations pertaining to the informal sector, especially when the issue of formalisation is being presented.

Respondent B1, who is a Head of Department (HOD) at the Limpopo Department of Economic Development and Tourism, a government department that as part of their mandate, is also tasked with supporting the growth and development of the informal sector through various initiatives. While institutional theory tells us that operations in the formal sector are guided by rules and regulations, this can be reflected in the data collected as respondent B1 mentions that criteria exist when assisting an informal business under its programmes which include: the informal trader must be a South African citizen, must have a municipal permit, must be willing to attend a course so as to gain basic business management skills, must be willing to register the business if it is ever deemed necessary. Due to the government being an institution in itself, it is difficult for government not to lean towards wanting to formalise the informal sector, so as to form an institution that can be better regulated and controlled. Based on the qualifying criteria that are used for traders in the informal sector, there is a clear misalignment. The criteria used rather reflect businesses established in the formal sector. This emanates from government institutions not comprehending the challenges faced by traders in the informal sector and having very little understanding of the operations in the informal sector. Their efforts are therefore misdirected. The Department of Small Business Development

refers to Township, and Rural Enterprise Programmes (TREP) which when analysed, does not reflect on the challenges that the traders in the informal sector face. These programmes suggested by TREP still lean more towards the formal sector, based on the qualifying criteria initiated for the programmes.

According to Williams & Horodnic (2018) institutional theory results from institutional failures that result from formal institutions. The data collected shows that there is a clear intent from the government to formalise the informal sector as they would have better control on the number of informal businesses that exist in rural or formal settings. This is reiterated by respondent B1 who highlights that the programmes initiated and implemented in the rural and township economies are a strategy to ensure that they formalise these businesses in the sector in their entirety. As the author alludes to the institutional failures from formal institutions, another voice from the government unpacks some of these failures.

Respondent B2, a representative from the Department of Small Business Development, the leading department regarding the trading activity of the informal sector, discusses how the contribution of the informal sector is measured based on purchases they make from the formal sector wholesaling and retailing. The respondent further states that it is more accurate and reliable to measure the purchases from wholesalers, than it is to get information by asking traders in the informal sector how much they make, and whether they are registered or not. The respondent concludes by emphasising that the informal sector is an extension of the formal sector, it is the last mile of distribution. Traders in the informal sector are able to trade for extremely low margins, with some of them even trading where the big corporates would not trade because of the risk associated with certain areas. There is therefore a relationship that exists between the formal and informal sector. Traders in the informal sector, whether they provide a service or sell products, source their material from the formal sector. The informal sector therefore cannot exist without the formal sector. Respondent B3 shares the same sentiment by declaring the difficulty of measuring how much money circulates in the informal sector. Berthrod (2016) gives insight on how institutional theory has moved from being a theory of stability to a theory of change, which supports the points made above by respondents B2 and B3. As he examines the evolution of this theory, he further empathises the transition from a traditional preference of resource dependence as each discipline i.e economics, sociology and political science defines institutional theory in its own right.



(Lauth, 2015) suggests that different types of relationships exist between formal and informal institutions. These can be classified as: i) a competing relationship ii) a reinforcing relationship iii) a neutral relationship. In the case where there is competition between formal and informal institutions, informal institutions will win because they are capable of undermining the laws and regulations as set out by formal institutions (Lauth,2015). Through the interviews that were conducted with big corporates in the informal sector, respondent C2 made it clear that they are not interested in forming any relationship with traders in the informal sector, and they have no interest in incorporating them in their plan. This is because as corporates they are profit driven, so when entering the township areas to establish their business they will only engage with the community in terms of local employment and nothing else. In contrast to the view of respondent C2, respondent C1 made it clear that for their business to grow and become sustainable in the township areas, they need to do more than just incorporate informal sector traders in their planning. They state that traders in the informal sector immediately become their partners when the big corporate is established in the township. To put further emphasis on this, the relationship from the big corporate is extended to community as well. This is an example of a reinforcing relationship which refers to welfare for collaboration in an effort to constitute a united front. The relationship therefore is one that pursues a common goal (Lauth, 2015). While literature advises that a fluid relationship needs to exist between the informal and formal institutions, the intent needs to be understood from both ends in order to reach a common goal.

While institutional theory is not a theory of organisational change, it aims to understand organisational conduct in organisations while affording an alternative perspective to better understand the densities that exist in the form of structural decision-making and subsequent actions (Evans, 2014). This is further supported by respondent B4 who chairs the Small Enterprise Finance Agency (SEFA), and who uses alternative ways to draw data such as that provided by Statistics South Africa (StatsSA) pertaining to the informal sector as most traders are not registered on their (SEFA's) database.

### 6.3.2 Government as a Protector

Literature, together with the data collected, shows that the informal sector consists of imminent threats, most which halt the growth of the businesses in this sector and to an extent, discourage compliance and the possibility of being formalised. Drawing (Williams et al., 2015)'s views there is a relationship between an imbalance of formal and informal institutions, and the level of morality. If there is a great imbalance between formal and informal institutions, then there will be a low rate of morality between the state and its citizens. The author suggests that the informal institution needs to lean more towards formalisation for the benefit of the state to allow the state to provide services to all its citizens while keeping high levels of morality.

Respondent B2, from the Department of Small Business Development took a comprehensive look at the role of government when it comes to protecting the informal sector. In as much as the government has a mandate to serve and support the informal sector, it has an equal responsibility to create jobs and accelerate economic activity in various sectors and industries. The respondent above argues that they cannot stop economic activity when large businesses enter the rural or township areas or when malls are being built in these areas, ultimately affecting these informal businesses negatively. This being the case, government as an institution and with all the power vested in it should still be able to regulate the manner in which the big corporates enter the township areas. Business regulations should therefore be favourable for the formal and informal sector, and the existence of one should not hinder the other. Conversely, government is not widely trusted when it comes to the informal sector, and there is a reluctance in collaborating with the initiatives government continuously makes available in order to assist the informal trade. , Respondent B1 mentioned their challenge, that when making opportunities available for the informal traders, they automatically think that it's an attempt to formalise them, as a result they do not respond to the call. Literature which supports this is outlined by ( Shou, Zheng, Zhu, 2016) who argued that although institutional theory played a pivotal role in influencing macro-organisational studies suitable for various industries, it also faced its fair share of shortcomings. It has been argued that institutional theory has been overly expanded leaving its core purpose unfulfilled. Understanding the structures found in institutions together with the values and the objectives established by organisations remains a crucial focus of institutional theory. Protection of the

informal sector also needs to be understood on the basis of exactly what the government as an institution needs to guard the informal sector against. This was reiterated by participant B2 who acknowledges that every sector needs protection, but against what is the main question. With regards to traders in the informal sector they need to be protected against the influx of foreign nationals who trade in the informal sector, therefore taking opportunities that would have otherwise been exploited by local traders. Due to the lack of regulations from government regarding the trading of the informal sector, as well as the trading of businesses in the township areas, this has created a problem for traders in the informal sector, especially those in the townships.

According to Evans (2014), organisations are influenced by social powers which is shown by institutional theory. These may include addressing pressures such as the disintegration of policies, infrastructure and practice. The informal sector does not have trade unions or any other organisations to protect their interests, which is in contrast to the formal sector where every industry has a formalised trade union to protect the interests of its members. The data collected highlighted that even though the government has the power to support and truly contribute to the development of the informal sector, whether through formalisation or continuing to design and implement development programmes to assist them, there are a number of influences surrounding these decisions.

The political climate in South Africa is a vocal one, where opposing political parties apply pressure on issues facing policies. Respondent B1 expands on this and takes it a step further by bringing our attention to the foreign-owned businesses where the government tries to regulate these in order to try and protect the existing local businesses. He mentions that the opposition parties accuse the government and ruling party of promoting a xenophobic agenda whilst trying to protect South African citizens. This affects the government's mandate to protect and provide developmental assistance to the informal sector. A respondent who echoes this concern is respondent B4 who states that as a funding house, they would ideally prefer to fund 100% of South African-owned businesses in the informal sector but fund about 70% in reality. The desire to fund 100% of locally owned businesses is driven by the pressures presented by foreign business owners who carry the

advantage of purchasing power. Local traders cannot compete with foreigners on this basis.

## **Conclusive Findings for Research Question 2**

The role of institutions remains key in assessing the impact of formalisation of the informal sector. There are clear signs of intent from the government to provide assistance to the informal sector over and above the financial support, but in turn, there is an explicit lack of trust from the informal traders who occasionally feel that the government will disempower them through formalisation and that their development and growth within the sector is not prioritised. What the data reveals in light of the literature reviewed, is that in as much as institutions are governed by rules and regulations, the social factors are very vocal and influential. The relationship between formal and informal institutions in this case depends on the vision of the business of the formal institution. Due to a lack of regulations that govern the way in which formal institutions should relate to informal institutions, formal institutions have taken advantage of this. They identify areas of potential in the townships and establish their businesses there, without considering the interests of those traders in the informal sector.

## **6.4 Results for Research Question 3**

Establish the effects that policies have on the development and growth of the township economy.

### **6.4.1 Governance**

When exploring the impact of formalising the informal sector, it was imperative to assess the policies that the government has put in place in order to recognise the progress made as far as the state's support is concerned. It was also imperative to determine how successful the government is in implementing those sets of policies.

Respondent B2 of the Department of Small Business Development makes a clear distinction between policy and strategy. The government representative clarifies the government's approach by highlighting that they are not policy driven when it comes to supporting the informal sector, instead they are more strategically focused. He further emphasises that there is no policy that directly talks to the operations and

trading in the informal sector. From a government perspective respondent B2 makes it clear why they have at this stage not drafted a policy. Government wants to be more action-orientated than policy-orientated. Being policy driven would mean that the general public could actually hold the government accountable based on the clauses in the policy details. A strategy is in essence just a plan of action, and whether that plan is actioned or not, you cannot be held accountable by the public for a plan, but it can be done for a policy.

Given that the government does not have a policy for traders in the informal sector, we cannot analyse the effects that current policies have on the growth and development of the township economy. One can deduce that due to the lack of policies that exist in the informal sector and especially in the township area, informal business is not able to develop because they are not guided by any policy. The strategies regarding the informal sector were considered to determine the effects that those strategies had on the development and growth of traders in the informal sector.

While institutional theory is not a theory of organisational change, it aims to understand organisational conduct in organisations while affording an alternative perspective to better understand the densities that exist in the form of structural decision-making and subsequent actions (Evans, 2014). Respondent B2 who heads the research unit at the Department of Small Business Development emphasises that the government uses a strategy because they want to be perceived as more action-oriented. With this in mind, he quickly stresses the disadvantages of not having a policy in place as he believes that the lack of policy equates to the state escaping its regulatory duties, which is unacceptable. As literature by Evans (2014) suggests, institutional theory considers organisational conduct and how organisations have alternatives that exist within the decision-making process in institutions. We see respondent B2's response that the government has taken a different stance when it comes to the informal sector as they have resorted to a strategy focused approach rather than a policy driven one.

In the midst of conforming to institutional pressures, organisations also experienced a sense of uniformity found in this environment (Scott, 2008). In an effort to achieve institutionalisation, tools such as political attempts with the aim of achieving certain agendas through power dynamics were found (Scott, 2008). There seems to be a clear disconnect between the government departments, with the Department of

Small Business Development finding the lack of policies regarding the informal sector to be a weakness, and that there is a desperate need for a policy framework. He further emphasises that the strategies and initiatives that the government advocates, need to be guided by policy. The various government departments are responsible for the development of traders in the informal sector. This in conjunction with the municipality who regulate the by-laws. The problem is that these departments, agencies and the municipality do not communicate and align themselves, so even if strategies are being implemented, the execution remains a challenge because the issue of responsibility and accountability comes into play.

A representative from the Limpopo Department of Economic Development and Tourism, respondent B1 states the opposite, as he mentions that a national policy called the National Informal Business Upliftment Strategy (NIBUS) exists. This policy is deemed to be their anchor policy on a national level and a provincial policy was also developed to assist and develop the informal sector. The literature reviewed speaks about such instances as discussed by Scott (2008). He stated that the adoption of trends and norms influenced by the external environment surrounding institutions, that the change that was initially deemed superficial, ultimately found meaning over a period of time. It must be noted that the respondent B1 uses the term policy and strategy interchangeably. Even the NIBUS that is being referred to is a strategy and not a policy.

#### **6.4.2 The Informal Sector as a Driver for Change**

The policies, initiatives and strategies reviewed and discussed in Chapter 2 and Chapter 5 show the possibilities that exist in this sector and these can be used as enablers for solving some of the socio-economic issues South Africa continues to grapple with. The study embarked on a deeper understanding of the various stakeholders who would form part of the change, and which included the private sector.

The stakeholder theory stems from business ethics which looks at various groups to which the corporation has a responsibility (Buchhnoltz & Carroll, 2018). The companies act and make decisions with the interests of all stakeholders in mind, including employees, customers, suppliers and the broader community. Moreover, they impact stakeholders differently to accommodate the interest of the owners thus focusing on revenue generation. The interest of stakeholders such as shareholders,

employees, consumers, suppliers, regulators and the communities should always be considered in companies in all operations. In order for the formalisation of the informal sector to take place, it is imperative to look at the various stakeholders who form part of this process as there are many factors that surround the sector, contributing to its success or failure. Authors (Buchhnoltz & Carroll 2018) capture this well in their definition of stakeholder theory.

The Small Enterprise Finance Agency (SEFA) has illustrated what literature defines as stakeholder theory. Respondent B4, a representative of the agency, shared how the agency serves as a finance support hub for the informal sector. The agency's work is not limited to funding assistance but also encourages the informal traders to register and stay compliant in order to position them well for funding opportunities. Although is not the core function of SEFA, they direct traders in the informal sector to SEDA (Small Enterprise Development Agency) where they will receive all the other related non-financial support. One of the forms of stakeholder theory is normative, which provides a reason why corporations should take into account stakeholder' interests (Buchhnoltz & Carroll, 2018). All the government departments and agencies that work closely with the informal sector form part of the stakeholders of the informal sector. The formal sector also plays a pivotal role in the growth and development of traders in the informal sector, since they often penetrate the township areas, leaving traders in the informal sector with no option but to close their small business as they cannot compete with a big corporate. One corporate which has heeded this call is the SPAR group, and respondent C1 shares how the corporate is focused on the community and the people it serves and before the group opens a store in a new area, they consult the community leaders, churches, taxi associations and any other organisation that exists that may not have a voice. They ensure that the interests of all parties are taken into consideration and therefore the communities form part of the integrated plan from SPAR, in order to find collaborative ways to work with the community surrounding its new economic location.

Buchhnoltz & Carroll (2018) continue to explain another form of stakeholder theory which also takes an instrumental approach which attempts to answer the question of whether it is beneficial for the corporation to take into account stakeholder interests. According to respondent C1, upon opening the Centre City Spar in the CBD of Polokwane in Limpopo, the group collaborated with the informal sector traders- particularly those in the informal fresh produce market (trading on the streets) to work

with them formally and actually help them with access to existing markets as well. The SPAR group believes in uplifting the communities they establish their businesses in, but they also benefit from collaboration as they create a value chain that is within their reach while also making a positive impact in the communities they serve.

Phillips, Freeman and Wicks, (2003), refer to organisations that have an obligation as normative stakeholders. In this group, the organisation ensures their well-being. These are also those individuals who are frequently considered in stakeholder agendas as they usually take the form of funders, employees and customers and members of the community. Respondent B1 shares the strides they've made in collaboration with the Department of Small Business where they have assisted more than 1000 spaza shops with financial aid. Respondent B4 in a similar way collaborated with large wholesalers and entered into agreements with them with the aim of assisting spaza shops, submitting a list of products they sell in their stores to increase their inventory. Another way SEFA supports the informal traders is through collaborative efforts with established stores like Makro which give them a special card, and they also have an agreement with Nedbank that allows them to use a particular card when purchasing goods. These contributors can be classified as normative stakeholders as defined by the authors above.

Respondent B2 makes a strong statement that leaders in the Department of Small Business Development need to play an active role in enabling traders in the informal sector without strict conditions. The gap between what they are trying to do and the needs of the people must be closed. In supporting people in the informal sector, it does not mean that they need to be formalised. In his definition Freeman (2015) challenges the traditional view of stakeholder theory, and suggests rather the shareholder view where the shareholders who are the owners of the company are the first in line where needs are concerned and that their interests are taken care of through increased value. The development of the informal sector is an agenda that seeks to benefit the masses and in turn address some of the social ills in a developing country like South Africa. Literature which supports this notion is provided by Lammers & Garcia (2017) relating to formalised practices and rational beliefs that represent organisations or institutions. Policies that govern the informal sector are developed by government institutions. These policies are aimed at promoting the growth, and development of traders in the sector.



### **Conclusive Findings for Research Question 3**

The data reflects a lack of solid policy regarding the informal sector. The government leans towards a strategy approach with various initiatives implemented on a national and provincial scale. It is also refreshing to see the stance taken by some South African corporates who have taken the liberty of partnering with the government in providing assistance to the informal sector. While there is lack of real policy in the informal sector, other firms in the private sector have also taken their own initiative to provide assistance and contribute to the development of the informal sectors. We see this from SPAR who continue to do this kind of work without a directive from government, but rather by recognising the benefits of serving the communities they do business in.

## **Chapter 7: Conclusion**

### **7.1 Introduction**

The purpose of the study was to explore the impact of formalising the informal sector through studying the role of institutions with the various stakeholders in mind. In this chapter, we discuss the results of the study which were discussed in detail in Chapter 5, in conjunction with the conclusions of the findings as highlighted in Chapter 6.

This research set out to explore three research questions, namely (i) Explore and describe and meanings that informal sector traders associate with the definitions of the informal sector, and the challenges traders face in formalising their retail businesses, (ii) Establish the relationship that exists between the state, formal and informal sector, (iii) Establish the effects that policies have on the development and growth of the informal sector and township economy.

The limitations of the study will be considered along with the academic and business implications the study presents. Finally, recommendations for future research will be made as the study is concluded.

### **7.2 Principle Findings**

#### **7.2.1 Challenges in the Informal Sector**

The challenges in the informal sector undermine the growth, development and sustainability of traders in the informal sector. These challenges emanate from the lack of regulatory control that the government has with respect to the informal sector. In order to understand the method(s) the government establishes to assist traders in the informal sector, an in-depth understanding of the challenges in the informal sector needed to be understood and tabled.

#### **7.2.2 Non-existent Policies**

The lack of policies in the informal sector creates a problem for traders in the sector as this creates institutional gaps that aid ambiguity and lack of accountability. The literature reviewed, together with the data collected, show the importance of policies in place for improved governance and how these also serve as a guide for the strategies and initiatives rolled by the government and its various agencies.

### **7.2.3 The Link Between the Formal and Informal Sector**

The link that exists between formal and informal traders is established through the purchasing relationship as traders in the informal sector purchase sale stock from those in the formal sector. Traders in the informal sector are the last level of distribution, as they reach a market that the formal sector is unable to service. This is mainly due to the low profit margins and the dangers associated with trading in particular areas as most of these informal traders are either found in rural or township areas. Traders in the informal sector must therefore be integrated in the formal sector planning, and be given more credit as they contribute positively in communities in which they operate.

### **7.3 Implications of Theory**

Freeman (2015) challenges the traditional view of stakeholder theory, holding rather the shareholder view, where the shareholders who are the owners of the company are the first in line where needs are concerned and that their interests are taken care of through increased value. A number of gaps exist in policy and governance as revealed in the study. The lack of policy in the informal sector leaves room for unrealised developmental goals and further exacerbates the lack of accountability. While literature emphasises the benefits of stakeholder theory and how these stakeholders go beyond the shareholders or those with vested interests in an organisation or project, it is worth exploring further how the stakeholders sitting outside of the shareholders' circle can be equally considered. With respect to institutional theory, government has got various departments that are working towards one goal, but there seems to be no communication between the various departments, their efforts are misaligned. This causes a lack of accountability from governments perspective.

### **7.4 Limitations of the Study**

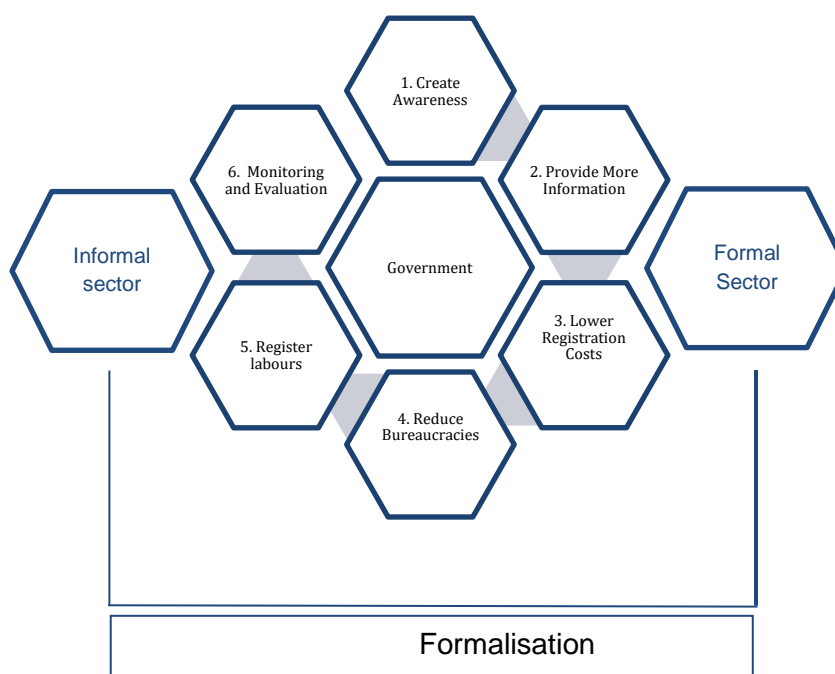
This study is limited to informal sector traders in a township area, with the primary data collected in Seshego only. The results of this study cannot be a generic representation of all traders in the informal sector across South Africa. In terms of collecting data, traders in the formal sector (big corporates) were reluctant to partake in interviews. Data representing traders in the formal sector was therefore limited.

## 7.5 Recommendations for the Government, Informal and Formal Traders

### Proposed Model for Formalisation of the Informal sector

For the informal sector to be formalised, the government needs to play a more active role as enabler. The proposed model below highlights some of the key factors that the government would need to consider in order to formalise the informal sector. The model consists of six pillars

**Figure 1: Formalisation of the Informal Sector**



Pillars of the Model	Description of the Pillars
Create Awareness	Government departments need to run awareness campaigns to explain what formalisation entails. All the procedures need to be thoroughly explained.
Provide more information	Walk-in centres must be established and made available for traders in the informal sector to have access to information.
Lower Registration Costs	Lowering the cost of registering entities will encourage traders in the informal sector to register.
Reduce Bureaucracies	Have appropriate requirements that will enable informal sector traders to have access to opportunities, once they have been formalised. Use the relevant criteria for qualifications of financial and non-financial assistance.
Register labourers	Ensure that not only are the firms being formalised, but register the labourers with the relevant labour department.
Monitoring and evaluation	Monitor and evaluate firms in the informal sector, once they have been formalised. This will assist with record keeping.

## The government

Through interviews that were conducted with the relevant government departments, they acknowledged a few factors that suggested that they are failing the informal sector. A recommendation will be provided for each of the identified factors.

- **Lack of policies:** There are no set policies that are directed at the informal sector, instead the documents that have been developed are strategies. To be able to regulate the informal sector and ensure its sustainability, the government needs to develop informal sector policies and align set strategies to those policies. As the trading by foreign nationals was identified to be one of the challenges, the policies also need to be explicit in terms of the regulations regarding trading by foreign nationals, especially in townships areas. These policies will also be able to address the issue of oversaturation of the same types of business within a small radius.
- **Misaligned institutions:** In implementing strategies, certain regulations are addressed by various departments and municipalities. Due to the lack of communication amongst the various departments and municipalities, there is a clash in ownership of these regulations, which leads to an overlap of responsibilities of the various departments. As a result, there is no sense of accountability. To remedy this situation, it would make it straightforward if there was one department, that would then be responsible for regulations, trading, financial /non-financial support and any other matters that relate to the trading of the informal sector. In this instance it would be The Department of Small Business Development and they could then have subdivisions and create capacity within the department.
- **Financial/Non-financial support, misaligned criteria:** The criteria that is used by government departments in terms of assisting traders in the informal sector, is misaligned. In order to align the criteria, those responsible for developing the criteria within government, need to understand the challenges faced by traders in the informal sector, and use that to represent the interests of traders better.
- **Lack of awareness:** As people may be unaware of the assistance that the government has in place for traders in the informal sector, it would be practical for the government to establish business advisory centres, especially in the township areas as this is where traders in the informal sector dominate. The

business advisory centres could be set up where people could walk in and get all the information they required. All platforms where traders in the informal sector can be assisted need to be made public.

- **Clustering of businesses:** Using a blanket approach to assist traders in the informal sector has proven to be fruitless. The government needs to cluster the various businesses within the informal sector, thus ensuring various categories and how they can be assisted. This would also assist the government in reaching their targets concerning the number of people they would like to assist every financial year.

### **Informal sector**

**Formalisation of the informal sector:** From the interviews that were conducted, the issue of access to finance dominated the challenges that traders in the informal sector experience. They argued that it is difficult to access funds from the state and other formal institutions as they are regarded as being high risk clients. As a basic requirement to access funding, the business needs to be registered to trade. While there are some of the traders in the informal sector who have registered their businesses, others have not done so, as they do not want to be bothered with registration processes and most importantly tax implications. Along with committing funds to traders in the informal sector, non-financial support including an assessment on entrepreneurial skills, would be practical to help determine the assistance that the trader requires, and their current level of business activity.

During the interviews, the representatives from various government departments argued that the reason for formalisation of businesses is mainly to be able to account for them. It is difficult to assist businesses that are not registered as entities. The state will not be able to account for money spent on individuals who do not have registered businesses. They also argue that if they allow businesses that are not registered to receive funds, they then run the risk of simply giving out state money to all individuals who claim to be in business. Formalisation of businesses in the informal sector is therefore recommended as a means for the state to account for their contribution towards the sector, and equally for traders in the informal sector to be able to access financial and non-financial support from government and other formal institutions.

It is therefore recommended that traders in the informal sector register their businesses, to be able to access funding from government and formal institutions. This will also assist the government in terms of regulating, measuring, and accounting for the total contribution of the informal sector. Formalisation of the informal sector is therefore recommended.

### **Formal traders**

**Incorporation of informal sector traders:** Big corporates that establish themselves in areas predominantly dominated by traders in the informal sector, need to incorporate those traders in their planning. This especially should apply to shopping centres and malls that establish themselves in the township areas. When big corporates start to operate in township areas, on the one hand they bring development in these areas, but they also affect the livelihood of the informal sector traders who are unable to compete with them. The developers should not have sole responsibility for consultation with community members prior to establishing their presence in rural and township areas, but should ideally consult with community members and traders in the informal sector to protect the interests of all parties.

### **7.6 Contribution of Research to Business**

This research outlined mechanisms that can be used to ensure that the informal sector makes a greater contribution towards the economy by creating jobs and reducing social inequalities. As the informal sector is the final level of distribution in the rural and township areas, it is important for traders in the formal sector to recognise the role played by traders in the informal sector and to integrate them in their planning. The formalisation of the informal sector is therefore important in building a relationship between the state, formal and informal sector. This will contribute positively to the township economy and overall economy.

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## APPENDICES

### Appendix 1: Consistency Matrix

Preposition/Question /Hypothesis	Literature Review	Data Collection Tool	Analysis
<p>Research Question 1:</p> <p>Explore and describe and describe meanings that informal sector traders associate with the definitions of the informal sector, and the challenges traders face in formalising their retail businesses.</p>	<p>(Sambo, 2018)</p> <p>(Meyer,Meyer,M olefe, 2016)</p> <p>(Mukwarami( 2017)</p>	<p>What is your definition of the informal and formal sector?</p> <p>In your viewpoint, what do you think the impact will be in formalising the informal sector?</p>	<p>Thematic Analysis</p>
<p>Research Question 2:</p> <p>Establish the relationship that exist between the state, formal and informal sector</p>	<p>(Lammers &amp; Garcia, 2017)</p> <p>(Lauth, 2015)</p> <p>(Williams, Colin C Horodnic &amp; Windebank, 2015)</p>	<p>Explain the role of the state in relation to the informal sector</p> <p>How does the state protect the interest of the informal sector as compared to the formal sector?</p>	<p>Thematic Analysis</p>
<p>Research Question 3:</p> <p>Establish the effects that policies have on the development and growth of the township economy</p>	<p>(Assenova &amp; Sorenson, 2017)</p> <p>(Ogunsade &amp; Obembe, 2016)</p>	<p>How can current policies assist in developing the township economy?</p> <p>In your experience how can these polices create value add towards individual businesses?</p>	

## Appendix 2: Ethical Clearance

**Gordon Institute  
of Business Science**  
University of Pretoria

**Ethical Clearance  
Approved**

Dear Monyaku Monyebodi,

Please be advised that your application for Ethical Clearance has been approved.

You are therefore allowed to continue collecting your data.

We wish you everything of the best for the rest of the project.

[Ethical Clearance Form](#)

Kind Regards

This email has been sent from an unmonitored email account. If you have any comments or concerns, please contact the GIBS Research Admin team.

**Appendix 3: Consent Form**

**INTERVIEW CONSENT FORM**

**THE CHALLENGE OF FOMALISING THE LOCAL ECONOMY: SOUTH  
AFRICAN TOWNSHIP RETAIL INDUSTRY**

**Researcher: Monyaku Monyebodi, MBA Student, Gordon Institute of  
Business Science**

---

If you are happy to participate please complete and sign the form below. Please initial the boxes below to confirm that you agree with each statement:

I confirm that the content of the research has been explained to me and have had the opportunity to ask questions.

***Please  
Initial box:***

I understand that my participation is voluntary and that I am free to withdraw at any time without giving any reason and without there being any negative consequences. In addition, should I not wish to answer any particular question or questions, I am free to decline.

I understand that my responses will be kept strictly confidential. I understand that my name will not be linked with the research materials, and will not be identified or identifiable in the report or reports that result from the research.

I agree for this interview to be tape-recorded. I understand that the audio recording made of this interview will be used only for analysis and that extracts from the interview, from which I would not be personally identified, may be used in any conference presentation, report or journal article developed as a result of the research. I understand that no other use will be made of the recording without my written permission, and that no one outside the research team will be allowed access to the original recording.

I agree that my anonymised data will be kept for future research purposes such as publications related to this study after the completion of the study.

I agree to take part in this interview.

---

Name of participant

---

Date

---

Signature



---

Principal Investigator

---

Date

---

Signature

*To be counter-signed and dated electronically for telephone interviews or in the presence of the participant for face to face interviews.*

**Copies:** *Once this has been signed by all parties the participant should receive a copy of the signed and dated participant consent form, and the information sheet. A copy of the signed and dated consent form should be placed in the main project file which must be kept in a secure location.*

## **Appendix 4: Interview Questionnaire Informal Sector Trader**

Name:

Organisation:

Date:

---

Thank you for agreeing to participate in this interview. Your time is highly appreciated

The title of the research is: The Challenge of Formalising the Local Economy: South African Township Retail Sector

The key objective of this research is to:

- Explore and describe meanings that informal sector traders associate with the definitions of the informal sector, and the challenges traders face in formalising their retail businesses.
- Establish the relationship that exist between the state, formal and informal sector
- Understand the effects that policies have on the development and growth on the formal and informal sector

Please feel free to speak openly as the nature of this research is exploratory. Before we begin with the interview, may I ask that you sign the consent form.

Informal sector Participants

### **Question 1:**

How would you define the informal sector?

### **Question 2:**

What are the challenges that you experience as an informal sector trader?

### **Question 3:**

How do you feel about the government formalising the informal sector?

### **Question 4:**

How has Covid 19 affected your business?

**Question 5:**

Have you ever received any kind of assistance from a formal institution, if so, what assistance was it?

**Question 6:**

Is your business registered, if not why have you not registered your business?

**Question 7**

Do you have employees and are they registered as employees?

**Question 8**

Are you affiliated to any organisation that can represent your interest as an informal trader?

## **Appendix 5: Interview Questionnaire Government employee**

Name:

Organisation:

Date:

Start Time:    End time:

---

Thank you for agreeing to participate in this interview. Your time is highly appreciated

The title of the research is: The Challenge of Formalising the Local Economy: South African Township Retail Sector

The key objective of this research is to:

- Explore and describe meanings that informal sector traders associate with the definitions of the informal sector, and the challenges traders face in formalising their retail businesses.
- Establish the relationship that exist between the state, formal and informal sector
- Understand the effects that policies have on the development and growth on the formal and informal sector

Please feel free to speak openly as the nature of this research is exploratory. Before we begin with the interview, may I ask that you sign the consent form.

Informal sector Participants

### **Question 1:**

What are the current policies that exist for informal sector traders, and what is the success rate in implementing those policies?

### **Question 2:**

What financial and non-financial support programs/opportunities does government have in place to assist or incubate informal traders?

**Question 3:**

What qualifying criteria do you use when assisting traders in the informal sector?

**Question 4:**

If you were to consolidate figures and according to your records, how many people has the government assisted in the informal sector in the past financial year?

Target vs Actual

**Question 5**

What are the challenges that you have faced in assisting informal traders and especially those in a township setting?

**Question 6**

What is government currently doing to protect the interest of informal traders?

**Question 7:**

What are the prospects for formalising the informal sector, are there any initiatives to move work in the informal economy into the formal economy?

**Question 8:**

How does the government measure the contribution of the informal sector?

**Question 9:**

How has the government assisted informal traders during Covid 19?

**Question 10**

What are the regulations that have been put in place for foreign nationals, trading in the informal sector?

## **Appendix 6: Interview Questionnaire Formal - Sector Trader**

### **Formal Sector Trader**

Name:

Organisation:

Date:

Start Time:    End time:

---

Thank you for agreeing to participate in this interview. Your time is highly appreciated

The title of the research is: The Challenge of Formalising the Local Economy: South African Township Retail Sector

The key objective of this research is to:

- Explore and describe meanings that informal sector traders associate with the definitions of the informal sector, and the challenges traders face in formalising their retail businesses.
- Establish the relationship that exist between the state, formal and informal sector
- Understand the effects that policies have on the development and growth on the formal and informal sector

Please feel free to speak openly as the nature of this research is exploratory.

Before we begin with the interview, may I ask that you sign the consent form.

Informal sector Participants

#### **Question 1:**

In establishing your business in the township, what methods of consultation were used to consult with traders that were operating in and around the area where the business has been established?

#### **Question 2:**

What is your interest in incorporating local partners in your business?

**Question 3:**

What are the challenges that you have faced in establishing your business in the township or informal setup?

**Question 4:**

Are there any local empowerment opportunities for supply for goods and services in your shop?

**Question 5:**

Have you ever received any kind of assistance from a formal institution, if so, what assistance was it?

**Question 6:**

How has Covid 19 affected your business?