

THE CHALLENGES FACING INFORMAL TRADERS IN THE HILBROW AREA OF JOHANNESBURG

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Abstract

The informal sector in South Africa can play a pivotal role in alleviating the high levels of unemployment due to the potential for increased employment creation that it has exhibited in the Hilbrow area of Johannesburg. According to Schraader (2007:2), a series of linked constraints hamper informal traders to develop in South Africa. Insufficient capital, shortage of qualified personnel, government policy, and high transport and power costs cause serious inefficiencies in the informal trade sector.

Key Words: Challenges; Informal Traders; Unemployment;; Informal Traders; Capital; Qualified Personnel; Government Policy; Transport; Power Costs, Inefficiencies

INTRODUCTION

The South African government has been encouraging people for over past years to start up their own businesses to create job opportunities and to accelerate economic growth. The numbers of informal traders in South Africa have grown significantly. Informal traders have attracted increasing attention in recent years in light of concrete evidence of the importance of new business creation for economic growth and development (ACS, Arenius, Hay and Minniti, 2005).

The call for unemployed people to start their businesses was to address the current unemployment situation in the country. However, there is a belief that both factors are crucial to provide a comprehensive understanding of informal traders in a particular context, consistent with the integrative multilevel research design advocated by Bruin, Brush and Welter (2007: 323). It is apparent that the call for unemployed people to start their businesses was embraced by informal traders as a number of them are now engaged in business activities. There are various challenges facing by informal traders, some of the challenges are: financial related and lack of managerial skills. This study looks at the challenges facing informal traders in the Hilbrow, area of Johannesburg.

Objectives of the Study

The objectives:

- To determine what challenges informal traders are facing in Hilbrow to start their own businesses;
- To determine the needs of informal traders with regard to support, training and development;
- To determine the impact of these challenges on sustainability of the business; and
- To make recommendations to deal with the challenges which informal traders are facing.

LITERATURE REVIEW

In an address to the National Council of Provinces (NCP) in 2003, President Thabo Mbeki first introduced the idea of South Africa being characterised by a 'First Economy' and a 'Second Economy' operating side by side. He stated that the second economy is characterised by underdevelopment, contributes little to the Gross Domestic product (GDP), contains a big percentage of the population, incorporates the poorest of the rural and urban poor, is structurally disconnected from both the first and the global economy and is incapable of self-generated growth and development. It is this 'second economy', that is the subject of this research. This chapter presents a review of literature on issues and concepts relating to informal trading, and which has been formulated around the growth, size contribution, and trends of informal trading as well as the factors that cause informal trading and SMMEs as well as government regulation.

Theoretical Framework

According to Devey, Skinner and Valodia (2006), argues that, the dualist view, which is largely informed by the early work of the International Labour Organisations (ILO), perceives the informal economy as a set of marginal activities that provide incomes for the poor who are unable to access employment in the formal economy. The structuralism view sees that, the informal traders as a set of subordinated trades units which serve to reduce the input and labour costs of the large, formal traders. According to above view, growth in profitability in the formal traders is, in part, dependent on a growth in informal traders. The legalist school views the informal economy as being made up of a set of entrepreneurs who choose to operate in the informal economy, thereby reducing the costs of conforming to regulations that stifle those (Devey et al., 2006:5).

The Informal Sector

In spite of the term 'informal sector' having been criticized as an 'utterly fuzzy' concept (Peattie, 1987 in Devey et al., 2006:3) and the recommendation not to use it, the concept is still widely used. Informal sector is used to describe the range of subsistence activities of the urban poor. Devey et al. (2006:3) maintain that the ILO Kenya Report (1972:6) that, has described the informal activities are defined as 'a way of doing things, explained by ease of entry, reliance on indigenous resources, family ownership of enterprises, scale of operations, intensiveness of work and adaptation to technology, skill acquired outside of the formal school system and unregulated and competitive markets.

Informal traders can be found in all over the world. These informal traders are usually necessitated by unfavorable economic conditions, a low growth rate and large scale unemployment. Regulations and finances are some reasons that prevent informal traders to operate formally and force them into the informal places. As in many other countries, the informal sector is a last desperate attempt of individuals to escape from the trap of poverty and to

provide in their own housing, nutritional, educational and health requirements (Nieman, 2009:72).

The informal activities of a country are not recorded in the national accounts and are not part of the GNP, but exist beside it. These unrecorded activities are differently in different countries. In the United States of America they are referred to as the “underground economy”, in Germany the “shadow economy”, in Italy the “submerged economy” in Russia the “second economy”, and in South Africa the “unrecorded economy” or informal sector. The informal sector forms an inherent part of small, medium and micro enterprises. Because of its diverse nature and the fact that these enterprises are unrecorded and unregistered, it is not possible or practical to define them on the basis of quantitative or statistical guidelines (Kroon, 2006:39).

Characteristics of the Informal Sector

Nieman (2009:77) says that the characteristics of this sector comprise a large of informal trader's and breadwinner activities which include a wide range of legal and illegal activities outside the formal economy. It provides a source of income to many who cannot find employment in the formal sector. The income is usually generated on an extremely low cost basis and if the informal sector should be stimulated effectively, it could play a meaningful role in reducing unemployment and result in a more equal and even distribution of wealth.

Some of the characteristics of the informal sector include easy access to the business sector, utilization of locally available raw materials, small scale processing of products, labor intensive activities, utilization of appropriate technology; skills usually lie outside the formal educational systems, and operating in unregulated, uncontrolled and competitive markets. The informal sector usually has a growth potential and can be seen as the gateway to the small and medium sized enterprise.

Activities of Informal Sector

The informal sector comprises a wide range of enterprises. Street vendors, who sell just about anything from flowers to sheep, make up the most visible components of this sector. A large number of backyard activities such as knitting, vehicle repairs, panel beating, hair care, photography, artistic painting, masonry and other enterprises are undertaken. With a view to simulating the informal sector, a large number of laws and regulations have been rescinded. For instance, the Business Act 71 of 1991 has been de-regulated to allow provincial authorities have the authority to amend parts of the act. The Business Act of 1991 also banished the enforcement of the “Move On” law during apartheid to drive the informal traders out of the city and half of hours face harassment (Siqwana-Ndulo, 2013). This has resulted in an increase in activities such as shebeens, spaza shops and taxis. Apart from the legal business activities, one finds a large number of illegal activities such as prostitution; drug trading, pimping, gambling and corruption (Kroon, 2006:40).

The Sizes of the Informal traders

Since the activities of the informal sector are not recorded, it is impossible to determine its size. This sector is probably conducting its activities in silent rebellion against excessive authoritative measures and often hides its activities. For this reason, one can accept the fact that most

published research results and estimations, underestimate the size, growth and role of the informal sector. Various studies have attempted in the recent past to determine the size of the sector. These studies indicate that from five to as much as 50 percent of South Africa's population participates in informal sector activities. According to the Wholesale and Retail Sector Education Training Authority (W&RSETA)'s 2012-2013 Sector Skills plan, there are about 100 000 spaza shops with a turnover of R7 billion trading in SA. The report indicates that spaza shops make up to 10% of the retail sales (W&RSETA, 2013). There is a strong suspicion that even many households in cities supplement their incomes by means of various forms of informal activities. Taking into account the relaxation of control measures, specifically with regards to the Business Act of 1991, and the large number of informal activities which have come about since then, the extent of unrecorded activities in South Africa can be estimated at more than 2, 5 million or more than 50 percent of all enterprises (Kirby and Watson, 2006).

Importance of the Informal Sector

The same factors which emphasize the importance of SMMEs, such as job creation, also apply to the informal sectors. Due to the uniqueness of this sector, it holds particular advantages for a country. Many see the informal sector as the most important self-help option currently available in South Africa. In an attempt to find solutions for the unemployment problem, the potential of SMMEs and the informal sector is constantly being investigated. In spite of opposition from various quarters, the informal sector enjoys the support of a wide variety of groups. Economists agree that, it is a way to develop prosperity and job provision. Environmentalists see it as means for the possible retrieval of waste materials such as bottles, used batteries, plastic and papers. Free market supporters see it as the only true opportunity for re-establishment of an open, deregulated free market system. Community developers and essential goods and sociologists look at it as manifestation of community values and the provision of necessary products and services for lower income groups, in the rural areas. The government sees it as a method of decreasing state support in the form of unemployment benefits and formal enterprises see it as a source of subcontracting and skills (Kroon, 2006:40).

Challenges of the Informal Sector

The greatest challenges facing informal traders, particularly in the Hilbrow area, have to do with operating and not give a space to trade. Most of the spaces trader's uses are regarded as illegal since they have not been set aside for trade. In cases where they are allowed to operate, the spaces are considered temporary and eviction occurs at the will of urban authorities. There are various conflicts relating to their sites of operation. Major conflicts often rise when the vendors are required to move in order to give way for a planned development. This brings them into direct confrontation with urban authorities and land developers. Most of the spaces the traders occupy have no tenure, and are not allocated and sanctioned by urban authorities. At the same time, the traders are also in conflict with formal shop owners and landlord who contend that the traders infringe on their business and / or premises (Kirby and Watson, 2006:70).

The space that has been occupied by informal traders is open and it has a risk of the harsh environmental. Most of goods of the informal traders such as fruits, vegetables and clothes are affected by the harsh environmental conditions, as results they loss the earning. They trade

illegally due to lack of recognition and licenses. The traders identify trading sites on their own, facing the urban authorities to, evict them. (Kirby and Watson, 2006:71).

Kirby and Watson (2006:70) maintain that in cases of eviction, the traders are often provided with an option outside the Central Business District (CBD) where there are hardly any customers. This option is based on an exclusion framework which reserves the CBD to large scale traders and businesses which urban authorities argue pay taxes as opposed to the street vendors and informal traders. This framework is misguided as research has shown that when both daily fees and bribes to urban authorities are taken into consideration, the urban authorities collect much more than the lump sum paid by formal businesses for licenses (Kirby and Watson, 2006:70). However, the informal traders make less profit and are not able to make lump sum payments. Lack of permit to trade and licenses, it exposes the trader to harassment and punitive measures, including confiscation of goods. During harassment, traders lose their commodities, with some closing their business after losing their capital goods. Research from a number of African cities reveals that having a license does not guarantee safety and recognition by urban authorities. In most cases, vendors are not issued with any identification showing that they have a legitimate right to sell their goods in urban streets. This exposes them to harassment, including confiscation of goods, assault and demand for bribes (Kirby and Watson, 2006:70).

A part from the right to trading space, informal traders are also disadvantaged in the area of security, transport and municipal service. A secure working environment is a pre-requisite for any type of business. Security is a major concern for many people engaged in economic activities on streets. Municipal authorities have been the major source of insecurity for these traders. The authorities harass, beat and confiscate goods of street vendors without any warning. This does not only threaten the security of vendors but also their customers. The environment is not secured as results the customers lost, the tourists are afraid to visit the area, due to poor performance of the business; the income is reduced, and generally interferes with trading. The insecurity in the streets is sometimes used as an excuse for evicting street traders. All over African cities, the informal traders are viewed by traffic police as criminals. (Rwigema and Venter, 2008:61).

Most informal traders find it very difficult to transport their goods from their place to their market place sites. This is because the transport systems does not have service in the area where informal traders staying, and in cases where they do, the vendors can hardly afford the service. In some cases, there are restrictions on what an individual can take on the bus, minibuses or train. This forces informal traders to use human carriers to transport their goods. This is complicated further by lack of storage facilities, which makes the traders, carry back to their homes unsold commodities (Rwigema and Venter, 2008:61).

Mc Cleland (2006:73) says that some services such as water and sanitation are also not available to vendors and consumer. Apart from a few cities in South Africa, informal traders operate without access to water and sanitation. A few of them rely on service from the neighboring formal markets, hotels and bars; while the majority of vendors rely on unsafe water sources, unsanitary methods of refuse disposal and use of open spaces as sanitary facilities (Mc Cleland, 2006:73). Some of them obtain service from their homes or nearby residential areas. Cleaning service provides by authorities are not enough and do not cover trading areas of street and

informal traders, nor do the urban authorities facilitate the provision of services by traders and other stakeholders. In cases where traders are allowed to trade, the authority cleans their sites of operation by hiring people to collect dispose garbage. (Mc Cleland, 2006:73)

Throughout the world the Informal traders have difficulties to operate in the market place. Because they are under pressure from rich countries, the barriers to international trade in goods and financial services and investment flows have been lowered to the advantages of capital over labor and of large firm over small and micro firms. The hash trade and policy processes largely makes hard to earn wage and own account producers in the information in the informal economy, and yet they are majority poor who are focus of current policies and development processes. The neglect of the micro and small traders has to be reversed if Africa countries are to change existing poverty trends (Mc Cleland, 2006:73).

According to Verma, Jiloka and Kushwah (2006:88) the lack knowledge of advanced technology also and hence cannot widen their market. Hence, it becomes necessary for the society and Government to find remedies for the problems of informal and women entrepreneurship. Batra (2004:100) argues that, the informal traders face number of problems in promotion of units and during production, marketing, distribution, procurement of raw- material and availing the incentives offered by the state Government. In order to know at first hand the problem faced by the informal traders in Hilbrow, a survey was carried out in regard.

Informal Trading in Johannesburg

According to Statistics South Africa (2009:5), the informal sector consists of those businesses that are not registered in any way. They are generally small in nature, and are seldom run from business premises. Instead, they are run from homes, street pavements or other informal arrangements (Devey et al., 2006:4). Poor South Africa's have encouraged the governments to help them if not; poor South African will do it for them in the spirit of *vukuzenzele*. To millions of people affected by poverty and unemployment, the most obvious option to 'do it for yourself' is to start small business initiatives such as selling fruits and vegetables, clothes, fast food at a street corner, and operating 'spaza' shops (Stats SA, 2009:6). For informal traders, starting their own businesses is the only way to ensure that they participate meaningfully in the informal economy, provide for their families and create jobs to the unemployable. However, government is seen as not doing much to help informal traders to help themselves (Nguni, 2010). Devey et al. (2006:5) suggest that South Africa's informal sector grew partly due to urbanization, the easing of policing behaviour and regulations which historically treated black informal operators as illegal (rather than 'extra-legal' as in most other countries), and the lack of employment opportunities in the formal sector.

According to Nguni (2010) argues that, the City of Johannesburg (CoJ) has a trading policy that, defines the informal trading as the individuals or groups in locations designated for informal market. However, the informal traders based in Johannesburg continue to fight with the Metro Police Department (MPD) as well with the Metropolitan Trading Company (MTC). They accuse informal traders of trading illegally instead of going through proper channel to get a permission to be allocated a space to sell the product. MTC is a CoJ-owned entity, tasked with the responsibility of regulating trade and transport facilities within the city. Unlike those who

operate at locations designated for informal trading by the city, informal traders who sell illegally within the city often suffer as JMPD officials confiscate their goods. Many informal traders feel that the CoJ should step up its efforts to ensure that all informal traders enjoy their constitutional right to practice trade of their choice. They argue that failure to do so will leave them with no means to generate income to sustain their families (Devey et al., 2006:5)

Other informal traders are of the view that the CoJ should invest resources into growing the informal trading sector rather than focusing only on income-generation projects (Nguni, 2010). To them, growing the informal trading sector can help poor people to sustain their business initiatives and make the sector more sustainable. Only a few informal traders have been provided with locations designated for informal trading. However, Nguni (2010) maintains that many informal traders fear that relocating them to areas that are not accessible to most of their customers will limit their ability to make profit. Just like informal traders who operate legally within the city, illegal traders' biggest wish is to be moved to designated locations that are close to taxi ranks where most of their potential customers can reach them, (Nguni, 2010). However, it is important that the CoJ, through the MTC and JMPD, consult with informal traders and organizations that represent their interests, when taking decisions that affect informal traders. At the same time, Orange Farm-based informal traders criticize the MTC for attempting to relocate them from where they are currently selling from (Nguni, 2010).

Informal traders claim that the MTC argues that the reason for the relocation is that their current location falls under a property sold to developers by the city. "We are generating a lot of money and they want to move us. They want to move us to a place that only has 30 stalls. What about the other informal traders," explains Nomvula Mkhwanazi, one of the 70 traders who felt that moving them will marginalize their businesses (Nguni, 2010). Her view is reiterated by the spokesperson for the Orange Farm Hawkers Association (OFHA), Mxolisi Sibeko, who argues that the MTC should stop viewing relocating informal traders as the only means to deal with the problems they face. Sibeko calls for the establishment of a task team that will represent the interests of informal traders. He argues that: "The MTC is doing its job but in a wrong way. It should not take decisions for us without consulting us." On the other hand, concerned customers such as Thabiso Mahlangu, believes that relocating informal traders to places that are 'out of reach' will make it difficult to continue buying from them (Nguni, 2010).

Nguni (2010) tells a story about Zodwa Khumulo, a domestic worker in the central business district (CBD), who has been buying lunch from informal traders for the past four years. Khumalo prefers buying lunch from informal traders because the food is affordable and of high quality. Just like Mahlangu, Khumalo is against the relocation because regular customers will no longer receive the services that they are accustomed to. "It's unfair for us as customers," says Khumalo. Another association representing the informal traders, Concerned Hawkers and Traders Association (CHATA), slams the city's bylaws for being unconstitutional and for violating the informal trader's right to trade. CHATA deputy chairperson, Mischka Cassiem, says that a framework should be established in which both government and informal traders can engage and deliberate on issues affecting the informal trading sector. In addition, she is of the view that government should create a platform for the informal sector in Parliament. "Nobody is looking after informal traders," she argues (Nguni, 2010).

Policies in the Informal Sector

The formulation and implementation of informal economic policy is important in a developing country, (Horn, Motala and Xaba, 2002). The importance of a national, regional or local government that is supportive of informal economic practices cannot be emphasized enough as the formal economies of developing countries struggle to provide a livelihood for their citizens. Hence, policies that enable or empower those in the informal economy to maximize their economic gain are absolutely essential.

Policies that are available to the informal economy were based on previous regime known as apartheid that, influenced by overriding the economic system of that period in which they were implemented to the poor people because of the political system at that particular time (Peattie, 2006). In the 1970s and 1980s, policies were aimed at formalizing the informal economy. The cornerstone of these policies was to control the informal economic practices and to thereby capture much of the economic activity in order to enhance the tax base of the country (Maldonado, 2005). In the late 1980s, the realization from the other governments among the developing countries noted that the informal economic have the potential to grow and sustain the citizens with a livelihood (Charmes, 2006). (Cox and Watt, 2005). In many countries such as South Africa being but one example, informal economic activities came to be viewed as a viable means to address poverty (Ligthelm, 2006).

The policies pertaining to the informal economy on an international level need to be addressed by extending protection to informal workers, who are exploited by formal firms or regulatory environments. As opposed to the rest of Southern Africa, South Africa's informal economy is smaller than the regional average. This is because of the strong formal economy, based largely on mining and other primary sector activities (Ligthelm, 2005). However, South Africa's informal economy is set to grow, and, depending on which definition is used in defining the informal economy, it is estimated that the size of the informal economy is between seven and 12% of South Africa's GDP (Valodia, 2006). Valodia (2006) categorizes the industries of the South African informal enterprises as follows: Agriculture (14%), Manufacturing (10%), Construction (13%), Trade (46%), Transport (6%), Finance and business (3%) and other services (9%). According to these estimates, it is obvious that trade is the most widespread activity and could be described as one which is over-saturated, whilst other industries, with a greater potential to formalize, have an equal market share.

The South African governments have taken a pro-informal economy approach in the post-Apartheid period (Valodia, 2006). The cornerstone policy on which other pro-poor policies were based was the Reconstruction and Development Programme (RDP), which was supposed to address underdevelopment through a basic needs-based approach to development. Much focus was placed on the potential of small, medium and micro-enterprises (SMME's) to be catalysts in job creation, and on this basis, the Department of Trade and Industry (DTI) formulated the White Paper on SMMEs 1995 and subsequently also the Small Business Development Act of 1996 (Rogerson, 2004). This White Paper instituted three small business support programmes to facilitate small business development (Cheru, 2005; Valodia, 2006; Devey, Skinner and Valodia 2006). These programmes include Khula Enterprise Finance Facility (KEFF), Manufacturing Advice Centre's (MAC), and Ntsika Enterprise Promotion Agency (NEPA). Each of the

programmes is charged with facilitating specific informal economic industries, as the names of the different programmes would suggest. Skills development and training for those active in the informal economy are facilitated through the Sector Education and Training Authorities (SETAs), and the National Skills Fund (NSF) (Devey et al., 2006).

The South African government's facilitative approach to the informal economy is commendable as it strives to directly address poverty. The success of the SMME policies is, however, questionable as there have been criticisms lodged by Ligthelm (2004), Rogerson (2004) and Monkman (2006) against SMME policies. Monkman (2006:6) highlights five major deficiencies in SMME programmes as "gaps between businesses' needs and the types of services offered; programmes that do not develop an entrepreneurial culture; a tendency to serve larger, small and medium enterprises better than smaller ones; low usage of the DTI and agency programmes; and cumbersome administration." Rogerson (2004) points to the lack of accurate data for judging SMME progress, the fact that SMMEs are not growing sufficiently to address unemployment problems, and, along with Ligthelm (2004), states that not enough has been done by the programmes to assist micro-enterprises.

Much has been done on the policy front in South Africa to facilitate informal economic practices, with the hope that these practices will translate into sustainable semi-formal enterprises. The adoption of the Business Act of 1991 and the given Amendments that were made to this Act stands as testimony to the governments, pre- and post-Apartheid commitment to fostering small business development in South Africa. After 1994, however, efforts by government were intensified to foster small business, with policies formulated to specifically address the needs of small, medium and micro-enterprises (Rogerson, 2006). Formalizing informal economic enterprises is thought to contribute to a raised GDP and to provide employment opportunities to those who are at the lower end of the strata of South Africa's economy. If this critique is considered, however, it would seem that the target groups at which these programmes are directed need to be revised so that policies could/would empower informal businesses and make a positive contribution to both the formal and the informal economic landscape of South Africa.

Section 152 of the Constitution places emphasis on the responsibility of local government to establish an environment conducive to human development. The principle of providing for and promoting local economic development has a direct impact on traders, as it implies that local governments should foster the unique local economic milieu of the area under their jurisdiction (Lund, Nicholson and Skinner 2005). Besides the constitution of 1996, another relevant piece of national legislation is the Business Act of 1991. As Lund et al. (2005) state, this act changed the manner in which street traders were viewed as regards the prescribed policy attitude towards them. Instead of street traders being regarded as a nuisance to city officials and a burden to the urban economic environment, the Act acknowledged that they could play a positive role in contributing to the overall wellbeing of the urban economy (Dewar, 2005). Provincial governments have the authority to amend the Business Act in order for the act to be location-specific, as provinces have unique economic factors that influence policy formulation and implementation. Along with the de-regulation of the Business Act, the White Paper on a National Strategy for the Development and Promotion of Small Business in South Africa 1996 came into effect. The White Paper sets out the importance of informal economic role-players in the process of national economic development. Aspects with regard to institutional reform and providing

support frameworks for operators in the informal economic arena are clearly set out. This is all done with the intention of establishing an economic environment that is most conducive to the economic success of those active in the informal economic landscape.

The White Paper on Local Government of 1998 gives a detailed description of how local government should conduct the management of local municipalities. Section Two of this White Paper is of special significance as it sets out the aspects regarding the establishment of developmental local government. The Small Business Act was further amended in 2003. The emphasis of the amendments was on the role that is played by the Minister of Finance in creating an environment that is conducive to the growth of small businesses. This refers to the process whereby the minister assembles a council that is responsible for the formulation and implementation of policy frameworks that are to guide small business development in South Africa. The primary aim is to create a legal environment that would be ideal for the creation and growth of small business ventures. National legislation provides a general background and the guiding principles for the regulation of informal trading. It is, however, the task of the other two tiers of government to respond to the needs of street traders in their areas.

The link between the Informal and the Formal Sectors

One thing that the preoccupation with the informal sector, especially in South Africa, prevents is the realization that there is a link between the formal and the informal sectors. According to Segal and Herington (2006:231), the rise of the informal sector is directly linked, in most cases, to the failure of businesses in the formal sector, particularly, the small businesses. Most of the new businesses have a littler chance of succeed in the South Africa with as many as 1 in 2 failing in their first two years. On other hand almost half survive and go on to prosper. Segal and Herington (2006:230) have outlined the key reasons for business failure.

Problems of SMMEs

As a result of their smaller size, SMMEs face many problems. Other than its bigger peer, the SMMEs do not have a separate marketing division, personnel division, sophisticated building, and bargaining power with suppliers and extensive capital resources. All these functions are done by one person, and this can be taxing on the entrepreneur who has to be the marketing, personnel, administrative, production, purchasing and general manager at the same time. Since expertise in all these aspects is seldom found in one person, it is advisable for an entrepreneur to use expert, professional help (Kroon, 2006:35).

RESEARCH METHODOLOGY

Target Population

Cooper and Schindler (2006:180) define a population as the total collection of elements from which a researcher wishes to make inferences. The target population for this study consisted of six hundred informal trader in Hilbrow of which two hundred were selected as the sample. Name of each informal traders was written in alphabetical order one. Starting from any place two hundred names of informal traders were randomly selected from the list. The researcher believed

that two hundred informal traders represented a large sample to increase the validity and reliability of the findings.

Limitations of the Research

This study was limited to investigate the challenges facing the informal traders in Hilbrow. Considering resources and time constraints, the research was limited to only 200 informal traders in Hilbrow. This excluded the experiences of a lot of informal traders both in Hilbrow and beyond. The delimitations of this study were related to the use of a singular research design as opposed to triangulation. The research instrument and the number of test items were also limited. The results should not therefore be generalized to other informal traders in others cities or elsewhere.

RESULTS, DISCUSSION AND INTERPRETATION OF FINDINGS

PRESENTATION OF FINDINGS

Saunders et al. (2010:332) elaborate on the quantitative data collected through the survey, by saying that, the data is analyzed on the basis of the principles. These principles include: preparation of data for analysis, exploring and presenting the data; describing data using statistics, and explaining variable relationships and trends. The results of each question are explained and discussed. The findings are linked to theories discussed in chapter two of the study and agreements with existing literature are identified. The findings are presented using either figures or tables. The findings are grouped in sections: Section A: Demographics, Section B: Challenges facing informal traders, Section C: Impact of the challenges on sustainability and Section D: Needs of informal traders.

Section A: Demographics

The respondents were asked a number of demographic questions. This was meant to show how closely the sample replicates the known population, and to allow for the analysis of sub-groups of those responding.

Number of years in informal trading

Respondents were asked to state the number of years they had spent trading informally. Table 4.1 shows the responses provided.

Table 4.1 Number of years in informal trading

Less than 1 year	20%
1-5 years	25%
6-10 years	40%
11-15 years	10%
Over 15 years	5%

The number of years in informal trading indicates the significance of unemployment in the population living in the Hilbrow area. The population in Hilbrow is believed to be in excess of 100 000, according to Urban Inc. Research (2006). Table 4.1 above reveals that 45 % of the respondents have been in business for less than 5 years and that 55% have been in business for more than 5 years. This is consistent with literature where authors like Lund (2010) maintain that a large number of informal traders have been operating as informal traders for over 5 years, mainly because of the 2008 recession which resulted in a lot of lay-offs and increased unemployment.

Age

Table 4.2 shows the distribution of the age of the respondents.

Table 4.2 Age of informal traders

Less than 30 years	30%
30 – 40 years	25%
41 -50 years	30
51- 60 years	10%
Over 60 years	5%

According to the information in Table 4.2, 55% of the respondents were below the age 40 years. This shows that the majority of people who are unemployed are those that are supposed to be economically active. A total of 30% of the respondents were aged between 41 and 50 years old and 15% were above 50 years. The literature reviewed in Chapter two revealed that various studies have attempted to determine the actual size of the informal sector. These studies have indicated that from five to fifty percent of South Africa's population participates in informal sector activities (Kirby and Watson, 2005). Kirby and Watson (2005) suggest that there is a very strong suspicion that many households in cities supplement their incomes by means of various forms of informal activities. This could explain the fact that over half of the respondents were below the age of 40. The results were also consistent with Wilemse (2011) who maintains that a small income and the limited ability of the government and the formal business sector to provide sufficient employment opportunities to people in the economically active age categories are two of the main reasons for informal trading in South African cities.

Qualifications

The respondents were also asked to specify their qualifications. This was done to understand the educational levels of people involved in informal trading.

Table 4.3 Qualifications

No school background	20%
Primary-Matric	50%
Certificate – diploma	15%
Undergraduate	10%
Above honors degree	5%

Good skills of operating a business are a factor that can make a business successful. Lack of business skills has a major impact on most informal traders. Table 4.3 shows that 20% of the respondents did not have a school background and 50% attended school primary or up to matric. A total of 30% of the respondents had a certificate or diploma (15%), an undergraduate qualification (10%) or a post-graduate qualification (5%). Naidoo (2009) reports that a survey of four cities, Cape Town, Tshwane, Johannesburg and eThekweni revealed that 37% of informal traders had some secondary education, with 29% of them having obtained senior certificate. These significant numbers of people with formal education in the informal sector underscores the lack of employment opportunities the South African economy offers.

Gender**Table 4.4 Gender**

Male	40%
Female	60%

Table 4.4 indicates that 60% of the informal traders are women are generally prevalent in informal trading, with children also active and men in the minority. The prevalence of women and children, especially in an African context, can be attributed to the low levels of formal education and the lack of tradable skills amongst street traders (Mitullah, 2005). The gender distribution among the informal traders interviewed also support Lund (2010) who suggests that women enter street trading later in life, while men generally enter and leave street trading early in their lives. Researches done by Lund (2010) the outcomes of the research were shown that, there were more men than women in the 21-30 years age group and more women than men in the 41-50 age groups.

Number of hours spent in business per day**Table 4.5 Number of hours spent in business per day**

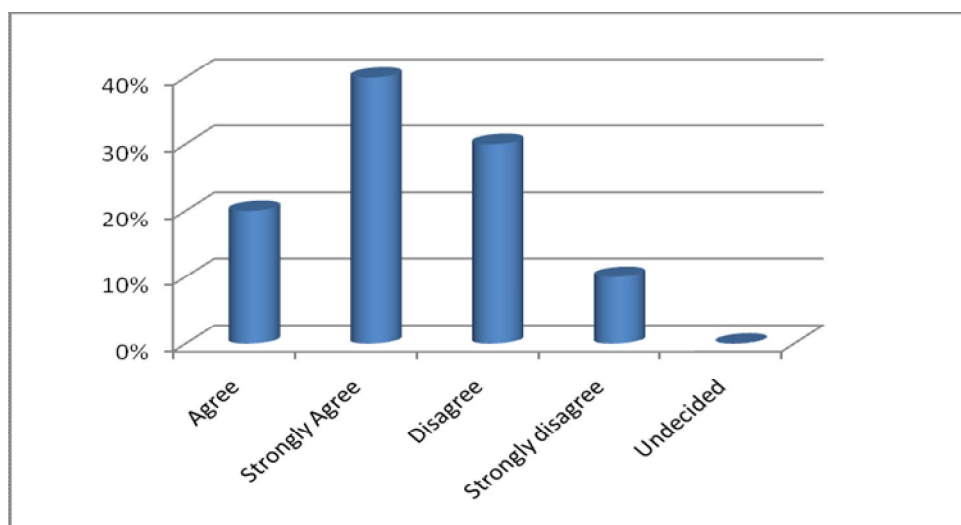
Less than 2 hours	10%
2-5 hours	10%
6-8	30%
Above 8 hours	50%

Table 4.5 reveals the number of hours spent in business per day. A total of 20% spend less than 5 hours doing business while 80% of the informal traders spent more than 5 hours doing business. Mitullah (2005) reveals that many informal traders work long hours from the same site on a daily basis. These vendors and their families typically rely on profits from vending as their primary source of house income. Other vendors rotate among two or more sites, taking advantage of different types of clientele and different patterns of urban movement over the course of the day.

Section B: Challenges Facing Informal Traders***Lack of financial skills in operating a business***

The study asked the respondents to indicate whether or not they had financial skills to operate their businesses and Figure 4.6 shows the responses received.

Figure 4.1 Lack of financial skills in operating a business



Financial skills are very important in every organisation. A business that fails to manage finances of the business properly will fail to succeed. The findings in Figure 4.1 indicate that 60% of the respondents agreed that they do not have financial skills to operate a business. A total of 40% of the interviewed disagreed, which could suggest that they do have financial skills. Rogerson (2006) elaborates that, the policies promised to help informal traders to acquire skills and support them to apply for financial assistance; but the majority did not benefited from the above mentioned things.

Good managerial skills

The respondents were asked to indicate the level of their managerial skills, and Figure 4.2 shows the responses to this question.

Figure 4.2 Good managerial skills

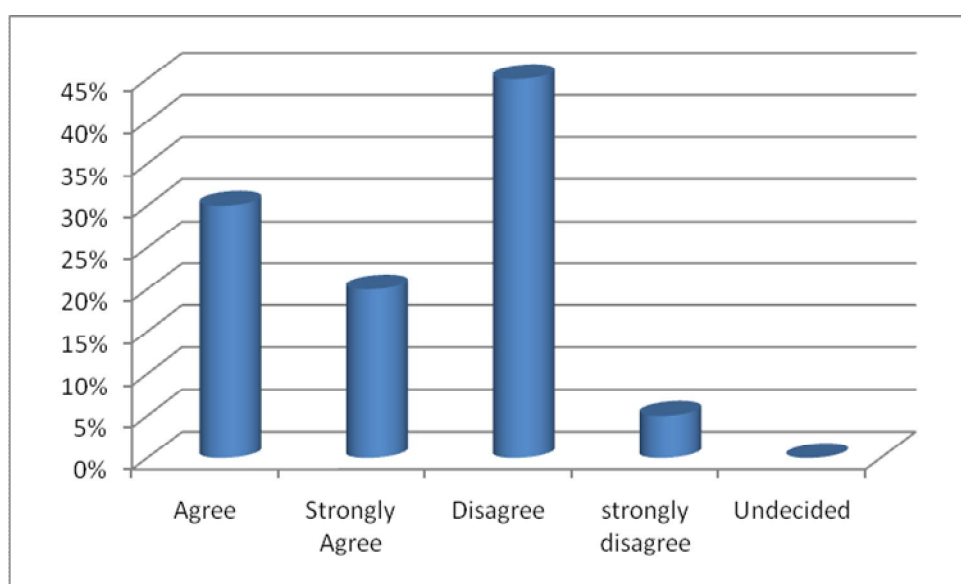
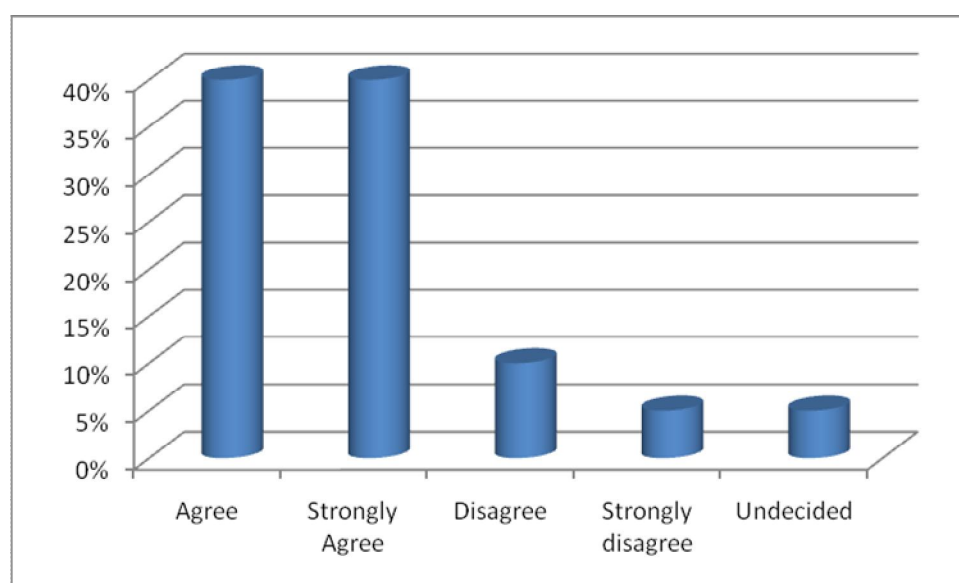


Figure 4.2 reveals that 50% of the interviewed informal traders do not have managerial skills while the other 50% have these skills. The fact that half of the respondents had managerial skills supports Lund (2010) who says that in 2007 more than 1000 informal traders had completed a business course being run as part of the City of Johannesburg's Grow your Business skills development programme. The programme was aimed at providing informal traders with basic business skills such as drawing-up a business plan, marketing, financial management and sourcing finance.

There is Hyper Competition in the Market

The question on competition that was posed to the respondents was aimed at assessing the climate in which these informal trades operated. Figure 4.3 shows the results of the responses given.

Figure 4.3 Hyper competitions in the market



Literature revealed that hyper competition in the market reduces the capital and can force businesses to close down. Figure 4.3 indicates that 80% of the interviewed informal traders agreed that there is hyper competition in the market, 15% disagreed and 5% were undecided. Segal (2005) emphasized the danger of hyper completion as it forces businesses that cannot compete to close down.

There are no friendly government laws for informal traders

Research shows that, the economies of scale are an urgent step towards changing the mind set and attitudes of economic policy makers (Skinner, 2008). The question, however, is whether or not this contribution is recognized by municipalities. A further question is whether or not there are regulation governing informal traders, and whether the legislation is known to the traders. This question was posed to the informal traders in this study and Figure 4.4 shows the results.

Figure 4.4 Absence of friendly government laws for informal traders

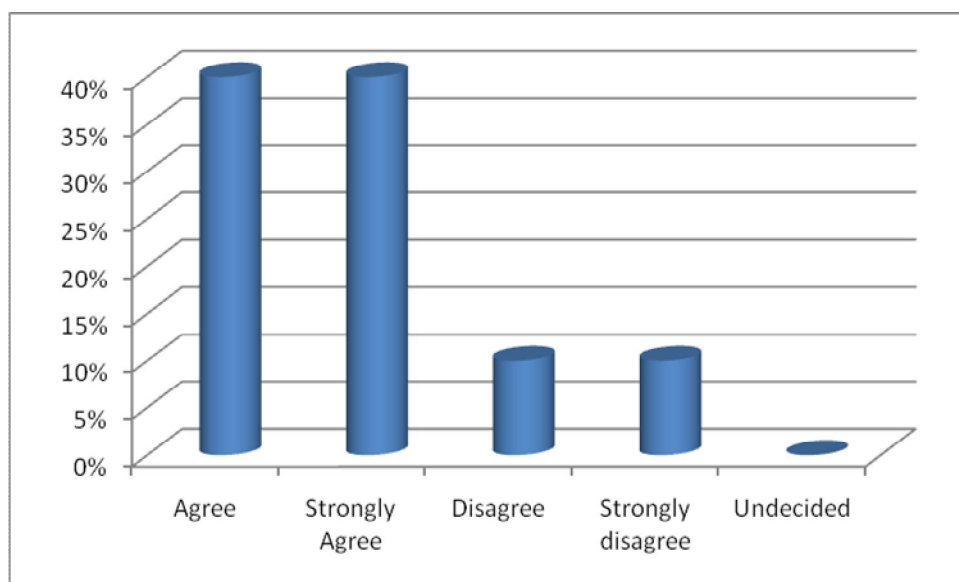
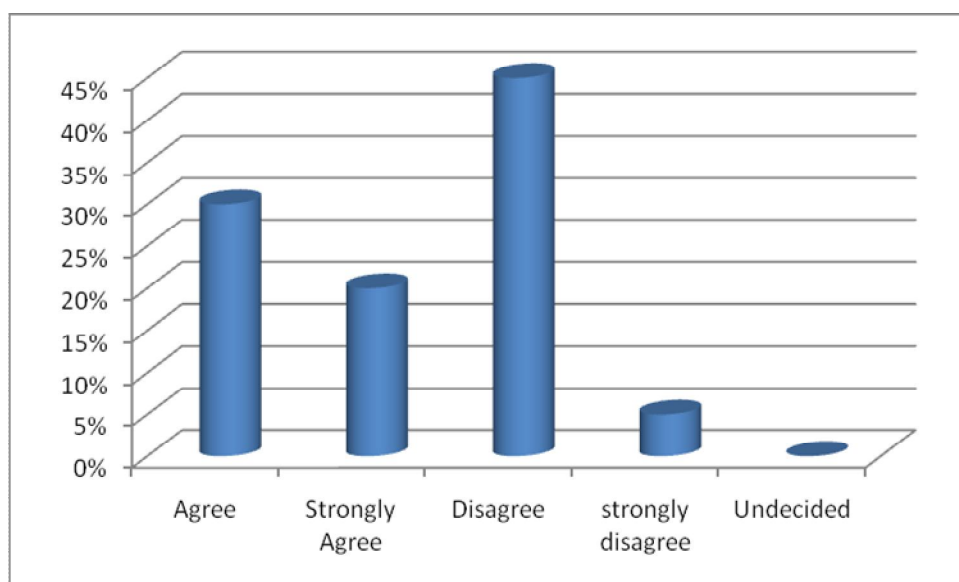


Figure 4.4 reveals that 80% from the interviewed informal traders agree that there are no friendly laws to informal traders. Naidoo (2009) suggests that some by – laws in South Africa, the police traffic grubs goods for informal traders without negotiating with the street traders by saying that, they have who commit an offence, and it can be devastating to survivalist street traders who cannot easily buy their stock as a replacement . Sometimes the informal trader’s feels that they have been treated unfairly and the other challenge is that even they take the matter to the court; the informal traders may feel that they will be unfair treatment and the actions of officials, can be intimidating and unaffordable for survivalist street traders.

You have good marketing skills

Figure 4.5 Presence of good marketing skills



Marketing skills are very important in any business that wants to add value in the marketplace. From the findings in the Figure 4.5 reveals that 50% of the interviewed informal traders do not have marketing skills. Mitullah (2007) says that, the International trade Centre in conjunction with the Uganda Export Promotion Board is currently implementing a project that seeks to enhance the capacity of Uganda women informal cross-border traders to increase their export in neighboring countries by reducing and eliminating trade facilitation impediments at points of entry and exit. Despite the impressive contribution and potential for growth of the informal cross-border sector, they experience a number of challenges in doing business. These include the absence of clear government policies for the development of informal sector, lack of knowledge on formal cross border procedures and processes, lack of access to finance, lack of entrepreneurial skills, lack of marketing skills, shortage of business premises, complex government laws and regulations, lack of access to automation, low literacy levels, undue delays at border posts, and harassment by border agencies. These challenges are particularly severe for women informal cross-border traders (WICBT) relative to their SME exporting counterparts in the formal sector.

Section C: Impact of the Challenges on Sustainability

Profit Decline

Table 4.6 Profit decline

Agree	30%
Strongly Agree	40%
Disagree	20%
Strongly disagree	10%
Undecided	0%

Most of informal traders do business for profit maximization. Findings presented in table 4.6 indicate that 70% of the informal traders feel that their profit is declining. Lund (2010) asserts that the price that informal traders buy their stock most of the time is expensive because they buy in small quantity. When the cost price of the stock is high the profit margin decreases. This is one reason including high level of competition that causes the decline of informal trader's profit.

Poor Business Growth

Table 4.7 Poor business growth

Agree	50%
Strongly Agree	20%
Disagree	20%
Strongly disagree	10%
Undecided	0%

The findings in Table 4.7 reveal that 70 percent of the informal traders that were interviewed feel that their businesses are not growing. Naidoo (2009) outlines that many informal traders fail to grow successfully because the profit is limited and most of informal traders do not have the necessary skills to grow their business.

You are Intending Closing a Business**Table 4.8 Intention to close business**

Agree	30%
Strongly Agree	20%
Disagree	30%
Strongly disagree	10%
Undecided	10%

Table 4.8 indicates that 50% of the interviewed informal traders are intending closing their businesses. Nieman, (2006:95) says that a large variety of causes for failures can be found in the literature. If the causes of enterprises failure are analyzed, one finds that management incompetence, inadequate experience, a lack of managerial experience and experience of the specific industry are jointly responsible for 92,1 percent of all enterprise failure. The following causes of failure, in order of importance, are more often found in literature: inadequate turnover, unsatisfactory competitive ability, exceptionally high running costs, and stock problems.

The Income is Insufficient to Support Family**Table 4.9 Income insufficient to support family**

Agree	40%
Strongly Agree	10%
Disagree	30%
Strongly disagree	20%
Undecided	0%

The main reason why many people start informal trading is to get income so that they can sustain the family. Table 4.9 reveals that 50% of informal traders feel that the income they are receiving is insufficient to support the family. Lund (2010) emphasizes that many informal traders join this trade because they did not get job opportunities. Willemse (2011) maintains that the income that the informal traders getting is used to for their family as a supplement; expand businesses; make remittances to family; clothe, feed and educate children, and save money in informal rotating savings and credit associations (ROSCAs). The income that most informal traders get from their business is insufficient income to buy food and send children to school. In fact, Willemse (2011) argues that most of the informal traders, trade illegally on the streets as a matter of survival to avoid starvation.

You Prefer Buying Stock from the Black Market**Table 4.10 Preference for buying stock from the black market**

Agree	40%
Strongly Agree	20%
Disagree	30%
Strongly disagree	5%
Undecided	5%

The cost price of goods that informal traders buy determines the profit. It found that the cost price that informal traders buy is high which diminishes the profit margin. Table 4.10 reveals that 60% prefer to buy their stock from the black market. Lund (2010) asserts that the cost prices that most informal traders get are high therefore many buy their stock from the black market which is probably stolen stock.

Relocation of Business

Table 4.11 Relocation of business

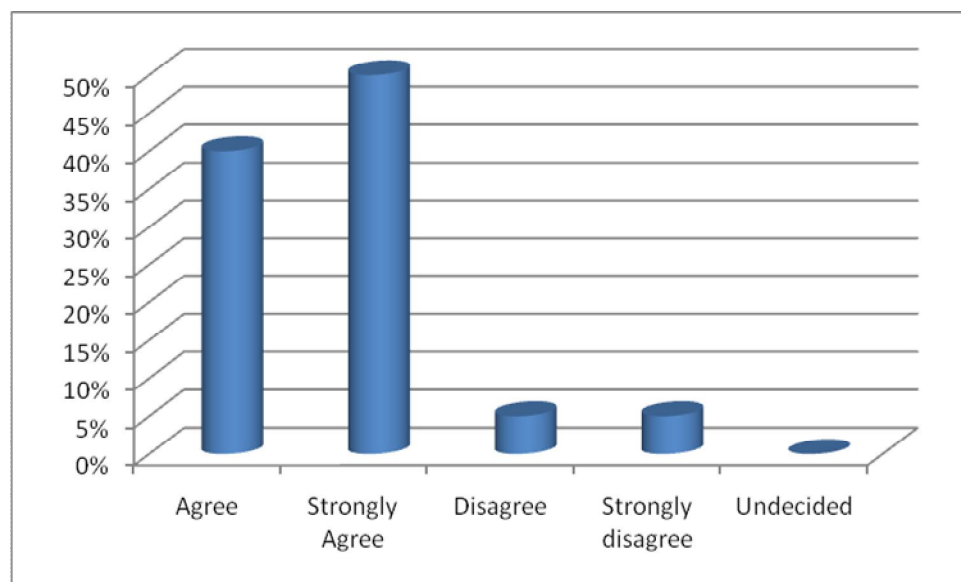
Agree	30%
Strongly Agree	20%
Disagree	40%
strongly disagree	5%
Undecided	5%

Table 4.11 indicates that 50% of the informal traders would like to relocate their business to another place. The reason can range from the hyper competition, decline of profit, the attitude of authority. Rogerson (2007) asserts that when informal traders feel that the place is not conducive for business due to competition, harassment from municipal police and other factors, they prefer to relocate their business to another place so that they can continue to operate. Willemse (2011) argues that informal traders operate on the fringes of the law and are often associated with criminal activities and thus, consequently subjected to harassment.

Section D: The Needs of Informal Traders

Adequate Funding from the Government

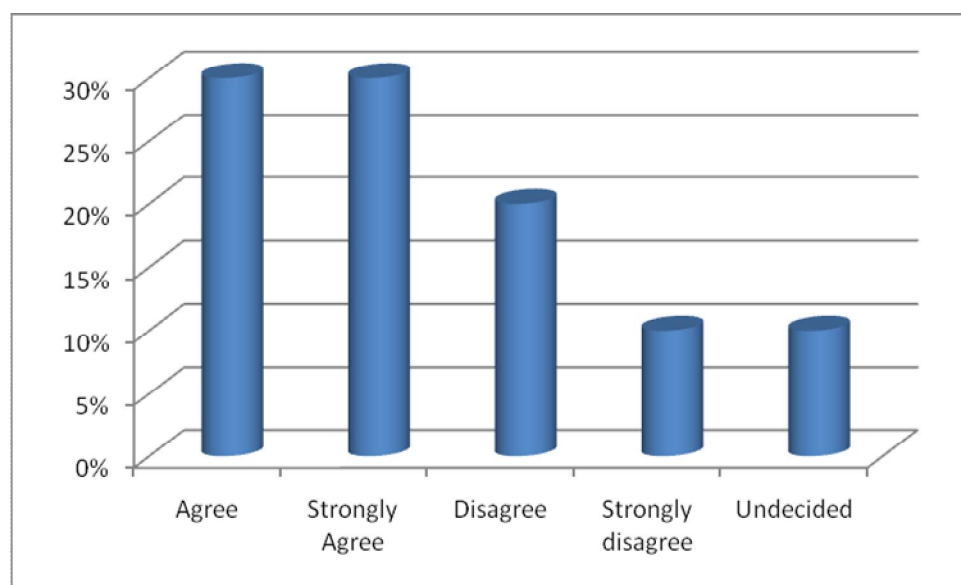
Figure 4.6 adequate funding from the government



The government should take initiative to implement with financial support programmes to help informal traders deal with the problem insufficient fund. Figure 4.6 reveals that 90% of the informal traders would like government to fund the informal traders. Lund (2010) said that government in the developing countries in Africa should provide informal traders with good environment, good policies, and fund support systems.

Credit Goods from Companies

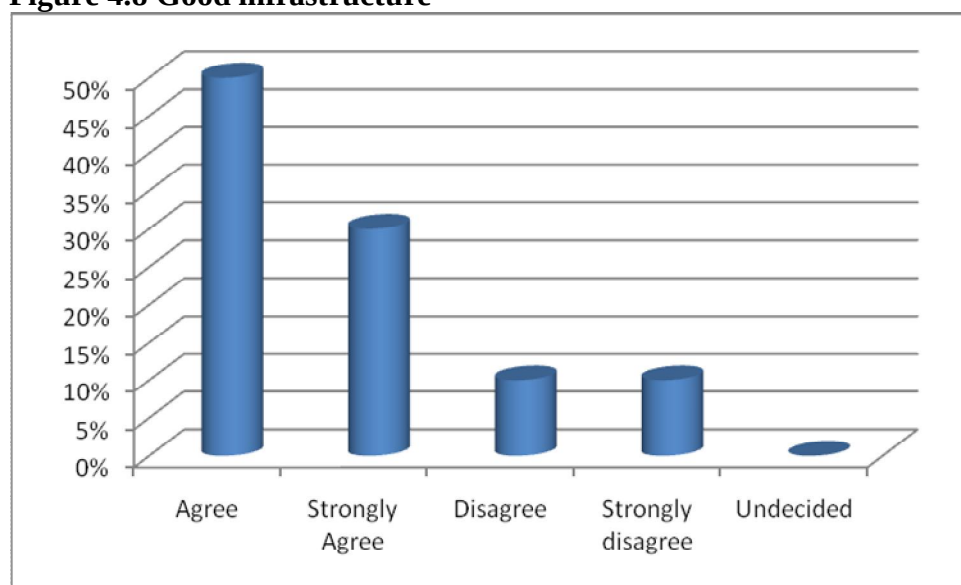
Figure 4.7 Credit goods from companies



A total of 60% of the interviewed informal traders would like to buy goods from companies on credit. Chen (2004) explains that when there is trust between informal traders and suppliers of goods where informal traders will be able to buy things on credit as are many formal traders do. He further said that credit goods will ease a burden of insufficient capital that many informal traders have.

Good Infrastructure

Figure 4.8 Good infrastructure

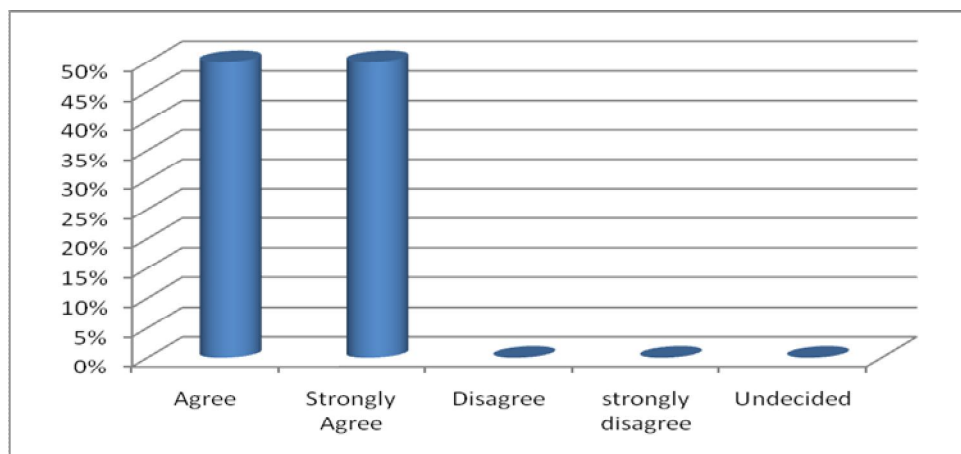


Providing informal traders with a good place to sell their goods can help them to store their goods at a safe place rather than carrying them home every time. 80% of the informal traders

would like good infrastructure where they can sell their merchandise. Segal (2005) asserts that when informal traders are provided with good infrastructure, are protected from bad weather, theft. He outlined that many informal traders carry their stock home because they do not have good stalls where they can keep their merchandise safe.

Reduction in Red Tape when Issuing Selling Permits

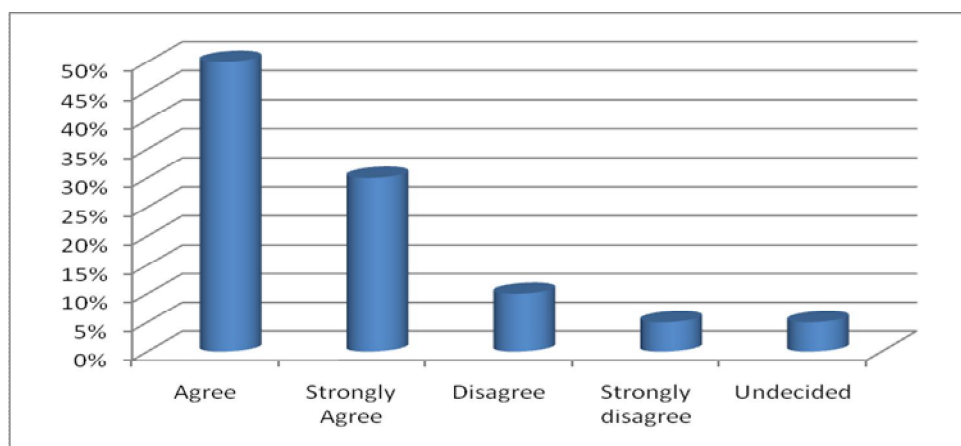
Figure 4.9 Reduction of red tape when issuing selling permits



The application for selling permits was supposed to be easy and prompt. When permit procedures become difficult, informal traders find it difficult to start their business forcing them to illegally sell their goods which subsequently results in confiscation of goods. All the respondents (100%) expressed their wish that the bureaucracy currently characterizing the process of applying for permits should be eliminated. Chen (2004) outlines that although permit plays a big role in administration of the authorities delaying issuing them instigate illegal ways of obtaining them such corruption, or by selling things illegally that results in confiscation of the stock.

Short Courses Supported by the Government

Figure 4.10 Short courses supported by the government



Chen (2004) says that people are living in a changing environment that requires regular training and improvement of education. However, people who do not have business knowledge will need training in business besides the training that is required in the changing environment. A total of 80% of the informal traders believe that they need short courses that will help them to run their businesses effectively.

CONCLUSIONS AND RECOMMENDATIONS

FINDINGS FROM THE STUDY

The key findings from the study are discussed below:

Findings from the Literature Review

According to the literature reviewed, the informal sector comprises a wide variety of enterprises. Kroon (2006:40) maintains that a large number of backyard activities such as knitting and needlework circles, vehicle repairs, small panel beaters, exhaust system, hair care, photography, artistic painting, masonry and other enterprises are all found in this sector. Apart from the legal business activities one finds a large number of illegal activities such as prostitution; drug trading, pimping, gambling and corruption (Kroon, 2006:40).

The research has shown that, informal traders are facing serious problems in the execution of their business. These obstacles include insufficient funds, lack of financial skills, lack of managerial skills, and lack of government support for the informal traders. Rothman (2006:6) confirms that funding for informal traders has always been insufficient because of the critical shortage of funds and the inability of informal traders to allocate these funds and other resources effectively. Informal traders are basically expected to effectively manage the available funds and to develop other means through which funds can be supplemented (Rothman, 2006:6). It is implicit that informal traders should be skilled through training them in financial management in order to maximize their returns. The South African government has taken a pro-informal economy approach in the post-Apartheid period to facilitate the provision of quality informal trading (Valodia, 2005). This has been in line with Valodia (2005) who maintains that the cornerstone policy on which other pro-poor policies were based; the Reconstruction and Development Programme (RDP), which was supposed to address underdevelopment through a basic needs-based approach to development.

Much focus was placed on the potential of small, medium and micro-enterprises (SMME's) to be catalysts in job creation, and on this basis, the Department of Trade and Industry formulated the White Paper on SMMEs in 1995 and the Small Business Development Act of 1996 (Rogerson 2004). This White Paper instituted three small business support programmes to facilitate small business development (Cheru 2004; Valodia 2006; Devey, Skinner and Valodia 2006). These programmes include Khula Enterprise Finance Facility, Manufacturing Advice Centres, and Ntsika Enterprise Promotion Agency. Each of the programmes is charged with facilitating specific informal economic industries, as the names of the different programmes would suggest. Skills development and training for those active in the informal economy are facilitated through the Sector Education and Training Authorities (SETAs), and the National Skills Fund (Devey et al., 2006).

Findings from the Primary research

The summarised findings from the primary study are detailed in this section. The findings show that 55% of the informal traders are regarded as youth as they are in the productive age group. This is because with the unemployment levels in SA, many youth do not get jobs soon after they finish school. Fifty percent (50%) of the respondents have attended primary and secondary levels of schooling. The study revealed that a large percentage of informal traders are women who constitute 60% of the respondents. The study also revealed that 80% of informal traders spend more than 5 hours doing their business.

The study found that there is a lack of financial skills, as 60% of the informal traders studied had no background of how they could run their businesses with sound financial skills. Due to the level of education of the respondents, 50% did not have managerial skills and 50% lacked marketing skills. The study further found that informal trading is engulfed with hyper competition due to imitations and lack of innovation and as such, 80% of the respondents believed that their businesses were not doing well. As a result of the above-mentioned challenges facing informal traders, the study revealed that the respondents felt that they had insufficient income to support their families, their profits were declining and that there was poor business growth. The study revealed that 60% agreed that the income they got was not sufficient for their families, 70% concluded that their profits were dwindling and 70% believed that there was poor business growth. As a result of all these factors, 50% of the respondents felt that closing their businesses would be better while 50% believed relocating their businesses to other locations would work better for them.

When asked about their needs, 90% of the informal traders surveyed said that they wanted good government funding to supplement their insufficient funds, 80% wanted to have short courses so that they could run their businesses effectively, and 80% indicated that they would like to buy stock on credit from companies. All the respondents (100%) wanted the red tape characterizing the selling of permits in Hilbrow to be reviewed to make it easy for them to operate.

Conclusions

Horn, Motala and Xaba (2010) suggest that the formulation and implementation of informal economic policy is important in a developing country, especially in Africa. They maintain that there is a need for national, regional or local government that is supportive of informal economic activities and cannot be emphasized enough as the formal economies of developing countries struggle to provide a livelihood for their citizens. Policies that enable or empower those in the informal economy to maximize their economic gain are absolutely essential (Horn et al., 2005). While these authors recognize that there are policies that are in place to help informal traders, they also observe that informal traders appear to be lacking financial skills, good funding, good managerial skills, marketing skills, friendly government laws and good infrastructure (Horn et al., 2005).

The study concluded that to avoid the challenges revealed in the study, the training of informal traders should be a priority considering that several research studies (Naidu et al., 2008:158) have identified the acute shortage of financial management skills among informal traders as an area which needs attention. The lack of business skills contributes largely to quality of business. In order to address the acute shortage of business management skills, it is imperative to design continuous and effective financial management training programmes for the informal traders.

Recommendations

The findings on challenges facing informal traders highlight, among others, the importance of introducing business management courses such as entrepreneurship, marketing, financial management and proper budget planning in the informal traders. It is therefore suggested that:

- Municipal authorities should conduct regular and effective capacity building programmes for the informal traders. These programmes should be conducted by people who are well trained in business management. Monitoring and evaluation should be conducted after training. It is recommended that training should be done on a quarterly basis to make sure that informal traders are capable of executing their business duties.
- The process of granting permits should be reviewed and made less bureaucratic to facilitate the legal operation of informal traders. To make it easy, municipal authorities should involve leaders of informal traders in Hilbrow when issuing the permits. Involving leaders of informal traders can be effective as they know already who is new and who is old in the place. Situations where one person possessing two stalls or more should also be reviewed. Involving the leaders can make it easy for municipal authorities to know the occupied space and the required extra space for the informal traders.
- Establishing an informal traders' bank can help to fund the traders. The bank can provide loans to informal traders in groups or individuals to avoid them having to borrow from family members and friends. The bank could act as a liaison between companies and informal traders to expand their businesses. The bank could also be used by the government to collect a reasonable tax from the informal traders.
- Liaison with formal businesses to provide credit goods to the informal traders. Government should talk to formal businesses to provide goods on credit to informal traders. After organizing informal traders into groups, companies can provide goods on credit to these particular groups. To make it easy for debts collection for such particular companies' informal traders' bank should be collateral for informal traders. When giving back the money the informal traders should give it to the informal traders' bank. The bank can deal with the informal traders as groups not individuals.
- Training police on how to handle issues with informal traders would be helpful to eliminate cases of abuse that informal traders claim to suffer at the hands of the police. It is believed that some policemen harass informal traders in order to get money from them. Establishing good partnerships between the informal trading leaders and could greatly reduce the incidences of police harassment.
- Facilitating the establishment of informal traders' partnerships to make it easy for traders to buy in bulk could also positively affect the circumstances of these traders. As some big companies do, it is necessary for informal traders to work in partnership when they are buying goods from the suppliers. Civic education on the benefits of partnerships should be provided by both municipal authorities and informal traders' leaders.

5.5 Areas for Further Research

This study was concerned with the challenges facing informal traders in Hilbrow and by looking on the findings from the research; it is evident that further research is necessary. The following are some of the suggested areas for further research:

- Future studies can be conducted in areas like Soweto, and other areas where large numbers of informal traders can be found;
- The study can be extended to other districts and provinces;
- A study could also be done to investigate the perceptions of Metro and municipal officials on informal trading; and
- A country-wide analysis of the conditions under which informal traders operate would be very helpful.

Conclusion

This study evaluated the challenges facing informal traders in Hilbrow with a view to making recommendations on appropriate response strategies on their operations. The study confirmed that the majority of informal traders face a lot of challenges which include lack of finance and financial skills as well as lack of marketing and managerial skills. These challenges result in the poor running of informal businesses. Informal traders should have adequate training in business in order to ensure that business activities are managed and utilized to support growth and effective training will also enable informal traders to obtain requisite financial management skills that will empower them to exercise greater decision-making on issues such as the procurement of essential and relevant business materials and equipment.

The research has the sufficient evidence to confirm the need of having managerial, marketing and financial management in enhancing business activities. In conclusion, informal traders, town councils, provincial councils and national governments have a collective responsibility in ensuring that the informal traders are encouraged and supported. The correct implementation of good policies will help to improve informal trading and will also enable informal traders to organize business activities effectively. The purpose of this research was thus fulfilled by successfully achieving the stated objectives and answering all the research questions.

NOTE: This study was presented by the principal author to the Regent Business School, Durban, Republic of South Africa, in 2014 for the award of the Master of Business Administration Degree (MBA). The dissertation was supervised by Clever Chisoro and edited by Professor Anis Mahomed Karodia, for purposes of producing a publishable Journal article.

Kindly note that the entire bibliography is cited and the references applicable to this article are referenced within the full bibliography presented and cited.

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