

Full Length Research Paper

The informal sector as a source of household income: The case of Alice town in the Eastern Cape Province of South Africa

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The role of entrepreneurship in economic development has been extensively studied in the richer Western (i.e. first world) countries, but it could be argued that entrepreneurship is even more vital in developing countries. The informal sector in developing countries not only makes a significant contribution towards gross domestic product, but is a major potential source of entrepreneurship, hence a source of income too especially for the less educated and less skilled. This study explores the impact of the informal sector in the lives of the people of Alice town and attempts to suggest ways of making this sector an even better source of income for them. Through the study, the attempt is to prove that the promotion of informal sector activities or at least the elimination of regulations and stifling restrictions could open up a source of income which the poor urban households such as those in the town of Alice can use to escape poverty. The paper further highlights all the different types of challenges faced by the traders within this sector and ends by making a number of possible policies that could be used to overcome these challenges and make the sector an important source of livelihood.

Key words: Informal sector, income generation, poor urban households, economic development, employment creation.

INTRODUCTION

According to McLaughlin (1990), the informal sector consists of small-scale, self-employed activities (with or without hired workers), typically at a low level of organization and technology with the primary objective of generating employment and incomes. Seshamani (1990) adds to this definition by stating that this sector is comprised of all those activities which generate incomes that go unrecorded in the formal accounts of the national economy. Thus, the sector encompasses all the economic activities undertaken by entrepreneurs who sell legal goods and services within a space deemed to be public property.

What makes informal trading attractive worldwide is that the sector typically requires relatively small capital

which in most cases comes from the traders' own personal savings. The sector is also not homogenous and can come in almost any form. For example, it can cover the (i) sale of cooked and uncooked foods which reflects the dominance of agriculture in the economy; (ii) service sector which includes barber shops, general stores (or kiosks), open-air garages and sale of used clothing; and (iii) the manufacturing of wood and metal products notably furniture and related household metal-based goods. On this line of thought, Obwocha (2006) notes that women dominate the less profitable food and beverages sub-sector whereas males have a near-monopoly in the more profitable manufacturing enterprises such as the production of household metal goods and

furniture. Whilst most of those engaging in this sector are those that could not be accommodated within the formal sector either due to their lack of education or skills, Fidler and Webster (1996) found that in the context of Latin America, some of these traders deliberately join the sector solely for the purpose of evading taxation or regulatory burdens.

In Mijere's (1989) view, the informal sector usually emerges due to the inability of the formal sector to create job opportunities for the urban as well as the rural labour force in the third world countries. Abedian and DeSmidt (1990) support this line of thought but further assert that due to the dismantling of apartheid and some general deregulation of the South African economy, the informal sector activity in South Africa has rapidly expanded in two arenas. The first of these is in the major cities where the granting of civil and economic rights to blacks has propelled the bourgeoning of street and mall hawkers and an ample supply of unrecorded domestic and household maintenance services. The other growth area is the black townships since the removal of restrictions that defined where blacks could live, work and travel, produced large migrations from rural areas to cities. However, the nation's lack of housing is to blame for the rapid growth of squatter camps, some of which quickly evolved into substantial communities where employment opportunities are limited. In one study done by Aymes (1989), the findings suggest that in South Africa, an informal business was operating in every fifth township house, with most of these being single-person operations, with about one-third employing a family member.

This rise in the urban informal economy therefore plays an important role in employment creation and labour absorption as approximately 4 million jobs are attributed to this sector, while the formal sector accounts for about 7.7 million jobs (Thomas 1989). Furthermore, in South Africa, this sector alone has between 500 000 and 700 000 businesses that make up the 22% of the potentially active black population (Raine, 1989; Vosloo, 1988). Due to such big figures, Abedian and DeSmidt (1990), DeSmidt (1988) and Thomas (1989) estimate the sector to represent between 16 and 40% of the nation's Gross Domestic Product (GDP). It is not surprising therefore that the ongoing socio-economic developments in South Africa suggest that the economy would collapse without a sizeable and growing informal sector.

Problem statement

The empowerment of the people of South Africa, just like in any developing nation has been one of the greatest issues on top of the government's agenda. According to Harper (1984), one of the most viable sectors perceived by many as significant towards improving the livelihoods of the poor majority is the informal sector, especially since it can provide business opportunities to the less

skilled thereby bringing them income. Consequently, there is a rapid increase of informal businesses in South Africa's urban areas. To acknowledge the important role of informal sector, Hallberg (2000) holds the view that a nation with a large number of small firms has a strong foundation for future development because as its economy matures, some of these small firms join the formal sector and become large and competitive enterprises. Based on this argument, informal sector development is imperative to any third world country's growth otherwise it will remain dependent on Multi-National Companies (MNCs). Be that as it may, informal businesses are facing a lot of constraints mainly because they do not have assistance from the government, Non-Governmental Organizations (NGOs) and the private sector. It is because of such issues that the sector's contribution to the livelihoods of the poor people of Alice town can be established and documented together with the factors deterring its success so that mitigation measures can be taken to sustain the sector and allow it to play an even bigger role in their lives and those of the rest of South Africans.

Objectives

The objectives of this study are to:

1. Find out if the informal sector does act as a source of income to the urban poor people of Alice,
2. Assess the average income that the informal sector provides to the unemployed people of Alice,
3. Investigate problems facing informal businesses in Alice and suggest policies which can be used to assist this sector and its dependents

REVIEW OF THE INFORMAL TRADERS' CONTRIBUTION TO ECONOMIC DEVELOPMENT IN SOUTH AFRICA

The informal sector, due to its role in many developing economies such as South Africa, is viewed by Schmögnerová (2004) as one of the principal driving forces in economic development. It has a number of roles other than just the provision of income for the less educated and unskilled people. The businesses within this sector are flexible and can adapt quickly to changing market demand and supply situations, they generate employment, help diversify economic activity, make a significant contribution to exports and trade, provide raw materials to locals producers and also help in alleviating poverty.

Job creation

The informal sector may be viewed as the driving force in

the job creation process since it typically includes many small and micro-enterprises. This is supported by Biggs and Srivastava (1996) whose findings confirm that small businesses with less than 50 employees are an important source of employment growth. For example, in Kenya employment growth for enterprises with 10-49 employees is 41%, for 50 –99 employees 24% and for more than 100 employees only 12.5%. In total, the Kenyan informal sector employed 5.1 million people or 15% of the total population in 2003. This sector is therefore the fastest growing and adds to employment and investment through its crucial characteristic of growing anywhere. With this in mind, Hope (2004) believes that this sector's growth in Africa will overtake that of the formal sector by year 2020. Luiz (2002) cites Harper (2004) who maintains that comparative studies of large and small businesses carried out at all stages of development further endorse that small firms employ more labour per unit of capital than large firms do. Due to their labour intensive nature, informal businesses thus have a high labour absorption rate which makes them capable of creating many new jobs at low cost (Dhemba, 1999; Hansenne, 1991). This is supported by Kromberg (2005) who revealed that small businesses absorb between 50 and 60% of the labour force in South Africa. Apart from just creating jobs, Aswani (2007) further points out that this sector spends at least two thirds of its income on the formal economy thereby contributing towards overall economic growth in the country. Having an economy running parallel to the main economy also creates competition which in turn enhances productivity (Aswani, 2007).

Poverty alleviation

Poverty is defined by Brandt (1998) as an economic condition of lacking both money and basic necessities needed to successfully live. These basic necessities include food, water, education, and shelter. The biggest challenge in accessing these necessities is that they all have a financial tag and this usually results in the exclusion of those without money from accessing them. In other words, one of the biggest causes of poverty can be said to be unemployment. With the informal trading proving to create jobs at such a promising rapid pace, then it should follow that poverty should be alleviated too as the previously unemployed can engage in this sector and earn some income that can afford them at least some of the basic necessities, if not all (Dhemba, 1999). Thus, informal sector development is a fundamental strategy for reducing poverty as it promotes and empowers even the poor, women and the differently abled so that they can escape malnutrition, hunger, and diseases by working in this industry.

Gross Domestic Product (GDP)

The argument for the sector's contribution towards Gross

Domestic Product (GDP) comes from the fact that they grow at a very rapid rate and gives even the unskilled and illiterate a chance to earn an income. This has made this sector to be one of the leading sectors in many national economies. For example, in South Africa, small businesses are estimated to contribute about 30% to GDP (Kromberg, 2005). One might argue that 30% is not high enough but in reality the contribution of this sector could actually be higher than it is believed for two reasons. First, most of these small businesses do not register so as to avoid paying taxes, but if they were all to register and their output captured in the government records, then their true contribution to GDP would be seen to be higher than is currently predicted. Secondly, if the sector is promoted and given more support, then this its contribution can exceed these figures and go beyond 30% with time. Be that as it may, Skinner (2006) is of the opinion that the individual contributions of the informal traders remain modest but collectively they do make a sizeable contribution towards the national GDP.

PROBLEMS FACED BY THE INFORMAL TRADERS IN SOUTH AFRICA

Although the informal sector is a very varied and heterogeneous sector operating in a number of fields and providing goods and services at low cost and within the reach of the consumers, it comes not without problems. Mupedziswa (1991) posits that most of these problems emanate from their small size which restricts them from benefiting in a number of ways such as economies of scale and even lack of security for them to borrow loans. These constraints or barriers occur both internally and externally.

INTERNAL BARRIERS

Such barriers are those that occur within the business itself without any outside influence. Thus, they are mostly based on the way the business is managed and the availability of the necessary resources. These barriers include lack of information, lack of capital and insufficient management skills.

Financial constraints

The biggest and probably the most dominant constraint faced by the informal business sector is lack of finance which is very much needed to bear possible losses. It is difficult to obtain credit from the formal financial sector such as banks due to the lack of enough collateral (Adisu, 2006). Literature provided by Kashuliza (1993) maintains that all financial institutions in developing nations share a common characteristic of considerable amount of default rate. Consequently, Adisu (2006),

states that informal traders are therefore forced to resort to informal sources of credit such as money lenders (loan sharks) who charge them exorbitant interest rates that they cannot easily repay or cannot afford to repay at all. Kirsten, et al. (2006) holds the view that some informal traders are discouraged from borrowing by the fact that their future earnings are usually less than the value of their assets (collateral). Another simple reason for these small informal businesses not getting financial support is that they are not registered and this makes it very difficult for the willing financial organizations to reach out to them as they do not know where to find them. There is also lack of tools and equipment as well as technical skills for improving productivity due to lack of adequate finance with which to source these resources. Limited finance has made it difficult for the small businesses to advance technologically, higher expert labour, buy inputs in bulk to enjoy scale economies and even grow in size.

Legal and organizational constraints

With time, some of the small businesses grow and try to join the formal sector. However, this transition into the formal sector brings with it many constraints such as the complicated and expensive legal requirements for registration. In most countries, South Africa included, the legal processes involve very long procedures and paper work and there are also licenses that cannot be obtained easily or cheaply. At times applications for licenses take too long to be processed since small business owners lack the influence or bargaining power enjoyed by bigger firms. Such factors force some entrepreneurs to resort to what McGee (1996) termed “*rent-seeking*” (bribes) as they try to make the government officials to speed up the processing of their applications.

EXTERNAL BARRIERS

The main external barriers are those that are usually a result of other factors that businesses have no control over. Such barriers include technical trade restrictions, bureaucratic procedures, marketing and distribution problems, lack of risk assurance and in the more underdeveloped countries, high transportation costs and communication problems.

Trade restrictions

There are a lot of restrictions that informal traders face when trying to export their products or even when taking them to the local markets for sale. These restrictions come in the form of quality requirements, conformity assessment, packaging and labeling. Liedholm and Chuta (1999) highlight that all products meant for trade have to be checked first in order to make sure that they

meet the required standards such as taste, size and even quality in terms of durability and side effects (especially in the case of food). There are institutions such as the Perishable Products Export Control Board (PPECB) in South Africa where such quality checks are done but these checks come at a price. Luiz (2002) identifies lack of skill and initiative in marketing as some of the contributions towards their lack of proper market access. Dealing with these barriers requires that small businesses spend the little money they have to pay to access the market or at least to have their products to undergo quality checks.

Marketing and distribution

The marketing aspect of small businesses is affected by the lack of adequate finance which makes it very difficult for the traders to take their products to the most viable market places. High transportation costs further constrain especially the informal businesses located either too far from their raw materials or the markets. The costs are exacerbated by the small amount of products that these businesses transport per trip since transportation is charged per mileage and not per weight as posited by Boomgard (1983). Therefore, since these traders need small amounts of raw material and also produce very little output, they face very high transport costs and thus fail to enjoy the economies of scale enjoyed by larger businesses that make full use of trucks by transporting as much products at once as possible.

METHODOLOGY

Selection of the study area

Primary data was collected from various informal traders in Alice town. The study was limited to this town due to the fact that the type of informal businesses found in this town formed the sectors that Gaomab (2005) cited as typical of the informal trading such as (i) the sale of cooked and uncooked foods which reflects the dominance of agriculture in the economy; (ii) the service sector which includes barber shops, general stores (or kiosks), open-air garages and sale of used clothing; and (iii) manufacturing of wood and metal products notably furniture and related household metal-based goods.

Description of the study area - Alice town

Alice town, the capital of the new Nkonkobe Municipality was named after Princess Alice, daughter of the British Queen Victoria (Wikipedia, 2006). It was founded by the British as a mission station for the Xhosa people in 1824. In 1847 it became the seat of the magistracy for the newly occupied district of Victoria East as cited by Hannah (2006). The town is located about 100 km northwest of East London, along the Tyume River, in the province of the Eastern Cape which stretches from Plettenberg Bay in the west, along the spectacular Wild Coast of South Africa with its rugged, rocky cliffs and dense green bush, to the Kwazulu-Natal border in the north-west (University of Fort Hare, South Africa, 2006).

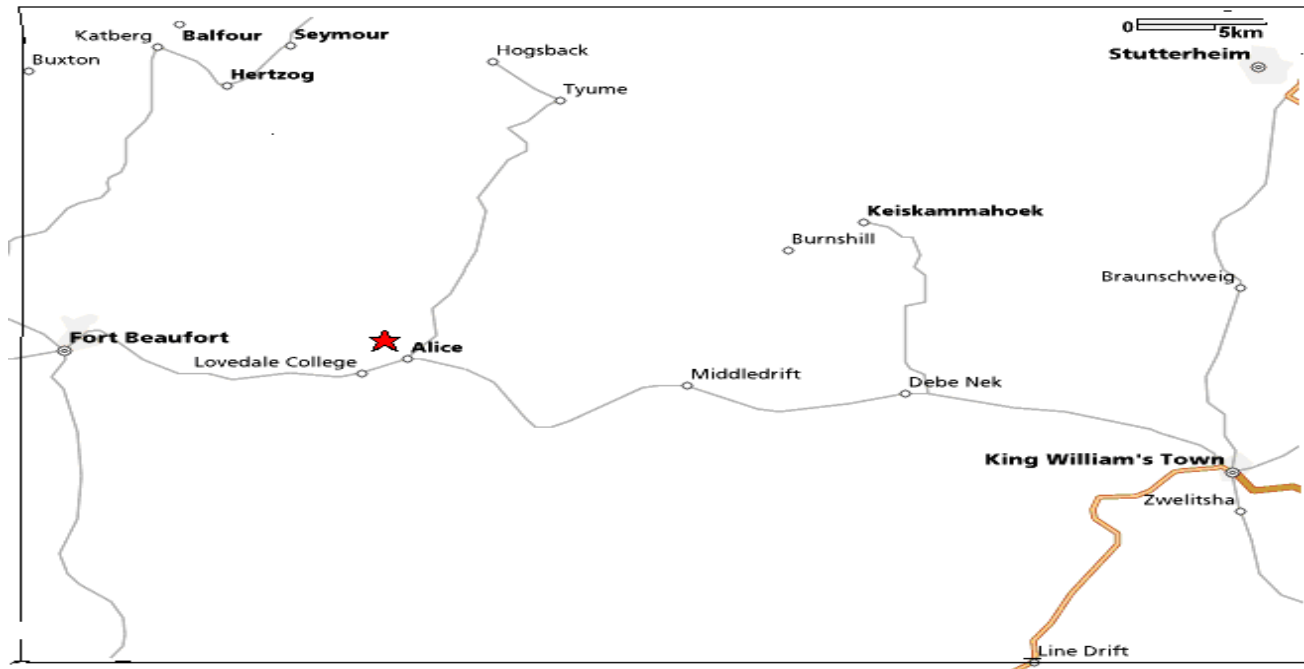


Figure 1. Alice town and its nearest centers. Source: Mapquest Inc, 2005.

The town is the second largest of the nine provinces in terms of surface area but at the same time, the poorest province of them all. The population of the province has the second lowest life expectancy of 60.7 years and its adult literacy rate of 72.3% is well below the average of 82.2% for the country (Ngqangweni, 1999). Only less than a third of all dwellings in the province have running tap water. Such distinguishing features of the area and high levels of poverty emanate from high unemployment rates which have led to a high dependency ratio. According to the results of the 2001 census, the town had the 91st highest population in South Africa. Its population was 128 662 in 2001 and is still estimated to be slightly above 100 000. The location of Alice town and its nearest centres is illustrated in Figure 1.

Selection of respondents

Alice town has fruit and vegetable vendors, traders in clothes and jewellery, mechanics, metal household products making and hair salons on the streets, pavements or in the open air. These are the components of informal traders and the focus of this survey.

Data collection

Data were obtained through interviews using structured, interviewer-administered questionnaires. The interviewer-administered questionnaire approach was adopted to alleviate the problem of misinterpretations or misunderstandings of some words or questions. This strategy also ensured that all questions were considered without the respondents omitting difficult ones. As suggested by Levy and Lemeshow (1991), this approach also meant that information could also be obtained from the respondents who could neither read nor write. The questionnaire consisted of both open and closed-ended questions with the former mainly meant to allow the respondents to express their views freely. Most of the questions were closed-ended to get as much information as

possible from the respondents without taking too much of their time. The questionnaire focused mainly on the demographic data (family size, age, and sex), size of hired labour, educational qualifications, average amounts earned, income pooling (where income goes, for example family needs, re-investment or saving) and constraints faced.

Data analysis

The sample had forty two (42) respondents who were categorized into six different groups, namely: street food vendors, mechanics, hair-dressing (salons and barber shops), mobile phone shops, metal household product-making (e.g. window frames) and lastly, traders in clothing and jewellery. Their responses were then analyzed using simple statistics, tables and graphs.

RESULTS ANALYSIS AND INTERPRETATION

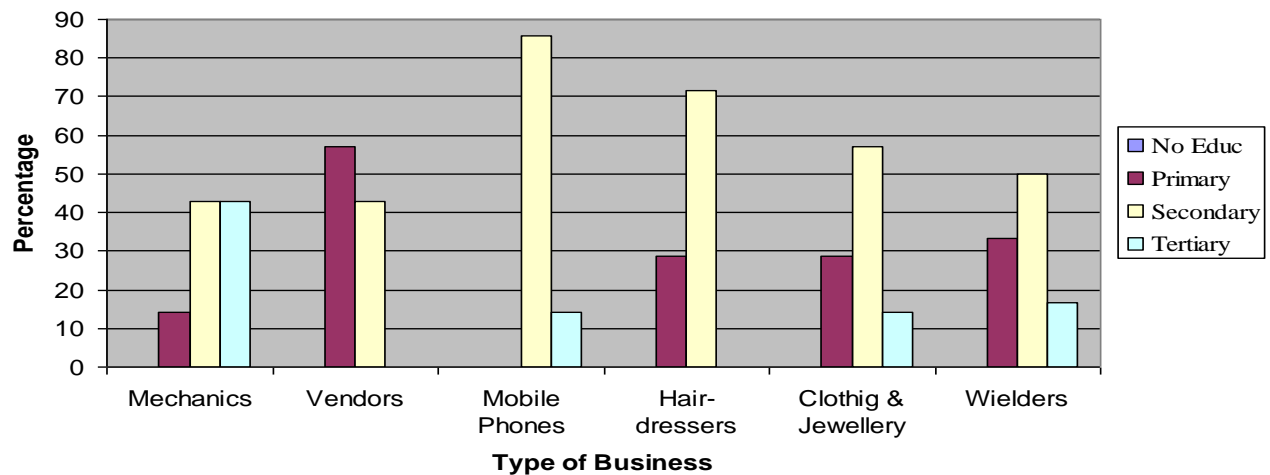
Gender and type of business

Every sector within the sampling frame was analyzed to determine if gender played any role in determining the type of businesses engaged in. Table 1 shows the distribution of traders in the informal sector according to both gender and type of informal business each trader is involved in.

The table shows that women dominated the informal sector in Alice despite the fact that the mechanic and household metal goods production businesses were solely made up of males. Women's dominance was mostly in vending as 71% of the respondents were vendors. The mobile phone, hair-dressing and clothing

Table 1. Distribution of traders according to gender (n=42).

Gender	Mechanics	Street vendors	Mobile phone operators	Hair-dressers	Clothing and Jewellery	Welders	Total
Males	17	5	7	7	7	15	58
Percentage	100	29	43	43	43	100	
Females	0	12	10	10	10	0	42
Percentage	0	71	57	57	57	0	

**Figure 2.** Relationship between education level and type of business (n=42).

businesses also comprised 57% of women each. Such a gender distribution can be explained by the fact that the males dominated in those businesses that involved manual labour such as car mechanics and the production of metal household products whereas the women concentrated on less labour intensive businesses. In general though, it seems like women dominate all the four of the six businesses in this sector that are not too manual. One of the reasons for such which was also noted by Aswani (2007) is that most women prefer this sector as it allows them to better balance their work with family responsibilities unlike in the formal sector where they would otherwise work under someone's supervision and with strict time tables. Skinner and Valodia (2003) also explain this bias towards the informal sector by females as an outcome of the capital-intensive nature of the formal sector which favours men at the expense of women.

Highest education level attained and the type of business

Starting with the mechanics, 14% had primary education with the remaining 86% being equally shared between secondary (43%) and tertiary (43%) education. Thus, of

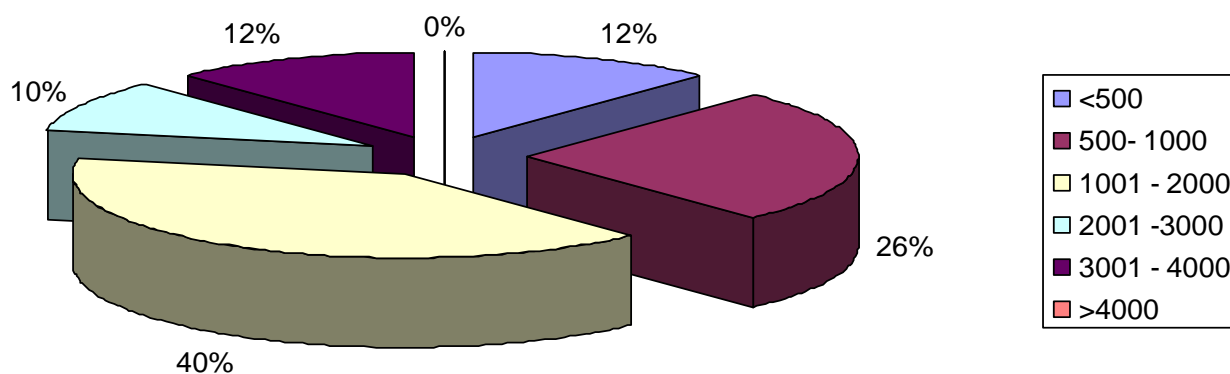
all the sub-sectors within the sampling frame, the mechanics had the highest number of people with tertiary education. As for street vendors, those with primary education amassed to 57% with the other 43% having attained secondary education and none with tertiary education. Therefore, the street vending sector dominated in terms of having the highest concentration of people with only primary education. The majority of the mobile phone operators, hair-dressers, welders and clothing and jewellery sellers have secondary education, followed by primary education with only a few having gone to tertiary institutions for education. The general conclusion that can be drawn from these statistics is that the informal sector is dominated by those who underwent secondary education and with only a few who have tertiary education. This relationship between the highest level of education and the type of business is shown in Figure 2.

Age and reason for joining the informal sector

To understand the factors that drove the respondents to join the informal trading sector, each respondent was asked to state the reason(s) why they actually joined the sector. In response, six reasons were identified as

Table 2. The relationship between age and the reason for joining the informal sector (n=42).

Age range (Years)	Increase income	Recently laid off	Family business	Seize business opportunity	Work from home	Unemployed	Total (%)
20-29	16	2	2	2	0	15	36
30-39	7	0	5	7	10	21	50
40-49	7	2	0	0	0	5	14

**Figure 3.** Distribution of income within the informal sector (n=42).

responsible for the growth of this sector and these are: the desire to increase income, to seize business opportunity, to enjoy working from home, lack of formal sector employment, taking over family business and some joined because they had been laid off from their formal jobs. Half (50%) the people involved in informal trading are between the ages of 30-39 years, 36% are between 20-29 years and 14% were over 39 but below 50 years of age. This distribution shows that the informal sector is made up of the able-bodied people who can actually work productively in the formal sector, given an opportunity. Table 2 shows the contribution of each of the above reasons towards the growth of the sector:

Of the 20-29 year age group, 15% joined the sector to enhance their income with the other 16% being previously unemployed. Twenty one (21%) of those respondents between the ages of 30-39 years were involved in the sector because they were previously unemployed whilst 10% enjoyed the idea of working from home, 15% hoped to increase their household income and another 15% wanted to seize the business opportunity for profits.

Income distribution within the informal sector

Figure 3 shows the ranges of income generated by the businesses in the informal sector. According to this figure, there were a few (12%) traders earning monthly profits of less than R500.00, the same number of traders (12%) also made profits of between R3 001.00 and R4

000.00 but a sizeable 40% had their monthly profits averaging between R1001.00 and R 2 000.00. Therefore, on average, 66% of the businesses in the sector had profits of between R500.00 and R2 000.00 but none of them exceeded R4 000.00 per month.

Figure 3 shows a general overview of the whole informal business sector in terms of overall income. If the sector is further divided according to professions, then the concentration of the profits can be determined as shown in Figure 4. The vendors, with 71%, were the only informal traders in Alice earning less than R500.00 per month and only 29% of them were able to get profits at least above R500.00 even though below R1 000.00 per month (Figure 4). Within this profit range of between R500.00 and R1 000.00, there were also some mobile phone operators (86%) and about 43% of clothing and jewellery traders. Welders and hair-dressers were most concentrated within the R1 001.00 to R2 000.00 monthly profit range, with each of these two business types contributing 86% in this profit range. In short, the highest earners within the informal business sector were the mechanics, then both the welders and hair-dressers.

Employment generation by the informal sector

When looking at the issue of employment, Aswani (2007) stresses that the informal sector should not be viewed as a sector that offers jobs *per se*, but as one that offers income opportunities. Furthermore, it acts as a cure to

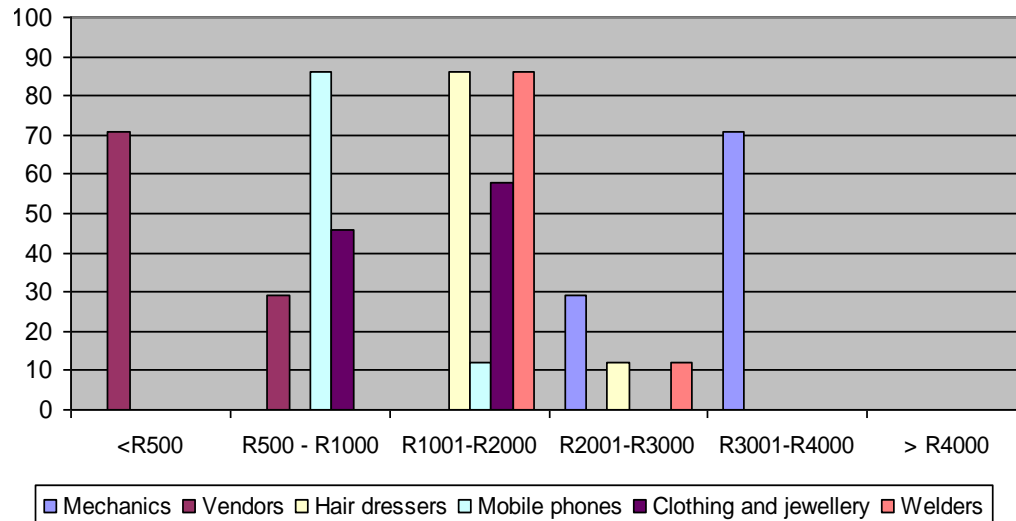


Figure 4. Relationship between profit and type of business (n=42).

Table 3. Employed labour in the informal sector (n=42).

Type of business	Average labour employed	Family members (%)	Hired workers (%)
Mechanics	4	20	80
Street Vendors	2	90	10
Mobile phone operators	3	53	47
Hair-dressing	4	25	75
Clothing and jewellery	2	77	33
Welders	4	35	65
Total	3	42	58

many ill effects of globalization by accommodating the retrenched, uneducated, unskilled, displaced workers, etc. (Aswani, 2007). In the case of the Alice town's informal traders, 42% of their labour is family members and the other 58% is hired. Hairdressers, mechanics and welders have the largest number of labour, each business with an average of four (4) workers. However, for the mechanics, 20% of their workers are family members and 80% are employed workers. The dominance of hired labour in this business is a result of the high level of technical skill required which is mostly obtained in formal institutions. As for the hair-dressers, 25% are family members and the remaining 75% being employed workers and for the welders, 35% are family members and 65% hired workers (Table 3).

Major sources of start-up capital

The majority (52%) of the traders started their businesses through the use of the money they had saved. The second biggest source of capital used by 33% of respondents came in the form of assistance from friends

and relatives. These funds were either interest-free or charged low interest rates as compared to the bank loans. Since the informal businesses are small in size, it made no economic sense for these entrepreneurs to borrow small loans coupled with high interest charges to start their businesses with. Furthermore, some businesses within the informal sector that could have needed more funds such as hair-dressing and car repairs actually relied on the customers bringing their own inputs. For example, customers bought their own car parts which they took to the mechanics only for fitting and the customers for the hair-dressers also did likewise with their hair-pieces. None of the respondents obtained loans to start their businesses. The main sources of income for the informal traders in Alice are shown in Table 4.

Constraints

All businesses in informal trading in the Alice town face a number of constraints as shown in Table 5. However, of all these constraints, the most dominant one faced by each of the seven types of businesses focused on was that of too few customers, followed by storage problems

Table 4. Main source of start up funds for the business (n=42).

Main source of start-up funds	Frequency	Percentage
a) No money needed/ Took over the business	2	5
b) Own savings	22	52
c) Retrenchment package	3	7
d) Assistance from relatives or friends	14	33
e) Credit from agent and/or suppliers	1	3
Total	42	100

Table 5. Constraints faced by informal traders in Alice (n=42).

Constraint	Mechanics	Street vendors	Mobile phone operators	Hair-dressers	Clothing and jewellery	Welders	Total (%)
Few customers	✓	✓	✓	✓	✓	✓	100
Low profits	-	✓	✓	✓	✓	-	67
Proximity to markets	-	-	-	-	-	-	0
Too many competitors	-	✓	✓	✓	✓	-	67
Water and electricity	-	✓	-	-	-	-	17
Cost of water and electricity	-	-	-	✓	✓	✓	50
Expensive rent	-	-	-	✓	-	-	17
Storage problems	✓	✓	✓	-	✓	✓	83
Delivery problems	-	✓	-	-	-	✓	34
Lack of information	✓	-	✓	-	-	✓	50
No access to credit	✓	-	-	✓	-	✓	50

faced by 83% of the respondents. Storage was a problem in the sense that these informal traders did not have permanent stalls from which they carried out their businesses. Consequently, they had to pack and carry their goods every morning to their chosen selling spots and do the same again after business hours. As for the service providers such as mechanics, this problem came in the sense that they could not offer services like spray-painting their clients' cars when it was raining as they had no shed to protect the wet paint on the cars. A sizeable number (67%) of respondents cited that low profits and too many competitors barred their businesses from growing whilst 50% were faced with problems such as lack of information on new technology (especially regarding mobile phones) and lack of credit offering institutions. Rent and accessibility to infrastructure were not much of a problem except for 17% of the respondents.

DISCUSSION, CONCLUSION AND RECOMMENDATIONS

Discussion and Conclusion

It should be acknowledged that the success and

effectiveness of informal trading is not automatic and does not depend solely on the informal enterprises themselves. The opportunities for development of these enterprises and for them to fulfil their roles in the transitional economies and provide employment opportunities for the less educated and formally unemployed (thereby providing them with income) must be supported by a favourable environment which takes account of their particular characteristics. These contributions that the small business sector has to nations show that the poverty circle can be escaped and a faster rate of economic growth and development achieved especially if these small businesses are supported. As a result, enhancing the productivity of informal traders and making them competitive is crucial as it absorbs the job-seeking and able-bodied people who in turn produce thereby increasing national output and speeding up economic development.

Successful informal businesses absorb not only a significant part of the unemployed labour force, but also reduce crime and government expenditure on security and legal services as more people would be earning income and not depending on crime and social grants respectively. In fact, unless South Africa succeeds in promoting its informal sector, the country will remain

lumbered with a huge unemployment problem and, therefore excessive crime in its various forms. Furthermore, creating and supporting this informal sector is one of the most promising means of progressively redistributing the ownership of productive assets since these informal businesses have the potential to be an engine for black economic empowerment. It is clear from the results discussed above that the sector has had a meaningful impact in the lives of various households in Alice. When one considers that the Eastern Cape is the poorest of all the nine provinces in the country and also the fact that the province has a number of households solely depended on social grants of at least R1 080.00 per month, having informal traders able to raise more than this amount is not such a bad strategy to alleviate poverty.

In addition, Fraser et al. (2003) and Hebinck et al. (2007) have demonstrated how farming in the Eastern Cape is slowly losing importance as a source of livelihood mostly because of households' increased reliance on the social grants (such as the old age grant and the child grants) as a main source of income. The nation's social security net has indeed helped a number of poor rural households. However, it should not be denied that as good as this system is, it has created a lot of financial pressure on government thereby prompting it to find other ways of raising funds such as increasing taxes. If the informal sector, as demonstrated through this study, can allow people to earn as much as R3 000.00 in profits without committing any crime or infringing the rights of other citizens, then it is safe to conclude that the sector presents an alternative avenue for the unemployed to escape the circle of poverty that is so rife in most households on Alice and the rest of the country.

Given all the above-stated economic contributions that the informal business sector brings to countries, one can safely conclude that any developing (and even developed) country needs the informal sector to help boost its economy as this sector is the biggest source of low cost employment, helps in regional and local development, responds to market fluctuations more easily, helps achieve fair and equitable distribution of wealth and also the sector is the key driver for value-added exports. With the right support and favorable trading conditions, some of these small businesses can become large enterprises hence their development is imperative to a country's growth otherwise remain dependent on the formal sector which has failed to absorb a great number of the population. Be that as it may, the factors constraining these businesses from growing should not be overlooked. This study has actually revealed that all the constraints discussed in literature do exist even in Alice. Some of these challenges include shortage of water and electricity; lack of information; unavailability of credit facilitates; storage problems, just to mention but a few. If the sector is to develop and become a major player in the economies of

the developing nations, then a number of policies and other strategies should be recommended and implemented by the governments in these developing nations in partnership with other capable helpers such as the NGOs and the private sector.

Recommendations

There are several strategies that informal enterprises can pursue in order to respond to changing market conditions that have acted as a stumbling block towards their growth. First, they can concentrate on market niches in which factory products are not competitive, such as low-cost basic furniture or high quality hand-carved pieces. At the present moment, the Alice traders deal in those goods and services that are supplied locally by bigger and well-established competitors. It would really help them to focus on products in which there is no competitive advantage from such large-scale machine production such as high-value handicrafts.

As a solution to the problem of having limited financial sponsors, it should be emphasized that the owners of such small informal businesses should recognize and embrace the idea of fostering partnerships. Thus, they should pool their resources by bringing their capital and expertise together to make a meaningful investment. This will also allow them to gain knowledge further and skills from their partners than when operating as individuals. This knowledge is very vital in improving efficiency and productivity.

If the small traders come together to work as a group, they should also be encouraged to register their associations so that they are added onto the map of all similar traders. This will assist in easily identifying their location, assessing their challenges and also make potential funders aware of their existence. On the side of the government, registering makes it easier for government to plan its resource distribution more adequately.

Still on the part of the government, it should be prepared to support the sector through constructing infrastructure such as roads. One of the major problems faced especially by backyard household furniture makers located in the outskirts of Alice town is the lack of roads linking them to their markets. Therefore, by building roads, then it would actually become easier for their businesses to bring in inputs and take out their finished products to the markets. Furthermore, accessibility can also enhance their chances of getting assistance from any angle as their progress can be easily monitored by their helpers.

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