

## Assessing the challenges faced by informal street traders operating in Durban, South Africa

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### ABSTRACT

**Purpose:** The informal sector consists of all unregistered businesses operating as street vendors and home-based businesses. Although these businesses employ about 6 out of every 10 workers worldwide, they encounter numerous challenges in carrying out their daily operations. Therefore, in this chapter, the challenges faced by informal traders located in the Durban central district of South Africa's Kwa-Zulu Natal province are investigated.

**Design/methodology/approach:** This study employs the qualitative research approach utilising structured interviews to obtain data. The Snowball sampling method assisted the researchers to obtain the required data and was analysed using Content Analysis.

**Findings:** The results shows that, lack of business space for trading and storage, lack of funding to expand business, poor hygiene and the lack of ablution facilities for traders as well as municipal harassment were the major constraints of the informal operators.

**Key words:** Business Space, Challenges, Funding, Informal Sector, Municipal Harassment, Poor Hygiene.

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### I. INTRODUCTION

The International Labour Organization (ILO) (2021) asserts that more than 6 out of 10 workers as well as 4 enterprises among 5 in the world operate in the informal economy. This shows that the informal sector plays a critical role in the developing world by contributing to poverty alleviation and serving as an alternative for those who cannot find formal employment. In South Africa, even though it is difficult to measure the sector because of its informal nature, the International Monetary Fund IMF (2017) estimated the value of the sector to be around 35% of South Africa's GDP in 2017. This is a significant portion of the country's yearly output in the hands of the informal sector. This sector mostly provides opportunities for marginalized and historically disadvantaged groups with inadequate skills and business literacy to support their household income.

Although this sector contributes significantly to employment at the global, continental and national stage, its operators encounter a lot of constraints. Other researchers in different countries have discovered that violence, poor hygiene, lack of business skills, municipal harassment, difficulty in accessing capital as some of the many constraints of informal operators (Ajakaiye et al., 2020; Fourie, 2018; Magalhães, 2015; Muthusamy & Ibrahim, 2016). Therefore, the current study set out to discover the constraints faced by informal street traders located in Durban (also known as the city of eThekweni), situated in the province of Kwa-Zulu Natal (one of South Africa's nine provinces). Rogan & Skinner (2018) discovered that the share of South Africa's the workforce employed in the informal sector is low in rich provinces, i.e., Gauteng and the Western Cape, and highest in the poorer provinces of Limpopo, Mpumalanga, Eastern Cape and Kwa-Zulu Natal. As Kwa-Zulu Natal has been discovered as one of these poorer provinces with high representation of the informal sector, it is important to understand the drawbacks of these enterprises in order to help them grow.

## II. LITERATURE REVIEW

The term “informal sector” was introduced by Keith Hart in the early 1970s in order to define the economic actions that were not included in the records of revenue authorities in Accra, Ghana (Hart, 1973). After his discovery, various other scholars have described the informal sector in many ways, some of which include the irregular economy (Ferman & Ferman, 1973), the underground economy (Simon & Witte, 1982) and the shadow economy (Frey et al., 1982).

### A. Challenges encountered by the informal economy

Sometimes, government policy and practices can hamper the dynamism and flexibility that allows certain informal economic activities to exist. In India, Muthusamy & Ibrahim (2016) revealed that traders are exposed to all forms of harassment by the municipal authorities and police due to not having trading licences and that municipal authorities raid their places and confiscate goods.

The lack of access to finance is another constraint encountered by Informal entrepreneurs as they need to access funding from banks and other financial institutions to develop their businesses, but obstacles in gaining access to capital is common amongst traders. Harrington & Chopra (2010) confirms that requirements by financial institutions pose barriers to accessing funding by the informal sector. Fourie (2018) added that a lack of book-keeping skills and being the target of crime are constraints that hinder informal enterprises from graduating or stepping up to higher value markets.

Siqwana-Ndulo (2013) identified the existence of by-laws are problematic for traders because the legalistic nature of by-laws makes them difficult to understand, yet it is assumed that all traders know the provisions of these by-laws. Additionally, informal traders lack the protection of labour legislation and lack access to formal protection procedures such as insurance, disability, maternity and unemployment benefits. Gamielien & Niekerk (2017) indicated that many traders are vulnerable to ill health due to the absence of shelter and exposure to weather elements. Furthermore, traders work in environments that expose them to threats such as accidents and illnesses.

ILO (2015) attests that it is also important for countries to recognize the specific challenges encountered by its informal sector. Furthermore, solutions to challenges will vary, and a country must develop strategies to address the challenges experienced by its specific informal sector. The following section will discuss the economic contribution of the informal sector.

### B. Economic contribution of the informal sector

Despite its significant contribution to the economy, Fourie (2018) confirms that the informal economy plays a crucial role in poverty reduction because income from informal trade mostly flows to households that are poor. Hieu et al. (2014) found that Vietnam has made remarkable accomplishments in poverty reduction as about 28 million people are estimated to have been lifted from poverty. Hence the informal economy constituted 11 million jobs out of all main jobs and in addition, the informal economy is projected to contribute 20% to the GDP. The informal sector remains a huge fraction at around 80% of total jobs from 2007 to 2008.

In India, the informal sector is the strength of the economy, employing an immense majority of the workforce. The ILO (2018) found that nearly 81% of the population in India is employed in the informal economy, in contrast to the 6, 5% working in the formal sector. In Nigeria, the informal sector is a major contributor to the economy, accounting for a significant proportion of employment and GDP. The IMF (2017) also discovered that the informal economy accounted for 65% of the GDP in 2017, emphasizing that this sector offers substantial income and job creation.

In Bangladesh, informal trade constitutes a significant portion of the economy and plays a crucial role in employment and in job creation, production and income generation. It covers a wide range of activities that make a substantial contribution to the GDP. According to ILO (2010) the Labour Force Survey (2010), 87% of the labour force is active in the informal economy. Raihan (2010) adds that the contribution to GDP is around 64%, with agriculture being the dominant sector.

The above section has provided evidence from the literature on the contribution of the informal sector to economic growth. Of further interest to this study is the level of support for the informal sector. Micro enterprises need support if they are to make a positive contribution to the socio-economic development of any country. The section below presents a review of the literature on the capacity of the informal economy in South Africa.

## III. METHODOLOGY

In pursuit of fulfilling the research objective, a qualitative study using face-to-face structured interviews was employed. The interviews were conducted in Durban central, targeting informal traders who are currently

active in the informal economy. Snowball sampling, which entails the investigator selecting a person who matches the criteria of the research study and the first participants is asked to refer the investigator to another person who meets the same criteria (Alvi, 2016) was used to gather data from participants. Data was collected until data saturation was reached at the 8<sup>th</sup> participant. Data saturation refers to a point in data collection when there is no additional new information emerging from new participants (Fusch & Ness, 2015).

After the data had been collected through structured face-to-face interviews, the data was transcribed. Content analysis was then used to analyse the data through the NVivo statistical software. Bengtsson (2016) defines content analysis as a procedure for categorization of verbal or behavioural data by breaking down, examining, comparing, conceptualizing and categorizing the data.

## IV. ANALYSIS AND DISCUSSION

### A. Description of the sample

The majority of respondents were female, making up 75% of the sample; while the rest (25%) are male participants. The average age of the participants is 47 years, with the distribution of ages ranging between 25 and 61 old. Furthermore, the minimum experience in informal trading is 5 years and the maximum of 26 years. The majority of respondents were African and South African citizens, while it was also noted that 25% of the respondents had a Grade 10 qualification. About 13% managed to complete high school and are in possession of a Grade 12 certificate. None of the respondents has tertiary qualification. However, a study conducted in Germany by Kolm & Larsen (2016) confirms that the informal economy is characterized by low levels of education as it does not necessitate any formal educational background.

### B. Constraints encountered by informal traders

Fundie et al. (2015) mentioned that the South African informal sector can play a fundamental role in alleviating the high level of unemployment, but several constraints hinder the informal economy from developing. In addition, Nuru & Devi (2016) revealed that major challenges constrained the operations and earnings of informal traders, such as securing proper working space, access to financial services and excessive competition amongst fellow traders. This study further embarked on exploring the constraints encountered by the informal economy in the Durban central area, as well as the common problems faced by informal firms in Durban when conducting business, which are discussed below in the emerging themes.

#### 1. Business space for trading and storage

A lack of sufficient business space was cited as an obstacle by informal traders in Durban central area. The importance of a trading location cannot be overestimated. The lack of proper sheltered trading space remains a challenge for informal traders operating in Durban central, even though the eThekweni Municipality has made several efforts to address infrastructure challenges. This saw the rise of the Warwick Junction (South Africa's biggest trading and transportation hub) project, which was set up to help street traders with space and basic infrastructure (Dobson & Skinner, 2009). Sassen et al. (2018) revealed that South African informal street traders engage in the trading of various goods such as food, herbs, cosmetics, household products, accessories and the provision of services across allocated spaces within cities.

Warwick Junction alone is still not enough to accommodate informal traders as some traders have been located on the city's pavements with no shelter and facilities to assist them to operate their informal businesses. Based on the research findings, respondents mentioned that they have to endure uncomfortable conditions, which range from spending long hours in the heat or freezing weather. This is more worrying for those trading in food/fresh produce as their stock being exposed to extreme weather conditions leads to losses of stock to damages. Some participants mentioned that the lack of adequate shelter has a negative impact on their health with them having to deal with dusty winds and unbearable heat in the streets. Moreover, Gamielidien & Niekerk (2017) confirmed that many traders are vulnerable to ill-health due to the absence of shelter and exposure to weather elements.

Storage space is also identified as a major constraint. Many traders expounded that each morning, they have a task to set up display goods intended for trading and at the end of the business day, proceed to packing stock and transport to limited storage spaces. This raises the issue of the importance of access to adequate storage as respondents do not have the capacity to travel home with their stock on a daily basis.

#### 2. Lack of funding to expand business

Akinbode et al. (2016) found that access to finances is one of the key factors associated with low firm growth in emerging countries. The issue of access to finance is a major constraint to the informal economy in

Durban's central business district as well. The respondents cited the lack of access to finance as one of the challenges preventing them from growing and formalising their informal businesses. Traders explained that growing a business requires much financial assistance as it comes with numerous expenses, ranging from business administration costs, procurement of equipment and business space.

Furthermore, they pointed out that financial institutions are not prepared to lend them money for expansion as they are not recognised as legitimate business owners. Chimucheka & Rungani (2013) affirmed that financial institutions such as banks anticipate collateral security for risk purposes from applicants, but the majority of informal trader's lack assets that can be recognised by banks as collateral.

### **3. Hygiene and the lack of ablution facilities for traders**

The lack of access to water and sanitation was identified as a challenge by respondents in the Durban central business district. The informal traders located in street pavements explained that they have to rely on nearby formal businesses who are willing to assist them to use their sanitation facilities. Nkrumah-Abebrese & Schachtebeck (2017) corroborates that informal traders are faced with a lack of basic infrastructure. Additionally, the rapid increase in street trading activities has further brought on problems to deliver appropriate services and proper trading facilities as street trading is often not included in urban planning efforts. Warwick Junction ablution facilities have been provided and a plan of dealing with the maintenance is in place, but even so, respondents raised concerns about the functionality of the few ablution facilities.

### **4. Municipal harassment**

The informal traders expressed concerns about the continuing intimidation and harassment by enforcement officers who confiscate their goods. Sometimes in the process, they lose their stock altogether. According to the eThekweni Municipality Informal Economy Policy, in order to operate in the city as an informal trader, a trading permit must be obtained through an application process from the Municipality. This notwithstanding, traders who are in possession of a trading permits indicated that they get harassed by the police sometimes for various reasons, just as the traders without trading permits.

In Ghana, a study by Mahadea & Zogli (2018) on constraints to growth in the informal sector revealed that harassment from municipal inspectors hampers physical expansion and the likelihood of the informal sector to transition to the formal economy. In South Africa, Arias (2019) cited an incidence that occurred in the City of Johannesburg where 6,000 informal street traders were forcefully removed by authorities from their places of business in 2013. This included forcefully breaking into informal shops and confiscating goods and forcing them to leave their trading locations. Traders were also harassed by police using tear gas and this harassment took place irrespective of the legal status of each of the street businesses. This campaign was initiated by the City, aimed at chasing away informal traders without trading permits. However, the City did not keep its word and effectively treated all street businesses as illegal. As reported by the participants of the current study, this is also a major problem in the Durban business district.

## **IV. RECOMMENDATION AND CONCLUSION**

It emerged from the findings that informal traders encounter numerous challenges when operating informal businesses in the Durban business district. The lack of access to finance for business expansion and the lack of appropriate infrastructure was mentioned by respondents. The current study goes on to recommend some policy strategies that stakeholders can implement to address the research problem at hand:

Respondents in the study expressed great concern about their poor work conditions, which included a lack of proper shelter and ablution facilities. Hence this study recommends that local government prioritize the supply of adequate infrastructure. Mahadea & Zogli (2018) study in Ghana's informal economy attests that addressing infrastructural challenges such as access to sanitation, storage facilities and the supply of electricity can assist informal enterprises to expand and formalise.

Local Municipalities working with other government agencies and private institutions must equip informal traders with the relevant and necessary skills, such as developing business plans and financial management/cash flow skills, sales and marketing skills that will assist in growing their businesses. Informal traders must also take the initiative to educate themselves on the structures and institutions stipulated by the government to assist willing traders to transition from the informal to the formal sector. Additionally, informal traders must improve their skills and education using the services of the Sector Education and Training Authority (SETA), which can assist willing and financially able informal traders to further their education.

In order to address the funding gap and funding challenges, it is recommended that government works hand-in-hand with non-governmental institutions and informal traders to come up with a funding model that will cater directly for the financial needs of the informal sector.

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