

**MICRO-ECONOMIC ANALYSIS OF THE INFORMAL SECTOR  
IN THE VAAL TRIANGLE AREA**

**by**

**Harrison Ntshabela Kwadi**

**Submitted to the Faculty of Management Sciences in accordance with  
the requirements of the degree**

**MAGISTER COMMERCII**

**In**

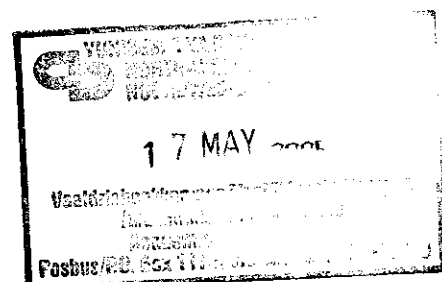
**The Department of Business Management**

**at**

**NORTH-WEST UNIVERSITY**

**SUPERVISOR : PROF P.F. VENTER**

**October 2004**



## **DECLARATION**

I declare that:

### **"MICRO-ECONOMIC ANALYSIS OF THE INFORMAL SECTOR IN THE VAAL TRIANGLE AREA"**

is my own work, that all the sources used or quoted have been indicated and acknowledged by means of complete references, and that this dissertation was not previously submitted by me for a degree at another university.

.....  
**H. N. KWADI**

**October 2004**

## **ACKNOWLEDGEMENTS**

I would like to express my gratitude to the Almighty God for making it possible for me to produce this work. I also would like to give my sincere thanks to the following and all those who directly or indirectly contributed to this dissertation.

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**H. N. KWADI**

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**DATE : OCTOBER 2004**

## **SUMMARY**

During the last decades, concern over the mounting problems of employment opportunities to absorb the ever-increasing surplus labour, decreasing the inequalities in the distribution of income, and the reduction of poverty, has directed attention to small business and the informal sector. In recent decades, academic attention has been focused on the informal sector's activities in the developing economies.

Issues surrounding the informal sector have, since the late 1970's, become important research field for South African scholars. Despite the universal prevalence of research activities or academic studies in the informal sector, no general theory exists that explains the behaviour of individuals acting in the informal sector.

This study is a micro-economic analysis of the informal sector in the Vaal Area. The research is supported by a detailed literature study and empirical study in order to establish whether perfect competition exists in the informal sector and to determine factors determining the demand for informal sectors' goods and services.

The empirical part of the study was conducted through use of a questionnaire by using various field workers. Data obtained, were analysed by means of statistical techniques, and using the SPSS program.

Research findings clearly identified constraints that confront different informal sector businesses in this region. The study also indicated, that perfect competition is to be found in this sector. The conclusions reached, enabled the researcher to identify areas for future policy interventions towards developing this sector.

## OPSOMMING

Gedurende die afgelope dekades was daar aansienlike bekommernis ten opsigte van toemende probleme ten opsigte van werkgeleenthede om die immer groeiende werksurplus te absorbeer, ook ten opsigte van ongelyke inkomste-verdeling, met inbegrip van die afskaling van armoede; dit het die akademiese aandag op die aktiwiteite in die informele sektore binne ontwikkelende ekonomieë gefokus.

Gedurende die laat negentien sewentigs het aangeleenthede rondom die formele sektor 'n pertinente ondersoekveld van Suid-Afrikaanse akademici geword. Ten spyte van heersende navorsingsaktiwiteite of akademiese studies binne die informele sektor, bestaan daar inderwaarheid geen algemene teorie wat die gedraginge van individue binne die informele sektor kan verklaar nie.

Hierdie studie behels 'n mikro-analitiese studie van die informele sektor in die Vaalgebied. Die navorsing word ondersteun deur 'n gedetailleerde en empiriese studie, ten einde vas te stel of perfekte mededinging in die informele sektor voorkom, asook om daardie faktore te bepaal waardeur die aanvraag na informele goed en dienste bepaal word.

Die empiriese gedeelte is gedoen by wyse van 'n questionnaire deur van veldwerkers gebruik te maak. Die gegewens versamel, is geanaliseer by wyse van statistiese tegnieke deur van die "SSPS" program gebruik te maak.

Navorsingsbevindinge identifiseer duidelike beperkinge wat informele sake in verskeie sektorbedrywighede kniehalter. Die studie dui ook daarop, dat volle mededinging in hierdie sektor voorkom. Gevolgtrekkings waartoe daar geraak is, stel die navorser daartoe in staat om gebiede vir toekomstige beleidsintervensies vir die ontwikkeling van hierdie sektor te identifiseer.

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# CHAPTER 1

## INTRODUCTION AND SCOPE OF STUDY

### 1.1 INTRODUCTION

During the last decades, concern over the mounting problems of employment opportunities to absorb ever-increasing surplus labour, decreasing the inequalities in the distribution of income, and the reduction of poverty, has directed attention to small business and the informal sector (De Beyer and Maasdorp, 1983:1).

South Africa, despite its rich mineral resources, is expanding at a much slower rate than its population. The country is experiencing an unprecedented increase in urbanization and thus the need for the provision of employment has become a priority, especially in densely populated areas (Dhlamini, 1996:22). The informal sector has all along played an important role in reducing unemployment.

The terms 'informal and formal' were coined by Hart in 1971 in his paper "Informal income opportunities and the structure of urban employment in Ghana", which was presented at the University of Sussex, Britain. Hart (1971:2) regards the informal sector as an unremunerated, unorganised sector, characterised by self – employment. Hart (1971:2) argues, that the basic reason for the neglect of the informal sector, was to be found in the official definition of employment, which omits the informal sector and is confined to "formal" wage employment in registered firms. The complex phenomenon referred to here as the "informal sector" has seen a plethora of concepts, definitions and terms to describe it (Maasdorp, 1983:2; Rogerson, 2000:1; Schneider, 2000:1; Peberdy, 2000:3; Thornton, 2000:3).

According to Peberdy (2000:3), the informal sector in South Africa encompasses a wide range of vending, production, services and trade activities in rural, urban areas, the inner city, peri-urban, as well as is in

informal settlements. Rogerson (2000:2) notes, that in Gauteng, which is South Africa's most economically important region, data suggest, that out of the population of 7,5 million people in 1998 at least 1,2 million people are active in the informal sector. This also means, the number of people engaged in the informal sector, is substantially greater than the number of people working either in the mining or the formal manufacturing sectors.

The key explanatory factor for the development of informal sector activities, is the slow expansion rate of the formal economy and its absorption of work-seekers (Rogerson, 1992:161). The overwhelming mass of empirical research conducted in Gauteng, also suggest that low labour absorption in the formal economy and crises of survival are, the primary factors underpinning the massive expansion in South Africa's informal economy over the last decade (Rogerson, 2000:674).

## **1.2 STATEMENT OF THE PROBLEM**

In recent decades, academic attention has focused on informal sector activity in the developing economies (Thornton, 2000:1279). Issues surrounding the informal sector have, since the late 1970's, become an important research material for South African scholars (Rogerson, 2000:673). Books, monographs and national bibliographies that list between 200 – 3000 research investigation reports on different facets of the South African informal sector, have already appeared (Dewar and Watson, 1981; Hirschowitz, Accutt and Koch, 1991; Preston-Whyte and Rogerson, 1991; Hirschwitz, Orkin, Rogerson and Smith, 1994; Rogerson, 1994; Rogerson and Reid, 1997: cited in Rogerson, 2000:673).

Despite the universal prevalence of research or other academic studies on the informal sector, no general theory exists that explains the behaviour of individuals acting in the informal sector. Further, no single commonly accepted definition of the concept exists. The problems encountered in defining the informal sector, poses the question of possible misallocation of

resources as used in the informal sector. The informal sector draws its scarce resources such as labour, materials and so on from the economy, and therefore, it must operate within the same price-structure.

As a result of the stated reasons above, the objectives of the study will be stated as follows.

### **1.3 OBJECTIVES OF THE STUDY**

#### **1.3.1. Primary objective**

The primary objective of the study, is a micro-economic analysis of the informal sector in the Vaal Triangle area.

#### **1.3.2. Secondary objective**

To achieve the primary objective, the following secondary objectives are set.

- Establishing whether perfect competition exists in the informal sector.
- Determining problems that confront the informal sector business.
- Assessing the reasons for starting the informal sector small business.

### **1.4 DEMARCATION OF THE STUDY**

The study concentrates on the informal sector in the Vaal Triangle area. The Vaal area, as far as the scope of this study, consists of areas indicated on the Map in Annexure B. The town of Sasolburg is also included, as it is economically linked to this particular area. Due to the cost consideration, not all businesses in the informal sector are covered, but only those that were randomly selected. A list of informal sector businesses does not exist. Informal sector businesses are those businesses that have not been registered.

### **1.5 RESEARCH METHODOLOGY**

Information for the study is obtained by way of both primary and secondary sources.

### **1.5.1 Secondary research**

For the theoretical basis of the study, an extensive number of literature references have been consulted. Handfield and Melnyk (1998:320) indicate that without theory, it is impossible to make any meaningful sense of empirically generated data. Wacker (1998:363) states that generally, academics point to a theory as its being made of four components.

- Definition of terms
- A domain where the theory applies
- A set of relationships of variables
- Specific predictions (factual claims).

Literature references include textbooks, magazines, newspapers, dissertations, theses, research reports, journals and other publications on the informal sector and on micro-economics. The researcher will use the procedure suggested by Guy, Edgley, Arafat and Allen (1987:41) to consider possible pitfalls when consulting the relevant literature.

### **1.5.2 Primary/empirical research**

A central part of research activity, is to develop an effective research plan or strategy. Chisnall (1992:23) defines research design as a framework or plan for a study used as a guide, in ensuring that the information obtained is, relevant to the research problem. Such a plan is detailed in this study.

Data for the empirical research were obtained in respect of 500 informal sector businesses. In choosing the target population, care was taken that the target population is consistent with the objectives of the study. The qualities that allow respondents to be included in the sample, were clearly identified. To determine the sample size, the resources available to the researcher were

considered. Businesses in Vereeniging, Vanderbijlpark, Sasolburg and the townships of Sebokeng and Sharpeville, were approached at random.

The collection of information for the study, is conducted by field workers who were especially selected and trained. Data for the empirical research was collected by means of a survey of a proportionally stratified sample by using a questionnaire. The research instrument/questionnaire will first be subjected to a pilot study, in order to ascertain whether any ambiguities exist in the phrasing and format of the questions, and the time required to complete it.

### **1.5.3 Data analysis**

Having collected the data from primary or secondary sources, the researcher proceeded towards drawing conclusions by logical inference. Descriptive and advanced statistical techniques will be used to analyse the data. According to Kinnear and Taylor (1997:544), descriptive statistics or preliminary data analysis, provides a researcher with summary measures of the data. Advanced statistical methods are used to search for relationships in the variables.

Because of the complexity of some of the statistical techniques, a computer program/package called SPSS is employed to compute measures used in this study.

## **1.6 HYPOTHESIS**

The research problem was translated into a hypothesis. A hypothesis assists the researcher to provide answers to the research problem.

In this study, two hypotheses has been formulated:

H1: Perfect market conditions exist in the informal sector market of the Vaal Triangle area.

H2: There is no difference between the dependent variables (reasons for starting a business, problems experienced by businesses, and market conditions) considering the independent variables (characteristics of businesses).

The empirical testing of this research will, therefore, support or reject these hypotheses.

## **1.7 OUTLINE OF THE STUDY**

### **1.7.1 Chapter One**

This chapter deals with the introduction and the scope of the study, the problem statement, objectives of the study, demarcation, the research methodology, data analysis procedures, and the outline of the study.

### **1.7.2 Chapter Two**

The chapter comprises the historical development of the informal sector and the definition of the informal sector. It includes the characteristics of the informal sector and its potential for development, as well as its size.

### **1.7.3 Chapter Three**

To put the whole study in the field of micro-economics analysis in perspective, a number of micro-economic concepts are examined, namely: price, opportunity cost, marginal cost, budget line, and economic cost. It also analyses factors determining the demand for informal sector goods and service markets.

### **1.7.4 Chapter four**

Chapter four will report on the empirical results of the study. The research plan is also outlined.

### **1.7.5 Chapter five**

This chapter comprises a summary of the most important aspects of the study, a summary of conclusions reached, recommendations, and suggestions for future research.

### **1.8 REFERENCE TECHNIQUES**

The Harvard method of reference is used throughout this study, to indicate the sources consulted. A detailed list of all sources used and consulted in this dissertation, is attached at the end of this study.

### **1.9 LIST OF ACRONYMS AND LETTERGROUPS**

ANOVA	:	Univariate Analysis of Variance
BOC	:	Business Opportunity Centre
CSS	:	Central Statistics Services
DTI	:	Department of Trade and Industry
GDP	:	Gross Domestic Product
GET	:	General Enterprising Tendency
IDC	:	Industrial Development Corporation
ILO	:	Intentional Labour Organisation
IS	:	Informal Sector
MANOVA	:	Multivariate Analysis of Variance
NAMAC	:	National Co – ordinating Office for Manufacturing Advisory Centres
NBI	:	National Business Institute

RDP	:	Reconstruction and Development Program
RSA	:	Republic of South Africa
SMME	:	Small, micro and medium enterprises
SPSS	:	Statistical Program for Social Sciences
UK	:	United Kingdom
USA	:	United States of America
VTA	:	Vaal Triangle Area

### 1.10 TERMINOLOGY

Entrepreneur	-	A person who alone assumes the risks and uncertainty of a business.
Firm	-	An economic unit that produces goods and services in the expectation of selling them.
Gross National Product	-	The market value of all goods and services in an economy produced by resources owned by people of that economy.
Informal Sector	-	An unremunerated unorganised sector characterised by self-employment.
Market Structure	-	A set of market characteristics such as a number of firms, ease of entry, and substitutability of goods.

Micro-economics	-	A sub-area of economics that analyses individuals as consumers and producers, and specific firms and industries. It focuses on the market behaviour of firms and households.
Monopolistic Competition	-	A market structure consisting of many firms producing goods that are close substitutes.
Monopoly	-	A market structure consisting of one firm producing a good that has no close substitutes.
Small Business	-	A business comprising of not more than 100 employees and having a turnover of less than R5 million per annum.

In the next chapter, the concept "informal sector" and its relationship to entrepreneurship are discussed.

## **CHAPTER 2**

### **THE INFORMAL SMALL BUSINESS SECTOR**

#### **2.1 INTRODUCTION**

To set the tone for this dissertation, the concept "informal sector" and its relationship to entrepreneurship, are discussed.

In many parts of the world the so-called informal sector as a contributor to the economic welfare of society, has been emphasized. By its nature, the informal sector generates levels of output that are difficult too quantify; nonetheless, this sector appears to be extensive in both developed and underdeveloped countries (Morris, Pitt and Bethan, 1996:59).

Extensive attention has also been given in recent years to the role of entrepreneurship in facilitating global economic development. In many developing countries, entrepreneurship is associated in part with the informal sector (Morris, et al.,1996: 600).

The purpose of this chapter, is to explore the nature of the informal sector in order to distinguish different types of activities in this sector, and also to explore its relationship to entrepreneurship.

##### **2.1.1 The concept informal sector**

Hazelhurst (1997:35) points out, that the informal sector is a growing source of employment. It is estimated, that in 1995, 1.7 million people out of an economically active 14.4 million people, worked in this sector. This is 11.8% of the economically active 14.4 million people working in this sector.

Levy (2001:12) finds, that 50% of all school-leavers did not find work at the end of 2000 and that this trend is expected to increase. The increase in unemployment could contribute to the fact, close to two million South Africans are engaged in informal business. Bowler (1998:16) states, that for many years the existence of the so-called informal sector was regarded with considerable disdain by authorities and vested interest groups. Ironically, informal enterprise, which is the most ancient and common form of enterprise has been rediscovered world-wide, including in South Africa.

During the last decade, concern over the mounting employment problem in developing countries, has directed attention to the informal sector. Considerable definitional and conceptual confusion has undermined the debate about the usefulness of this sector within the economy. Further, an examination of the literature, reveals, that the informal sector has been defined in different ways leading to substantial confusion (De Beyer and Maasdorp, 1983:1). The informal sector first appeared in economic development theory in work undertaken by the International Labour Organization (ILO), with the launch of the World Employment Programme in the 1990's.

Keith Hart, in his paper "Informal Income opportunities and the Structure of Urban Employment in Ghana", presented at the University Sussex, Britain in 1971, was the first to use the term, although it was the ILO report on Kenya (ILO, 1972) which launched and popularized the concept. The report highlighted the fact, that depopulation and resultant urban growth did not increase unemployment, but rather the development of small-scale enterprises.

Several types of definitions have been given to the concept which may be linked to specific views or identifiable schools of thought (Charmers, 1990:13). Hart (1977:2) describes the informal sector as an unremunerated, unorganized sector, characterised by self-employment. Swanepoel and Van Zyl (2000:142) define the

informal sector as comprising those economic activities conducted outside the mainstream of the economy of a region or of a city, by independent individual or small family units, mainly in respect of consumer goods and services, and which are especially labour-intensive and of which the transactions are noted in official economic statistics.

### **2.1.2 Characteristics of the informal sector**

Although there may be various definitions of the informal sector, the researcher found the characteristics of the White Paper (1995:7) and Cross (1998:1) to be the most comprehensive. Cross (1998:1) summarises the characteristics of the informal sector as follows.

- The informal sector is largely unregulated, and unlicensed.
  
- Most of these businesses are usually run by a single individual, or within the extended family.
  
- The businesses are labour-intensive, and skills are acquired mostly through experience, or by these concerned growing in the environment.
  
- The owners normally start the business with little capital, and have to work long, irregular hours, while the qualities of products are often inconsistent.
  
- Prices are negotiable, and credit is granted, depending on personal contact between the small business entrepreneur and the customer.
  
- No tax is paid.

The International Labour Office (ILO) defines informal sector enterprises as having the following characteristics.

- Ease of entry into markets.
- Reliance on indigenous resources.
- Small-scale operations.
- Labour-intensive activities, using adaptable technology.
- Skills acquired outside, using adaptable technology.
- Skills acquired outside the formal education system
- They are unregulated (Joubert, 1992:63).

A definition parallel to that used by the ILO, is provided by Hirschowitz (1991:1) in the Human Sciences Research Council study, which describes the informal sector as being characterized by at least two of the following features.

- Smallness, as measured by the number of employees.
- Absence of officially recognised business premises.
- Lack of official registration of business.
- Lack of official records of business.
- Lack of easy access to resources.

The multicriteria definitions are, according to Charmers (1990:13), generally inspired by the classical theory of competition (autonomy and fluidity of the product market and factors of production), and view the informal sector as an illustration of the market economy, yet segmented, i.e. not linked to the formal markets; further, that while all of these criteria come together to define a competitive market, some of these are relatively complex and cannot be reduced to mere simple observation.

According to Morris, et al., (1996:61) no generally accepted definition of the informal sector exists. Nonetheless, it typically refers to economic activities not recorded in the national accounts, and not subjected to formal rules of contract, licences, labour inspection, reporting and taxation.

Morris, et al., (1996:61) further notes, that the motivation behind most informal sector businesses, is assumed to be personal survival, as opposed to return on investment. The tremendous growth in this sector is said to parallel urbanization, with migration to cities in developing countries far outpacing the employment capacity of modern manufacturing and other formal activities. Businesses in this sector are assumed to demonstrate low levels of productivity, especially given labour intensity, limited skills pool, and small scale of operations. The relationship between the formal and informal sectors is not generally well established.

Authors such as Sethuraman (1976) have tried to break down multicriteria definitions into simpler and more specific criteria, and give the following conditions for membership of the informal sector.

- Employment of no more than ten persons
- Non-application of legal and administrative regulations
- Employment of family members
- No fixed working hours or days
- No institutional loans
- Production intended for the final consumer
- Less than six years of schooling for the workers
- For certain activities, there are no mechanical and electrical energy.

Charmers (1990:14) further points out, that in practice the macro-economic estimates of the informal sector businesses on the basis of existing statistical, data require the use of a single criterion regarding all the other characteristics of the informal sector. These criteria are the following.

- Professional status (self-employed, employer, family worker, apprentice, wage employee) is used currently in the analysis of population censuses or employment surveys and allows a distinction to be made between wage employees and non-wage employees.
- Size of the enterprise (in terms of numbers employed) is used in the analysis of establishment censuses or enterprises' surveys and sometimes allows estimates based on population censuses to be refined where they include such information.
- The most widely used threshold (of no more than ten employees) is frequently criticised for being applied indifferently and inappropriately to all activities in all countries.
- In respect of the criterion of non-registration, the informal sector can be defined as being constituted by a set of non-agricultural activities which are not registered regularly and separately by conventional stats surveys.

For the purpose of the research, the ILO definition and that provided by Swanepoel and Van Zyl (2000), will be adopted.

### **2.1.3 Types of informal sector businesses**

Informal enterprise encompasses a wide range of activities producing marketable products, distributing merchandise and rendering services. The informal enterprise is an important haven for self-employment in rural areas, for newly urbanized, unemployed or retrenched persons, for housewives looking for an additional source of income and, naturally, for a large number of embryonic entrepreneurs. Some entrepreneurs are "survival" or "fall back" operators, whilst others are "planned and well-contemplated" business starters. Entering the informal sector, requires a low level of skills, low capital cost and little on-the-job-training. (Bowler, 1998: 16).

The informal sector is characterized by a large number of small-scale production and service activities that are individually or family-owned and use labour-intensive and simple technology (Joubert, 1992:64). Their motivation is usually to obtain sufficient income for survival purposes by relying on their own resources in order to create work.

According to Peberdy (2000:3), the informal sector in South Africa encompasses a wide variety of vending, productive services and trade activities in rural and urban areas, as well as in the informal settlements and peri-urban areas.

There is no clear distinction between the different categories of business. Many businesses originate with the founder, that start on his/her own enterprise from home (survivalist) as a small business. Depending on growth and the availability of funds, some of these informal businesses then soon grow into a small business and some other also grow through medium-size into large businesses.

Rogerson (2000:674) provides a useful conceptual distinction to be drawn between the following two categories of businesses.

- The first are the "survival informal businesses", which comprise activity undertaken by people unable to secure regular wage-employment or access to the economic sector of their choice. The income generated from these business, the majority of which tend to be run by women, usually fall short of even minimum income standards. These businesses require little capital investment and virtually no skills-training; little opportunity for expansion into viable businesses is available.
  
- The second are the "micro-enterprises" or "growth enterprises". These enterprises are very small businesses, often involving only the owner, some family members and at most one to four paid employees. These unregistered businesses usually lack all the trappings of formality in terms of business licenses, formal premises, operating permits, and accounting procedure; they must have a limited capital base and require only rudimentary business skills. Many micro-businesses have the potential to develop and flourish into larger formal small business enterprises.

In South Africa, the informal sector comprises the following extraordinary range of enterprises (Rogerson, 2000: 674).

- Retail distribution: peddling, street-hawking, shebeens (bars), spaza shops.
  
- Personal services: gardening services; caddying services, musical services.
  
- Repair services: motor repairs, panel-beating, upholstery, and tiling.

- Productive and secondary activities: furniture makers, dressmaking, traditional crafts (work bead, mats, basketry), pottery, cement block-making.
- Building construction: building contractors, plumbing, tiling, painting, electrical work, plastering.
- Transport: taxis, truckers.
- Accommodation: sub-letting of land and premises.
- Money lenders: alternative for poor people not having access to conventional sources of finance.
- Crime: theft, prostitution, drug trafficking, pimping, gambling.

Swanepoel and Van Zyl (2000:142) divide the activities of the informal sector into the following four broad activities:

- Trading and hawking. Trading activities are supplemented by the activities of hawkers and street vendors selling fruit, flowers, handmade articles, food, shelter, etc.
- Production and construction include the production of food and the making of furniture, clothes, shoes, baskets, window frames, as well as the construction activities such as plumbing, painting, self-help housing, etc.
- Services include a wide variety of activities such as panel-beating, hairdressing, photography, car-washing, backyard mechanics and various activities of sangomas and witchdoctors. Financial activities

include stokvel schemes, funeral undertakings and loan services (mashonisas).

- Illegal activities. Illegal, immoral, even criminal activities are those which are regarded as socially unacceptable, but which nevertheless occur – such as prostitution, drug-dealing, the granting of illegal loans, gambling, abortions, etc.

#### **2.1.4 The size of the informal sector**

The estimates of the size of the informal sector vary from study to study and from country to country, in part due to the use of different definitions and measures (Thornton, 2000:2). Further, it is impossible to accurately estimate the extent of the activities of the informal sector (Swanepoel and Van Zyl, 2000:142).

Studies with regard to the size of the informal sector in South Africa prior to 1996, are indicated in table 2.1.

**Table 2.1 Studies on size of the informal sector**

<b>CHARACTERISTIC</b>	<b>AUTHOR AND DATE</b>
1. Estimated to represent between 16% and 40% to current GDP	Abedion & De Smidt, 1990; De Smidt 1988; Thomas 1989
2. Approximately four million jobs attributed to this sector	Sham, 1991; Thomas 1989
3. Estimates of annual GDP per worker are R11 400 compared to R30 400 in formal sector	Financial Mail 1991
4. Some 22% of potentially active Blacks involved in this sector	Rains, 1989
5. Sector projected to include between 500 000 to 700 000 businesses	Africa-Business and Chamber of Commercial Review, 1990; Vosloo 1988
6. Activities: trading and hawking (55%), production and construction (33%), services (16%) and illicit activities (6%)	Raine, 1989

**Source: Morris, et al., (1996:62)**

The numbers of people who participate in the South African informal sector, are unknown (Peberdy, 2000:3). In 1996 the South African Institution of Race Relations estimated, that 16% of the economically active population were engaged in the informal sector (De Vletter, 1996:6). Rogerson (2000:2) states, that in Gauteng, which is South Africa's most economically important region, the data suggest, that of the population of 7,5 million people in 1998 at least 1,2 million people are active in the informal sector.

The following broad estimates from research findings give some indication of the extent of the informal sector (Swanepoel and Van Zyl, 2000:142).

- About 1,7 million people in South Africa were involved in the informal sector activities, of whom 35% were involved in trading and hawking, 23% in production and construction, 16% in services and 6% in illegal activities.
- During 1989 the Central Statistical Service (CSS) estimated the value of the activities of the informal sector at R16 000 million. This estimate is conservative, because it excluded the TBVC statistics, Black informal earning in White areas, and the involvement of Whites in the sector.
- The activities of the informal sector occur throughout the country.

According to Kekana (1993) as quoted in Botha (1996:3), the influence of the informal sector as a generation of economic output, remains unresolved, and researchers are constantly attempting to gauge its size in terms of real output levels.

Furthermore, quoting survey and research data by the Central Statistical Services and Brian Kanter of the University of Cape Town, Kekana (1998) estimates the size of the informal sector at being between 8% and 40% of the country's Gross Domestic Product (GDP).

Kekana (1998:15) provides the following statistics on the status of the informal sector.

As the formal economy fails to create the jobs to absorb South Africa's increasing number of work-seekers, more and more people are finding both temporary and permanent income in the informal sector of the economy.

Figures contained in the 1995 Central Statistical Services' (CSS) Household Survey, estimate the size of the informal sector at R32-billion a year – about 7% of the country's total economy. With an unemployment rate of 30% (4,2 million – the majority of whom are Black) and little evidence of new jobs in the formal economy, many people are entering the informal sector.

According to the CSS Household Survey, at least 1,74 million workers are employed in this sector. Of this 1,74 million, about 1,3 million work for themselves and the remaining 413 000 are in turn, given work by employers in the informal sector. Of the 1,3 million who work for their own account, 1,2 million are employers and self-employers, 129 000 are employed full-time in the formal sector, but also involved in the informal sector, and 10 000 people are involved in the informal sector, but are also looking for work.

Income generated from this sector, is unlikely to have any meaningful impact on the lives of Black informal workers in particular: it is estimated that the average monthly income is no more than R500, or about R16 a day. The idea of a mother of three selling loose cigarettes and sweets and earning an income that makes a difference to her life, strains credulity. Informally employed Whites, on the other hand, tend to work in more structured businesses like flea markets.

The survey shows, that the 1,74 million workers in the particular sector provided goods and services worth about R2,7 billion a month or R32 billion a year. Blacks produce 55% (R1,5 billion) of this figure, while Whites account for R935 million, Coloureds for R192 million and Asians for R114 million.

Sectorally, wholesale, retail and catering services, and accommodation services, are the largest sub-sectors in the informal sector, contributing at least R1,2 billion monthly or R12,4 billion annually. The next biggest contributor is the community, as well as social and personal services sectors, with R437 million, followed by transport, storage and communication, with R337 million.

### **2.1.5 The importance of the informal sector**

Swanepoel and Van Zyl (2000:143) discuss the role and importance of the informal sector in the South African economy under the following headings.

#### **- Creation of job opportunities (job creation)**

Although no exact figures on the number of persons active in the informal sector are available, various studies suggest, that it could be considerable. Between 20 percent and 70 percent of the total work-force in third world countries are engaged in the activities of the informal sector- an average of about 50 percent. The informal sector provides the only source of work and income for most of these people. In South Africa, it is estimated that 4 million people were wholly or partly active in the unregistered sector of the economy, and that there were 1,84 million Blacks in the informal sector in 1985. This means that 23 percent of the potentially economically active Black populations were involved in the activities of the informal sector. Of these 228 000, were in the metropolitan areas, 235 000 in squatter areas, 704 000 in urban areas and 678 000 in rural areas. The informal sector provides job opportunities for approximately one out of every four economically active Blacks. If it were not for the informal sector, the unemployment problem in South Africa would have been much worse.

#### **- Generation of income and combating poverty**

The informal sector plays an important role in combating poverty. It provides many people with some form of livelihood. Income in the informal sector is relatively low, because the work is marginal, generally with a low, irregular income. It offers a livelihood to many who would otherwise would a have been unable to survive. The average monthly income in the informal sector

for 1985 was estimated at R269 (with R40 per month as the lowest and R720 per month as the highest).

### **- Contribution to the GDP**

Attempts have been made to determine the contribution of the informal sector to the national economy, for instance the contribution to the GDP. The findings show considerable differences, due the nature of the matter. Prof. Brian Kantor estimated it at between 16 percent and 41 percent of the GNP. The Central Statistical Service estimated it at 8 percent, and the Reserve Bank at 10 percent. A total 45 integrated studies of the informal sector arrived at the following estimates. The average monthly income of the informal sector in 1985 was R269. In the metropolitan areas it was R233, in squatter areas R379, in urban areas R361 and in rural areas R153. On this basis it was estimated, that the average annual income was R3 228. If this is used as the average base figure for the 1,84 million persons in the informal sector, the estimated income of the informal sector in 1985 was R5,9 thousand million. The officially registered personal income of Blacks in 1985 was R20,567 thousand million. If the unregistered income of the informal sector is added to this, the figure of R26,45 thousand million is reached, which means, that 33,3 percent of the total income of Blacks is unregistered. This amounts to 5,1 percent of the GDP of South Africa in 1985 and is comparable to figures estimated for other countries. If the informal income of the other population groups is also taken into account, together with other unregistered activities, such as the direct exchange of goods for goods and services, the contribution of the informal sector to the GDP in South Africa, is significant.

## **Relationship of the informal sector to the formal sector**

There is both a direct and an indirect relationship between the formal and the informal sectors. The registered and unregistered sectors of the national economy are interdependent. The formal sector is linked to the agricultural sector, because it allows surplus labour from the agricultural sector to move to the formal sector of the city. The formal sector depends on the cheap inputs and products of the informal sector for its workers, and the informal sector depends on the growth in the formal sector, in order in this way to gain a share of its income and customers. A sound case can be made, to prove that the informal sector subsidises the formal sector by providing cheap raw materials and basic products for its workers at artificially low prices, simply because the formal sector enjoys economic power and, often, government sanctions.

The informal sector provides opportunities of earning and income to the poor. However, the question remains to be answered as to how far informal sector is merely a temporary refuge for those waiting for an opportunity to enter the formal sector? Is the informal sector simply an intermediate phase, or does it exists in its own right on a permanent footing? As long as there is no other solution to the extensive unemployment in society, the informal sector must be accepted as a permanent feature, which serves as an essential complement to the formal sector. One activity in the informal sector which has been established on a fairly permanent footing, is the minibus taxi industry. It is estimated, that annual purchases by taxi owners from the formal sector are as follows.

- A total of 800 million litres of petrol
- A total of 3,5 million litres of engine oil
- Motor spares worth R800 million.

The link between the formal and the informal sectors exists in both the production and distribution processes. This growth-related association between large and small businesses, registered and unregistered transactions, and formal and informal economic contacts, also exists in other countries. In South Africa it will be expanded even further in the future, especially as large businesses in the formal sector make use of smaller informal businesses via subcontracting. In the Eastern Cape and the North-west province, there are a number of flourishing (home) industries in which, in addition to handicrafts, items such as school uniforms are made for businesses in the formal sector.

- **Training opportunity for future entrepreneurs**

Although this is not always its purpose, the informal sector often provides a useful training opportunity for entrepreneurs. Forced by a lack of job opportunities, many people begin to do something about their situation on their own. They begin by experimenting in the informal sector with a variety of economic activities on a small scale. Many achieve success and soon become full-fledged entrepreneurs in the formal sector.

Lachaud (1990:121) identifies a number of constraints that inhibit the integration of the informal sector into the economic and social environment in Sub-Saharan Africa. These are the following.

- Uncertain integration of the informal sector in the activities of households. In most analyses of this sector, the unit of observation has been the enterprise. The justification for this approach, is that the absorption of the urban labour force is largely said to take place in the informal sector. The potential for employment can be explained fully

by giving new dynamism to certain units of production found mainly in the informal sector. Thus, knowledge of the enterprise, and the obstacles to their operation, are necessary preconditions for the implementation of economic policies.

- Partial integration of the informal sector into the economic system as a whole.

The divisions within the urban productive system do not allow for a fully satisfactory analysis of the relations between the informal sector and the economic system as a whole. The dualist approach does not, of course, involve a refusal to analyse the interdependence between the modern and informal sectors. Economic policy recommendations have regularly stressed the importance of intensifying intersectoral relations. In Africa, most empirical studies show the following.

- The raw materials and other materials used by the informal sector, come mainly from the formal sector.
  - Little of the final demand addressed to the informal sector comes from the modern sector.
  - The modern sector produces relatively few externalities in terms of human capital.
  - Financing networks in the informal sector are largely autonomous.
- Although this approach in terms of enterprise economics has proved useful in the context of Sub-Saharan Africa, it obscures a number of structural elements essential for a better understanding of the operation of the urban labour market. In particular, analyses of the informal sector exclude almost entirely any assessment of household activities. In Africa, as in every other society, the social system is

organized in terms of groups or households. These continue to be essential units of observation, not only for an understanding of the processes of labour market integration, which forms part of a collective strategy, but also for an understanding of the specific relations between the degree and nature of labour market participation and standards of living.

- **The ambivalence of economic policies**

In a re-assessment of development strategies, the role which had been given to the urban informal sector, was justified in terms of employment, income distribution and poverty. Can one consider, that over the last 15 years the economic policies of Sub-Saharan African countries have indeed taken the informal sector into account? Experience and analyses of many African situations lead to emphasize the extraordinary divergence between speech and reality. This ambivalence is found on the following two levels.

- First, by at the level of conception of economic policy to assist the most underprivileged. Where the emphasis has been placed on the informal sector in analytical terms and/or in terms of economic policy, the main objective was to promote small enterprises; in other words, to accelerate their economic transition. Whilst the concern with poverty has not been lacking and the action undertaken has to some extent promoted the growth of low incomes, the logic of a policy pursued in terms of the enterprise economy, cannot for evident reasons be focused on the poorest classes. It can even be said, that in many cases it concerns the less poor. It is true that it is much easier to reinforce the productive capacity of small production units, than to address the situation of the most underprivileged.

This approach continues to be useful, simply because the development is not the instantaneous replacement of one form of organization by another. The informal sector has its logical basis both in traditional and in modern societies. As a result, the acceleration of this transition involves appropriate promotion. However, by its very nature, this approach excludes from its field of analysis those labour categories which are most vulnerable.

- Secondly, at the level of the execution of economic policies, the experience of a number of African countries shows, that there is no coherent policy with regard to the urban informal sector. Official policy is admittedly largely expressed in development plans, but examination of these plans, shows a relative incoherence both with regard to the objectives formulated and the methods employed.

## **2.2 The definition of the formal sector small businesses**

Qualitative criteria which refer to these variables that cannot be easily measured, and it is compulsory to use in terms of the Small Business Act (Marx, et al., 2001:728) are the following. \*

- Independent private ownership and management of business
- Limited extent of activities
- Local functioning
- Simple organisational structure.

In a more comprehensive definition of small and medium enterprises in South Africa, it is stated, that an entrepreneurial enterprise is any business with one or more of the following characteristics (Cronje, Du Toit and Motlatla, 2001:495):

- Fewer than 200 employees
- Annual turnover of less than R5 million
- Capital assets of less than R2 million
- The owners are directly involved in management.

The criteria are used in South Africa, but are not extensive; it represents a movement in the right direction. Marx, et al., (2001:729) list the following criteria.

**Table 2.2 Proposed criteria for small business in South Africa**

SECTOR	SIZE	ANNUAL TURNOVER	TOTAL FIXED ASSETS	TOTAL EMPLOYEES
Agriculture, forestry, shares, communications, operations, business services	Medium	R15 million	R3,0 million	51 – 100
	Small	R2,5 million	R0,5 million	5 - 50
	Micro	R0,5 million	R0,1 million	1 - 4
Lines, manufacturing, water, construction, wholesale, retail, housing	Medium	R25,0 million	R5,0 million	51 - 100
	Small	R5,0 million	R1,0 million	5 – 50
	Micro	R1,25 million	R0,25 million	1 - 4

**Source: Marx, et al., (2001:729)**

It must be pointed out, that there is no universally applied definition of small businesses. For the purpose of this study, the given definitions will be used.

### **2.3 Role of small businesses in the economy**

According to a NAMAC statement, the SMME sector in South Africa is critical to the economic growth of the whole country, because this sector contributes more than 35% of the country's GDP and provides some 55% of job opportunities. Against his background, NAMAC strives to improve the competitiveness and growth in the local, national and international markets for the SME sector.

Authors such as Marx, et al., (2001:720), and Megginson, et al., (2003:42), have stated the following as constituting the most important contribution, role or reasons for growth of small business.

- Encouraging innovation and flexibility. Small businesses are often the sources of new ideas, materials, processes, and services that big businesses are reluctant to provide. They have the ability to be more flexible and to respond to market opportunities. They present opportunities for innovation and are vital for growth in the economy.
- Maintaining close relationship with consumers and community. They can do a more specialized/individualized job than can big businesses, thereby attracting customers on the basis of speciality products, quality, and personal services, rather than solely on the basis of price. They are also important suppliers of specialized intermediate goods, that is goods used in the production of other goods.
- Keeping larger firms competitive. With the introduction of new products and services, small businesses encourage competition. This is so, because of their ability to adapt rapidly to consumer needs.
- Providing employers with comprehensive learning experience: Along with performing a great variety of functions, employees also have

more freedom to make decisions which can lend zest and interest to their work experience and they tend to be better managers, while people who operate small businesses, have the opportunity to gain experience which could be later applied to big businesses.

- Developing risk-takers. Small businesses provide opportunities for risk-taking, with its consequent rewards and punishments. The risks attached to small businesses, develop the typical entrepreneurial characteristics of accepting these risks.
- Generating new employment. Small businesses are important sources of employment and their work-creation rate is higher than that of big businesses. The cost of operating one job opportunity, is considerably lower than that of big businesses.
- Small businesses purchase, use, and often revitalize used capital equipment. This reduces the risk and long-run costs of entry and expansion of the business.
- Many small businesses act as marked "shock absorbers". By employing flexible production technologies (emphasizing labour and less-specialized capital goods) they have greater flexibility than have big businesses in adjusting their production levels.
- Their significant involvement in market entry and exit, helps ensure the mobility of capital resources. For capital markets to be efficient, capital must be free to flow from industries with low rates of return to those with high return rates.

- Small businesses employ less-skilled workers with no prior experience who might have difficulty securing employment.
- Because of their size, small businesses are less likely to encounter problems that can arise from complex management structures. Such structures tend to increase the cost of transferring information within the business and hence, result in rigid decision-making processes.
- Small businesses typically have less-diffused ownership, and the owner is more likely to be directly involved in management. Measured against the rate of return on owners' interest, small businesses have shown, that they do not have to stand back for larger business. At large businesses, control of operations becomes more difficult because of the decision-maker and employees have lost close contact.

Drawing upon selected sources of authoritative research that is supported by statistical evidence, Botha (1996:2) identifies a number of reasons for the relevance of the small business sector in South Africa.

### **2.3.1 Employment creation**

The strongest rational government policies in support of SMME's is to be found in their relatively superior employment creation capability. The latter is the result of capital labour ratios which are often a small fraction of those found in the corporate sector of the economy. An indication of the important role played by SMME's in respect of keeping vast numbers of people economically occupied, may be found in a number of indicators.

The White Paper of SMME development (RSA 1995:A) indicated, that more than 7,2 million people were involved in the small business sector, which represented 138% of formal sector employment in 1994 (SARB 1996). For countries in Sub-Saharan

Africa, this ratio was as high as 215% in 1985 (calculated on the basis of equating the small business sector with the informal sector).

The Department of Trade and Industry has taken a broad view of what comprises the SMME sector, for the October survey estimated the informal sector alone as comprising only 1,6 million people.

### **2.3.2 Provision of minimum living level**

The debate for societal stability is far from resolved on the exact contribution that SMME's make towards aggregate economic activity. The fact remains, that it provides a livelihood, albeit it often a meager one. In terms of the strong emphasis that the Reconstruction and Development Programme (RDP) places on meeting basic human needs, the existence of a vibrant and large SMME sector undoubtedly contributes to the attainment of minimum development goals.

It has also been argued, that the formal sector has contributed to the surprisingly large degree of socio-political stability that has persisted since the 1994 elections. Despite the relatively slow rate of delivery on RDP projects, the government of national unity has not been threatened by meaningful protests from a disillusioned mass electorate. One of the reasons simply is, that the extent of poverty and unemployment (in the narrowest sense of word) seems to have been overestimated, due to the existence of a relatively strong small business sector in previously disadvantaged communities.

To place the argument within a quantitative framework, an assumption is made, that the aggregate ratio of labour remuneration to the GDP at factor cost holds for small businesses (a conservative proposition), the wages earned by the SMME sector in 1995 amounted to R70 billion. This equates to the 1995 annual minimum living level of 6,4 million Black households (utilising the research by the University of

South Africa's Bureau of Market Research). According to the CSS, there are only 6 million black households in South Africa (RSA 1995.96), which clearly illustrates the importance of the SMME sector to South African society.

### **2.3.3 Affirmative Action**

Researchers in the field of affirmative action in South Africa have pointed out, that the formal sector of the South African economy possesses a limited labour absorption capacity, which would restrict the effectiveness of affirmative action policies in the sphere of reorientating the racial profile of companies' workforces. As an inference, it was concluded, that much emphasis would in future have to be placed on the issue of Black business development, if government's objective of upliftment of previously disadvantaged communities was to produce meaningful results by the time of the next election.

Excluding the racial issue the formal economy of South Africa is imbalanced in terms of big versus small businesses, with the government and parastatals are included. Big business generates 60% of the economic activity in the formal sector of the economic activity, leaving small business with 40% (CSS 1995). In the United States it is reported that the roles are reversed, where big business accounts for only 20% of economic activity. In the Far East, the disparity is even more pronounced – in Japan it is reported, that 90% of the economic activity is generated by SMME's, one in six Japanese, runs his/her own business.

This difference in the structure of our economy, could be attributed directly to our history, where for ideological reasons the state intervened to deny normal market access and economic development to 80% of the population. South Africa today is facing the competitive disadvantage of this economic imbalance, as we compete on the world stage and face nations whose economies produce products both cheaper and better than ours. The terms "unbundling", "downsizing", and "outcontracting"

have become the new jargon representing big businesses response to the problem. In terms of our local economy, big business producers of basic commodities know well, that to grow the local market for their products this economic imbalance needs to be corrected: to sell more beer, more Black people must buy beer: they must have money: they need jobs to earn, jobs which the SAB can't give them; only small and emerging businesses can.

Due to the vastly superior labour/capital ratios encountered in the small Black business sector, policy incentives aimed at inducing an increase in this sector's employment levels which could possess the potential to produce rapid results. For the recorded economic activity as a whole, an amount of R278 000 was required in the form of capital in order to sustain on formal job. Research at the NBI has shown that labour/capital ratios amongst certain types of small business activities, are 100 times larger than is the figure for the formal sector.

#### **2.3.4 Entrenchment of free enterprise principles**

An expansion of the SMME sector in South Africa also holds the potential of influencing the view of previously disenfranchised South Africans in regard to the type of institutionalised economic system that should underpin the newly established democracy in the country. Entrepreneurs are an endangered species in South Africa, because of state intervention of the past and the "success" of big business in expanding by acquiring an own opposition. There are few entrepreneurs to breed new entrepreneurs. And they do in fact breed – parental influence plays a mayor role in career choice. In addition, of course, peer success can also be a major stimulant for entrepreneurial motivation.

Research done by the business opportunity centre (BOC) in identifying and accrediting new entrepreneurs, indicates a lack of new entrepreneurial endeavour, apart from survivalist activities.

Other free market countries spend public monies on small business support agencies. For example, Denmark has a network of small business advice centres offering free counseling to aspirant entrepreneurs, all funded by government and local authorities. Australia has a similar network of local authority-funded "Local Economic Development Agencies". Sadly, the Small Business Development Corporation (SBDC) has not fulfilled its developmental role in respect of SMME's, being more focused on money-lending. Successful small businesses are the anchor of the free enterprise system.

### **2.3.5 Business creativity**

According to renowned historians such as Landes (1988), philosophers such as Novak (1987) and economists such as Schumacher (1974), the existence of a powerful source of economic growth and development is related to the role of human creativity. Although the human factor outside of the formally-defined resource of labour remains a relatively subjective issue in economics, it has been confirmed, that approximately half of the growth performance of advanced economies in the modern era is not explained by conventional factors of production.

This so-called "residual" contribution to growth, has been the subject of much research in recent years, and has been attributed, inter alia, to higher education levels of the labour force: new machine technologies, increased standardisation, deregulation, and improved beneficiation of raw materials. A sizeable portion of growth remains unaccounted for, however, and the issue of the human factor has increasingly come to the fore. In Schumacher's (1974) pioneering work, "Small is beautiful", he points out, that it is humans and not nature, that provide the primary economic resources.

The key factor in economic development lies in human creativity and the initiative and constructive activity that occur in free societies. In spite of Novak's fundamental thesis that beings from poverty within his nation should look to this primary resource, the minds and spirits of the large numbers of its citizens are at the bottom of the society. The cause of wealth of a nation is the empowerment of such persons.

A practical step which forms part of this hypothesis, is to foster the principles of individual economic freedom and private property rights in developing societies. Productivity and innovation are greatly enhanced in the absence of bureaucratic centralisation, in both private and public sectors.

To the extent that the above principles hold, it follows, that an enlargement of viable privately-owned small businesses will exert a positive influence on economic growth through the "residual".

#### **2.4 Entrepreneurship and small businesses in the formal and informal sectors**

Because entrepreneurship is more readily identified and observed in small business, the terms "entrepreneur" and small "businessmen" are used synonymously in contemporary literature. Meggison, Byrd and Megginson (2003:11) also contend, that it is not easy to distinguish between a small business owner and an entrepreneur, for the distinction hinges on their intentions. The small business owner establishes a business for the same purpose of furthering personal goals, whereas an entrepreneur in addition to personal goals, is scrutinized by innovative behaviour. Cronje, Du Toit and Motlatla (2001:495) further state, that it is extremely rare for small businesses not to be driven by entrepreneurship, as the entrepreneurial spirit is usually observed in small business as the catalyst for economic development.

The above-stated factors necessitate an in-depth discussion of the concept entrepreneurship.

#### **2.4.1 The nature of entrepreneurship**

Despite its apparent significance, no agreed definition of either what constitutes an entrepreneur or entrepreneurship exists (Kirby, 2003:10). Furthermore, Kirby, (2003:10) state, that the problem identification of an entrepreneur has been confounded by the fact, that there is still no standard, universally accepted definition of entrepreneurship.

Entrepreneurship can be defined as the process of creating and building "something of value" from practically nothing (Van Aardt, van Aardt and Bezuidenhout, 2000: 4). There are various reasons why people are engaged in the process of entrepreneurship. People starting businesses are called entrepreneurs. Wickham (1998:49) identifies the pull-and-push factors as the two forces driving the manager from the conventional labour pool to the entrepreneurial labour pool. Table 2.3 (on page 41) summarises the distinction between the pull factors and push factors as identified by Wickham (1998: 49).

From Table 2.3 (see page 41) it can be seen that a wide variety of people can become entrepreneurs. It is important to know when one can be regarded as an entrepreneur, as various views regarding this exist. In an effort to develop some common definition of entrepreneurship, researchers have allowed either a trait-related or behaviour-related approach (Le Roux, et al., 1999:294).

Though no single definition exists, Coulter (2003:4) states, that entrepreneurship is "... process of creating something with value by devoting the necessary time and effort, assuming the accompanying financial, psychological and social risks, and receiving the resulting rewards of monetary and personal satisfaction".

Entrepreneurship is a process by which individuals – either in creating their own businesses or in their activities inside existing businesses – pursue opportunities without regard to the resources they currently control.

As entrepreneurship is brought about by individuals (entrepreneurs) as shown by the definitions above, it is proper to look at who is the entrepreneur (traits approach).

**Table 2.3 Pull-and-push factors of entrepreneurship**

Distinction according to	Pull factors	Push factors
Definition	Those factors which encourage managers to become entrepreneurs by virtue of the attractiveness of the entrepreneurial option.	Those factors which encourage entrepreneurship by making the conventional option less attractive.
Factors	<ul style="list-style-type: none"> <li>• Financial rewards of entrepreneurship.</li> <li>• The freedom to work for oneself.</li> <li>• The sense of achievement to be gained from running one's own business.</li> <li>• The freedom to pursue a personal innovation.</li> <li>• A desire to gain the social standing achieved by entrepreneurs.</li> </ul>	<ul style="list-style-type: none"> <li>• The limitations of financial rewards from conventional jobs.</li> <li>• Being unemployed in the established economy.</li> <li>• Job insecurity.</li> <li>• Career limitations and setbacks in a conventional job.</li> <li>• The inability to pursue a personal innovation in a conventional job.</li> <li>• Being a misfit in an established organization.</li> </ul>

**Source: Adapted from Wickham (1998: 49)**

## 2.4.2 Defining the entrepreneur

According to Zimmer and Scarborough (2002:4) an entrepreneur is one who creates new businesses in the face of risk and uncertainty, for the purpose of achieving profit and growth, by identifying opportunities and assembling resources to capitalise on them.

There is a clear indication who can be classified as an entrepreneur. Van Aardt and Van Aardt (1997: 19) classify people as entrepreneurs if they-

- introduce new goods.
- introduce new methods of production.
- open new markets.
- open new sources of supply and
- develop new methods of organizing the work.

From the above classification it can be concluded, that although a wide variety of people may become entrepreneurs, not all will do so. Entrepreneurs possess certain personality traits which allow starting a business.

Wickham (1998: 38) found, that although there does not seem to be a single "entrepreneurial type", there is a great deal of consistency in the way in which entrepreneurs approach their tasks. Wickham (1998) indicates, that successful entrepreneurs exhibit the following characteristics:

- Hardworking - they put a lot of physical and mental effort into developing their businesses.

- Self-starting – they do not need to be told what to do.
- Setting of personal goals – they tend to set themselves clear, undemanding goals.
- Resilience – they realize that not everything goes right all the time.
- Confidence – they demonstrate that they believe not only in themselves, but also in the business they are pursuing.
- Receptiveness to new ideas – they recognize their own limitations and the possibilities that they have to improve their skills.
- Assertiveness – they are usually clear as to what they want to gain from a situation and are not frightened to express their wishes.
- Information seeking – they are on average, any more intelligent than any other person or persons within a group.
- Eager to learn – they are always aware that they can do things better.
- Attuned to opportunity – they are constantly searching for new opportunities.
- Receptive to change – they are always willing to embrace change in a positive fashion.
- Commitment – they are not selfish.
- Comfortable with power – they can become very powerful figures.

Hisrich and Peters (2002: 10) provide two different perspectives about an entrepreneur that ventured the traits given above.

- To an economist, an entrepreneur is the one who brings resources, labour, materials, and other assets into combinations that make their value greater than before, and also the one introduces changes, innovations, and a new order.
- To a psychologist, such a person is driven by certain forces in the need to obtain or attain something, to experiment, to accomplish, or perhaps to escape the authority of others.

Their attitudes and dispositions are not to become entrepreneurs, but also successful entrepreneurs. The results of the investigation into the personality traits of the participants in this research, are summarized below.

Bowler (1998: 1) summarises the entrepreneurial traits as follows

- Entrepreneurs have a positive self-image: self-reliance, achievement orientation.
- They have leadership abilities: motivates, aspires, accepts responsibility.
- They possess organising and problem-solving abilities: systematic, logical, results-orientated drive.
- They are committed to setting and fulfilling goals. They are determined, industrious, and energetic.

- Entrepreneurs are prepared to take calculated, intelligent risks and alert to opportunities, cautiously optimistic.

McLeod (1999: 5) provides the following list of personal attributes needed to assess whether one would be able to cope with the demands and challenges that lie ahead for the entrepreneur.

- High degree of drive energy.
- High level of self-confidence.
- Capacity for long-term commitment.
- Independence, initiative, and innovative ability.
- Integrity and reliability.
- Ability to set clear goals.
- Ability to cope with uncertainty.
- High level of determination to solve problems.
- Enthusiasm for taking moderate but challenging risks.
- Ability to accept failure as part of the learning process.
- Desire for feedback about performance.
- Self-imposed standards (an internalized competitive drive).
- Perception of money as a measure of performance.
- Thorough knowledge of the proposed business.
- Awareness of the need to utilize the expertise of others.
- Ability to build a sound entrepreneurial team.

In South Africa only a limited number of people, especially in the so-called previously disadvantaged communities, practice entrepreneurship as successful new entrants into business. These have been attributed to the following (Dhlamini, 1994:17).

- Restrictive regulations, e.g. licensing, zoning, tax structures, and inappropriate health regulations, safety standards and labour legislation hamper opportunities.
- A problem of access to loan funds. The business infrastructure and services are underdeveloped in certain areas.
- Lack of business knowledge and experience. The present systems of education and training are unsuited to provide what is required in the market-place.
- A shortage of support services, e.g. information services, practical training.
- The entrepreneurial culture, which is built-on a belief in individualism, innovation, self-confidence, risk-taking, is poorly developed.
- Structural bottlenecks coupled to unsuitable tax policies discourage voluntary savings and results in most savings being contractual and merely placed in the hands of institutional investors, which operate within the consideration and duties of the fiduciary framework.
- Lack of business confidence as a result of the sluggish economy and globalization.

McLeod (1999: 5) recommends, that before starting a, business entrepreneurs should evaluate themselves in terms of the above qualities, and ask themselves if they are truly equipped to face the demands of starting their own business. Each if person has unique skills, knowledge and experience. McLeod (1999: 5) believes, that is vital to believe in the importance of what one intends doing.

As most of the entrepreneurial characteristics are interdependent, the researcher compiled a summary of the above characteristics of entrepreneurs and those identified by Hatten (1997: 36), Longenecker, et al., (2002: 8), Van Aardt and Van Aardt (1997: 9).

The characteristics are as follows.

- The desire to achieve.
- Hard-working.
- Nurturing.
- Accepting responsibility.
- Reward-orientated.
- Optimistic.
- Excellent-orientated.
- Money-orientated.
- Innovative by doing something unique and different.
- Flexible and able to adjust to change.
- Willing to take calculated, moderate risks.
- Perseverance.
- Self-reliant, sets goals and works towards achieving them.

- Strives to do better than in the past.
- Optimistic while striving for higher profits.
- Persuasive (influencing), but interpersonally aloof to approach to others.
- Positive self-image and high self-confidence.
- Good creative and innovative abilities.

The abovementioned personality traits are important for the start-up stage of the business. A distinction should be made between the personality "characteristics" and the real character the person displays when working. Wickham (1998: 39) states, that personality traits are regarded as innate and that these constitute a permanent part of the make-up of a personality, whereas the character that a person displays when working, is just the way a particular set of tasks is approached.

Wickham (1998: 16) warns, that it is important not to allow an inappropriate idea of personality, in this way to distort one's view of an entrepreneur. There is no real evidence to suggest that there is a single "entrepreneurial personality". People of all personality types, attitudes and dispositions, become not only entrepreneurs, but also successful entrepreneurs.

## **2.5 THE DEVELOPMENT OF ENTREPRENEURSHIP**

In the previous paragraphs, the entrepreneur was defined and some important aspects of entrepreneurship were discussed. A discussion of entrepreneurship in different countries will highlight various aspects of entrepreneurship and will thus further clarify the concept "entrepreneur".

## **ENTREPRENEURS IN EUROPE**

During the 1970's, entrepreneurs in Europe were regarded as being inefficient and unproductive (Goffee and Scase 1987: 1). It was argued, that the entrepreneur was incapable of taking full advantage of developments in technology and sophisticated management techniques.

However, in the 1980's, entrepreneurship in Europe was seen as a cure for many problems ranging from persistently high unemployment and low economic growth, to the destruction of values surrounding work, family and personal relationships. In the following paragraphs some aspects of entrepreneurs in the different countries in Europe are outlined.

- **Italy: The traditional family business**

The aspect of entrepreneurs in Italy to be emphasized, is that entrepreneurs originate from traditional family businesses. In Italy there are roughly the same numbers of self-declared entrepreneurs as the number of workers in large industrial firms (Goffee and Scase 1987: 12). Changes in technology, markets, social, historical and cultural factors have influenced the growth of the number of entrepreneurs. The absence of government interference has further stimulated the growth of the number of entrepreneurs.

Innovative capabilities, the flexibility of entrepreneurs and growth in the demand for non-standardized products, have led to the success of entrepreneurs.

In Italy, there are strong traditional family and community structures. In certain areas in Italy (especially in Southern Italy), the landlord in his daily operations with the workers, the workers to pursue entrepreneurship. A

system of share-cropping (exchanging one product for another product or exchanging a product for the use of land) is used where workers have to exercise entrepreneurial skills in order to allow them to survive. Entrepreneurship has thus flourished in these areas because of the social structure peculiar to the area.

- **West-Germany Government interference**

The aspects to be emphasized in West-Germany are that the entrepreneur is faced with government interference, which restricts operations. The West-German government and to some extent, larger businesses, impose conditions which restrict opportunities for entrepreneurs. There are many laws concerning the establishment of a business firm, environmental protection and levels of local competition which create obstacles to market entry for the entrepreneur.

The entrepreneur in West-Germany exhibits some unique characteristics. Home background has a considerable influence on the potential entrepreneur. People from a Protestant upbringing (people are allowed certain freedoms) are more likely to pursue entrepreneurship than those with a Catholic upbringing (people have to adhere to strict rules).

- **France: Social mobility**

The aspects of entrepreneurs in France to be emphasized are that entrepreneurship offers social mobility. The promise of independence and autonomy offered by entrepreneurship, appeals to many employees in France.

A small number of entrepreneurs manage to run bigger businesses, but those particularly from working-class families have to pursue routine operative, clerical and service occupations. Those persons who remain in business, often experience economic hardships, social and political marginality. The price of "freedom" for entrepreneurs is high, although entrepreneurship has not lost its appeal.

- **Britain: Women as entrepreneurs**

Females in Britain are also pursuing entrepreneurship. The majority of female entrepreneurs in Britain are engaged in economic activities which are typically regarded as "women's work".

Developing female entrepreneurs will depend on a variety of economic, social and political forces. Both ends of the political spectrum in Britain support female entrepreneurs, although for contrasting ideological reasons. At one end of the political spectrum, capitalism is promoted. At the other end, there is an endeavour to replace capitalism with a new social order within which all women will be able to enjoy a greater degree of self-determination. However, no matter which political ideology is pursued, the appeal to female entrepreneurs will persist, as entrepreneurship offers a measure of autonomy which many women would otherwise be unable to enjoy.

- **The Netherlands: Ethnic entrepreneurs**

In the Netherlands entrepreneurs come from different races. Small business owners, whether native born or immigrant, are bound by rules. These regulate the establishment of businesses by municipal licences and ordinances, and by laws governing the payment of taxes and social contributions.

Ethnic entrepreneurs' (immigrants) endeavouring to transfer to a new society with alien customs and an incomprehensible language, is likely to heighten awareness of their own cultural or national identity. Ethnic communities are invariably distinguished by close ties of loyalty among members. This ethnic solidarity assists entrepreneurs, in that this ethnic brotherhood represents potential sources of capital. Borrowing and lending are based on the mutual trust of fellow group members.

Ethnic entrepreneurs (immigrants) in general, work longer hours than their Dutch counterparts. They recruit many of their customers, because they offer specifically ethnic products and services which appeal to the consumers in the Netherlands.

- **Sweden: The influence of local circumstances**

In Sweden the influence of local circumstances on the operations of the entrepreneur is important. Swedish entrepreneurs vary regionally. However, this does not mean, that individuals with entrepreneurial talents are unevenly distributed throughout the country. On the contrary, local circumstances determine the incidence of entrepreneurship. There are three local contexts within which individual initiatives are organized in Sweden.

Firstly, the multi-company town is normally found in the south of Sweden; it is relatively more densely populated. Entrepreneurs are the leading members in the communities and public services are provided as business activity expands.

Secondly, there is the one-company town in central Sweden. These one-company towns have developed historically from when Sweden supplied raw materials to various European countries. As these companies are multi-

national firms, the communities cannot influence local activities. The Swedish regional policy includes special programmes to encourage entrepreneurs in these areas.

Lastly, there are the sparsely populated areas in Northern Sweden. Traditionally these areas are agriculturally orientated. Much of the land is owned by either the state or by large firms, which exploit these areas as a provider of raw materials. Entrepreneurs are limited in these areas, and if they exist, it is in the form of persons pursuing it on a part-time basis.

- **Eastern Europe: Ownership and control**

The aspect of the entrepreneur to be emphasised in Eastern Europe, is the influence of ownership and control on the activities of entrepreneur. The key question for a socialist economy, is the precise mix of ownership and control of the means of productions in an independent firm. The following alternative arrangements exist.

- Individual workers who dispose of some of their labour on their own account, but with only the minimum of productive means, whether land, materials, tools or capital.
- Workers who can work and employ others full-time and have access to capital, resources and markets on a large scale.

In Eastern Europe the largest proportion of independent activity is closer to individual workers, who dispose of their labour without owning any production factors. Private income is acquired typically through the exercise of labour and not from property ownership or capital. Private ownership is not the only distinguishing factor of a communist economic system, but also

the lack of a legal outlet (market) for products developed by private individuals.

## **ENTREPRENEURS IN AMERICA**

The aspect of the entrepreneur which will be emphasised in the discussion of entrepreneurs in America, is the increasing number of entrepreneurs. In the United States of America the image that entrepreneurs portray, is of a white male engineer going to a venture capitalist to get money to develop his brilliant high-tech idea into a product and to become rich quickly (Butler and Dennis 1985: 23).

President Reagan made the concept of entrepreneur official when he talked about "... age of the Entrepreneur" (Butler and Dennis 1985: 47).

Since 1950 the American economy has been growing as a direct result of entrepreneurial activities. During the 1950's, 90 000 new businesses were established, with an increase to 250 000 during the 1970's. During the 1980's, the rate of new business formation was conservatively estimated at 640 000 per year (Butler and Dennis, 1985: 72). This changed very rapidly, due to changes in demographics, technology and the entry into a global economy.

## **ENTREPRENEURS IN JAPAN**

The aspect concerning the entrepreneur in Japan which will be emphasized, is the reason for the successes of entrepreneurs in Japan. Sakoh (cited in Butler and Dennis 1985: 28) emphasised the economic and competitive successes of Japan. However, a common but widely-held misconception exists about Japan – that its economy is controlled by giant firms. In fact, 75 percent of all employees work in small firms, which make up 99 percent of all business firms, in Japan (Butler and Dennis 1985: 29).

Entrepreneurs were first responsible for Japan's economic and competitive success. Through deregulation, privatization and incentive policy, the Japanese government is trying to create an economic environment favourable to entrepreneurs. The Japanese have realized, that it was entrepreneurs who were responsible for its rapid economic development after World War (II). Japan, therefore, does not want to lose out on future success.

## **ENTREPRENEURS IN AFRICA**

The aspects of entrepreneurs in Africa which will be emphasized, are the problems facing successful entrepreneurs in Africa. African entrepreneurs typically come from the following four sources (Elkan, 1988: 20).

- In West-Africa particularly, entrepreneurs start off in the informal sector in trades such as metal-working, tailoring and furniture-making.
- Employees, who held the better-paid jobs available to Africans during the colonial era, usually became entrepreneurs.
- Some entrepreneurs seized opportunities in their roles as successful marketers.
- Well-educated politicians and senior civil servants, although a few of them are genuine entrepreneurs, are appointed by government as directors of existing expatriate businesses.

In most African countries, the biggest entrepreneurial successes have been in property development and agriculture. Indigenous entrepreneurs prefer to invest in those businesses where the annual return is high and where they are protected from the competition of expatriates.

In some African countries, such as Swaziland, the people are first-generation in business, because of historic events (Hetherington, 1989: 220). This aspect poses a number of problems such as.

- Entrepreneurs are highly individualized and are unfamiliar with shareholding and the trust necessary for such arrangements.
- Entrepreneurs lack, by way of their culture, the trust necessary to delegate authority and to train employees. Entrepreneurs thus tend to run their businesses single-handedly and they find it difficult to cope with business growth.
- Entrepreneurs are typically first-generation and have to absorb many concepts novel to them, such as the business entity concept. They, therefore finance their businesses by themselves.
- Entrepreneurs find it difficult to deal with people as their culture restricts them to participating only in social networks.

To conclude, the African entrepreneur's performance is influenced by a number of interrelated factors such as the traditional culture and the social, political and economic environment within which an entrepreneur operates.

## **ENTREPRENEURS IN SOUTH AFRICA**

The aspect of the entrepreneur in South Africa which will be emphasized, is the operations of the Black entrepreneur in the informal sector of South Africa. Entrepreneurship among Blacks in South Africa flourished during the 1980's.

Natrass and Ardington (1990) have emphasized the revolutionary growth of the Black taxi industry in South Africa.

Prior to the late 1970's encouraging the Black entrepreneur in South Africa, seemed counter-productive, on the grounds that it would accelerate rural-urban migration (Natrass and Ardington, 1990: 218). However, from the early 1980's it was estimated, that there were at least 500 000 black-owned businesses, 100 000 small backyard manufacturers in South Africa (Natrass and Ardington, 1990: 218).

On the other hand, by the criterion of legality, most Black entrepreneurs operate in the informal sector (Natrass and Ardington, 1990: 217). By the most basic definition is that the informal sector operates outside official rules and regulations, whereas formal sector businesses do not.

The role that the informal sector can play as a source of income and employment, is frequently expounded in government circles. The role that the informal sector can play in developing entrepreneurs, cannot be ignored.

The analysis of entrepreneurs in different countries, produce some insight into the various aspects in respect of entrepreneurship.

## **2.6 SUMMARY**

The concept informal sector was discussed in this chapter. Several definitions of the concept which are linked to specific views or identifiable school of thought, were discussed. The sector is characterized largely by unregulated, unlicensed and labour-intensive businesses.

The informal sector businesses encompass a wide range of activities such as producing products and the rendering of services. The estimate of the size of the

informal sector, varies from study to study and from country to country, in part due to the different definitions and measures used. The informal sector is important in the creation of job opportunities, generation of income and combating poverty, contributing to GDP, and providing training opportunities for future entrepreneurs.

The concept "entrepreneurship" which is more readily identified and observed in informal sector businesses, is also discussed. In the next chapter the concept "market", "market structure" and "price determination" will be discussed.

## **CHAPTER 3**

### **MICRO ECONOMIC CONCEPTS**

#### **3.1 INTRODUCTION**

The informal sectors exist, mainly because a vast market sustains it. The purpose of this chapter, is to discuss and analyse this market. Before proceeding with the analysis and discussion of the market, it is imperative to examine the various meanings attached to the term "market". There are many usages of the term "market" in economic theory, in business in general and in marketing as a separate discipline. Furthermore, the economic activity behaviour of the informal sector will be aligned with rich micro-economic concepts. Various areas tooled to examine the validity and economic activities of the business sector will be used, because as discussed in the previous chapter, the main feature that separate formal from informal sector is the registration with government and the paying taxes.

#### **3.2 MARKET CONCEPTS**

The concept "market" has experienced many usages in economic theory, in business and marketing its being as a separate discipline. According to Kotler (1994:12), market originally indicated a place where buyers and sellers gathered in order to allow them to exchange goods and services. The original meaning referred to a building or to premises such as a market square. On the more conceptual level, the term refers to a collection of sellers and buyers. A more enlightening definition is given by Stanton (1975:49). A market may also be defined as an aggregate demand by potential buyers of a product and service. Stanton (1975:49) contends, that the terms 'market' and 'demand' are often used interchangeably and may also be used jointly, as in 'market demand'.

In economic theory, the term 'market' implies a set of conditions and forces, which determine price. Implicit in this view, is that the term includes the concept supply. A definition which recognises this important fact, is adopted by Sithole (1989:73).

A market exists whenever buyers and sellers assemble to satisfy their mutual needs. With the immensely developed infrastructure of the most advanced economies, the market is no longer restricted to a geographical location. Begg, et al., (1984:44) emphasise, that it is the interplay between supply and demand that constitutes the market. The interaction between seller and buyers may involve physical contact between seller and buyers, as in the case of a local fruit stall. In other cases, markets function adequately by the telephone or via computer terminals, as in the case of the money market.

In considering a definition on the term market that is appropriate for this study, due regard has to be granted to the market structure which is divided into two categories, namely perfect competition and imperfect competition.

Mohr, et al., (1995:48) define the market as any contact or communication between potential buyers and potential sellers of a good or service. Mohr et al., (1995) further proclaim, that this contact can be personal or that it could take place by means of telephone, or a fax machine. Any institution or mechanism which brings potential buyers and the seller of a particular good or service together, is regarded as a market. Mohr, et al., (1995:49) state, that markets are divided into four categories namely, local, regional, national and international markets. Furthermore, conditions that have to be met in order for a market to exist, are the following:

- There must be at least one potential buyer and one potential seller of a good or service.

- The seller must have something to sell.
- The buyer must have the means with which to purchase it.
- An exchange ratio, that is, the market price, must be determined.
- The agreement must be guaranteed by law or by tradition.

### **3.2.1 Types of markets**

The concept 'market' is very broad and could be divided into numerous segments. Black, et al., (1997:30) differentiates these segments as follows. Product market, which exists when households make purchases products from a firm. Factor market, is where firms buy factors of production from households. Mohr, et al., (1995:391) argues for the differentiation of the two markets, as espoused by Black, et al., (1997), namely that labour as a factor of production, is a unique market. Labour market is a link between potential sellers and potential purchasers. Furthermore, the uniqueness of labour market, as compared to other markets e.g. a goods market, is that, workers usually have to be physically present when their services are used. As a result, non-monetary factors, such as location of employment and other working conditions, are more important in labour markets.

Labour services are embodied in the persons' concerned and are, therefore, not transferable, while goods in contrast, are fully transferable between purchasers and sellers. Labour in the labour market is rented, rather than sold. The relationship between demanders and suppliers in the labour market, does not only involve wage and productivity. It also involves equity and humanity, hence the functioning of the labour market can be affected by a wide range of non-economic considerations (Mohr, et al., 2004:314).

- **Capital Markets**

As advocated by Black, et al., (1997:242), a capital market is the market for long-term borrowing and lending for periods exceeding one year. Wright, Chrisney and Vives (1995:2) purport, that this market includes primary and secondary markets, which both are important to the effective allocation of scarce capital, whereby in primary markets commercial and investment banks fund investment, these have comparative advantages in the management of private information and client relationship. Secondary markets are associated with increased savings through the indirect effect of boosting the liquidity of primary markets.

Black, et al., (1997:243) further indicate the contrast of markets in arguing, that there are the following two characteristics of a capital market.

- The interest rate, which is determined in the capital market, is a long-term interest rate.
- It is a free market in which nobody interferes or set interest rate.

On the contrary, the money market nullifies the characteristics sets an above for the capital market. The money market refers to the demand or supply of money, which has the following two characteristics.

- The interest rates in the money market are short-term interest rates.
- The South African Reserve Bank directly controls the interest rates. (Black, et al., 1997:243).

### **3.3 CLASSIFICATION OF MARKET STRUCTURES**

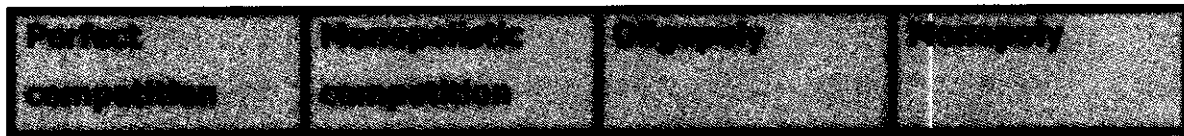
According to Muradzikwa, Smith and de Villiers (2004:220) firms operate under different market conditions. Hall and Lieberman (2004:234) define market structure as being all the characteristics of a market that influence the behaviour of buyers and sellers, when they come together to trade. Gottheir (1999: 224) states, that market structures are defined by the count. To determine the structure of any particular market, three simple questions are asked (Hall and Lieberman 2004:235).

- How many buyers and sellers are there in the market? Is such a seller offering a standardized product, or made less distinguishable from that offered by other sellers, or are there significant differences between the products of different firms?
  
- Are there any barriers to entry or exit, or can outsiders easily enter and leave this market?

When models are built to try and understand and forecast the behaviour of firms in an industry, simplified assumptions are made about the real world. All market forms operate within the limits set by the assumptions that are made about market conditions. (Muradzikwa, et al., 2004:220). There are two forms of markets labelled perfect competition and monopoly, which are polar opposites. Between perfect competition and monopoly, several forms of market structures exist, exhibiting some of the characteristics of the two extreme structures (West, 1987:85).

Smit, et al., (1996:220) also explains, that the two extreme costs are a perfect composition, which is a theoretical ideal that does not occur in reality, and a monopoly. Monopolistic competition and oligopoly are mixed forms. A market structure spectrum is shown in the figure below.

**Figure 3.0 Market structure spectrum**



**Source: Mohr, et al., (1995:273)**

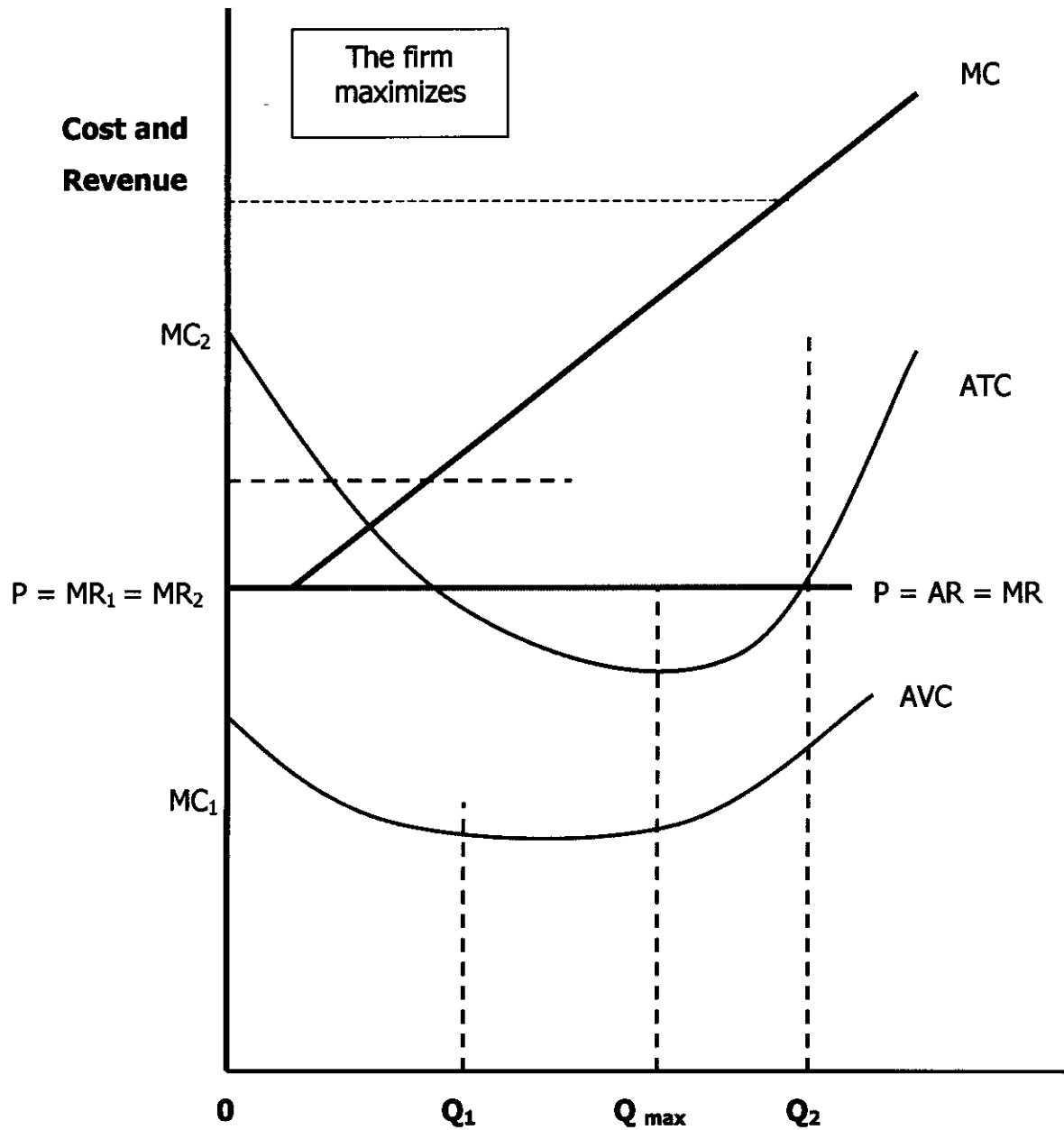
The different market structures mentioned above, are discussed in the following sections.

### **3.3.1 Perfect competition**

Colander (2001:239) defines a perfectly competitive market, as a market in which economic forces operate unimpeded. A number of assumptions are made about a perfectly competitive market (Muradzikwa, et al., 2004:220).

- There are a large number of buyers and sellers and as such they represent a small percentage of the industry and the demand of any individual is so small, relative to the market demand, that no one buyer or seller can influence the market price. Colander (2001:239) states that both buyers and sellers are price-takers, where a price-taker is a firm that takes the prices determined by market supply and demand as given. According to Gotthall (2002: 236) perfectly competitive firms have an insignificant market share
- No collusive behaviour exists between firms, as they act independently.
- All products sold in the market, are homogenous or identical. Hall and Lieberman (2004:236) note that in perfectly competitive markets, standardized products are offered by sellers: that is,

**Figure 3.1 Profit-maximization for a competitive firm**



**Source: Hall and Lieberman, 2004:239**

buyers do not perceive significant differences between the products of one seller and another.

- There is no restriction in relation to entry into or exit from. Any firm is free, and existing firms are free to exit the market at any time.
- There is no government intervention in the market to influence the behaviour of buyers or sellers.
- All buyers and sellers have perfect information about all market conditions, while consumers are aware of all prices, quality, and availability of products in the market. Colander (2001:245) states that if any firm experiences a technological breakthrough, all firms know about it, are able to use the technology immediately. No firm or consumer has a competitive edge over another.
- Selling firms are profit-maximizing entrepreneurial firms

The above conditions are enormously strong and are seldom met simultaneously. These assumptions are necessary for a perfectly competitive market to exist. Combined they create an environment in which such firm following its own self-interest, will offer goods in a market. The goal of a competitive firm, is to maximize profit, which is equal to total. A perfectly competitive firm focuses on a cost constraint like any other firm. The exit of producing any give level of output, depends on the firm's production technology and the prices it must pay for its inputs (Hall and Lieberman, 2004:239). The profit maximization of a competitive firm, is shown in Figure 3.1 on the next page.

Figure 3.1 shows the marginal cost curve (MC), the average-total-cost curve(ATC), and the average variable cost curve. (AVC). It also shows the

market price ( $P$ ), which equals marginal revenue ( $MR$ ) and average revenue ( $AR$ ). At the quantity  $Q_1$ , marginal revenue  $MR_1$ , as raising production increases profit. At the quantity  $Q_2$ , marginal cost  $MC_2$  is above marginal revenue  $MR_2$ , thus reducing production increases profit.

The profit-maximizing quantity  $Q_{max}$ , is found where the horizontal price line intersects the marginal-cost curve. To extend this analysis of profit maximization, consider the cost curves in Figure 3.1. These cost curves have the three features that are thought to describe most firms: The marginal-cost curve ( $MC$ ) is upward-sloping. The average-total-cost curve ( $ATC$ ) is U-shaped, while the marginal cost curve crosses the average-total curve at the minimum of average total cost.

The figure 3.1 also shows a horizontal line at the market price ( $P$ ). The price line is horizontal, because the firm is a price-taker. The price of the firm's output, is the same, regardless of the quantity that the firm decides to produce. Keep in mind that, for a competitive firm, the firm's price equals both its average revenue ( $AR$ ) and its marginal revenue ( $MR$ ).

It is possible to assess from Figure 3.1 to find the quantity of output maximizing profit. Imagine that the firm is producing at Q1. At this level of output, marginal revenue is greater than marginal cost. That is, if the firm raised its level of production and sales by 1 unit, the additional revenue (MR1) would exceed the additional costs (MC1). Profit, which equals total revenue minus total cost, would increase. Hence, if marginal revenue is greater than marginal cost, as it is at Q1, the firm can increase its profit by increasing production.

A similar argument applies, when output is at Q2. In this case, marginal cost is greater than marginal revenue. If the firm reduced production by 1 unit, the costs saved (MC2), would exceed the revenue lost (MR2). Therefore, if marginal revenue is less than marginal cost, as it is at Q2, the firm can increase profit by reducing production.

Where do these marginal adjustments to level of production end? Regardless of whether the firm begins with production at a low level (such as Q1) or at a high level (such as Q2), the firm will eventually adjust production until the quantity produced reaches Q-max. This analysis suggests a general rule for profit-maximization: At the profit-maximizing level of output, marginal revenue and marginal cost are exactly equal.

This shows how the competitive firm decides the quantity of its good to supply to the market. Because a competitive firm is a price-taker, its marginal revenue equals the market price. For any given price, the competitive firm's profit maximizing quantity of output is found, by looking at the intersection for the price with the marginal-cost curve. In Figure 3.1 this quantity of output is Q-max.

### **3.3.2 Monopoly**

The perfectly competitive market conditions were discussed above, but in reality, such conditions do not exist. Colander (2001: 261) describes a monopoly as

being a market structure in which one firm makes up the entire market. Gotthall (2002:226) describes a monopoly as a market structure consisting of one firm producing a good that does not have close substitutes. Further, that an industry is a collection of firms producing the same good. If only one firm produces the good, then the firm is an industry. Hall and Lieberman (2004:270) state, that a concept in the definition of a monopoly, is the notion of substitutability. A single seller of a good or services is not considered a monopoly if other firms sell (close substitute) products that satisfy that same desire. According to Smit, et al., (1996 :227) monopolies indicate imperfect competition in the market. The following number of reasons have been advanced by different authors for the existence of monopolies (Gotthall, 2002:226, Colander, 2001: 261, and Muradzikwa, Smith and de Villiers, 2004: 232).

- Entry to the market may require great financial resources, that only one firm can operate profitably in that market. The fixed cost involved in setting up production for some goods is so high that the firm must have access to a large market to bring its average cost down to a reasonable level. A natural monopoly exists when, due to economics of scale, one firm can produce at a lower cost per unit than can two or more firms.
- A firm might control a strategic resourcing, thereby preventing other firms from entering the market. Some firms, by chance or design, require exclusive access to a non-reproducible good.
- There may be legal restrictions a government allows in an industry. Monopolies may arise, because the government has given one firm the exclusive right to sell a good. Two of the most important legal barriers that give rise to monopolies, are the protection of intellectual property and government franchise. The patents and copyright laws are two important examples of how government creates a monopoly to serve public interest. A firm may be the

holder of an exclusive potent right and hence prevent other firms from entering the market.

- There may be restrictions on imports through import tariffs and quotes.
- Product differentiation may also lead to concentration. Almost no product can be a perfect substitute for another product, because of consumer preferences that exist for specific brand names.

The number of sellers in an industry, determine the structure of that specific market as industry. The number and the size of firms in an industry, is known as the density of concentration. Economists use the four-firm concentration ratio, (CR4) to determine to what extent a few firms dominates an industry. A four-firm concentration ratio, shows the percentage of total sales in an industry of the four firms, as a percentage of total sales in that industry.( Muradzikwa, Smith and de Villiers, 2004:223).

According to Colander (2001:284), economists use the Herfindahl index as a method to classify how competitive an industry is. It is an index of market concentration, calculated by adding the square value of the individual market share of all firms in an industry. A high index indicates a high concentration and in the case of a perfectly competitive market, the index is  $H = 0$ .

### **3.3.3 Oligopoly market**

McCormick, et al., (1974:345) state that between perfect competition and pure monopoly, lies the problem of competition among sellers, and this is called an oligopoly. McCormick, et al.,(1974:345) state that the"... essence of oligopoly behaviour is, that each firm knows that a change in his behaviour will have perceptible effects on his rivals' sales and profit". Mohr, et al., (1995:378) clearly and linguistically describe oligopoly as follows.

The word "oligopoly" comes from the Greek word 'oligoi', meaning 'few' and 'polcin', meaning 'sell'. It further deliberates that few large firms dominate the market. When there are only two firms in the industry, it is called a duopoly. The products in this market may be homogenous, e.g. petrol, cement and steel; but it is mostly heterogeneous, e.g. motorcars and cigarettes. Hence, when products are homogenous the market is described to be a pure oligopoly but when products are heterogeneous, the market is called a differentiated oligopoly.

Both McCormick (1974:346) and Mohr, et al., (1995:378) argue, that the main feature of an oligopoly is that characteristic of interdependence, where this characteristic exposes the degree in which the action of one firm affects the action of other firms. Both economists argue the problem of oligopoly from the point of uncertainty and instability respectively. Because firms are interdependent, no firm can be certain of the policies of its competitors and, therefore, firms operate in an uncertain environment. The solutions to reduce or eliminate these uncertainty oligopolistic firms often collude, meaning enter into an agreement about prices and output.

Instability in the market is apparent, due to the oligopoly behaviour. The joint profit maximization can be destroyed by greed and technological change. Within the oligopolistic clique market, prices might be undercut through quantity discount and secrete rebates and this temptation might be stronger when any firm finds a cheaper method of production, as argued by (McCormick, 1974:346).

### **3.4 PRICE DETERMINATION**

A point of interest for the economist studying the informal sector, is how prices are determined in this sector. Also pertinent to this question, is the influence of cost on price formation. In this chapter, the theory of price and cost plays a vital role, since, in the analysis of price-formation, the concept of price, utility and cost of production, are considered as factors determining price.

### **3.4.1 Price and Opportunity Cost**

Generally price can be defined as the total amount of money that must be handed over in exchange for an article or service that is being purchased. This does not necessarily have anything to do with the value of a commodity. Originally the discussion on micro-economics centred around the price of many goods and services. It is normally assumed, that every item has a price. Price represents the value of a commodity in terms of other goods, and such a price is referred to as a relative price. Since the majority of economic transactions in today's world are conducted in terms of money, and money can be converted into goods and vice versa, the rand may be used as a common denominator in the measurement of price in South Africa, just as the dollar and the pound can be used in the United States of America and Britain respectively.

In theory, a relative price arose because of scarcity. Something is scarce when it is desirable, but in limited supply. The factors of production used in the production of goods and services desired by people or consumers to satisfy their unlimited wants, are scarce, relative to their uses. Therefore, only limited quantities of each article or commodity can be produced. Limitations of quantities of various goods and services, which can be produced and consumed, is given by the budget line facing people and societies.

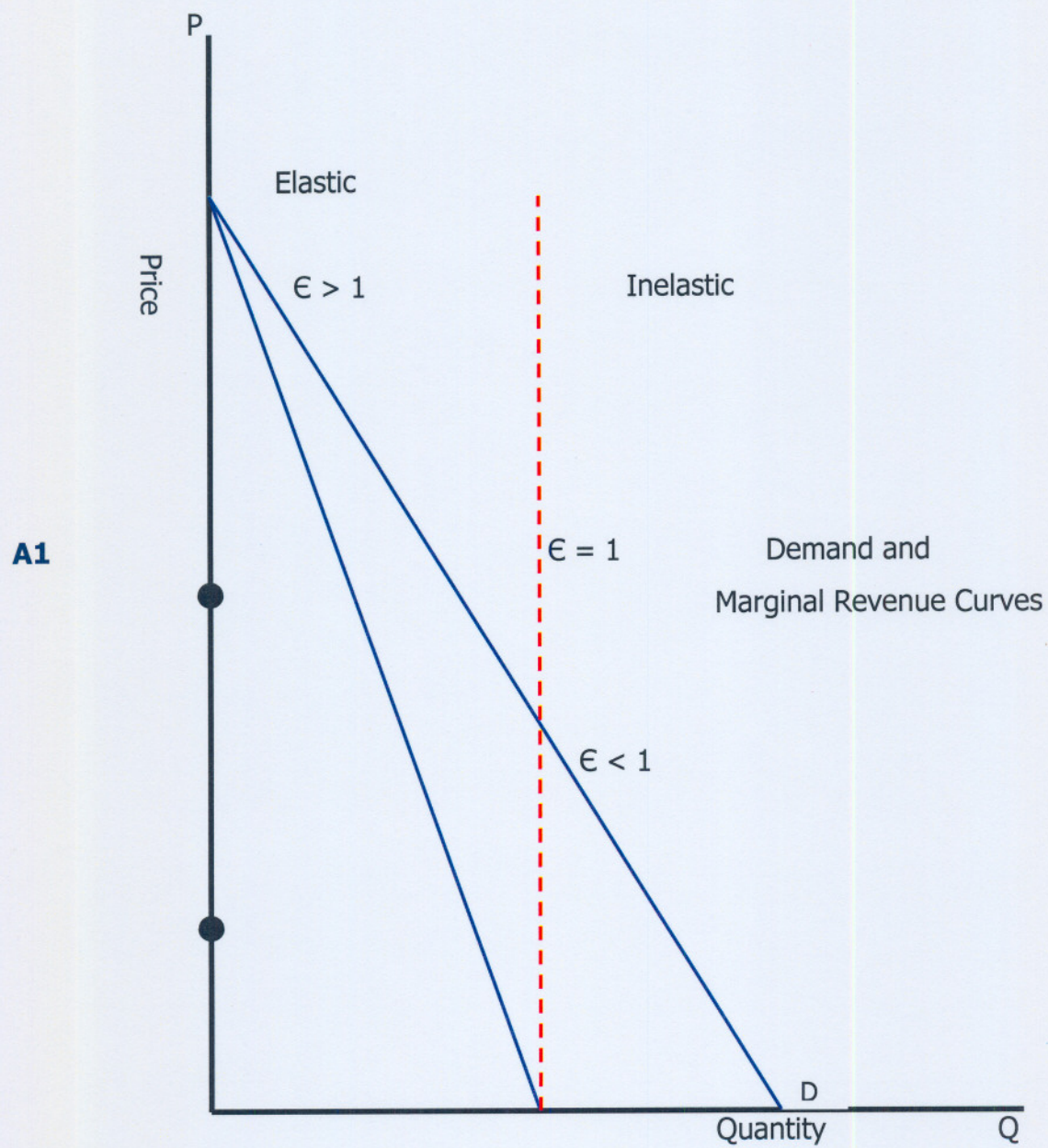
### **3.4.2 Monopoly output and price determination**

The demand curve of the monopoly is downward-sloping, because as long as a firm has the ability to change its price by changing its output level, it will take a downward-sloping curve, which implies, that the monopolist cannot sell more goods without lowering the price, as stated by Haydam (2000:214).

Figure 3.2 (see next page) implies, that the marginal revenue is less than price for every level of output, except for the first. The reason for this, is that price cuts apply to both extra output, as well as to all other units of output which could have been sold as a higher price. Secondly, the monopolist must lower prices in order to boost sales. With regard to figure 3.2, when marginal revenue is positive, total revenue will increase. When marginal revenue is negative, total revenue will decrease. The monopolist will always want to avoid the inelastic segment of its demand curve in order to maximise profit.

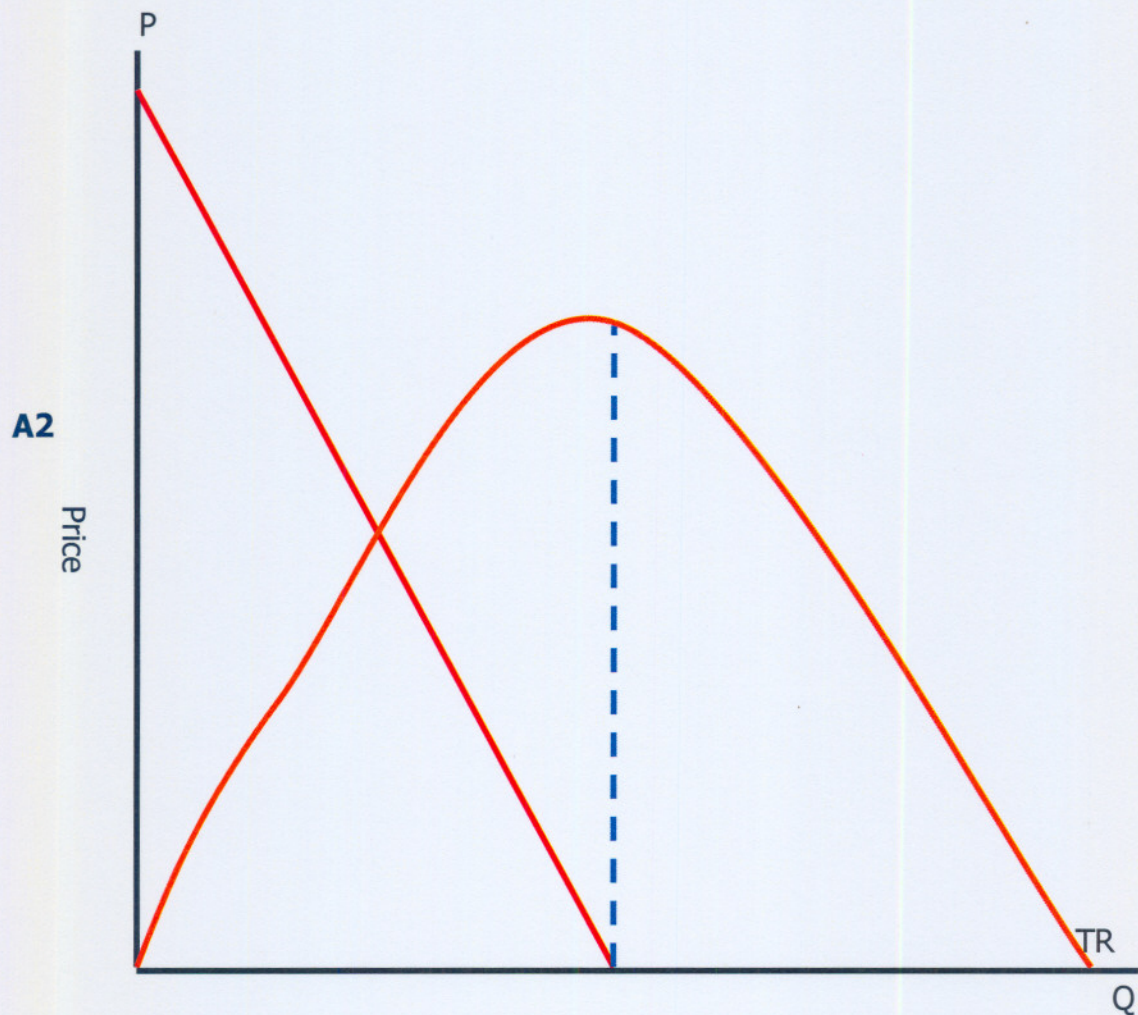
Figure 3.2 follows on the next page.

**Figure 3.2 Elasticity of demand**



**Source: Haydam (2000:197)**

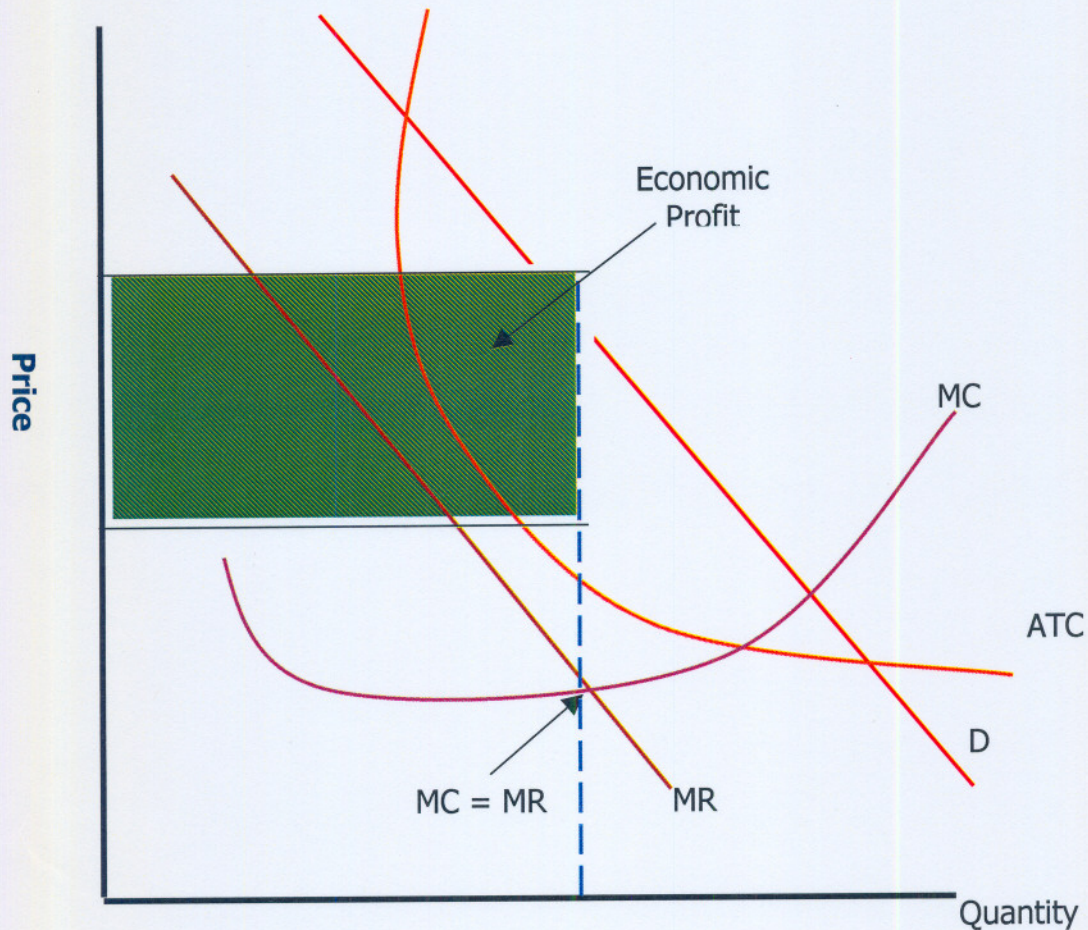
**Figure 3.3 Elasticity of demand ( price change)**



**Source: Haydam (2000:197)**

When demand is elastic, a decrease in price will increase total revenue; similarly, when demand is inelastic, decrease in price will reduce revenue (see Figure 3.3 above). Hence an inelastic segment is avoided, because by lowering price into an inelastic range, total revenue will decline.

**Figure 3.4 Monopoly output and price-determination**



**Source: Gottheir (1999:229)**

Since the monopolist is the only firm in the industry, it faces the industry or market demand for its product or service; thus the industry demand curve is also a monopolistic demand curve (see Figure 3.4 above). This means, that the monopolist has control over its price and output (Black, et al., (1999:113).

**Table 3.1 Classification of market structures**

NUMBER OF FIRMS			
NATURE OF PRODUCT	MANY	FEW	ONE
Homogenous	Perfect Competition	Pure Oligopoly	Monopoly
Differentiated	Monopolistic Competition	Differentiated Oligopoly	

**Source: Chacholiades (1986:248)**

With reference to the above table, the term 'competition' refers to the existence of firms in the industry. The term 'oligopoly' suggests, that there are only few rival firms in the industry, whereas competition denotes that rival sellers are many.

On the contrary, while the term 'perfect' homogenous or perfectly substitutable products, in contrast to the adjectives 'monopolistic' and 'differentiated', it is suggested that products in this market are differentiated; that is, products are very close, but are not perfectly substitutable.

The following four different market structures have now been defined: perfect competition, monopoly, monopolistic competition, and oligopoly. Each has different characteristics, and each leads to different predictions about pricing, profit, non-price competition, and firms' responses to changes in their environments.

Table 3.2 summarizes some of the assumptions and predictions associated with each of the four market structures.

**Table 3.2 Summary of market structures**

	<b>Perfect Competition</b>	<b>Monopolistic Competition</b>	<b>Oligopoly</b>	<b>Monopoly</b>
<b>ASSUMPTIONS ABOUT</b>				
Number of firms	Very many	Many	Few	One
Output of different Firms	Identical	Differentiated	Identical or differentiated	-
View of Pricing	Price taker	Price setter	Price setter	Price setter
Barriers to Entry or Exit?	No	No	Yes	Yes
<b>PREDICTIONS:</b>				
Price and Output Decisions	MC = MR	MC = MR	Through strategic	MC = MR
Short-Run Profit or negative	Positive, zero, or negative	Positive, zero, or negative	Positive, zero or negative	Positive, zero
Long-run Profit	Zero	Zero	Positive or zero	Positive or zero
Advertising	Never	Almost always	Yes, if differentiated product	Sometimes

**Source: Hall and Lieberman (2004: 335)**

### **3.4.3 The informal market forms**

It is imperative to address the question of who competes with whom and in which sense they do compete. It is, therefore, important to distinguish between the behaviour of individual firms and the type of market in which the firms operate. The word 'competition' refers to competitive behaviour; economists are interested in both the competitive behaviour of the individual firm and in a quite distinct concept of the competitive market structure.

Varcin, (2000:1) states, that in examining competition in the informal sector, it is important to look at whether economic parameters apply to the activity of market traders.

The informal sector also experiences conflict, just like the formal sector, but there are certain ways in which patterns of conflicts are different from, and in some ways, more complex than conventionally studied conflict in the formal sector. Varcin (2000:2) contends, that informal occupations are extremely competitive and individualistic.

It could be noted, that in the marketing branch of the informal sector (IS), people work in close proximity to each other selling similar products, of which the format which could determine one's success in business or possibly lead to another's failure. Varcin (2000:2) succinctly notes, that it is imperative, even though informal occupation is competitive, we should not take it for granted that every market trader engages in competition and makes decisions in accordance with the suggestions of the mainstream economic models.

Varcin (2000:2) advocates, that the mainstream economic model does not fit the situation of market traders in a number of ways.

The following are to be noted.

- "An enterprise in the Informal Sector (IS), is smaller in scale compared to an enterprise in the formal sector. It may be problematic to apply an economic model of competition used to examine the economic behaviour of large formal firms to much smaller operation."
- "Economists use a particular model, supply and demand curve, as a determinant of price. It may also be problematic to presume that the assumptions upon which the supply and demand curves are based are universal and can be applied to the informal sector".

For instance, a market trader may consider the maintenance of a stable set of buyers and long-term relationships with other traders in setting prices. Furthermore, institutionalised price-setting mechanisms may be enforced by local authorities.

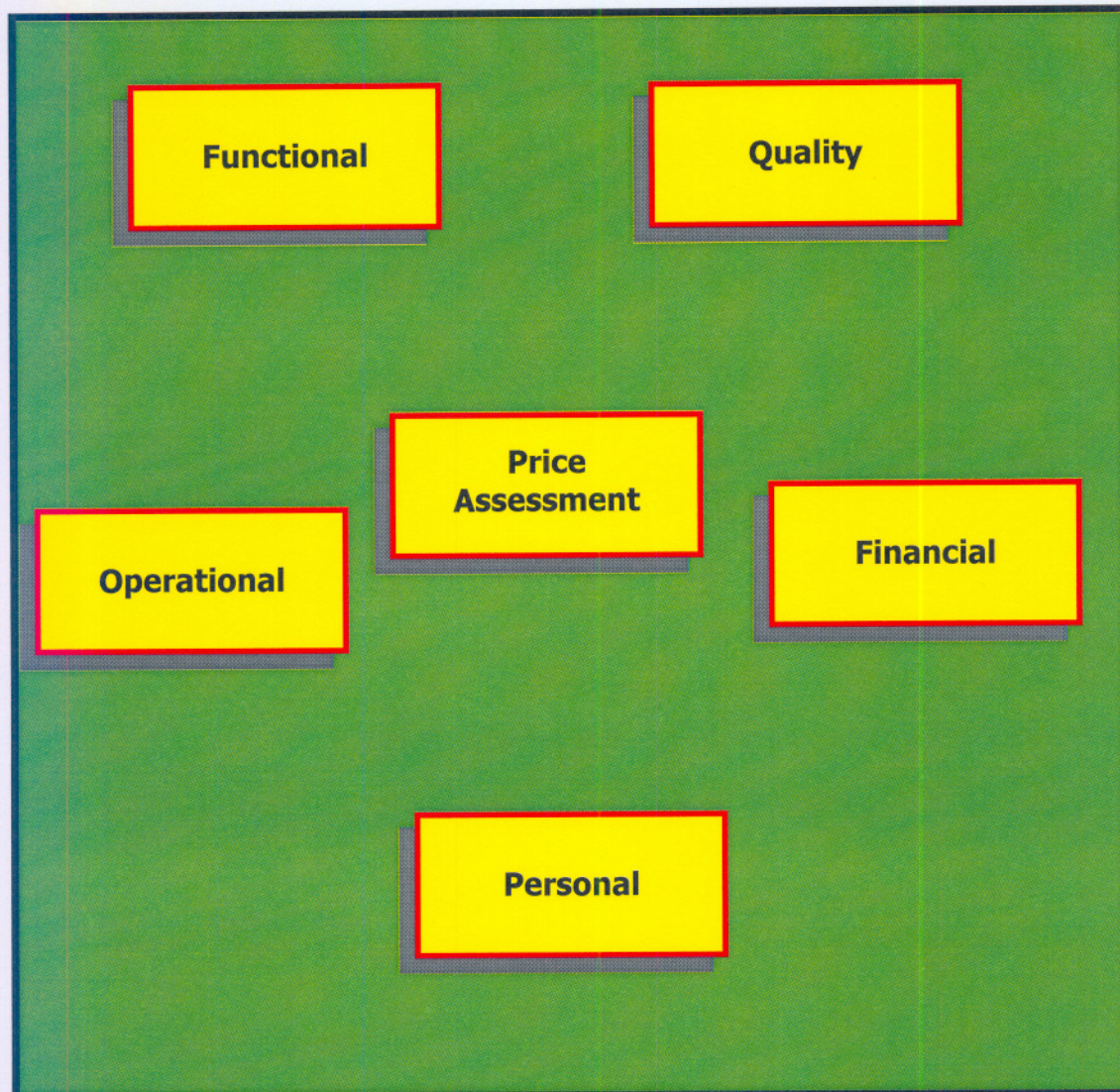
- " It can also be problematic to presume that all market traders are acting only to maximise profit. There may be a variety of reasons to engage in market-trading and, thus, there may be a variety of decision-making process involved in the selling of goods"

Brassington and Pettitt (2000:381) contend, that price is central to economic or business activity that involves exchange. Since this day, business is performed in a money society; price is measured in money as a convenient medium of exchange. As a result, price becomes the value placed on something.

Pricing, whether in big or small business, plays a vital role. Brassington and Pettitt (2000:382) further proclaim, that both the customers and sellers have a different perspective with regard to price. According to Zeithaml (1988:20), customers weigh the promises made by the seller or marketer about what the product can do, against the price itself and then decide whether it is worth paying for.

Brassington and Pettitt (2000:383) espouse several factors that affect or influence customers' price assessment, arguing that customers are more interested in the expected benefits of the product.

**Figure 3.5 Factors influencing customers' price assessment**



**Source: Brassington and Pettitt (2000:383)**

Individual factors in Figure 3.5 above is explained, in the following way (Brassington and Pettitt 2000:383).

- Quality.** Quality is the controversial concept. The customer may judge quality as being based on labour involved in making the product, the organisation that manufactured it, and thereafter, the customer may expect the price to reflect the quality level of the product.
- Function.** The main focus is on the benefits related to the design of the product and its ability to fulfil its desired function.
- Financial.** When many purchases are seen as an investment, expected return in that investment is important in judging whether the price is worthwhile or not.
- Operational.** In view of the organisational market, the ability of the product to influence the production process, can be instrumental in judging the price.
- Personal.** Personal benefits attempt to measure price whereby these benefits refer to intangibles such as status and self-image. As a result, a high price will deliberately be used as a means of amplifying the upmarket trend and thus increasing the status enhancement factor of the purchase.

Sithole (1989:30) remarks, that pricing in the informal sector is made having the customers in mind. In an attempt to elaborate these dichotomies further, the *price on bought products for resale, as well as manufactured products, were considered.*

Sithole (1989: 30) states, that although the traders buy stock in bulk, they initially buy in small quantities and pay for stock per unit, since some hawkers and cottage industries charge for goods per unit. As a result, traders have an idea of the unit prices and are thus able to price their products or profit. Goods

are usually marked a 100 percent above cost, which permits for some cash discounts to customers. An increase in the purchase price, leads to an increase in the selling price. Furthermore, argue that, depending on the kind of product produced, whether raw material is purchased or derived from natural deposit. In determining the price of such products, the following factors, among others, are considered.

- Distance and time spent to acquire the raw material
- Safety of material acquisition.
- Convenience of having to prepare the material for use.
- Time taken to make a finished product.

When price is determined, (Sithole 1989:31), the customers are kept in mind. Traders price their goods at a level, which they think would cover the costs incurred in respect of production.

Competitive behaviour refers to the degree to which the individual firms actively compete with one another. It also denotes competitiveness of the market structure, comprising the extent to which the individual firm has power over the market, e.g. to influence price.

The informal market structure refers to all aspects of the informal market such as the number of firms and types of products traded in the market that may affect the behaviour and performance of the firms in that market.

#### **3.4.4 Significance/Importance of the market in the informal sector**

Sithole (1989:89) argues, that from the purchaser's point of view, the informal sector consists of individual traders (suppliers) who sell a well-defined product. From suppliers' point of view, the market consists of buyers to whom the product can be sold. Therefore, a group of traders that sell a product or a closely related

set of products, undoubtedly constitutes an industry, in which the market demand curve is the demand curve of the industry's product.

From this scenario one can note, that a trader (firm) could produce a certain product for sale in a particular market and could competes with other firms (traders) in the same industry for customers. These force the trader to know the demand curve of the industry because if the trader knows the demand curve he faces, he/she will know the prices to be charged and the potential generated revenue.

Numerous economists argue, that a firm needs to know its cost and market demand for the industry's product. If the firm does not know its demand curve, the firm will not know its own sales at any price that it might charge. It is imperative that the firm should know how its demand and price would change and also to know how other firms (traders) will respond to its changes in price. For example, if the firm (trader) reduces prices, all other traders will leave their prices unchanged or reduce them. If so, whether by the same proportion, or less or more? It is evident, that those responses will have an effect on the firm's sales, revenue and profit.

The economic theory explains the market structure in terms of characteristics that affect the behaviour and performance of its firm that sells in that market. These characteristics determine the relationship between the demand curve for the industry's product and the firm's demand curves, (Sithole, 1989:89). The number of sellers and the nature of products in respect of those characteristics are the most significant dimensions of the market structure. Since the informal sector does not operate in a monopoly market, which exists due to the existence of one seller/producer, the market structure of the informal sector is compatible to the model of perfect competition.

### **3.4.5 Competitive market structure in the informal sector**

This is a type of structure that seldom, if ever, occurs in the real world. It is a useful model that sheds much light on the market structure's efforts in the allocation of resources (Samuelson and Nordhaus, 1998: 366). Perfect competition Samuelson and Nordhaus (1998:366) is characterised by the existence of the following.

- Many producers of a homogenous product.
- Each of the many firms in the industry must be adequately small to accept the prevailing market price as given, as price-takers.
- There must be many buyers each purchasing a small quantity, so that they (buyers) too are price takers also.
- Perfect factor mobility, implying Perfect labour mobility, perfect capital mobility (which imply, that firms can enter or leave the market at will). Consumers, producers and factory owners, should have a perfect knowledge of all aspects of the market and the economy. Perfect foresight by market participation is essential, meaning consumers and producers must possess perfect knowledge of the future.

The characteristics of the informal sector (Sithole, 1989:91), are as follows.

- There are many traders (firms) in the industry, who are small in the sense of their producing a very small and insignificant percentage of the total industry output. Traders can form an association, but each still controls his/her small output. It is not possible to form a monopoly. In essence, this means, that each individual trader (firm) accepts the prevailing market prices and thus each firm is a price-taker.

- On the demand side, there are many individuals buyers who each buy only a small percentage of the total output. This also means, that buyers are also price-takers.
- Traders can enter and leave the industry at will. This also means that every day new traders are entering and exiting the market. Moreover, the nature of the informal sector is, that there is no formal control as to who may establish a business or where and how that business should or could be done.
- Some products in the informal sector are homogeneous while some are not, in the sense that they are not factory made, but special handicraft products. Even though the raw material used, may be the same, the dexterities of people differ and the manufacturing processes are not mechanised. In this way the informal sector does not comply with one of basic requirements of the perfect competition, namely the homogeneity of products. Since no machinery is used, even the products of the same trader are not standardised. No trader can guarantee that he/she can produce completely identical products at all times.

From the condition that prevails in the informal sector, as discussed above, it is quite clear, that the market structure of this sector is definitely not a perfectly competitive one. As it is also indicated in the chapter, the following are the characteristics of this sector:

- There are many sellers and buyers
- There are low barriers to entry into the market
- There is product differentiation
- Individual participants have a degree of control over price.

A conclusion is that the informal sector does not comply with the condition of perfect competition. It therefore, falls into one of the imperfect market structures. Because of the many sellers and buyers and the level of entry into the industry, the sector operates within a monopolistic market competition. In all other respects, besides the question of product differentiation, the informal sector possesses the characteristics of perfect competition (Sithole 1989:93).

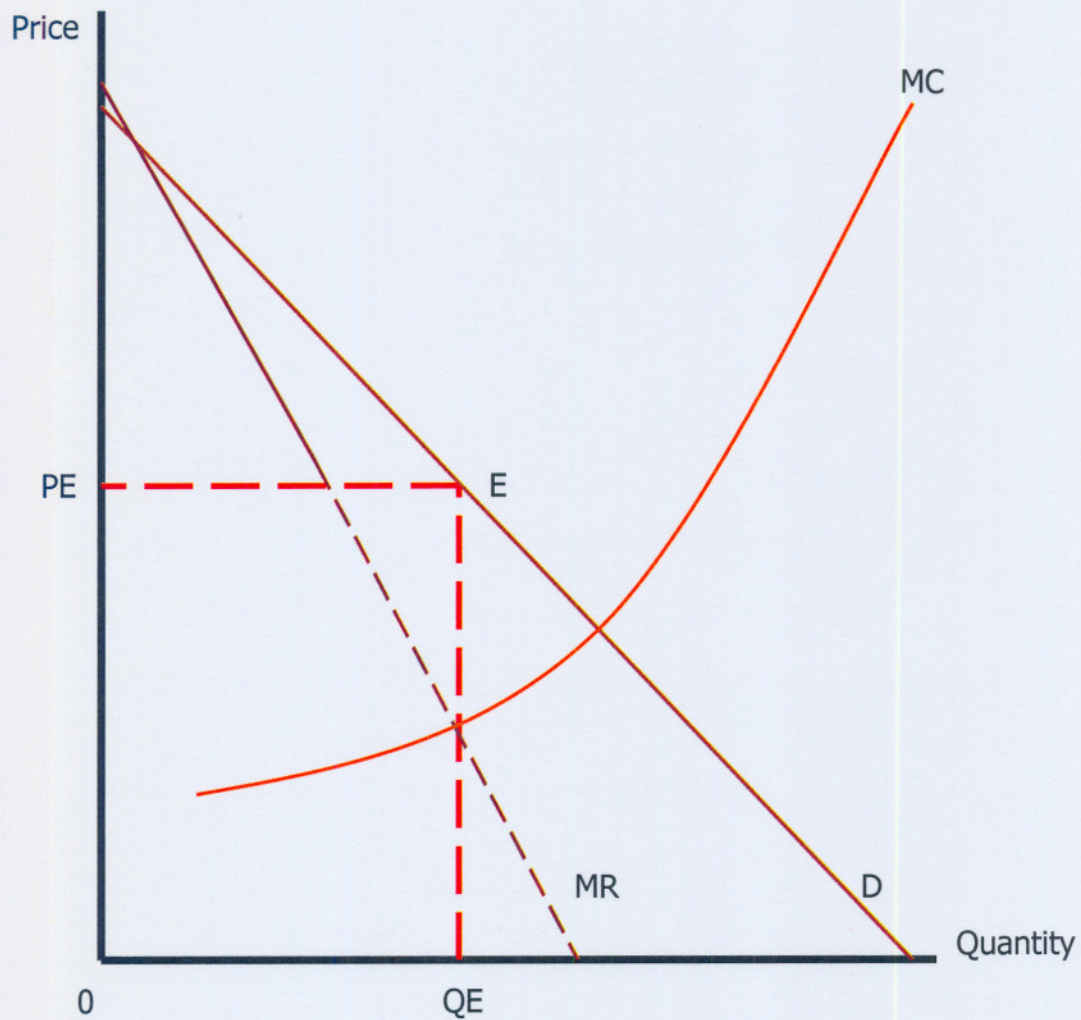
### **3.4.6 Informal sector-pricing**

Sithole (1989:93) avers, that the informal sector-price cannot be determined through the usual supply and demand mechanism applying to perfect competition. The quantity sold and the price at which the goods are sold, are determined by the intersection of the marginal cost curve and marginal revenue curve. That is, to make a profit, the product price will have to be above the additional cost, which is equal to the additional income.

This is due to the fact, that informal sector traders are not facing a perfectly elastic demand curve, which would mean, that the product price would be equal to the marginal and average revenue, and equal to the demand. Informal sector traders are facing a downward-sloping demand curve and thus, the corresponding marginal revenue would be below the demand curve, with only one common point in between the two (Sithole 1989:94).

This process of price-determination can be illustrated graphically as in Figure 3.6.

**Figure 3.6 Price-determination**



**Source: Sithole (1989:94)**

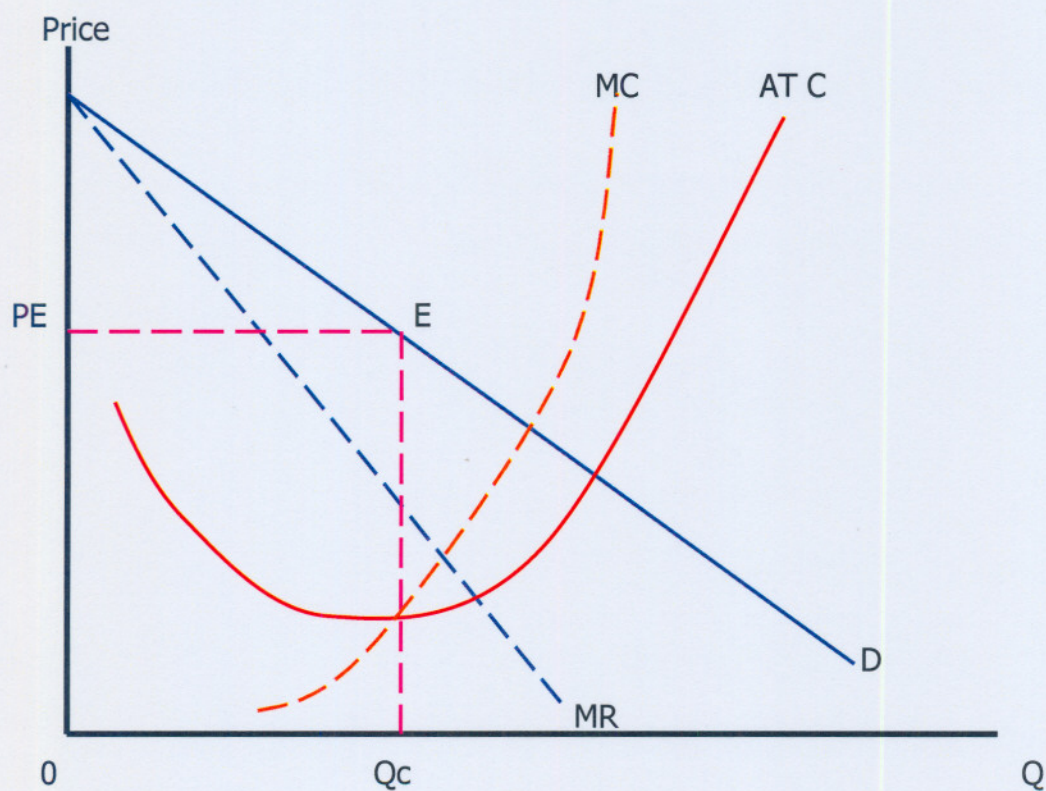
For the informal sector to make a profit, it depends on the level of average total cost. The informal sector will be in the position to make excess profit in the short-run, when the price change is above average total cost.

Figure 3.7 (a) on the next page reflects a scenario that complies with the condition of freedom of entry and exits in the perfect competitive market. The reflection is, that excess profit is not a permanent phenomenon in the informal

sector, since entry is not regulated. The long-term equilibrium in the informal sector, will be achieved where the average total costs are equal to the price and where that average total cost curve is tangent to the demand curve.

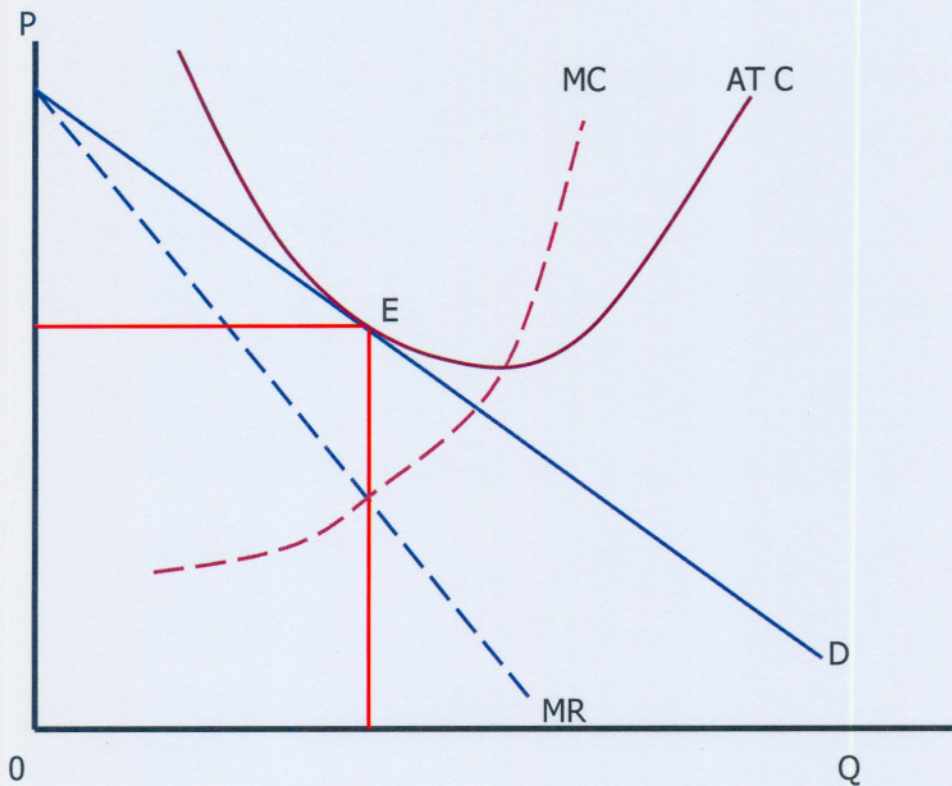
Figures 3.7 (a) and (b).

**Figure 3.7 (a) Conditions of freedom of entry into perfect competitive markets**



**Source: Sithole (1989:95)**

**Figure 3.7 (b) Conditions of freedom of entry into perfect competitive markets**

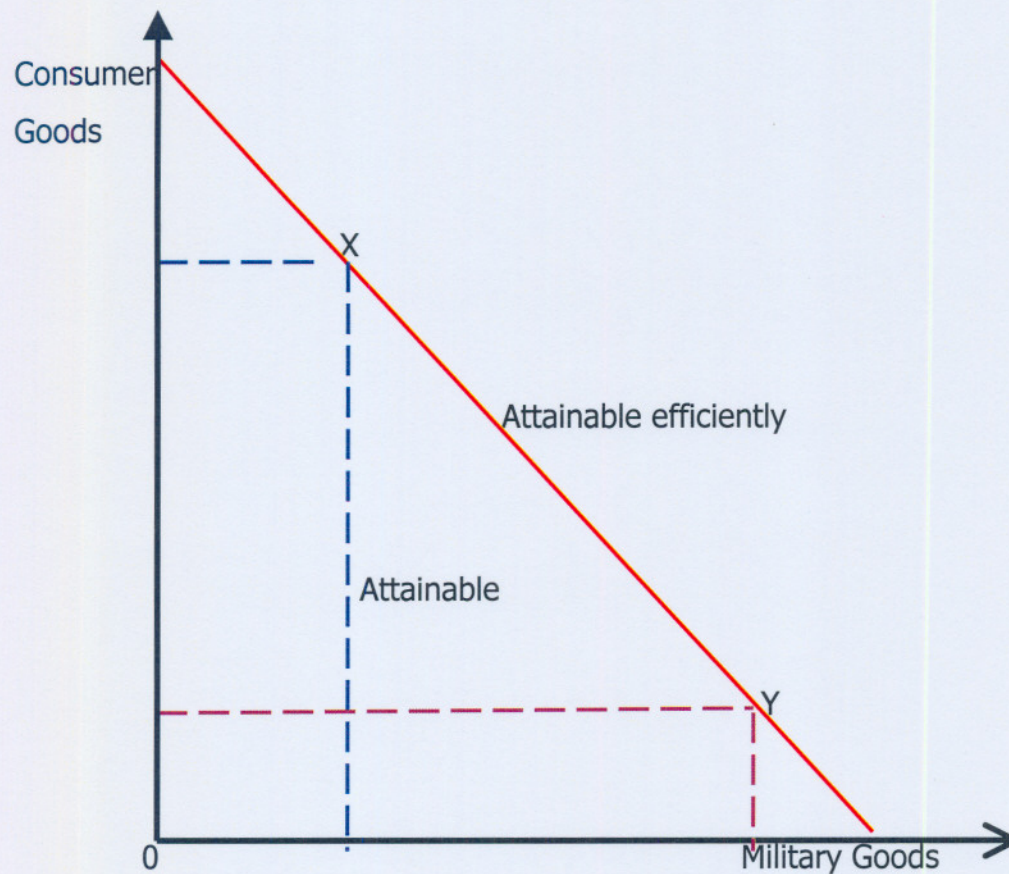


**Source: Sithole (1989:95)**

Since the informal traders, especially those selling purchased products, buy their stock in small quantities, they are able to determine the cost of each additional product. That amount paid for buying the product, is taken as the amount they should receive, in addition to the profit they would like to make on the product. Therefore, they equate MR and MC and charge higher prices.

Black, et al., (1997:14) explain, the Production Possibility Frontier (PPF) to constitute a boundary, in which a country or a firm can produce given limited resources. Further explanation is in line with the O-H model, where one country or a firm is faced with an option of production between two goods. Haydam (2000:17) and Mohr, et al., (2004:8) present a graphical illustration (Figure 3.8).

**Figure 3.8 Production Possibility Frontier**



**Source: Haydam (2000:17)**

Figure 3.8 assumes, that resources given, are fixed and if all are used in the production of consumer goods, no military goods will be produced.

Production at point X will mean, that more consumer goods than military goods are produced, which implies, that a number of military goods were sacrificed in order to produce more desirable consumer goods. This also implies that more resources are dedicated in the production process of consumer goods. Production at X and / or Y, is theoretically regarded to be production-efficient, even if the opportunity cost of consumer goods for military goods or alternatively military goods for consumer goods, is central to the volume of production.

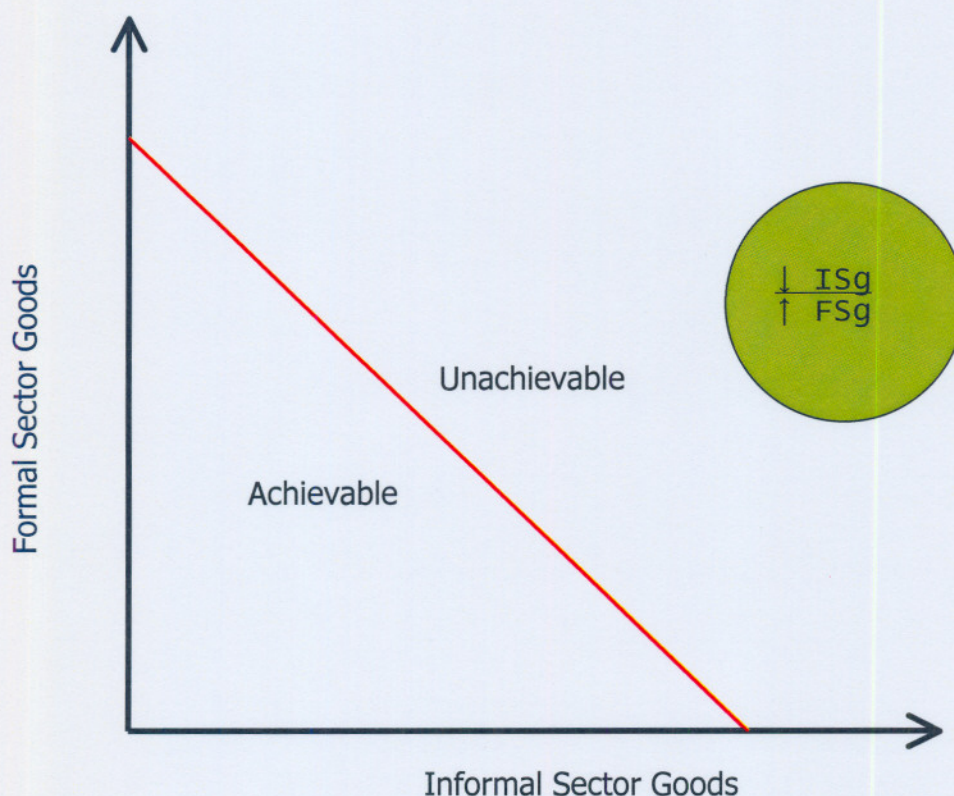
Black, et al., (1997:14) contends, with reference to Figure 3.8 above, that the ultimate goal of the Production Possibility Frontier (PPF) is to explain economic efficiency. Economic efficiency is defined in terms of productive efficiency and allocation efficiency (Black, et al., 1997). Productive efficiency refers to a situation occurring when a country or firm finds itself on the Production Possibility Frontier (PPF).

Allocative efficiency refers to the actual position on the PPF, reflecting effective allocation of resources among alternatives used, given a rise in production of the optimal mix of commodities. Allocative efficiency can only be reflected on as determined by consumer preferences, meaning that, if the consuming public have a strong preference for consumer goods, its supply will also increase or be large, relative to the demand and supply of military goods.

The rationality of the budget line concept, as explained above in the study of the informal sector, can be drawn and elaborated on (Sithole 1989:76-77).

An example can be given, by assuming the existence of an economy that produces two goods, namely, formal sector goods and informal sector goods.

**Figure 3.9 Budget line: informal vs formal sector goods**



**Source: Sithole (1989:76)**

It is important to note the slope of the budget line (Figure 3.9). The decrease in informal sector goods, divided by the increase in formal sector goods, measures the cost of increasing formal sector goods in terms of sacrificed informal goods.

This, in other words, means that the opportunity cost of one is seen in terms of the other. In the economic way of measuring the cost of, for example, informal sector goods, it is not the degree of inconvenience suffered by informal traders, but the maximum amount of formal sector goods and services society sacrifices by producing additional informal sector products.

The opportunity cost of one thing is, therefore, simply its price along the budget line, i.e. the amount of other goods that have to be given up in order to acquire

a unit of the thing to be purchased. In Figure 3.9, if one is on the budget line, more informal goods are obtained / achieved by giving away formal sector goods. This clearly implies that fewer are employed in the informal sector (less informal sector goods will be produced) and more factors will be employed in the formal sector, implying more formal sector goods produced (Sithole, 1989:76).

### **3.5 SUMMARY**

The concept 'market' and the different forms of market structures, such as perfect competition and imperfect competition were discussed. Perfect competition, the monopoly, oligopoly and monopolistic competition, have been pointed out as being different classifications of the market structure.

The concept "price determination" as it pertains to the informal sector, is discussed in this chapter. The informal market forms and the importance of these markets are indicated. The informal sector determines prices by way of the usual supply-and-demand mechanism, which applies to perfect competition.

The characteristics of the informal sector are that, there are many traders and individual buyers, and that those products are homogenous, while some are not homogenous. In the next chapter the findings of the empirical study are reported.

## **CHAPTER 4**

### **DATA ANALYSIS**

#### **4.1 INTRODUCTION**

The theory of the informal sector and market mechanism, which provides a framework for the analysis of data, was discussed in the previous chapters. Kerlinger (1986:23) points out, that without theory, it is impossible to make meaningful sense of empirically generated data.

This chapter sets out the research methodology used and reports on the empirical research undertaking. Broad scopes of the aspects relate to the research methods and techniques, will be considered in order to determine its sufficiency within the broad framework of this study. Wellman and Kruger (1999: 2) refer to research methodology as being the application of various methods, techniques and principles, in order to create scientifically obtained knowledge by means of objective methods and procedures within a particular discipline.

#### **4.2 OBJECTIVES OF THE STUDY**

##### **4.2.1 Primary objective**

The primary objective of the study, is a micro-economic analysis of the informal sector in the Vaal Triangle area.

##### **4.2.2 Secondary objective**

To achieve the primary objective, the following secondary objectives are set.

- To establish whether perfect competition exists in the informal sector.
- To determine problems that confront informal sector businesses.
- To determine the reasons for starting informal sector small businesses.

### **4.3 THE POPULATION**

The first step in the sampling process, is the definition of the population (Sudmans and Blair, 1998:334). A population is a collection of elements or units about which the researchers wish to make a study. Three points concerning the target populations are mentioned by Dillon, Madden and Firtler (1997:267).

- Firstly, the target population must be consistent with the objectives of the study; that is, it must be possible to achieve the objective by using the selected population.
- Secondly, any other qualities that respondents must have in order to be included in the sample, must be clearly specified.
- Thirdly, all decision rules for inclusion or exclusion of respondents must be clearly explained.

In this study, the target population is the informal sector businesses, as described in chapter two: the informal sector businesses found in the Vaal Triangle Number 24 (see Annexure B). These consist of the metropolitan sub-structures and towns in the Vaal Triangle area.

#### **4.4 SAMPLING FRAME**

The sampling frame is a record or list of all sampling units available for selection at a given stage of the sampling process (Martins, et al., 1996:252). Nel, et al., (1998:267) suggest the following several requirements that a reliable sampling frame should meet.

- The sampling frame must represent all the elements and the state of population.
- The sampling frame must be up to date.
- Each entry in the sampling frame must be complete and correct in every detail
- There must be no duplication of entries
- The sampling frame must be accessible and the information must be arranged in such a manner, that a representative sample can be drawn from it.
- Ideally, the sampling frame should contain additional information that facilitates stratification.

It was pointed out in chapter two, that informal sector businesses are unregistered businesses. It will, therefore, be difficult to obtain a record or sampling frame of such businesses.

#### **4.5 SAMPLING SIZE**

Kothari (1995:69) defines the sample size as a number of items to be selected from the population as to make up the sample. Determining the sample size, is a complex matter (Churchill, 1992:512).

Maykut and Morehouse (1994: 61) indicate, that the question of sample size is a critical component of conventional studies, because it directly influences the robustness of the statistical tests used to measure the significance of numerical data and the generation of study results. Patton (1990: 184) states, that there are no rules for sample size in a qualitative enquiry. Maykut and Morehouse (1994: 61) state, that no rules for sample size in a qualitative enquiry exists. They also state (1994: 61), that the sampling concepts of saturation of information and diminishing returns, may have to be balanced with limitations of time, money, and other factors that impinge upon the research enterprise.

Cooper and Schindler (1998:25) proposed the following guidelines that could be considered in determining a sample size.

- Firstly, the size of sample should bear in mind the size of the population.
- Secondly, the designed sample size should depend on the variances.
- Thirdly, if each stratum of a highly heterogeneous population is relatively homogenous, a relatively smaller structured sample than that required for a random sample, may be sufficient.

Kerlinger (1986:119) notes, that large samples are advocated in order to allow the principle of randomness a chance to work and to eliminate the problem of selecting deviant samples associated with small samples.

Due to the time and resources constraints, it was decided, that about 500 informal enterprises will be approached in Vereeniging, Vanderbijlpark, Sasolburg and the township, of Sebokeng and Sharpeville.

#### **4.6 DATA COLLECTION PROCEDURE**

A proportionate stratified sample of 500 informal sector business were approached to obtain data for this study. Churchill (1992:495) defines a proportionate stratified sample as a sample in which the number of observations in the total sample is allocated among the strata in proportion to the relative number of elements in each stratum in the population.

It was decided, that the technique for collecting primary data best suited for this research, is the personal interview, inclusive of the use a questionnaire conducted by field workers. Personal interviews have a high response rate, because it is not that easy for respondents to refuse a request from a person standing in front of them.

#### **4.7 QUESTIONNAIRE DESIGN**

There are rules to be followed towards ensuring a perfect questionnaire (Parasuraman, 1990:363) and designing a questionnaire is still an art and not a science (Churchill, 1992:328). Kinnear and Taylor (1997:411) describe the following three types of questions that could be included in a questionnaire.

- Open-ended questions, which require the respondents to provide their own answers to the questions.

- Multiple-choice questions, which require the respondents to choose an answer from a list provided in the questionnaire.
- Dichotomous questions, which are an extreme form of multiple choice questions and which allow the respondents only one of two responses, such as either "yes" or "no".

A structured response format with both multiple-choice and dichotomous questions, was used in this study. The questionnaire was compiled by using similar studies (Davies, 1987; Liedholms and McPherson, 1991; May and Schavrou, 1992; Hirschowitz, 1993; World Bank, 1993; Falk, 1994; Morake, et al., 1994; Manning and Mashigo, 1994).

The questionnaire compiled, consisted of four sections:

- Section A: General information
- Section B: Information concerning reasons for starting a business
- Section C: Information concerning problems that confront businesses in the Vaal Triangle area.
- Section D: Information with regard to whether perfect market conditions are obtained in the informal sector.

In evaluating questions for inclusion in the questionnaire, the following three questions considered were used by (Weiers 1988:2610).

- Is the question really necessary in view of the objectives of the research study?
- Will the respondent be willing and able to provide the information required?

- Does the question adequately cover the content of the area for which it is responsible?

## 4.8 ANALYSIS OF RESULTS

### 4.8.1 Types of business enterprises

A wide range of different types of businesses are found in the informal sector of this area. Due to the random nature of the sample and the information supplied, the exact composition of activities in the sector may be obscured. Table 4.1 below indicates the breakdown of informal sector businesses according to the type of activities.

**Table 4.1 Types of businesses**

<b>TABLE</b>	<b>NUMBER</b>	<b>PERCENTAGE</b>
1. Manufacturing (small items)	45	9
2. Traders (food, soft goods, etc.)	325	65
3. Spaza (general dealer)	50	10
4. Shebeen (informal pubs)	25	5
5. Repairs: car mechanics	15	3
6. Hairdressers/barbers	30	6
7. Builders	10	2
8. Other	-	-
<b>TOTAL</b>	<b>500</b>	<b>100%</b>

**Source: Own research**

The majority of businesses are involved in retailing activities (65%), especially in the streets of towns such as Vanderbijlpark, Vereeniging and Sasolburg.

The classification of businesses above, is similar to that of other informal sector studies undertaken in South Africa. Spaza shops (10%) are defined by Terblanche (1991:32) as camouflaged or hidden shops in a Black township. It has a limited floor area and is operated from a garage, shed or even a bedroom in a township. According to Manning and Mashigo (1994:30), studies on informal and small-scale economic activities in South Africa have commented on the productivity of small manufacturers. Only a few manufacturing businesses (9%) could be located in this region. Liedholm and McPherson's (1991:1) survey of micro-enterprises in two South African townships, found only 16,7% involved in manufacturing. This compares very poorly with other developing countries, where manufacturing tends to be proportionally higher (Manning and Mashigo, 1994:30).

#### **4.8.2 Characteristics of businesses**

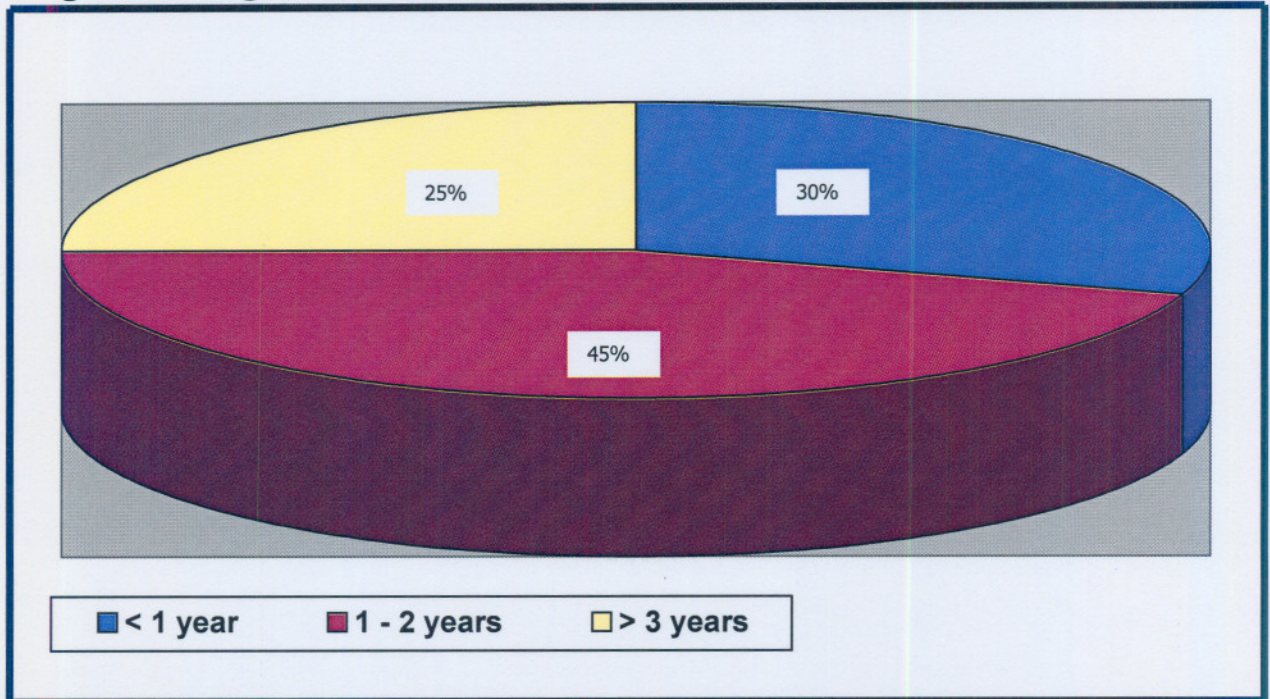
Table 4.2 (on the next page) and Figure 4.1 to 4.5 indicates a number of features that characterizes informal businesses in the Vaal Triangle area.

**Table 4.2 Characteristics of businesses**

ITEM	CRITERIUM	NUMBER	%
1. Privately owned	Yes	500	100
2. Managed by owner(s)	Yes	500	100
3. Capital supplied by owner	Yes	500	100
4. Percentage if capital supplied by owner 50%	Yes	500	100
5. Age of business	Less than one year	150	30
	One to two years	225	45
	Above three years	125	25
6. Profit per month	Less than R10000	160	32
	R1000 to R5000	185	37
	Above R5000	155	31
7. Profit increase over the year/ months	Increase moderately	325	65
	Has been constant	100	20
	Increased substantially	75	15
8. Number of employees	< 5	450	90
	6 - 10	40	8
	> 10	10	2
9. Amount of Assets	Less R10 000	390	78
	R11 000 – R50 000	90	18
	Above R50 000	20	4

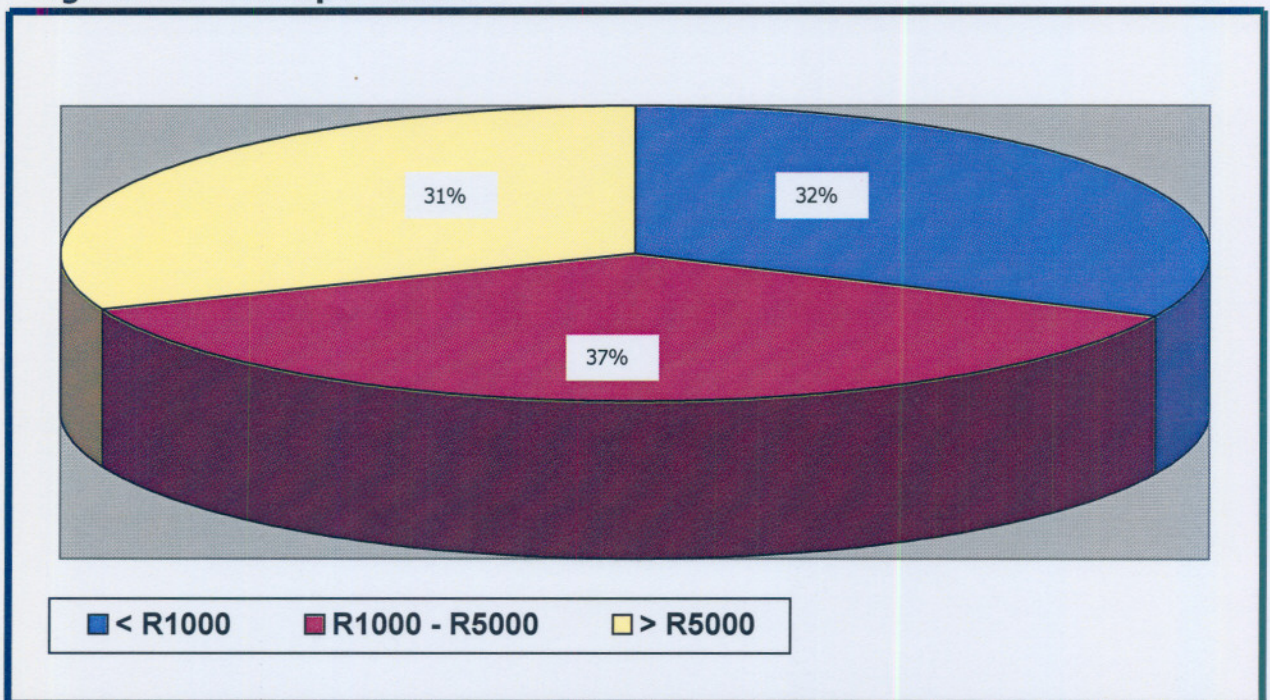
**Source: Own Research**

**Figure 4.1: Age of business**



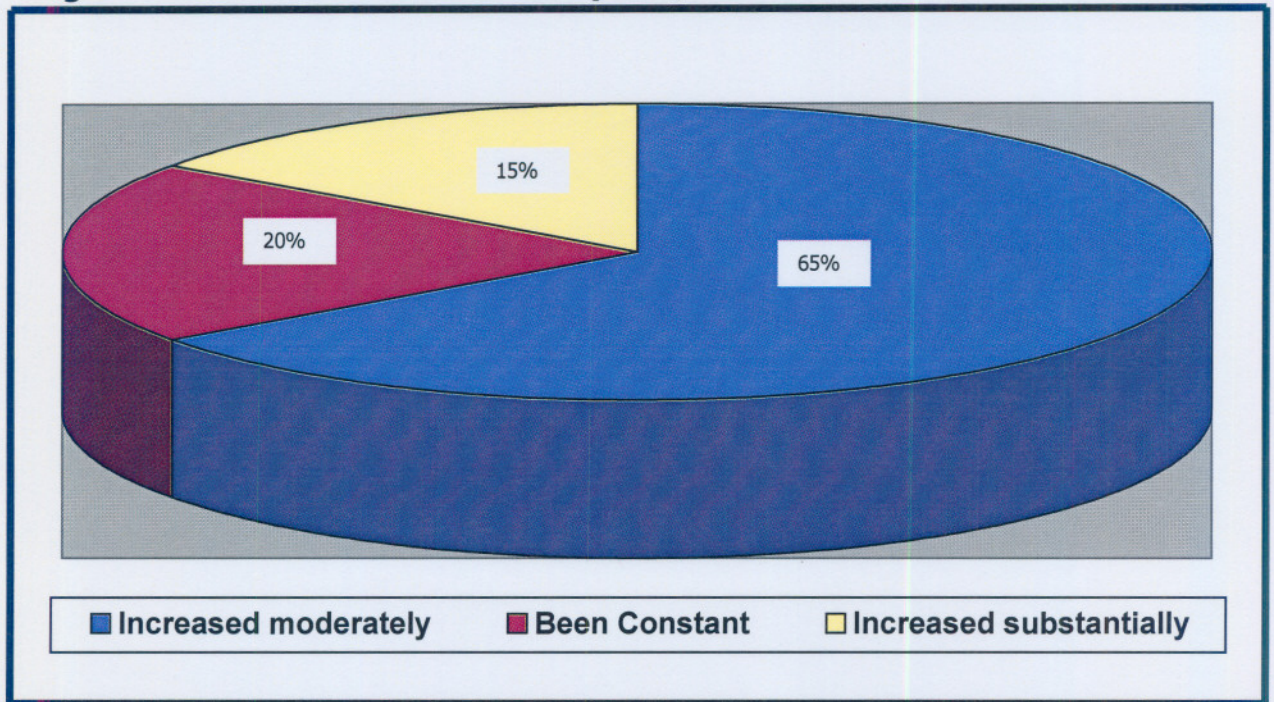
**Source: Own Research**

**Figure 4.2: Profit per month**



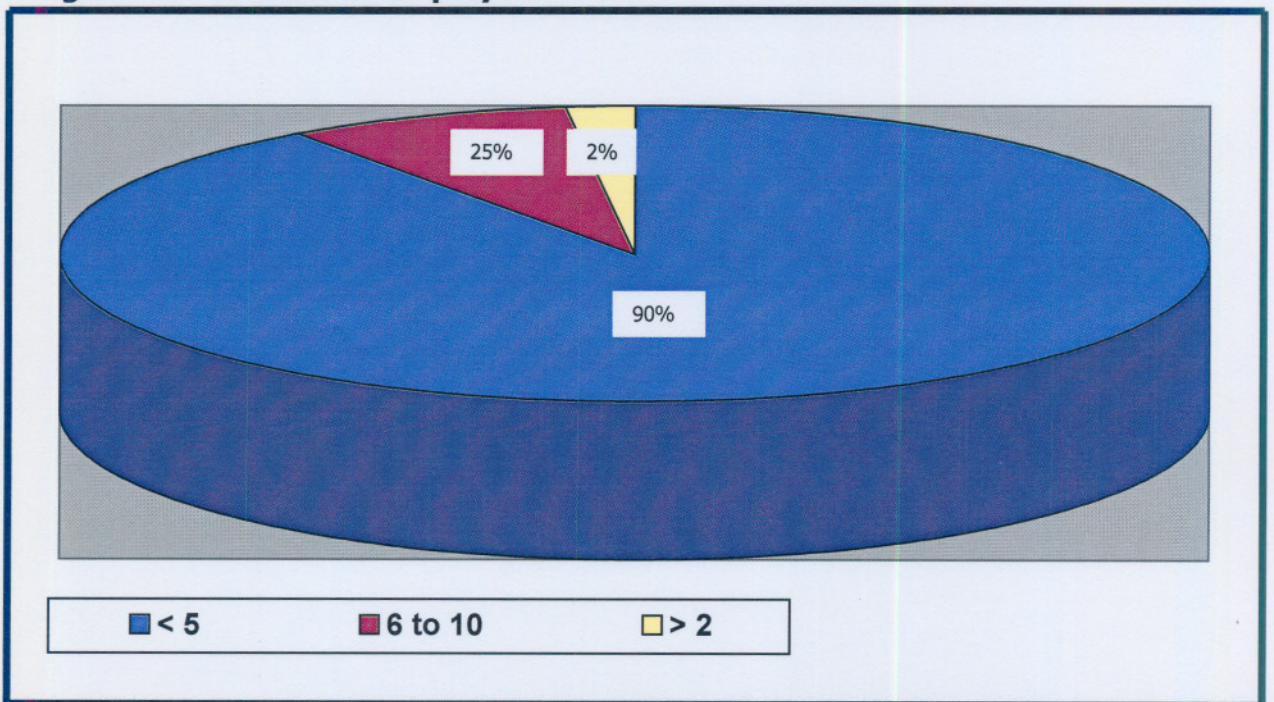
**Source: Own Research**

**Figure 4.3 Profit Increase over the years/months**



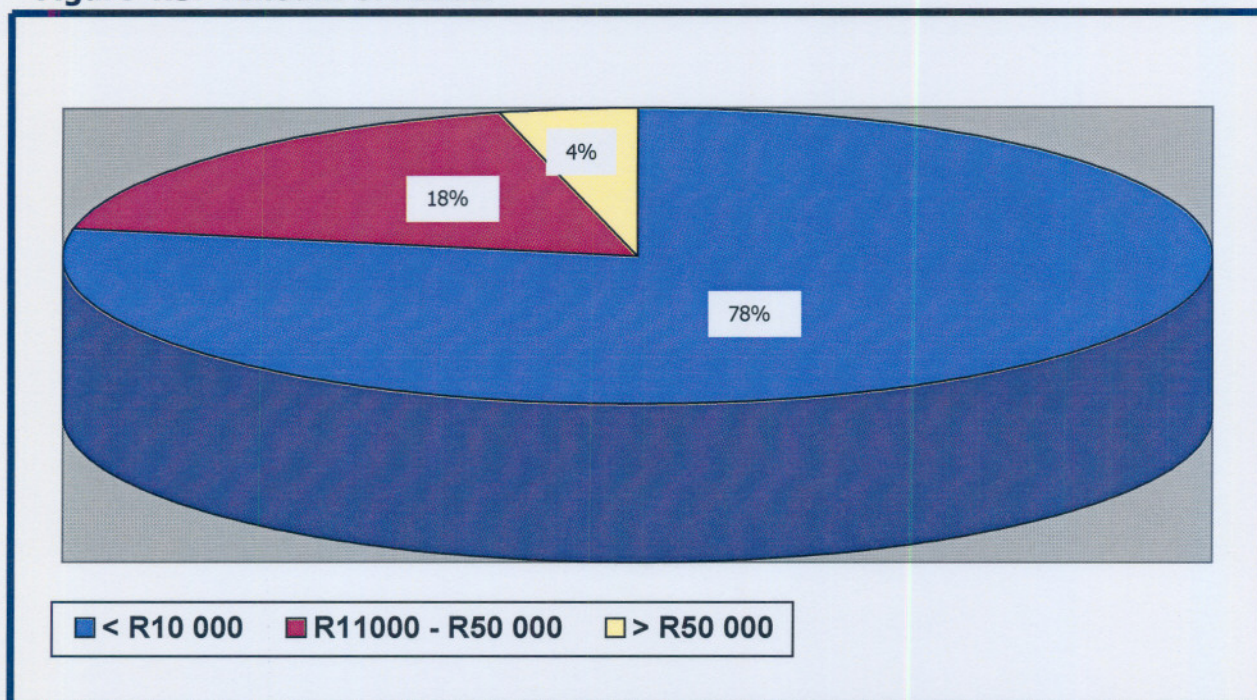
Source: Own Research

**Figure 4.4 Number of employees**



Source: Own Research

**Figure 4.5: Amount of Assets**



**Source: Own Research**

Table 4.2 (see page 103) indicates, that all the businesses are privately owned, managed by the owners; more than 50% of capital is supplied by the owners. The majority of businesses (45%) have been in existence for between 1 and 2 years, followed by those that have been recently started (30%).

The net profit earned by the majority of businesses (32% + 37%) indicates, that these could be classified as 'survivalist' businesses. The majority have witnessed an increase in profits (i.e. 65% + 15%), indicating that these businesses have the potential for growth.

Table 4.2 also indicates, that the majority (90%) of the businesses employ less than 5 people, and that they only create employment for the owner or owners and their immediate family members.

The amount of assets of the majority of these businesses (78%) is less than b R10 000. It should be noted from section 4.8.1, that the majority of businesses approached, are street traders and can, therefore, not have assets exceeding R10 000.

#### 4.8.3 Reasons for starting business

Table 4.3 below indicates the reasons given by the respondents in the sample for starting the business. Given a choice of seven alternatives, the respondents were asked to choose the three most important reasons why they decided to start their businesses.

**Table 4.3 Reasons for starting business**

REASON	NUMBER	PERCENTAGE
1. Ease of entry	435	87
2. Could not find a job in the formal sector	265	53
3. Retrenched	80	16
4. Need for independence	335	67
5. To earn more money	305	61
6. A family business	25	5
7. Previous experience in specific business	50	10

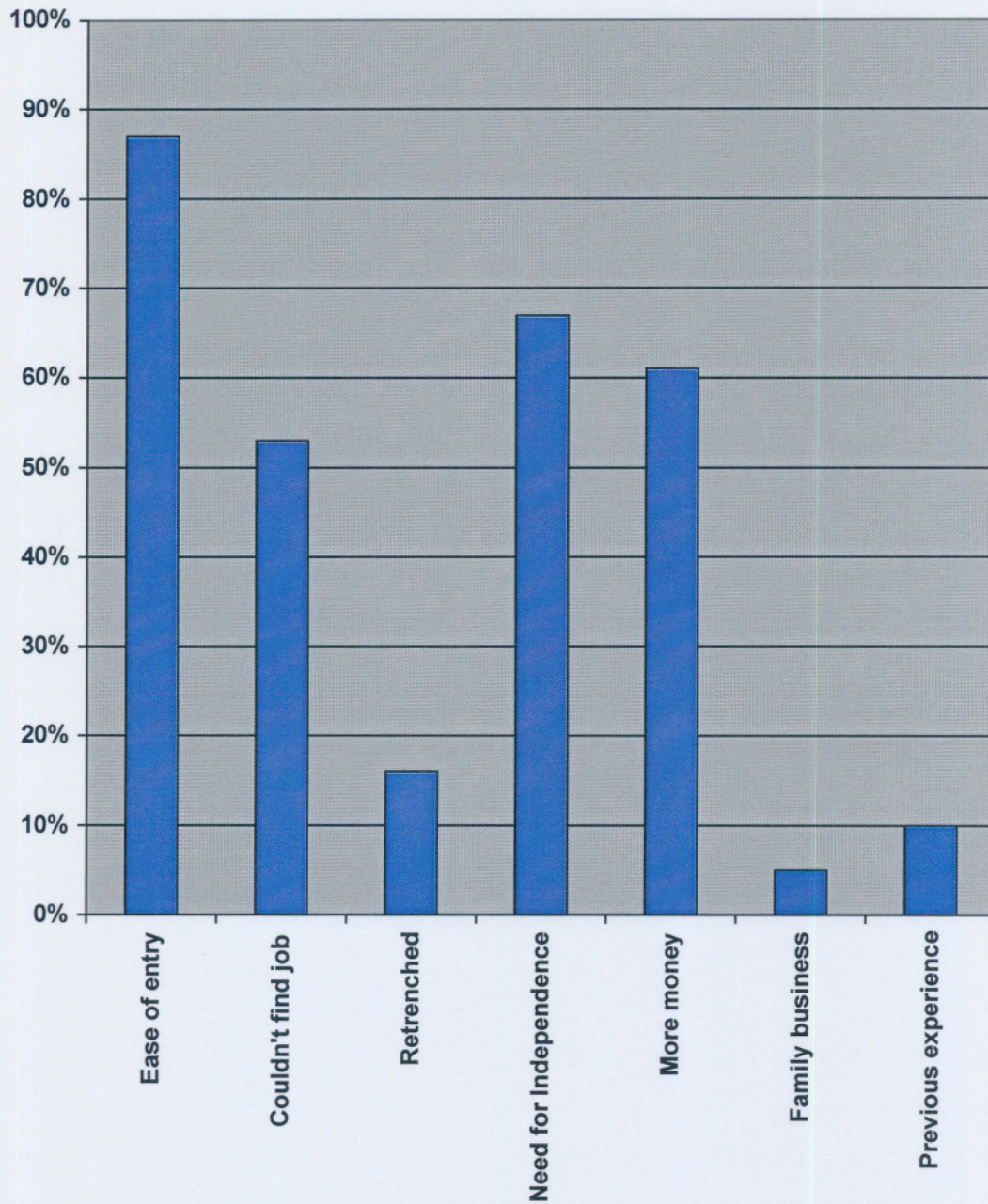
**Source: Own Research**

Two main reasons for starting the business, could be identified.

- The first group centred on entrepreneurship: the need for independence (67%), to earn more money (61%) and ease of entry (87%). It may be argued, that the respondents believe, that they can earn more money in the informal sector than in the formal sector. Previous experience in specific business amounts to 10%. It could be pointed out, that the informal sector serves as a good "training center" for informal business operators to enter the competitive formal sector.
  
- The second group centers on survivalist business: could not find a job in informal sector (53% and retrenched 16%). This group of businesses in this category, could be regarded as being a marginal group, and if the economy improves, they will leave the sector.

Figure 4.6 on the next page, percentage wise highlights the different reasons for starting a business.

**Figure 4.6 Reasons for starting business**



**Source: Own Research**

#### 4.8.4 Problems experienced by entrepreneurs

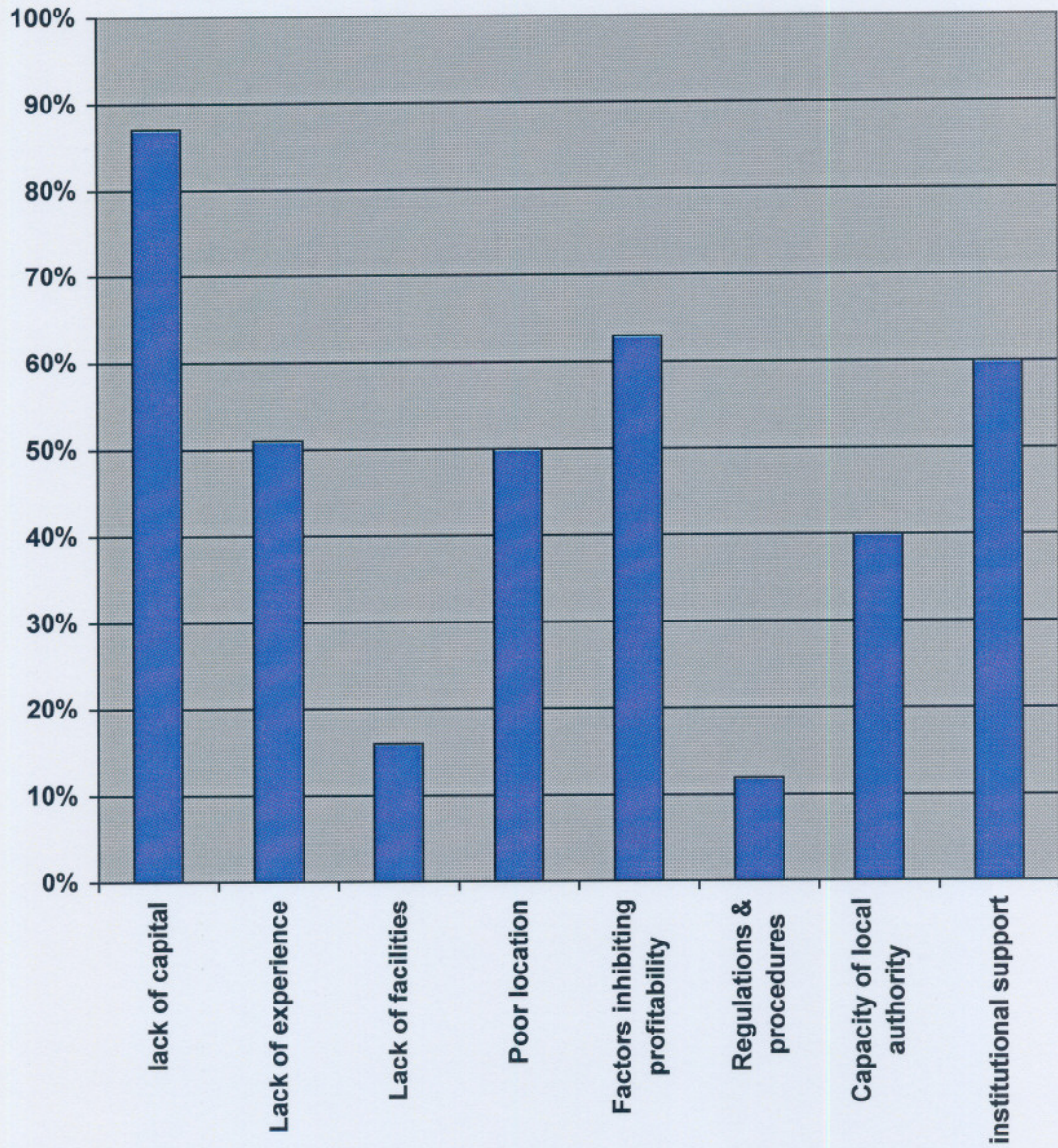
**Table 4.4 Problems experienced**

<b>PROBLEM</b>	<b>NUMBER</b>	<b>PERCENT</b>
1. Lack of capital	435	87
2. Lack of experience & knowledge	255	51
3. Lack of facilities	80	16
4. Poor location	250	50
5. Factor inhibiting profitability	315	63
6. Regulations & procedures	60	12
7. Capacity of local authority	200	40
8. Institutional support	303	60

**Source: Own research**

Table 4.4 above and Figure 4.7 on the next page indicates a lack of capital is the biggest problem faced by enterprises (87%). A number of empirical studies conclude, that financing and access to capital, is one of the core constraints on the development of informal sector businesses in South Africa (Rogerson, 1996(a):22). This could be ascribed to a lack of own funds, and a lack of assets that could be used as security for loans. The second most serious reason is factors inhibiting profitability (63%), such as low turnover and competition from established businesses. Institutional support is cited as a major problem. Lack of facilities (16%) and regulations and procedures (12%) are not regarded as services.

**Figure 4.7 Problems experienced by entrepreneurs**



**Source: Own Research**

#### 4.8.5 Price formation marketed mechanism

The questions in this section were intended to establish whether the price formation in the informal sector is governed by principles that apply to the formal sector. That is, whether perfect competition exists to address the question of resource allocation.

**Table 4.5 Price formation**

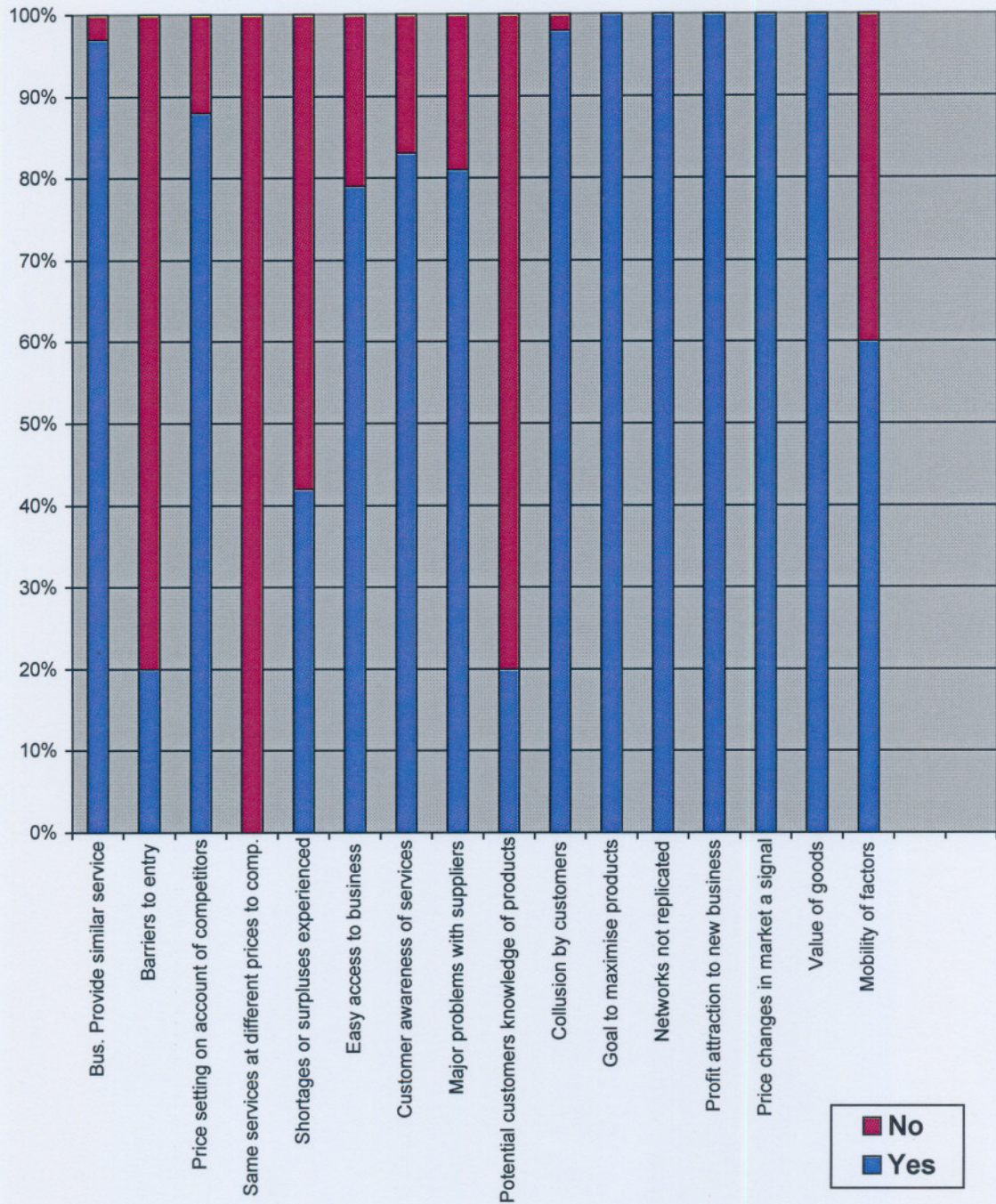
<b>FACTORS</b>	<b>YES</b>	<b>NO</b>
1. There are many other businesses that provide similar product/services in the market	Nu: 485 %: 97	15 3%
2. There are barriers to entry or exit in the market	Nu: 100 %: 20	400 80%
3. In setting prices for one's products/service one takes into account costs and prices of competitors	Nu: 440 %: 88	60 12%
4. Your business sells the same products/services at different prices to different customers	Nu: 0 %: 0	500 100%
5. The market for your products/services does sometimes experience shortages or surpluses	Nu: 210 %: 42	240 48%
6. Customers have easy access to your business	Nu: 395 %: 79	105 21%
7. Customers are aware of products/services offered by your business	Nu: 395 %: 73	105 17%
8. There are no major problems with the suppliers of your inputs (raw material, goods, etc.)	NU: 405 %: 81	95 19
9. Potential customers have perfect knowledge of all products/services offered by your business	NU: 100 %: 20	400 80%
10. Customers do not collude to exert an influence on your prices	NU: 490 %: 88	10 2%

<b>FACTORS</b>	<b>YES</b>	<b>NO</b>
11. The primary goal of your business is to maximize profits	NU: 500 %: 100	0 0%
12. The supply and distribution networks of your business are difficult to replicate by new entrants	NU: 4 %: 0,08	96 99%
13. Profits that are made by businesses that operate in your market attract new entrant	NU: 500 %: 100	0 0
14. Price changes in your market acts as market signals to ensure that patterns of production matches those of consumer demand	NU: 500 %: 100	0 0
15. The value of goods or services to each of your customers, increases as more customers use it	NU: 500 %: 100	0 0
16. Production factors in your market are perfectly mobile	NU: 300 %: 60	200 40%

**Source: Own Research**

Price formation graph follows on the next page.

**Figure 4.8 Price Formation**



**Source: Own Research**

In table 4.5 and Figure 4.8 above, the majority of the respondents indicate, that there are many other firms that operate in their markets and that there are no barriers to entry or exit. As explained in chapter three, perfect competition exists where there is perfect knowledge of market conditions and barriers of entry or exit do not exist.

The majority of respondents' businesses take into account costs and prices of competitors in setting their prices. No price discrimination exists. These conditions ensure, that all firms charge the same price for their product/services. The firms in this sector are price-takers who do not on their own any control of price.

If the firm charge a higher price than that charged by other firms (as there are many other firms), it would lose all its customers who would act rationally and buy identical products/services from another suppliers at a lower price.

It can be concluded that the positive responses to the above factors by the majority of respondents, indicate the existence of relatively perfect competition in the informal sector markets of Vaal Triangle area.

#### **4.8.5 The search for relationship**

After having examined the distribution of values for particular variables by way of the use of tables, histograms and associated statistics, a major concern in the analysis of a set of data, is likely to be bivariate analysis. This concerns the questions of how two variables are related to each other, while the research will probably be concerned to demonstrate whether two variables are related (Bryman and Cramer, 1990:150). Bryman and Cramer (1990:150) indicate the following methods that can be used for the search of a relationship between low variables.

- Cross-tabulation is one of the simplest and most frequently used ways of demonstrating the presence or absence of a relationship between two variables. The widely-used statistical test is the Chi-square ( $\chi^2$ ) test of significance. The test answers the question of whether there really is a relationship between the variables or whether the relationship has arisen by chance. The starting point for administering the Chi-square test, is a null hypothesis of no relationship between two variables. The three most commonly used significant levels, are 0,05; 0,01 and 0,0001.
- In this research, the 0,05 level of significance will be employed. Thus  $p > 0,05$ , means that the Chi-square value is below that necessary for achieving the 0,05 level of significance. Alternatively, if  $p < 0,05$ , the null hypothesis means, that no relationship is rejected.
- Correlations constitute one of the most important and basic measures of association and unlike Chi-square, it indicates both strength and the direction of the relationship between variables. The statistic calculated, is Pearson's  $r$  and varies between  $-1$  and  $+1$ , which indicates the strength and the direction of the relationship. A minus value, is a negative or left to right downward slanting relationship, while a positive value indicates a positive or left to right upward slanting relationship. A high correlation does not indicate causation.

The SPSS was used as the analyzing tool for all the analyses done for this research. The rationale for the test selected, is based on Bryman and Cramer's (1990:187) rule of thumb for selecting statistical methods. The variables selected, are as follows.

- Age of business which is a rational variable.
- Profit increase over the years/months which is an ordinal variable
- Problems experienced by entrepreneurs, which is a nominal variable.

**Table 4.6 Relationships: Age of business by problem experienced**

VARIABLES	METHOD OF ANALYSING	STATISTICAL VALUE CALCULATE	STATISTIC	SIGNIFICANT TEST & LEVEL 1
Age of business <b>by</b> Lack of capital	Cross-tabulation Correlation	Chi-square Correlations Co	Pearsons $\chi^2$ Pearsons $r^2$ 0,0	0,021 0,013
Lack of experience <b>by</b> Age of business	Cross-tabulation Correlation	Chi-square Correlations Co	$\chi^2 = 13,9$ $r^2 = 0,06$	0,0308 0,0006
Age of business <b>by</b> Lack of facilities	Cross-tabulation Correlation	Chi-square Correlations Co	$\chi^2 = 16,8$ $r^2 = 0,02$	0,012 0,002
Age of business <b>by</b> Poor location	Cross-tabulation Correlation	Chi-square Correlations Co	$\chi^2 = 23,5$ $r^2 = 0,42$	0,031 0,002
Age of business <b>by</b> Factors inhibiting profitability	Cross-tabulation Correlation	Chi-square Correlations Co	$\chi^2 = 47,5$ $r^2 = 0,08$	0,012 0,017
Age of business <b>by</b> Regulations and procedures	Cross-tabulation Correlation	Chi-square Correlations Co	$\chi^2 = 46,0$ $r^2 = 0,07$	0,049 0,022
Age of business <b>by</b> Capacity of local authority	Cross-tabulation Correlation	Chi-square Correlations Co	$\chi^2 = 13,7$ $r^2 = 0,02$	0,017 0,010
Age of business <b>by</b> Institutional support	Cross-tabulation Correlation	Chi-square Correlations Co	$\chi^2 = 49,0$ $r^2 = 0,02$	0,021 0,034

**Source: Own Research**

Table 4.6 (on page 117) indicates the methods of analyzing the relationship between the two variables, i.e. the age of business and problems experienced, are the cross-tabulation and correlation. Pearson's  $\chi^2$  and  $r^2$  statistic are calculated. The null hypothesis that there is no relationship made. The significance test indicates, that all p-values are below 0,05 and, therefore, that there is a relationship between the age of business and the problem experienced. All correlation coefficients ( $r^2$ ) are positive, indicating that there is a positive relationship between the age of business and the problems encountered. The two tests indicate only that there is a relationship, but do not point at causation. The values of the correlation coefficient ( $r^2$ ) are very low, which indicate a weak relationship.

The cross-tabulation of problems experienced by business and the increase on profit over the years/months, are shown in table 4.7 on page 118.

The null hypotheses to be accepted or rejected in this test, is that of no relationship between the two variables. To be able to accept or reject the null hypothesis, cross-tabulation was used as a method of analysis with the calculation of Pearson's  $\chi^2$ , and Pearson's  $r^2$  as decision-making statistics. Furthermore, use was made of the significances of  $\chi^2$  and the significance of  $r^2$  in order to determine the significance of the relationships.

As indicated in Table 4.7 (on the next page) the test of significance for both  $\chi^2$  and  $r^2$  resulted in a value of  $p < 0,05$ . The conclusion can, therefore, be made, that there is a relationship between the increase in profits and the problem encountered by the entrepreneur. Pearson's  $r^2$  indicates a very low percentage of the variations in the increase in profit and can be explained by the problems encountered in the increase in profit and by the problems encountered by the entrepreneur.

**Table 4.7 Relationship: profit increase over the years/months by problem experienced**

VARIABLES	METHOD	STATISTIC CALCULATED	STATISTIC VALUE	P VALUE SIGNIFICANCE
Profit increase by Lack of capital	Cross-tabulation Correlation	Chi-square Correlations Co	$X^2 = 14,9$ $r^2 = 0,02$	0,031 0,025
Profit increase by Lack of experience	Cross-tabulation Correlation	Chi-square Correlations Co	$X^2 = 17,8$ $r^2 = 0,07$	0,050 0,049
Profit increase by Lack of facilities	Cross-tabulation Correlation	Chi-square Correlations Co	$X^2 = 15,6$ $r^2 = 0,04$	0,041 0,037
Profit increase by Poor location	Cross-tabulation Correlation	Chi-square Correlations Co	$X^2 = 19,2$ $r^2 = 0,031$	0,030 0,046
Profit increase by Factors inhibiting profitability	Cross-tabulation Correlation	Chi-square Correlations Co	$X^2 = 14,5$ $r^2 = 0,04$	0,031 0,029
Profit increase by Regulations and procedures	Cross-tabulation Correlation	Chi-square Correlations Co	$X^2 = 16,7$ $r^2 = 0,06$	0,045 0,050
Profit increase by Capacity of local authority	Cross-tabulation Correlation	Chi-square Correlations Co	$X^2 = 47,5$ $r^2 = 0,05$	0,041 0,050
Profit increase by Institutional support	Cross-tabulation Correlation	Chi-square Correlations Co	$X^2 = 30,1$ $r^2 = 0,01$	0,049 0,042

**Source: Own research**

It can, therefore, be concluded, that the search for relationship indicated in table 4.7 above, show that there is a relationship between the age of business and problems experienced, and also the increase in profits and problems encountered. Causation in both instances could not be established.

The respondents above were asked to give their opinion with regard to conditions that exist in their markets (table 4.7 above). It is logical to hypothesise that the responses to questions above would reveal a relationship between the age of the business and the responses to questions in table 4.4. The logical hypothesis is, that the younger the business, the more difficult it would be for the entrepreneur to provide answers to the above questions on the condition of the market.

The result of the analysis on establishing if there is any relationship is shown in (table 4.8 below) that all statistics, Pearson's  $r$ ,  $Ph_1$  and Cramer's  $V$ , have very low values. The significance level associated with all three statistics, are equal in each case and are all at a level, where  $p > 0,05$ . It can, therefore, be concluded, that the responses to the question on the conditions of the market (table 4.5) have no relationship or influence on the age of business.

**Table 4.8 Results of cross-tabulation of age of business and responses to question in table 4.7**

QUESTION NUMBER FROM TABLE 4.7	PEARSON'S $X^2$		PH <sub>1</sub>		CRAMER V	
	$X^2$	P	$\Phi$	P	V	P
1	3,54	0,909	0,135	0,909	0,0309	0,903
2	6,14	0,433	0,039	0,433	0,088	0,433
3	4,18	0,951	0,088	0,951	0,031	0,951
4	2,23	0,618	0,031	0,618	0,071	0,618
5	1,78	0,525	0,071	0,525	0,079	0,525
6	0,35	0,242	0,079	0,242	0,107	0,242
7	2,74	0,105	0,131	0,105	0,131	0,105
8	6,45	0,315	0,099	0,315	0,099	0,315

**Source: Own Research**

#### **4.8.7 Multivariate analysis**

Multivariate techniques explore the relationship among more than two variables (Bryman and Cramer, 1990:6). Hair, Bush and Ortinau (2000:586) define multivariate techniques as a group of statistical procedures that simultaneously analyze multiple measurements on each individual or object being investigated. These techniques can be classified according to dependency and interdependency characteristics and selection of an appropriate technique starts with an understanding of this distinction (Emory and Cooper, 1991:628).

Emory and Cooper (1991:521) provide a diagram that can be used by researchers for the selection of the most appropriate technique (Figure 4.9 on page 123). Using the diagram as a guide, the researcher decided to use the univariate analysis of variance (ANOVA) and the multivariate analysis of variance (MANOVA).

ANOVA is used to determine the statistical difference between three or more means (Hair, et al., 2000:539). The statistical technique of ANOVA will be used in this study to compare the dependent variables in Part B and parts C and Part D of the questionnaire (refer Table 4.3; Table 4.4, Table 4.5). This will be done in cases where the null hypothesis (that there is no difference between the dependent variables, considering the independent variable) is rejected, through the use of the MANOVA statistical technique. In ANOVA, the f-test is used to statistically evaluate the meaningfulness of the differences between the group means, (Hair et al., 2000:542).

The MANOVA procedure is also used to establish the differences between the dependent variables (Part B, C, D), as based on the independent variables in (Part A of the questionnaire). According to Cooper and Emory (1991:637), MANOVA simultaneously tests all variables and their inter-relationship. It uses

the Wilks Lambda F-test of significance in respect of on the following hypothesis.

- HO: There is no difference between the dependent variables, considering the independent variables.

The first step of the procedure, is to obtain the significance of the F-value (p) and then to apply the following decision rules.

- If  $P < 0,05$ , then reject HO
- If  $P > 0,05$ , then accept HO:

The second step is executed, if HO was accepted in the first step, and comprises the univariate analysis of variance procedure. This test is based on the measurement of the individual F-value (p) of dependent variables and to analyse these values as follows.

- If  $P < 0,05$ , then there is a significant difference.
- If  $P < 0,01$ , then there is a highly significant difference.

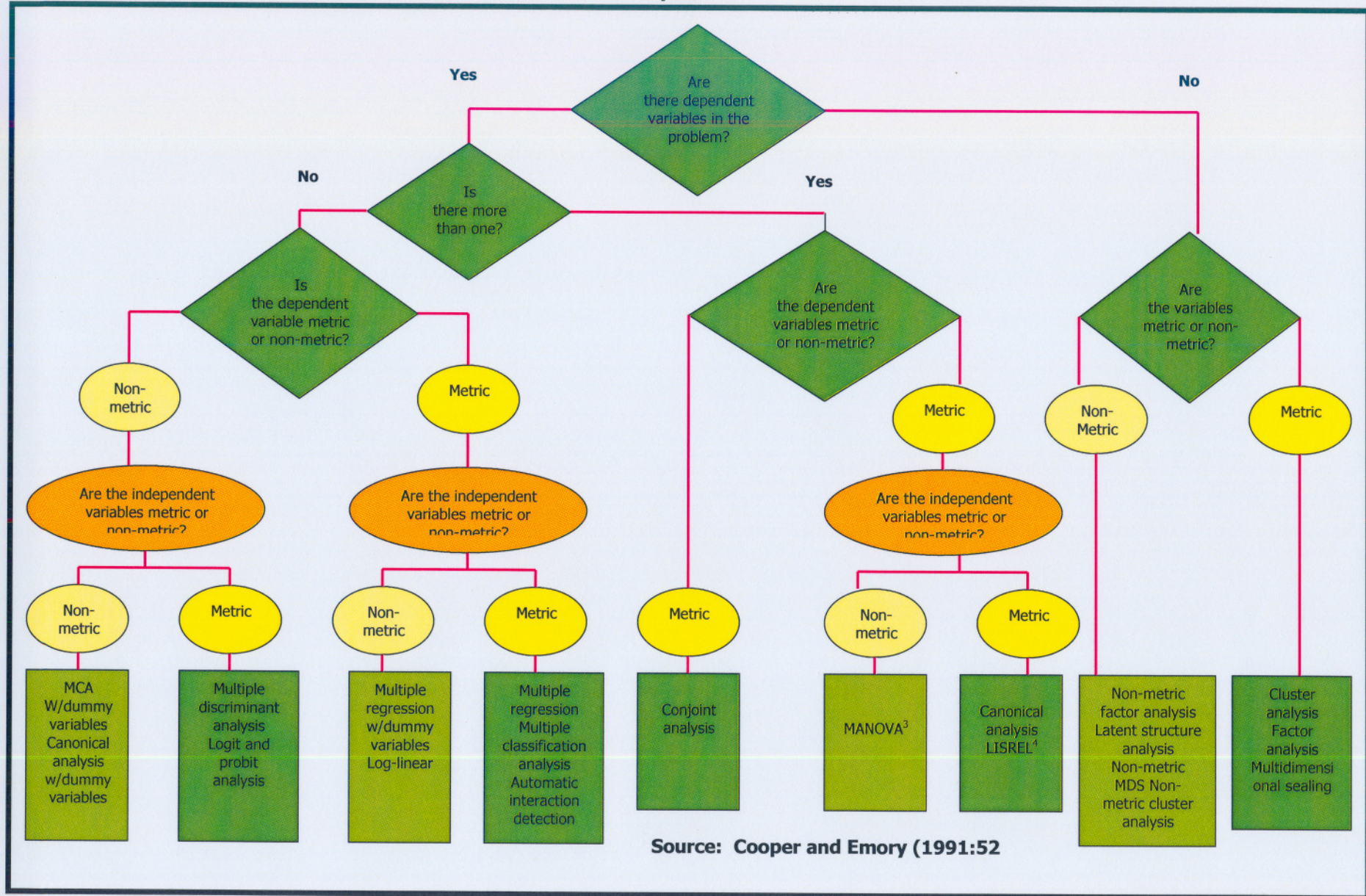
The following independent variables from Part A (or Table 4.2) will be analysed in relation to the dependent variable.

- Age of business
- Profit per month
- Profit increase over the years month
- Number of employees
- Number of assets

The dependent variables are as follows.

- Reason for starting business (Table 4.3)
- Problems experienced (Table 4.4)
- Price-formation factors (Table 4.5).

Figure 4.9 Selecting from the Most Common Multivariate Techniques



Source: Cooper and Emory (1991:52)

**Table 4.9 The results of the test to establish relationship between age of business and reasons for starting business**

TEST	DEPENDENT VARIABLE	P VALUE
1. Wilks Lambda F-test of significance	All	0,681
2. Univariate F-test of significance	<ul style="list-style-type: none"> <li>• Ease of entry</li> <li>• Could not find a job in the formal sector</li> <li>• Retrenched</li> <li>• Need for independence</li> <li>• To earn more money</li> <li>• A family business</li> <li>• Previous experience in specific business.</li> </ul>	0,812 0,617 0,631 0,223 0,571 0,615 0,542

**Source: Own research**

Table 4.9 above shows, that the Wilks Lambda p-value of 0,681 above, indicates that there is no difference between the age of business with regard to the reasons for starting a business. The univariate F-test of significance on all the reasons for starting the business, reflect values greater than 0,05, confirming the results of no difference.

**Table 4.10 The results of the test to establish relationships between the profit per month and the reasons for starting the business**

TEST	DEPENDENT VARIABLE	P VALUE
1. Wilks lambda F-test of significance	All	0,042
2. Univariate F-test of significance	<ul style="list-style-type: none"> <li>• Ease of entry</li> <li>• Could not find a job in the formal sector</li> <li>• Retrenched</li> <li>• Need for independence</li> <li>• To earn more money</li> <li>• A family business</li> <li>• Previous experience in specific business</li> </ul>	<p>0,621</p> <p>0,523</p> <p>0,416</p> <p>0,319</p> <p>0,019</p> <p>0,245</p> <p>0,359</p>

**Source: Own Research**

In table 4.10 above, the Wilks Lambda p-value of 0,042 indicates, that there is a significance difference ( $p < 0,05$ ) between the profit per month and the reason for starting the business. In examining the univariate F-test of significance, it is clear, that the difference occurs in the "to earn more money" reason for starting the business ( $p < 0,05$ ). The finding seems to indicate, that those entrepreneurs who start the businesses to make more money, are succeeding in doing just that.

Table 4.11 on the next page explains the relationships between profit increase over the years/months and the reasons therefore.

**Table 4.11 The results of the test to establish relationships between profit increase over the years/months and reasons for starting business**

TEST		DEPENDENT VARIABLE	P VALUE
1.	Wilks Lambda F-test of significance	All	0,492
2.	Univariate F-test of significance	<ul style="list-style-type: none"> <li>• Ease of entry</li> <li>• Could not find a job in the formal sector</li> <li>• Retrenched</li> <li>• Need for independence</li> <li>• To earn more money</li> <li>• A family business</li> <li>• Previous experience in specific business.</li> </ul>	0,341 0,501 0,478 0,378 0,200 0,345 0,502

**Source: Own research**

The Wilks Lambda p-value of 0,492 indicates, that there is no difference between the profit increase over the years/months and the reasons for starting the business. The univariate F-test of significance on all reasons for starting the business, reflects values greater than 0,05, confirming the acceptance of the hypothesis of no relationship.

The Wilks Lambda p-value of 0,030 indicates, that there is a significant difference ( $p < 0,05$ ) between the size of business (as measured by number of

employees) and the reasons for starting the business. In examining the univariate f-test of significance, it is clear that the difference occurs in respect of the following two reasons.

- Could not find a job in the formal sector ( $p < 0,05$ )
- Retrenched ( $p < 0,05$ ).

**Table 4.12 The results of the test to establish relationship between the sizes of business as measured by number of employees and the reasons for starting business**

TEST	DEPENDENT VARIABLE	P VALUE
1. Wilks Lambda F-test of significance	All	0,040
2. Univariate F-test of significance	<ul style="list-style-type: none"> <li>• Ease of entry</li> <li>• Could not find a job in the formal sector</li> <li>• Retrenched</li> <li>• Need for independence</li> <li>• To earn more money</li> <li>• A family business</li> <li>• Previous experience in specific business.</li> </ul>	<ul style="list-style-type: none"> <li>0,509</li> <li>0,021</li> <li>0,036</li> <li>0,517</li> <li>0,491</li> <li>0,305</li> <li>0,298</li> </ul>

**Source: Own research**

Table 4.12 above evaluates the findings, that there seems to be truth in the assertion, that the growth in the informal sector is a result of unemployment in

the formal sector. Individuals that are retrenched or could not find employment in the formal sector, decided to start their own businesses. This is made easy by the ease with which they enter the informal sector markets.

**Table 4.13 The results of the test to establish relationship between the number of assets and the reasons for starting the business**

TEST	DEPENDENT VARIABLE	P VALUE
1. Wilks Lambda F-test of significance	All	0,298
2. Univariate F-test of significance	<ul style="list-style-type: none"> <li>• Ease of entry</li> <li>• Could not find a job in the formal sector</li> <li>• Retrenched</li> <li>• Need for independence</li> <li>• To earn more money</li> <li>• A family business</li> <li>• Previous experience in specific business.</li> </ul>	<ul style="list-style-type: none"> <li>0,329</li> <li>0,470</li> <li>0,491</li> <li>0,518</li> <li>0,320</li> <li>0,516</li> <li>0,380</li> </ul>

**Source: Own research**

Table 4.13 above shows that the Wilks Lambda p-value of 0,298 indicates, that there is no relationship between the amount of assets and the reason for starting the business. The univariate f-test of significance reflects values above 0,05 for all reasons for starting the business. In conclusion, the results above can be summarized as follows (see table 4.14 on the next page).

**Table 4.14 Summary: Dependent variables as "reasons for starting business"**

INDEPENDENT VARIABLES	MANOVA PROCEDURE P VALUE FOR F-TEST	ANOVA PROCEDURE P VALUE FOR F-TEST
1. Age of business	No relationship exists	No $p < 0,05$
2. Profit per month	Relationship exists ( $p < 0,05$ )	Some $p < 0,05$
3. Profit increase over the years/months	No relationship exists	No $P < 0,05$
4. Number of employees	Relationship exists ( $p < 0,05$ )	Some $p < 0,05$
5. Number of assets	No relationship exists	No $p < 0,05$

**Source: Own research**

**Table 4.15 Results to determine relationships between characteristics of business (table 4.2) and problems experienced by business**

INDEPENDENT VARIABLES	MANOVA P VALUE FOR F-TEST	ANOVA P VALUE FOR F-TEST
1. Age of business	0,019	1. Lack of capital = 0,040 2. Lack of experience & knowledge = 0,031 3. Lack of facilities = 0,034 4. Poor location = 0,017 5. Factors inhibiting profitability = 0 02 6. Regulations and procedures = 0 040 7. Capacity of local authority = 0 032 8. Institutional support = 0 041
2. Profit per month	0, 347	1. Lack of capital = 0,321 2. Lack of experience & knowledge = 0,298 3. Lack of facilities = 0,156 4. Poor location = 0,472 5. Factors inhibiting profitability = 0,333 6. Regulations and procedures = 0,347 7. Capacity of local authority = 0,321 8. Institutional support = 0 416

INDEPENDENT VARIABLES	MANOVA P VALUE FOR F-TEST	ANOVA P VALUE FOR F-TEST
3. Profit increase over the years/months	0,215	1. Lack of capital = 0,291 2. Lack of experience & knowledge = 0,116 3. Lack of facilities = 0,345 4. Poor location = 0,456 5. Factors inhibiting profitability = 0,417 6. Regulations and procedures = 0,391 7. Capacity of local authority = 0,501 8. Institutional support = 0,427
4. Number of employees	0,516	1. Lack of capital = 0,291 2. Lack of experience & knowledge = 0,116 3. Lack of facilities = 0,345 4. Poor location = 0,456 5. Factors inhibiting profitability = 0,417 6. Regulations and procedures = 0,391 7. Capacity of local authority = 0,501 8. Institutional support = 0,427
5. Amount of assets	0,342	1. Lack of capital = 0,291 2. Lack of experience & knowledge = 0,116 3. Lack of facilities = 0,345 4. Poor location = 0,456 5. Factors inhibiting profitability = 0,417 6. Regulations and procedures = 0,391 7. Capacity of local authority = 0,501 8. Institutional support = 0,427

**Source: Own research**

Considering the Wilks Lambda values for profit per month ( $p = 0,347$ ), profit increase over the years/months ( $p = 0,215$ ), number of employees ( $p = 0,516$ ), and number of assets ( $p = 0,342$ ), it can be concluded, that there is no difference (i.e. no relationship  $p > 0,05$ ), between the responses with regard to

problems experienced by businesses and characteristics of businesses. The results of the univariate F-test of significance, reflect values greater than 0,05, confirming results of no relationship, as obtained by using the Wilks Lambda test of significance.

However, considering the Wilks Lambda p-value of age of business ( $p = 0,019$ ), it can be concluded, that there is a significant difference ( $p > 0,05$ ) between the characteristics and the responses to questions with regard to problems experienced by businesses. The results of the univariate F-test of significance reflect values greater than 0,05 for all of the problems experienced by businesses, confirming the results obtained by using the Wilks Lambda test of significance.

#### **4.9 SUMMARY**

In this chapter, the population, sampling frame, sampling procedure and sample size questionnaire design were discussed. Data for the empirical research were collected by means of a survey of a proportionally stratified sample by using a questionnaire. Data analysis was conducted in two stages; firstly, by presenting it in descriptive form to give an overall picture of results; secondly, a search for relationships between variables by using univariate and multi-variate techniques was conducted.

The statistical technique ANOVA which determines the statistical difference between means, was used to compare differences in the dependent variable. The null hypothesis was made, that there is no relationship between the variables. The MANOVA procedures were also employed in order to search for differences between more than one dependent variable and independent variable. In the next chapter the summary, conclusions and recommendations are discussed.

## **CHAPTER 5**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 INTRODUCTION**

In order to achieve the objectives of this study as set out in chapter one, the study was conducted in the two parts following.

- In the first part, the relevant literature on the nature of the informal sector, the market mechanism is reviewed.
- In the second part, the empirical research is undertaken.

Chapter five summarizes the most salient points discussed in early chapters, conclusions are pointed out and recommendations are made.

#### **5.2 SUMMARY**

##### **5.2.1 Literature review**

The literature review conducted, highlights important aspects of the study shaping the empirical investigation that follows.

In chapter one the problem statement is discussed, the objectives of the study are set, the scope of the study, the research methodology and the outline, are discussed.

In chapter two, different definitions of the concept 'informal sector' are reviewed. The multi-criteria definition which is generally inspired by the classical

theory of competition which views the informal sector as an illustration of the market economy, is discussed. Different types of informal business sectors found in South Africa and in other parts of the world, are pointed out; also estimated of the size of the informal sector and its importance. The link between the concept entrepreneurship and the informal sector is established.

Chapter three explains the concept of "market". The different forms of market structure, such as perfect competition and imperfect competition, are provided. Different classifications of market structures, such as perfect competition, monopoly, oligopoly and monopolistic competition, are pointed out. The concept "price-determination" as it pertains to the informal sector, is stated. The informal market forms and the importance of the market in the informal sector are discussed in detail.

### **5.2.2 Empirical research**

Data for the empirical research were collected by means of a survey of a proportionately stratified sample of 500 informal sector businesses. In choosing the target population, care was taken that the target population is consistent with the objectives of the study. The qualities that respondents have in order to be included in the sample, were clearly identified. To determine the sample size, the resources available to the researcher were considered. Businesses in Vereeniging, Vanderbijlpark, Sasolburg and the townships of Sebokeng and Sharpeville, were approached at random. A structured response format of the questionnaire, with both multiple choice and dichotomous questions, was used.

In analyzing the data, two approaches were used.

- Firstly, a data description form was presented to identify an overall picture of the results.

- Secondly, a search for the relationship between variables was undertaken by using cross-tabulation, correlation and advanced statistical techniques, such as ANOVA and MANOVA.

In sections 4.8.1; 4.8.2; 4.8.3; 4.8.4 and 4.8.5, the results of a descriptive analysis of the data are presented. The descriptive analysis consists of simple frequency counts and percentages. Various conclusions are arrived at regarding the findings and are summarized below.

In section 4.8.6 various techniques are used to explore possible relationships between the variables. These techniques include cross-tabulation, with correlation calculations by employing the Chi-square, and correlation-coefficients statistics Pearson's  $\chi^2$ ,  $r$  and  $r^2$  in order to evaluate their relationships and their correlations.

In section 4.8.7 multivariate techniques which explore the relationship among more than two variables, are employed. The statistical technique ANOVA which determines the statistical difference between three or more means was used to compare differences in the dependent variables in part B, Part C and Part D of the questionnaire. The null hypothesis for ANOVA is, that there are no differences between the dependent variables, considering independent variables. The F-test of significance was used to statically evaluate the significance of the differences.

The MANOVA procedures were also employed in order to establish differences between dependent variables (more than one) based on the independent variables (more than one: Part A of questionnaire). MANOVA used the Wilks Lambda f-test of significance, based on the hypothesis that there is no difference

between the dependent variables based on the independent variables. The decision researched, is that the hypothesis is rejected, if  $p < 0,05$ .

### **5.3 CONCLUSIONS**

A number of conclusions are arrived at in chapters 1 to 4. In this section, a list of the most important conclusions is presented.

#### **5.3.1 Literature review**

The theoretical deliberations in these chapters, indicated the following.

- Several definitions of the concept "informal sector" have been given, depending on specific views of identifiable schools of thought.
- For the purpose of this study, the International Labour Organisation's definition has been adopted.
- Two conceptual distinctions are drawn between the categories of small businesses. These are "survival informal business" and micro-enterprises" or "growth enterprises".
- Informal sector activities are divided into four broad activities, such as trading and hawking, production and construction, services and illegal activities.
- The size of the informal sector varies from research to research and from country to country, due to the use of different definitions and measures.

- In 2000, it was estimated, that about 1.7 million people in South Africa were involved in the informal sector activities.
- The influence of the informal sector in the generation of economic outputs, remain unresolved.
- The informal sector is important in South Africa in the creation of job opportunities, generation of income.
- Both a direct and an indirect relationship exists between the formal and informal sectors.
- The informal sector exists mainly because there is a vast market which sustains it.
- The concept "market" has been subjected to many usages in economic theory, business and marketing.
- In defining the concept "market", due regard has to be granted to two categories of market structure.
- "Market" is a very broad concept and can be divided into numerous categories.
- The economic theory of a "market" distinguishes four trading situations or structures, perfect competition, monopoly, oligopoly and monopolistic competition.
- Pricing in the informal sector is determined.

- The theory of price and cost plays a vital role in the informal sector.
- Mainstream economic models do not fit the situation of the market trader because an enterprise in the informal sector is of a smaller in scale.
- Price is central to an economic or business activity, which involves exchange, bearing the customers in mind.

### **5.3.2 Empirical research**

The following conclusions are drawn from the analysis of data:

- A wide range of different types of informal businesses are found in the Vaal Triangle area.
- The majority of informal businesses are involved in retailing activities especially in the streets of towns such as Vanderbijlpark, Vereeniging and Sasolburg.
- All informal sector businesses surveyed, are privately owned, managed by owners, while capital is supplied by owners.
- The majority of the businesses have been in existence for a period of 1 – 2 years (45%).
- A total of 37% of the businesses has a profit of between R1000 – R5000 per month.

- The majority have witnessed an increase in profits over the years or months.
- The majority of businesses employ fewer than five people.
- Two main reasons for starting a business, could be identified as centering on entrepreneurship (ease of entry, need for independence, and to earn more money), and on survivalist businesses.
- Lack of capital and knowledge, poor location, low turnover and competition from established businesses, and institutional support, are cited as problems experienced by businesses.
- Cross-tabulation and correlation coefficients indicated that there is a positive relationship between the age of the business and the problems experienced by this business.
- There is a relationship between profit increase and problems experienced by businesses.
- The majority of businesses indicated, that almost all conditions of a perfect competition are present in their market,
- Responses to questions on the conditions of the market have no relationship or influence on the age of the business (based on Pearson's  $\chi^2$ , Phi and Cramer V statistics).
- The results of a multivariate test to establish the relationship between the age of the business and reasons for starting business, indicate no relationship.

- The multivariate test to establish the relationship between profit per month and reasons for starting a business, indicate, that there is a relationship. The f-test of significance, indicates, that the difference occurs in the "To earn more money" category. Businesses that started in order to earn more money, are succeeding in doing so.
- There is no relationship between profit increase over the years/months and the reasons for starting the business.
- There is a relationship between the size of business (as measured by the number of employees) and the reasons for starting business. This indicates, that there seems to be truth in the assertion, that the growth of the informal sector, is the result of unemployment in the formal sector (retrenched individuals or those who could not find employment).
- No relationship was established between the number of assets and the reasons for starting the business.

#### **5.4 FINAL REMARKS**

Final remarks will be drawn, in view of the objectives set in chapter one of the study.

An examination of the characteristics and constraints that confront different informal sector businesses in the Vaal Triangle, showed in the empirical results, that lack of capital, poor location, low turnover and competition from established businesses, are problems confronting these businesses.

The main reasons for starting business, are identified as centering around entrepreneurship and survival.

The growth of the informal sector, is a result of unemployment in the formal sector.

Perfect competition as indicated by ease of entry, absence of barriers to entry or exit, supply and demand determining prices, there are many businesses providing similar products/services, and information available to customers, obtains in the informal sector of this region.

In conclusion, it can be states that the objectives of the study as set out in chapter one have been achieved. The problem confronting informal small businesses in the Vaal Triangle Area have been identified. It has also been established that the perfect competition exists in the informal sector.

The remarks stated above enabled the researcher to identify areas for future policy intervention, as indicated in the recommendations below.

## **5.5 RECOMMENDATIONS**

The previous sections have described and identified overall difficulties confronting the informal sector in the Vaal Triangle area. The major areas of focus for policy intervention, will be the support of survivalist businesses and the nurturing of the growth of viable entrepreneurial businesses. General policy proposals should relate to access to capital, as this is considered a major impediment. The following possibilities are suggested.

- The creations of specialized institutions funded by government and perhaps open to subscription by the private sector; in particular, the

various financial institutions which are specifically structured towards developing a lending policy, which accepts a high-risk element and then adjusts the expected rate of return of such investments accordingly.

- The establishment of a system, whereby the authorities act to try to reduce the risk element perceived by private finance sources. One way of achieving this, would be for the government to guarantee a specified proportion of loans made (to small and informal business) by existing finance houses to offset the perceived high risk involved.
- A combination of these two proposals whereby government funding is provided for the informal sector is channeled through specialist organizations to the established financial markets, in much the same way as the Khula enterprise operates at present in South Africa, with respect to formal small businesses.
- The introduction of a campaign to educate existing financial institutions about conditions in the informal sector. Ignorance concerning the way in which the sector operates, inevitably has the effect of increasing the perceived risk of lending. Consequently, the provision of better information will in itself have the effect of reducing the risk element and will, therefore, improve the availability of funding at given interest rates. It is important, that any such campaign should also include in it aspects concerning methods of evaluating the creditworthiness of a business with no fixed assets and/or of one that does not keep adequate written records.
- The creation of new types of credit that have lower administrative costs and which are more suited to the needs of the informal sector.

- The introduction of a campaign to encourage existing formal businesses to take active steps to finance and develop the informal sector. For example, formal business should be encouraged to hive off some of its existing activities to a small business that has been specially set up to undertake the work, while financed by larger businesses. Alternatively work could be subcontracted to small operators on the basis, that the additional working capital and know-how needed to undertake the additional work, is provided by the firm sub-contracting the work.
  
- The government should institute and enforce legislation and administrative measures which facilitate the growth of this sector by amending, existing legislation, by-laws and administrative procedures which hinder growth. It should deal especially with housing, trade licensing, production and the use of labour-intensive technology, management and technical services.
  
- In the formulation of policy, the two features that characterise the role of government in the informal sector (as identified by Lachaud 1990:12), should be taken into account.
  - Firstly, the micro-economic policies advocated have no structures to support modern informal activities which are the most dynamic in terms of employment, income and training.
  
  - Secondly, macro-economic policies show a degree of inconsistency with regard to the objectives pursued, such as insufficient attempts to intensify intensive control

resolutions, no redistribution in the commercial sector in order to embrace profitable activities, direct and indirect taxation discriminating against the informal sector, an inefficient institutional framework which absorbs a substantial share of the resources, and inappropriateness of funding arrangements.

The following policy measures could also be applied with a view to the promotion of the informal sector.

- Authorities at all level should eliminate all hostilities towards the informal sector and the imposing of unnecessary restrictions.
- Business in this sector, should be registered informally, in order to acquire more information for the purpose of planning.
- Because of the lack of skills, suitable training programs should be considered in the interest of society as a whole.
- The promotion of the informal sector in the rural areas towards relieving the pressure on urban areas.

## **5.6 FURTHER RESEARCH**

Further research on the informal sector should be undertaken by using the "industrial organization analysis", as proposed by Srinivas (2004). This framework identifies the following criteria which have to be studied when studying the urban informal sector as an "economic unit".

### **Supply: Backward linkages**

- Access to credit facility.
- Process of manufacturing.

- Level of technology uses.
- Availability of basic services.
- Types of ownership.
- Education and skills requirements.
- Supply of labour.
- Locational characteristics.
- Wages provided to labourers.

**Demand : Forward linkages.**

- Price and quality of products/services.
- Marketing procedures adopted.
- Economic development levels.
- Purchasing power of consumers.

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# **ANNEXURE**

**A**

## QUESTIONNAIRE

This questionnaire is strictly confidential and you or the business will not be identified to any third party. This questionnaire consists of four sections.

### SECTION A

(a) Indicate by means of an x in which of the following types of business is your business operating:

#### TYPES OF BUSINESS

- |                                     |                          |
|-------------------------------------|--------------------------|
| 1. Manufacturing (small)            | <input type="checkbox"/> |
| 2. Traders (food, soft goods, etc.) | <input type="checkbox"/> |
| 3. Spaza (general dealer)           | <input type="checkbox"/> |
| 4. Shebeen (informal public)        | <input type="checkbox"/> |
| 5. Repairs: car mechanics           | <input type="checkbox"/> |
| 6. Hairdressers/Barbers             | <input type="checkbox"/> |
| 7. Builders(construction)           | <input type="checkbox"/> |
| 8. Others                           | <input type="checkbox"/> |

(b) Indicate by means of an x which of the following characteristics best describes your business.

- |                                                                    | YES                      | NO                       |
|--------------------------------------------------------------------|--------------------------|--------------------------|
| 1. Is your business privately owned?                               | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Is it managed by owner (s)?                                     | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Is capital supplied by owner(s)?                                | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Is the percentage capital supplied by owner?<br>(more than 50%) | <input type="checkbox"/> | <input type="checkbox"/> |

5. How long has the business been in operation?

- i) Less than one year
- ii) One to two years
- iii) Above three years

6. What is the profit of this business per month?

- i) Less than R1 000
- ii) R1 000 to R5000
- iii) Above R5 000

7. Has there been any increase in the profit over the years/months?

- i) Increased moderately
- ii) Been constant
- iii) Increased substantially

8. What is the number of employees in your business?

- i) Less than 5
- ii) 6 to 10
- iii) More than 10

9. What is the estimated amount of assets in your business?

- i) Less than R10 000
- ii) R11 000 to R50 000
- iii) Above R50 000

## SECTION B

Please indicate by means of an x which of following are reason(s) for starting your business.

	YES	NO
1. Ease of entry	<input type="checkbox"/>	<input type="checkbox"/>
2. Could not find job in the formal sector	<input type="checkbox"/>	<input type="checkbox"/>
3. Retrenchment	<input type="checkbox"/>	<input type="checkbox"/>
4. Need for independence	<input type="checkbox"/>	<input type="checkbox"/>
5. To earn more money	<input type="checkbox"/>	<input type="checkbox"/>
6. A family business	<input type="checkbox"/>	<input type="checkbox"/>
7. Reasons or experiences in specific business	<input type="checkbox"/>	<input type="checkbox"/>

## SECTION C

Please indicate by means of an x which of the following problem(s) are experienced by your business.

	YES	NO
1. Lack of capital	<input type="checkbox"/>	<input type="checkbox"/>
2. Lack of experience or knowledge	<input type="checkbox"/>	<input type="checkbox"/>
3. Lack of facilities	<input type="checkbox"/>	<input type="checkbox"/>
4. Poor location	<input type="checkbox"/>	<input type="checkbox"/>
5. Factors inhibiting profitability	<input type="checkbox"/>	<input type="checkbox"/>
6. Capacity of local authorities	<input type="checkbox"/>	<input type="checkbox"/>
7. Regulations and procedures	<input type="checkbox"/>	<input type="checkbox"/>
8. Institutional support	<input type="checkbox"/>	<input type="checkbox"/>

## SECTION D

Indicate by means of an x whether the following statements are applicable in your business.

<b>FACTORS</b>	<b>YES</b>	<b>NO</b>
1. There are many other businesses that provide similar product/services in the market.		
2. There are barriers to entry or to exit the market.		
3. In setting prices for your products/services you take into account costs and prices of competitors		
4. Your business sell the same products/services at different customers.		
5. There market for our products/services does sometimes experience shortage or surpluses.		
6. Customers have easy access to our business		
8. Customers are aware of the products/services offered by our business.		
8. There are no major problems with the suppliers of our inputs (raw material, goods, etc.)		
9. Potential customers have perfect knowledge of all products/services offered by your business.		
10. Customers do not collude to exert an influence on your prices.		
11. The primary goal of your business is to maximize profits.		
12. The supply and distribution networks of your business are difficult to replicate by new entrants.		

13. Profits that are made by businesses that operates in your market attract new entrant.		
14. The value of goods and services to each of your customers increases as more customers use it.		
15. Production factors in your market are perfectly mobile		

Comments:

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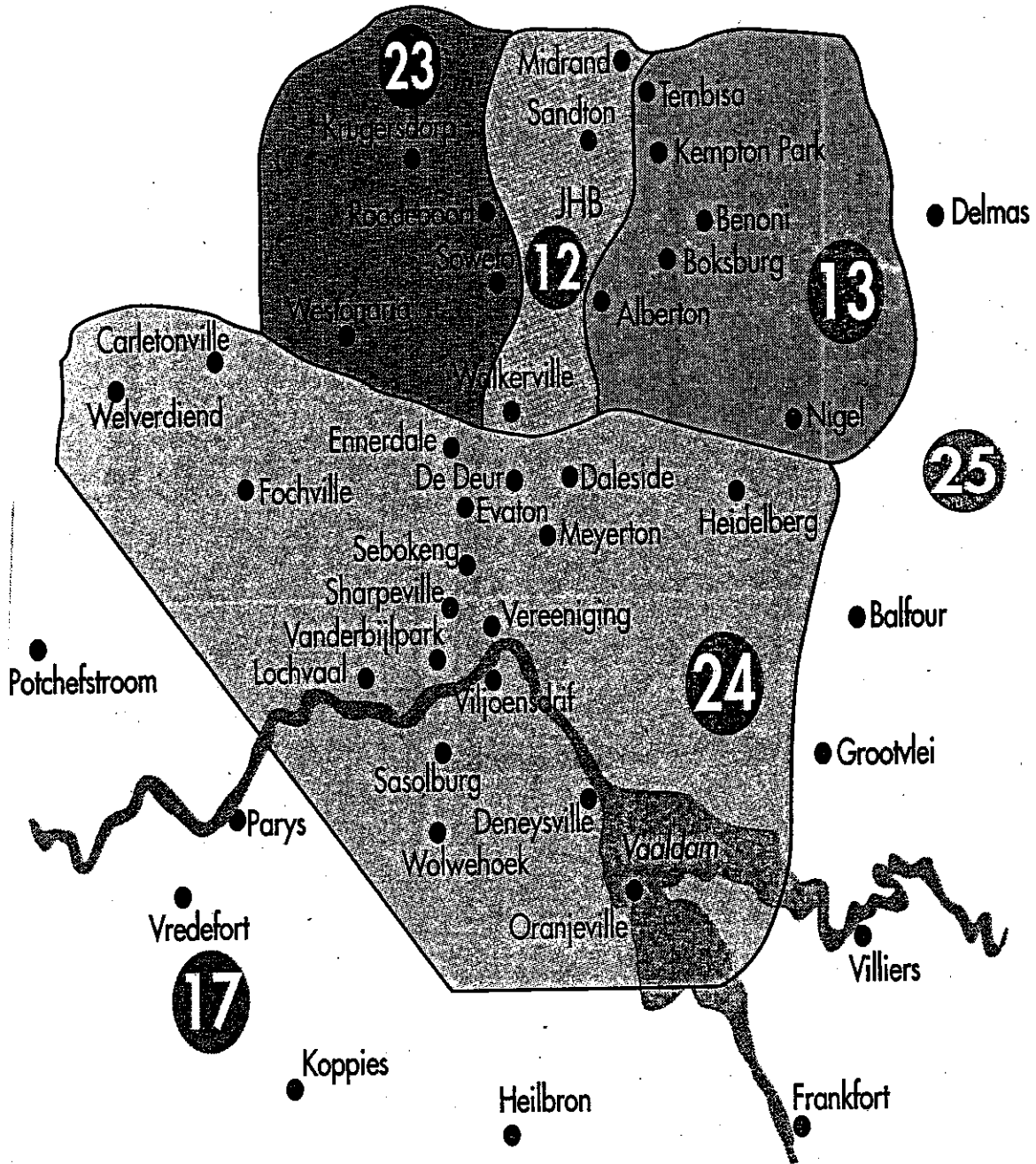
Thank you for your co-operations!!!

# **ANNEXURE**

**B**

ANNEXURE B

LOCALITY MAP



- 12 Johannesburg
- 13 East Rand
- 14 Free State
- 15 West Rand
- 16 Vaal Triangle
- 17 Mpumalanga

# **ANNEXURE**

**C**

## Acts

### **NO. 102 OF 1996: NATIONAL SMALL BUSINESS ACT, 1996.**

#### **PRESIDENT'S OFFICE**

**No. 1901.**

**27 November 1996**

NO. 102 OF 1996: NATIONAL SMALL BUSINESS ACT, 1996.

It is hereby notified that the President has assented to the following Act which is hereby published for general information:-

### **ACT**

To provide for the establishment of the National Small Business Council and the Ntsika Enterprise Promotion Agency; and to provide guidelines for organs of state in order to promote small business in the Republic; and to provide for matters incidental thereto.

(Afrikaans text signed by the President.)

(Assented to 12 November 1996.)

BE IT ENACTED by the Parliament of the Republic of South Africa, as follows:-

## **Chapter I**

### **Definitions**

1. In this Act, unless the context otherwise indicates-
  - i. "Agency" means the Ntsika Enterprise Promotion Agency established by section 9; (i)
  - ii. "Board" means the Board of Directors of the Agency contemplated in section 11; (iii)
  - iii. "Chief Executive Officer" means the Chief Executive Officer of the Agency appointed as contemplated in section II (1)(b); (vi)
  - iv. "constitution of the Agency" means the constitution of the Agency contemplated in section 13 and adopted in terms of section 16(1);(ix)
  - v. "constitution of the Council" means the constitution of the Council contemplated in section 4 and adopted as contemplated in section 8(3); (x)

- vi. "Council" means the National Small Business Council established by section 2; (xv)
- vii. "Director-General" means the Director-General of the Department of Trade and Industry, or an officer of that Department designated by that Director-General; (iv)
- viii. "Minister" means the Minister of Trade and Industry; (xi)
- ix. "National Co-ordinator" means the National Co-ordinator of the Council appointed as contemplated in section 6(1); (xiii)
- x. "National Small Business Support Strategy" means the national policy in respect of small business support as published by the Minister in the Gazette, and includes the policy as stated in the White Paper on National Strategy for the Development and Promotion of Small Business in South Africa (Notice No. 213 of 1995, published in Gazette No. 16317 of 28 March 1995); (xii)
- xi. "prescribed" means prescribed by regulation; (xvii)
- xii. "provincial council" means a provincial small business council for small business established under the constitution of the Council; (xiv)
- xiii. "regulation" means any regulation made under this Act; (xvi)
- xiv. "service provider" means any public or private entity providing support services to small business; (ii)
- xv. "small business" means a separate and distinct business entity, including co-operative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or subsector of the economy mentioned in column I of the Schedule and which can be classified as a micro-, a very small, a small or a medium enterprise by satisfying the criteria mentioned in columns 3, 4 and 5 of the Schedule opposite the smallest relevant size or class as mentioned in column 2 of the Schedule; (vii)
- xvi. "small business organisation" means any entity, whether or not incorporated or registered under any law, which consists mainly of persons carrying on small business concerns in any economic sector, or which has been established for the purpose of promoting the interests of or representing small business concerns, and includes any federation consisting wholly or partly of such association, and also any branch of such organisation; (viii)
- xvii. "this Act" includes the regulations. (v)

[ Top ]

## Chapter 2

National Small Business Council Establishment of National Small Business Council

2. The National Small Business Council is hereby established as a juristic person.

### **Functions of Council**

3. (1) The functions of the Council are to-
  - a. represent and promote the interests of small business, with emphasis on those entities contemplated in the National Small Business Support Strategy; and
  - b. advise the national, provincial and local spheres of government on social and economic policy that promotes the development of small business;
2. The Council may exercise such powers and must perform such duties as are reasonably necessary for or incidental to the performance of the functions mentioned in subsection (1).
3. The Council must perform its functions in accordance with this Act and its constitution.

### **Constitution of Council**

4. Subject to this Act and the National Small Business Support Strategy, the constitution of the Council must, among others, provide for-
  - a. the composition of the Council consisting of-
    - i. 18 members of which each provincial council elects two members from their number; and
    - ii. if the members referred to in subparagraph (i) so elect, five members appointed in an expert or representative capacity;
  - b. a provincial council for each province consisting of members elected by small business organisations that meet the criteria set out in the constitution;
  - c. subject to this Act, and in order to achieve the objects contemplated in section 3, the powers and duties of the Council and the provincial councils;
  - d. criteria for the appointment and procedures for the election of the members referred to in paragraphs (a) and (b);
  - e. the appointment of any alternate member to act during the absence or incapacity of a member of the Council or a provincial council;
  - f. the election of office bearers of the Council and provincial councils, their functions, and the circumstances and manner in which they may be removed from office;
  - g. a two year tenure for members of the Council and

- provincial councils;
- h. the circumstances and manner in which membership of the Council and provincial councils may be terminated and procedures for the filling of vacancies;
  - i. the establishment and functioning of committees, including a management committee for the Council and provincial councils;
  - j. the co-opting as a member of any person to assist the Council, a provincial council or any committee in the consideration of any particular matter;
  - k. the rules for the convening and conducting of meetings of the Council and provincial councils, including the quorum required for and the minutes to be kept of those meetings;
  - l. the voting rights of the different members and the manner in which decisions are to be taken by the Council and provincial councils;
  - m. the provision of administrative personnel employed by the Council to assist provincial councils in the performance of their functions;
  - n. subject to section 7(2), the banking and investment of funds by the Council and provincial councils;
  - o. the determination through arbitration of any dispute concerning the interpretation or application of the constitution of the Council;
  - p. the delegation of powers and assignment of duties to members, committees and employees, provided that-
    - i. the Council or a provincial council may not be divested of any power or duty by virtue of the delegation or assignment; and
    - ii. the Council or a provincial council, as the case may be, may vary or set aside any decision made under any delegation or in terms of any assignment;
  - q. a procedure for amending the constitution of the Council.

#### Remuneration of members, alternate members and co-opted members of Council and provincial councils

5. (1) The Minister, with the concurrence of the Minister of Finance, determines the salaries, allowances and conditions of service of members, alternate members and co-opted members of the Council and provincial councils who are not in the full-time service of the State.
2. The salaries, allowances and conditions of service of the persons referred to in subsection (1) may differ according to the different offices held by them, the different functions performed by them, or whether they serve in a full-time or part-time capacity.
3. Persons referred to in subsection (1) who are in the service of the State may not receive additional remuneration for

serving on the Council or any provincial council, but may be reimbursed for expenses incurred in the performance of their functions in such last-mentioned service.

### **Staff of Council**

6. (1) Work incidental to the performance of the functions of the Council is performed by a National Co-ordinator, who must be appointed by the Minister, after consultation with the Council.
2. The National Co-ordinator may be assisted by-
  - a. persons appointed by the Council;
  - b. officers in the public service seconded to the service of the Council in terms of any law regulating such secondment.
3. The conditions of service, remuneration and service benefits of the National Co-ordinator and the personnel appointed by the Council must be determined by the Council, with the concurrence of the Minister and the Minister of Finance.
4. If the National Co-ordinator is for any reason unable to perform his or her functions, the Council may designate a person in its service to act as national coordinator until the National Co-ordinator is able to resume office.

### **Finances of Council**

7. (1) The funds of the Council consist of-
  - a. money appropriated by Parliament;
  - b. grants, donations and bequests made to the Council;
  - c. money lawfully obtained by the Council from any other source, but loans raised by the Council are subject to approval of both the Minister and the Minister of Finance.
2. All money received by the Council must be deposited in a banking account in the name of the Council with a bank established under the Banks Act, 1990 (Act No. 94 of 1990), or a mutual bank established under the Mutual Banks Act, 1993 (Act No. 124 of 1993).
3. The financial year of the Council begins on 1 April and ends on 31 March of the following year.
4. The National Co-ordinator is the accounting officer of the Council and must ensure that-
  - a. proper record of all the financial transactions, assets and liabilities of the Council are kept; and
  - b. as soon as possible, but not later than three months after the end of a financial year, accounts reflecting the income

and expenditure of the Council and a balance sheet of the assets and liabilities of the Council as at the end of that financial year are prepared.

5. The accounts and balance sheet referred to in subsection (4)(b) must be audited by the Auditor-General.

### **Transitional provisions in respect of Council**

8. (1) For the purposes of this section, but subject to this Act, the council of the "National Small Business Council", an association incorporated under section 21 of the Companies Act, 1973 (Act No. 61 of 1973), and with the registration number of 96/08177/08, is deemed to constitute the Council.
2. The Director-General must-
  - a. as soon as practicable convene a meeting of the Council;
  - b. determine the procedures for the meeting; and
  - c. chair that meeting.
3. The purpose of the meeting and any subsequent meeting which may be necessary is to define a procedure for the adoption of the constitution by a representative body as contemplated in section 4(a)(i).
4. On the adoption of the constitution of the Council-
  - a. all assets, liabilities, rights and obligations of the association referred to in subsection (1) pass to the Council; and
  - b. anything done by or on behalf of the said association is deemed to have been done by the Council, subject to this Act.
5. The Director-General must as soon as practicable after the adoption of the constitution of the Council in writing notify the Registrar of Companies and the Registrar of Deeds thereof and of the relevant provisions of this section.
6. On receipt of the notification contemplated in subsection (5)-
  - a. the Registrar of Companies must deregister the association referred to in subsection (1); and
  - b. the Registrar of Deeds must make the necessary entries and endorsements in respect of any register and document in the registration office, or document submitted to that Registrar.
7. No transfer duties, stamp duties, fees or taxes have to be paid for the purposes of this section.

8. The Council constituted as contemplated in subsection (1) dissolves immediately before the first meeting of the Council constituted as contemplated in section 4(a)(i).
9. The first meeting referred to in subsection (8) must be held within one year after the commencement of this Act.

## **Chapter 3**

### **Ntsika Enterprise Promotion Agency Establishment of Ntsika Enterprise Promotion Agency**

9. The Ntsika Enterprise Promotion Agency is hereby established as a juristic person.

### **Functions of Agency**

10. (1) The main functions of the Agency are-

- a. to expand, co-ordinate and monitor the provision of training, advice, counselling and any other non-financial services to small business in accordance with the National Small Business Support Strategy;
  - b. to provide financial support to service providers that provide the services contemplated in paragraph (a);
  - c. to consult with any organ of government, the Council or a service provider in order to-
    - i. facilitate the provision of business advice and counselling services to small business;
    - ii. facilitate access by small business to raw material and other products;
    - iii. facilitate international and national market access for products and services of small business; and
    - iv. generally, strengthen the capacity of-
      - (aa) service providers to support small business; and
      - (bb) small business to compete successfully in the economy; and
  - d. to formulate and co-ordinate a national programme of policy research, collection and dissemination of information concerning small business.
2. Other functions of the Agency are-
- a. to investigate, at the request of the Director-General, the effect of existing and proposed legislation on small business, and to report to the Director-General thereon;
  - b. to provide information and analysis on the implementation of the National Small Business Support Strategy to organs

- c. of government-
  - c. to make recommendations to organs of government on existing and proposed policy affecting small business; and
  - d. to improve the general understanding of the public regarding small business' contribution to the South African economic growth, job creation and welfare.
3. The Agency must perform its functions in accordance with this Act and its constitution.

## **Board of Directors of Agency**

11. (1) The Agency is managed and controlled by a Board of Directors consisting of-
- a. no fewer than seven, and no more than 15 persons, appointed by the Minister;
  - b. the Chief Executive Officer appointed by the Minister on the recommendation of the Board; and
  - c. if the Board so elects, no more than five persons, appointed by the Board in an expert or representative capacity.
2. The directors of the Board must be persons who-
- a. have experience in business or administration; or
  - b. on account of their training or experience-
- i. are knowledgeable about trade, industry, finance or the economy; or
  - ii. have legal knowledge of matters pertaining to small business; or
- c. have experience of matters connected with, and of problems experienced by, small business or any small business enterprise; and
  - d. comply with other criteria which the Minister may prescribe.
3. (a) The Minister must, by notice in the Gazette and in two newspapers which have general circulation throughout the national territory, invite nominations for directors to the Board referred to in subsection (1)(a) and (b).
- a. The directors referred to in subsection (1)(a) and
  - b. must be appointed by the Minister from nominations received from small business organisations, service providers and any other person involved in small business promotion and support.
  - c. The Minister may, in terms of the criteria referred to in subsection (2), appoint persons-

- i. other than those nominated, if sufficient persons who meet the criteria are not nominated; or
  - ii. if there are insufficient nominations lodged within the period specified in the notice.
- 4. For each director of the Board, other than the Chairperson and the Chief Executive Officer, the Minister may appoint an alternate director, who may attend and vote at meetings of the Board on behalf of a director if that director is unable to attend.
  - 5. All members of the Board, except the Chief Executive Officer, must serve in a part-time capacity.
  - 6. (a) The Minister, with the concurrence of the Minister of Finance, determines the remuneration and allowances of directors, alternate directors and co-opted directors of the Board who are not in the full-time service of the State.
  - b. Persons referred to in paragraph (a) who are in the service of the State may not receive additional remuneration or allowances for serving on the Board, but may be reimbursed for expenses incurred in the performance of their functions in such last-mentioned service.

### **Rights and responsibilities of Board**

- 12. The Board will have all of the rights and responsibilities consistent with those which are normally accorded to a board of directors in terms of the Companies Act, 1973 (Act No. 61 of 1973), and that are consistent with this Act.

### **Constitution of Agency**

- 13. Subject to this Act and the National Small Business Support Strategy, the constitution of the Agency must, among others, provide for-
  - a. the appointment of the additional directors of the Board referred to in section 11 (1)(c);
  - b. the tenure of directors of the Board;
  - c. the circumstances and manner in which directorship is terminated and the procedures for replacing directors.
  - d. the election of office-bearers, their functions, and the circumstances and manner in which they may be removed from office;
  - e. the rules for the convening and conducting of meetings of the Board, including the quorum required for and the minutes to be kept of those meetings;
  - f. the voting rights of the different directors and the manner in which decisions are to be made;
  - g. the establishment of any division of the Agency to perform specialised functions;

- h. the establishment and functioning of committees, including a management committee;
- i. the co-opting as a member of any person to assist the Agency or any committee in the consideration of any particular matter;
- j. the preparation by the Board, for approval by the Minister, of an annual business plan in terms of which the activities of the Agency is annually planned;
- k. subject to section 15(2), the banking and investment of funds by the Board;
- l. provisions to regulate the manner in which, and procedures whereby, expertise from any person is obtained in order to further the objects of the Agency;
- m. the determination through arbitration of any dispute concerning the interpretation of the constitution of the Agency;
- n. the delegation of powers and assignment of duties to directors, committees and employees, provided that the Board may-
  - i. not be divested of any power or duty by virtue of the delegation or assignment; and
  - ii. vary or set aside any decision made under any delegation or in terms of any assignment;
- o. a procedure for amending the constitution.

### **Staff of Agency**

- 14. (1) Work incidental to the performance of the functions of the Agency is performed by a Chief Executive Officer appointed as contemplated in section 11(1)(b).
- 2. The Chief Executive Officer may be assisted by-
  - a. persons appointed by the Board;
  - b. officers in the public service seconded to the service of the Agency in terms of any law regulating such secondment.
- 3. The conditions of service, remuneration and service benefits of the Chief Executive Officer and the personnel appointed by the Board must be determined by the Board, with the concurrence of the Minister and the Minister of Finance.
- 4. If the Chief Executive Officer is for any reason unable to perform his or her functions, the Board may designate a person in the service of the Agency to act as chief executive officer until the Chief Executive Officer is able to resume office.

### **Finances of Agency**

15. (1) The funds of the Agency consist of-

- a. money appropriated by Parliament;
  - b. grants, donations and bequests made to the Agency;
  - c. money lawfully obtained by the Agency from any other source, but loans raised by the Agency are subject to approval of both the Minister and the Minister of Finance.
2. All money received by the Agency must be deposited in a banking account in the name of the Agency with a bank established under the Banks Act, 1990 (Act No. 94 of 1990), or a mutual bank established under the Mutual Banks Act, 1993 (Act No. 124 of 1993).
3. The financial year of the Agency begins on 1 April and ends on 31 March of the following year.
4. The Chief Executive Officer is the accounting officer of the Agency and must ensure that-
- a. proper record of all the financial transactions, assets and liabilities of the Agency are kept; and
  - b. as soon as possible, but not later than three months after the end of a financial year, accounts reflecting the income and expenditure of the Agency and a balance sheet of the assets and liabilities of the Agency as at the end of that financial year are prepared.
5. The accounts and balance sheet referred to in subsection (4)(b) must be audited by the Auditor-General.

### **Drafting and adoption of constitution of Agency**

16. (1) The Director-General must as soon as practicable after the appointment of the directors of the Agency contemplated in section 11 (1)(a) and (b), and thereafter as often as may be necessary, convene a meeting of those directors in order to draft and adopt the constitution of the Agency.
2. The Director-General must determine the procedures for the meeting contemplated in subsection (1) and must chair that meeting.

### **Transitional provisions in respect of Agency**

17. (1) On the adoption of the constitution of the Agency in terms of section 16(1)-
- a. all assets, liabilities, rights and obligations of "Ntsika Enterprise Promotion Agency", an association incorporated under section 21 of the Companies Act, 1973 (Act No. 61 of 1973), and with the registration number of

- 95/02675/08, pass to the Agency; and
- b. anything done by or on behalf of the said association is deemed to have been done by the Agency, subject to this Act.
2. The Director-General must as soon as practicable after the adoption of the constitution of the Agency in writing notify the Registrar of Companies and the Registrar of Deeds thereof and of the provisions of this section.
  3. On receipt of the notification contemplated in subsection (2)-
    - a. the Registrar of Companies must deregister the association referred to in subsection (1); and
    - b. the Registrar of Deeds must make the necessary entries and endorsements in respect of any register and document in the registration office, or document submitted to that Registrar.
  4. No transfer duties, stamp duties, fees or taxes have to be paid for the purposes of this section.

## **Chapter 4**

### **General Provisions Determination of guidelines**

18. (1) The Minister may, by notice in the Gazette, publish guidelines for organs of state in national, provincial and local spheres of government to promote small business and the National Small Business Support Strategy.
2. The guidelines referred to in subsection (1) may include guidelines on-
  - a. procedures for consultation with the Department of Trade and Industry on all proposed legislation identified by the Minister under subsection (3);
  - b. the assessment of the effect and application of legislation on small business;
  - c. co-ordination between organs of state in order to promote the consistent application of the National Small Business Support Strategy;
  - d. procedures for consultation with small business organisations, trade unions and other representative organisations;
  - e. the review of the effect of existing legislation on small business and the National Small Business Support Strategy.
3. The Minister may, by notice in the Gazette, identify the type of legislation that may have an effect on small

business and the National Small Business Support Strategy and in respect of which the consultations contemplated in subsection (2)(a) and (d) may be conducted.

## **Reports**

19. (1) (a) As soon as practicable after the end of every financial year the Council and the Agency must each compile a report on their respective activities during that year.
  - b. These reports, the respective constitutions, as well as the respective audited annual financial statements, must be submitted to the Minister, who must table them in Parliament.
2. The Council and the Agency must furnish the Minister with any such other reports as the Minister may request.
3. Entities designated by the Director-General, must in co-operation with the Director-General annually compile a review, called the Annual Review of Small Business, which must cover areas defined by the Minister or the Director-General, and areas including-
  - a. particulars of the work performed by the Agency and Council and of progress achieved in furtherance of the objects of the National Small Business Support Strategy;
  - b. summaries of any findings or recommendations of the Director-General in respect of legislation, proposed legislation and administrative practices which restrict the small business sector;
  - c. an outline of new developments and trends in regard to the small business sector in South Africa;
  - d. reports on the growth and decline of small business according to sector, size and region;
  - e. a statistical analysis of the contribution of the small business sector to the economy, to export promotion, to rural development and to the level of incorporation of marginalised groups into the economy.
3. The Director-General must submit the Annual Review of Small Business to the Minister before the end of February of each year and the Minister must table it in Parliament.

## **Regulations and amendment of Schedule**

20. (1) The Minister may make regulations regarding-
  - a. any matter which in terms of this Act is required or permitted to be prescribed; and
  - b. generally, any other matter which may be necessary or

expedient to prescribe in order to achieve the objects of this Act.

2. The Minister may, in order to achieve the objects of this Act, by notice in the Gazette amend the Schedule to account for inflation, macro-economic shifts in the economy, any legislation affecting small business, and any other matter which could have an effect on the functionality of the Schedule.

## Repeal of laws

21. (1) Subject to subsection (2), the Small Business Development Act, 1981 (Act No. 112 of 1981), the Small Business Development Amendment Act, 1984 (Act No. 54 of 1984), and the Small Business Development Amendment Act, 1990 (Act No. 16 of 1990), are hereby repealed.
2. Section 2A of the Small Business Development Act, 1981, remains in force until a date determined by the Minister by notice in the Gazette, which date shall not be earlier than 12 months after the date of commencement of this Act.

## Short title and commencement

23. This Act is called the National Small Business Act, 1996, and comes into operation on a date fixed by the President by proclamation in the Gazette.

## Schedule

(See definition of "small business" in section 1)

Column 1	Column 2	Column 3	Column 4	Column 5
Sector or sub-sectors in accordance with the Standard Industrial Classification (fixed proportion with the excluded)	Size or class	Total full-time equivalent of paid employees	Total annual turnover	Total gross asset value
		Less than	Less than	Less than
Agriculture	Medium	100	R 4.00 m	R 4.00 m
	Small	50	R 2.00 m	R 2.00 m
	Very small	10	R 0.40 m	R 0.40 m
	Micro	5	R 0.15 m	R 0.10 m
Mining and Quarrying	Medium	200	R30.00 m	R18.00 m
	Small	50	R 7.50 m	R 4.50 m

	Very small	20	R 3.00 m	R 1.80 m
	Micro	5	R 0.15 m	R 0.10 m
Manufacturing	Medium	200	R40.00 m	R15.00 m
	Small	50	R10.00 m	R 3.75 m
	Very small	20	R 4.00 m	R 1.50 m
	Micro	5	R 0.15 m	R 0.10 m
Electricity, Gas and Water	Medium	200	R40.00 m	R15.00 m
	Small	50	R10.00 m	R 3.75 m
	Very small	20	R 4.00 m	R 1.50 m
	Micro	5	R 0.15 m	R 0.10 m
Construction	Medium	200	R20.00 m	R 4.00 m
	Small	50	R 5.00 m	R 1.00 m
	Very small	20	R 2.00 m	R 0.40 m
	Micro	5	R 0.15 m	R 0.10 m
Retail and Motor Trade and Repair Services	Medium	100	R30.00 m	R 5.00 m
	Small	50	R15.00 m	R 2.50 m
	Very small	10	R 3.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
Wholesale Trade, Commercial Agents and Allied Services	Medium	100	R50.00 m	R 8.00 m
	Small	50	R25.00 m	R 4.00 m
	Very small	10	R 5.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
Catering, Accommodation and other Trade	Medium	100	R10.00 m	R 2.00 m
	Small	50	R 5.00 m	R 1.00 m
	Very small	10	R 1.00 m	R 0.20 m
	Micro	5	R 0.15 m	R 0.10 m
Transport, Storage and Communications	Medium	100	R20.00 m	R 5.00 m
	Small	50	R10.00 m	R 2.50 m
	Very small	10	R 2.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
Finance and Business Services	Medium	100	R20.00 m	R 4.00 m
	Small	50	R10.00 m	R 2.00 m

	Very small	10	R 2.00 m	R 0.40 m
	Micro	5	R 0.15 m	R 0.10 m
Community, Social and Personal Services	Medium	100	R10.00 m	R 5.00 m
	Small	50	R 5.00 m	R 2.50 m
	Very small	10	R 1.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m

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