

ECONOMIC BEHAVIOUR IN SOUTH AFRICA'S INFORMAL ECONOMY

Report to the Conflict and Governance Facility (CAGE)

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1 Introduction

The persistence of high levels of unemployment, poverty and inequality are widely recognised as major socio-economic challenges for South Africa. The informal economy is often seen as an important component in expanding economic participation. However, the conceptualisation of what this practically means is not always played out. The expansion of the informal economy can have a positive effect on poverty if it arises as an off-shoot of a rapidly growing formal sector. It can reflect worsening poverty where it is stimulated by a collapsing formal economy or alternatively is caused by firms seeking to evade the regulatory and tax net.

This report contributes to a larger project that seeks to understand the competitive behaviour of informal firms in a growing economy. This is relevant in SA where the formal economy dominates, and both output and employment are growing more rapidly than in the informal economy. In this situation, the informal economy does not appear to be dragging incomes down. But will informal economic activity be stimulated or crowded-out by a rapidly expanding formal economy? If the formal economy continues to expand, might informal activity grow at a faster, similar or slower pace? Might informal activity even shrink as the formal economy expands?

There is no deterministic answer to this question. A number of variables will affect the respective growth of formal and informal activity. This particular project focuses on the competitive decisions made by informal firms. In particular, we focus on the character of competition between formal and informal firms, and also between informal firms. This will help shed light on whether and how informal firms adapt to competitive conditions: the more strategic, the better able to adapt as these conditions change. It will take some time to develop knowledge on these questions and this project is aimed at stimulating more research work and policy insights.

The HSRC, School of Development Studies and IFPRI joined forces to develop a project that would offer some initial insights through a multi-methodology approach. The project is funded by the HSRC, the Department of Trade and Industry, and CAGE. The larger project has the following principal components: a background conceptual paper; a social accounting matrix (SAM) to explore the flows and relationships between the formal and informal economy; an experimental computable general equilibrium (CGE) model that incorporates specific characteristics to South Africa's informal economy; and a pilot survey of the informal economy. The pilot survey was intended to feed into a possible larger informal economy survey, and could also be used to refine the SAM and CGE model depending on its outcome.

CAGE funded the pilot survey in this larger project. This report reviews the methodology and findings of this pilot survey. It specifically focused on the behaviour of 100 informal retailers in four different locations in the Durban area.

2 Background

South Africa's small but burgeoning informal economy is very poorly understood. In particular, there is little knowledge of how it interacts with formal economic activity. Given the importance of the informal economy for livelihoods and social protection there should be a better understanding, particularly as government and civil society mobilise to halve unemployment and poverty.

Table 1 - Employment status ('000s)

	Sep'01	Sep'02	Sep'03	Sep'04	Sep'05	Sep'06
Informal economy employment						
Informal (excl agric)	1,967	1,780	1,903	1,946	2,462	2,379
Domestic work	881	844	895	881	859	886
Informal agriculture	383	551	366	426	338	473
Total informal - excl agric	2,848	2,624	2,798	2,827	3,321	3,265
Formal economy						
Formal sector (excluding agriculture)	7,027	7,181	7,373	7,692	7,987	8,384
Agriculture	766	857	833	631	579	606
Total formal	7,793	8,038	8,206	8,323	8,566	8,990
Total non-agricultural employment	9,875	9,805	10,171	10,519	11,308	11,649
Total employment (excl subsis agric)	10,641	10,662	11,004	11,150	11,887	12,255
Avg annual employment growth						
FS (non agric) empl growth		2.2%	2.7%	4.3%	3.8%	5.0%
FS empl growth		3.1%	2.1%	1.4%	2.9%	4.9%
IFS (non agric) empl growth		-7.9%	6.6%	1.0%	17.5%	-1.7%
Source: StatsSA, Labour Force Surveys						

According to the Labour Force Surveys, the numbers employed in informal firms has grown quite substantially since the mid 1990s. Between 1997 and 2005, about 1.1 million jobs were created in the informal sector.^{1 2}

¹ This includes the usual definition of informal sector, domestic work, and unpaid labour, but excludes subsistence agriculture.

Table 1 offers an overview of employment trends between 2001 and 2006. Over this period, the informal economy, excluding subsistence agriculture, grew by about 400,000 jobs. Informal firms (19.4%) and domestic workers (7.2%) accounted for about one-quarter of total employment, as seen in table 2. GDP and non-agricultural formal employment growth accelerated over the period, both reaching between 4% and 5% pa. However, a discernable employment trend in the informal sector is elusive. We are not sure whether the large variations are a statistical problem, as informal sector surveys are still new in South Africa. Alternatively, there may be some poorly understood underlying dynamic that contributes to this variability.

Table 2 - Distribution of employment by sector in South Africa (%)

	2001	2002	2003	2004	2005	2006
Formal	73.2%	75.4%	74.6%	74.6%	72.1%	73.4%
Informal (excl subsis agric)	18.5%	16.7%	17.3%	17.5%	20.7%	19.4%
Domestic	8.3%	7.9%	8.1%	7.9%	7.2%	7.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Sept LFS

Notes: Figures exclude subsistence agriculture which tends to vary considerably each year

It is seen as surprising that the informal sector is so small in the context of high open unemployment. There is little certainty as to why the unemployment rate is so high and persistent and the informal sector so small. Amongst the possible explanations, we will put forward four (see Altman, 2007):

- first, there are barriers to entry and accumulation, associated with the apartheid legacy as well as current day problems like high crime rates in urban townships.
- second, SA has a highly capital intensive structure of production and services, that penetrate deep into all markets. Most informal activity depends somehow on formal firms, particularly in its sourcing of inputs (Valodia et al, 2007). There are few production linkages in the informal economy: most informal retailers appear to repackage goods bought from the formal sector. Within given consumer demand, consumers may prefer to buy from formal firms with known brands

² To some unknown extent, this growth may simply reflect the improvement of household statistics: a number of earlier area case studies show that, at least in peri-urban townships near Johannesburg and Durban, perhaps 30% to 50% of households were engaged in some informal economic activity in the 1970s and 1980s (Valodia & Devey, 2007).

and credit facilities, than from less reliable and more costly informal sellers. Informal sellers tend to do well when they have a specific niche, like being able to sell small quantities that can be purchased on a daily basis when money is available. This might explain the why there are so few informal firms. It may also explain unemployment, since labour productivity is higher in formal companies.

- Third, there is relatively strong regulatory compliance by formal firms. Comparatively speaking, South Africa has rule of law and high and rising tax compliance. Since the mid-1990s, the SA Revenue Service and tax system underwent major reform which has resulted in substantial increases in tax revenues. Some of these changes included improvement to bureaucratic processes, closing loopholes, lowering of corporate tax rates, making the tax system more progressive, offering alternative forms of business or tax registration for very small activities. Well-enforced urban regulations and a continued policy of urban orderliness make formal activity easier than informal. It will also be shown that earnings amongst informal firms tends to be less than half that in formal firms for a given level of educational attainment and experience, especially for those with more than a high school education. So, it does not appear that there are strong similarities between formal and informal firms, nor does it seem that there is a large shadow economy that competes on this basis.
- fourth, it must be asked whether unemployment is completely structural or whether also demand deficient. If so, this would have additional policy implications requiring some new demand stimulant. In SA, demand deficient unemployment could have arisen as a result of extremely low incomes and assets amongst the majority of the population in the context of a middle income economy. Additionally, for many years the state pulled back its spending on infrastructure and public employment. Policies have been implemented to have some impact on demand, with recent large commitments to infrastructure spending, the expansion of social grants, or the setting of minimum wages across a large number of industries. However, growing demand would not necessarily lead to a larger informal sector. Instead, it is also possible that consumers would direct their purchases to formal firms.

In this study, we are specifically concerned with the second set of questions. We want to generate new insights into the competitive behaviour of informal firms, and the extent that they strategically adapt to market conditions. This could impact on whether the informal sector shrinks or grows with the rest of the economy. For example:

- As the South African economy continues to grow and incomes increase, it is possible that large formal retailers move into spaces that informal retailers presently occupy (there is some evidence that this is already occurring) and that many consumers, now with higher incomes, will no longer purchase in very small quantities in the informal sector. This will undermine the competitive advantage of informal retailers who will be displaced by formal ones. This may well be a desirable outcome, since informal activities will now be moved into the formal economy with all of the desirable legislative and tax considerations. But there may also be undesirable outcomes, such as the displacement of informal retailers who would lose their livelihoods.



- Alternatively, there might be a pro-cyclical relationship between formal and informal retailers, so that a growth in formal retailing facilitates a growth in informal retailing. We have some evidence in our survey that informal retailers tend to locate in close proximity to formal retailers – there is clearly some advantage to being located near a consumer base. The argument here is that small informal retailers ‘feed off’ large retailers, offering a special convenience service (it may be smaller packaging). In this case, informal retailers offer a product that is an imperfect substitute for formal sector products. Although there is some competition between formal and informal retailers, the advantage of being close to a formal retailer outweighs the costs of competing with formal retailers. In this scenario, growth in formal retailing into previously informal trading spaces may well facilitate a growth in informal retailing.

A pilot survey was undertaken, aimed at testing questions about the competitive behaviour of informal retailers. The more strategic behaviour found, the more likely that formal and informal activity might grow together. The more informal firms behave unstrategically, the more probable they would be crowded out by growing formal firms. The reasoning is that in dynamic market conditions, we want to know whether informal firms have capabilities that show they might adapt.

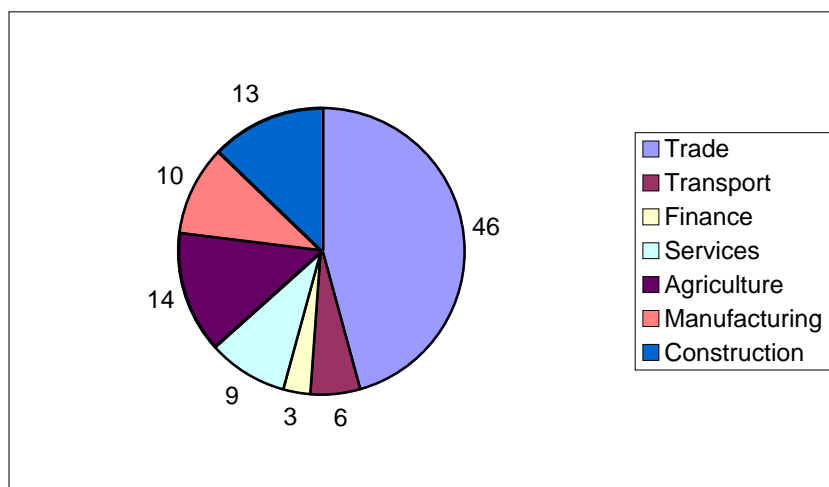
Some of the issues that we sought to explore in the survey include:

- *Do informal retailers compete on product?* For example, do informal retailers explicitly sell a superior or inferior product? Do they identify special product niches that might be profitable, or do they copy each other and draw down potential profits? Do they diversify their product range to reduce risk, or sell few products? Do they sell products because they are easily available as inputs or because they are in demand? Do they identify niches that are hard to fill by larger formal retailers?
- *Do informal retailers compete on price?* Do informal retailers price their product strategically to attract customers away from formal or informal competition? Are prices fixed or flexible relative to input costs and customer demand? Do they collude?
- *Do informal retailers compete on their sourcing strategies?* Do informal retailers have links to lower cost or specialised suppliers that make their product more competitive, or at least allow for some special market niching?
- *Do informal retailers compete on location?* Do informal firms locate strategically or do they go where they are able? Do they take cognisance of formal retailers and other informal retailers in choosing their site, identifying special niches? Are there some agglomeration advantages?
- *Do informal retailers compete on the advantages of informality?* Is informality a strategic choice? For example, do firms hide from legislation? Are they motivated to be an entrepreneur and in the informal sector for lack of capital or other advantages? Are they in the informal sector as a fall back option, in the hope they will find a formal job?

3 Sites and questionnaire

The present study was a pilot survey, aimed at testing ways of exploring specific hypotheses about economic decision-making amongst informal retailers.

Figure 1 – Informal enterprises by sector (%)



(Source: LFS, September 2005)

The study focused on retailing since it is the main informal activity in South Africa, as seen in figure 1. There are also certain areas of informal economy growth, such as construction, transport or repair, that should be studied if a larger survey were undertaken. The pilot survey was undertaken in the Durban area. Four sites were selected, each a node for informal retailing in a cross-section of the city:

- the Warwick Junction (an urban, inner-city location)
- Pinetown (an urban concentration)
- KwaMashu (a township)
- Isipingo (an urban concentration not in the city centre).

The four sites each have quite unique characteristics, thus offering some diversity amongst the sites.

Warwick Junction, a precinct in the inner city of Durban, currently contains over 5,000 street traders and many other informal workers like waste collectors. In 1997, the city council launched a project to redevelop the area, with a particular focus on

trading and employment opportunities. The area is a major transport hub for the city, with commuters often changing from one mode of transport to another (e.g. from taxi to train) or between service providers. The informal trade in the area is largely passing trade, with consumers often purchasing goods in very small quantities.

Pinetown's informal retail trade is concentrated in the southern part of the Durban area. It is linked to the transport system, but primarily to bus and taxi services. Pinetown's informal retail is much smaller and more spread-out than Warwick's. It caters for a mix of passing trade and more purposeful purchasing from residents of Pinetown's townships.

KwaMashu, in the north of Durban, is one of the largest townships in the city. The retail trade is concentrated in KwaMashu 'town' – the retail centre for the township. Like Pinetown, the trade is more spread out and smaller. It is less linked to the transport network and is focused on purposeful retail purchasing on the part of consumers.

Isipingo, in the south of the city, is an urban concentration close to Umlazi, the largest township in Durban. It serves both as a sub-hub for transport to the south of the city and further to the south coast of KwaZulu-Natal. The distinctive feature of the retail trade in Isipingo is that it is more purposeful purchasing of larger quantities of goods. Many residents of the southern townships and in towns along the south coast would specifically travel to Isipingo to purchase goods.

This was a small pilot survey aimed at generating indicative findings. As such, it should be remembered that the sample is not representative and findings should not be generalised. The objective was to pilot a survey to explore economic behaviour in the informal economy, to test some hypothesis and to assess the efficacy and reliability of the questionnaire.

A draft outline of the questions to be explored was generated at a workshop of the research team and a draft questionnaire was prepared. We then approached three survey companies and asked them to submit proposals for conducting the survey. Data Research Africa (DRA) was selected to conduct the survey. DRA assisted us to finalise the questionnaire, to train the field team and to pilot the survey before embarking on the fieldwork. The final questionnaire is attached as Appendix B.

4 Findings

4.1 Profile of traders

Table 3 shows the main activities of the respondents in total and by survey site. Half of our sample is made up of vegetable sellers. Together with sellers of fruit, our sample is made up of some 85% of sellers of perishable food products. This skewness is appropriate for two reasons. It accords broadly with the pattern of informal trade in the Durban urban concentrations (see Skinner, 2005) and the survey was designed to explore pricing behaviour. We therefore chose activities where prices might fluctuate on a day-to-day basis.

Table 3 - Activities of traders

Fruit	35
Vegetables	50
Bread	7
Cardboard	8
Total	100

Table 4 shows the traders' activities by the four sites that were chosen.

Table 4 - Activities of traders by survey site

	Survey Site				Total
	Warwick	Pinetown	KwaMashu	Isipingo	
Fruit	8	6	12	9	35
Vegetables	15	17	9	9	50
Bread	1	2	1	3	7
Cardboard	1	0	3	4	8
Total	25	25	25	25	100

Figure 2 shows that most traders sold the same good all the time. Figure 3 reinforces this point – we see that most respondents did not even consider selling other goods.

Figure 2 – Do you sell the same goods all the time or do you change?

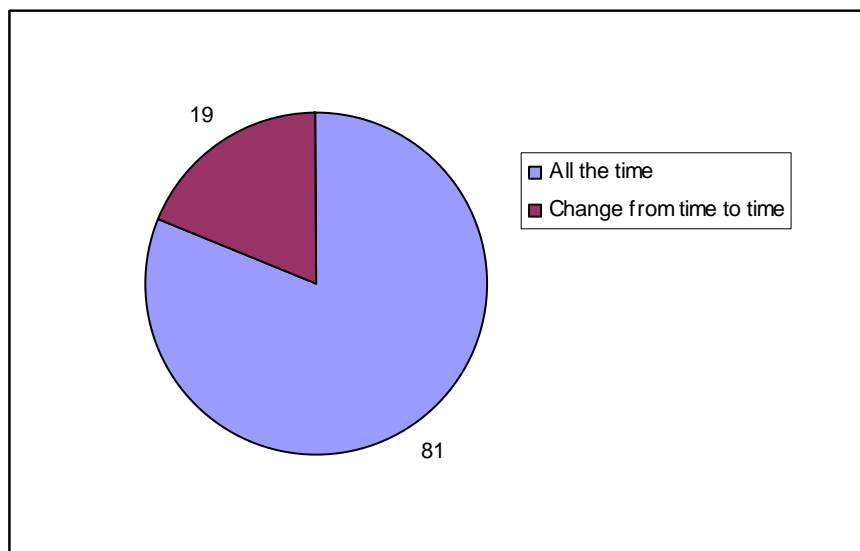
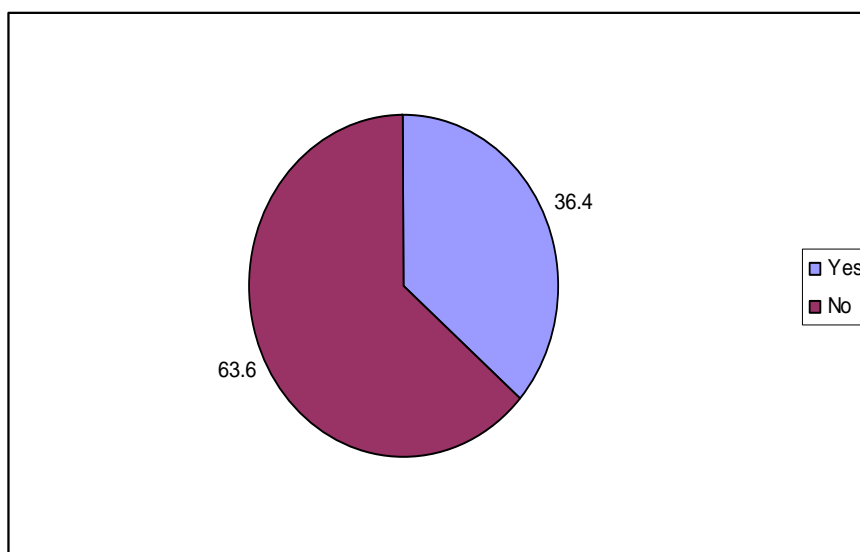


Figure 3 – Have you ever considered selling any other type of goods?



There are, however, some subtle differences in traders' choices about what goods to sell in the different sites. The behaviour of traders in Isipingo and Warwick appears to differ slightly from the other two sites, with a larger number of traders having considered selling other goods. As we shall see, Isipingo in particular has a longer history of informal trading, and this may be the reason why traders at that site seem to have looked at different options for their trading activities. In other words, traders who have been involved in informal retailing for a longer period may be less risk averse and therefore may be more open to exploring other opportunities in the informal economy.

Table 5 - Have you ever considered selling any other type of goods, by site

	Site				Total
	Warwick	Pinetown	KwaMashu	Isipingo	
Yes	10	7	6	13	36
No	14	18	19	12	63
Total	24	25	25	25	99

Although the survey was directed at traders, the precise nature of the goods sold was asked in an open-ended question. In total, 49 different products were specified. Table 6 lists the goods and shows the number of sellers selling them.

Table 6 - Goods sold and number of sellers

Description	No. of sellers
Onions	53
Tomatoes	50
Apples	44
Potatoes	39
Oranges	38
Bananas	34
Green peppers	25
Cabbages	21
Pears	20
Carrots	19
Sweets	14
Bread	12
Cardboard	8
Chips	8
Chillies	7
Naartjies	7
Butternut	6
Cakes	5
Cigarettes	5
Plastics	5
Snacks	5
Amadumbes	4
Drinks	4
Garlic	4
Grapes	3
Green beans	3
Pineapples	3
Spinach	3
Cosmetics	2
Curry leaves	2
Ginger	2

Description	No. of sellers
Peaches	2
Samp	2
Savlon	2
Toilet paper	2
Voda phones	2
Airtime, Avocado, Biscuits, Brooms, Clothes, Cooked meat, Curry powder, Impepho, Lemons, Limes, Mealies, Peanuts, Zulu beer	1 each

Sellers typically sell more than one product. Table 7 shows the frequency of each number. Thus, 19 respondents reported selling three products, with 11 being the highest number and 4.8 the mean number.

Table 7 - Distribution of number of goods sold

Number of goods	Frequency
1	6
2	11
3	19
4	10
5	18
6	12
7	8
8	13
9	1
10	0
11	2
	100

For purposes of analysis, it would be useful to aggregate these commodities into a smaller number of groups. We can do this either by classifying goods on *a priori* criteria – ‘vegetables’, ‘fruit’, etc. – or by seeing what clusters emerge from the respondents as groups of goods that are typically sold together. The latter has the appeal of identifying the range of products that are typically chosen by traders. Unfortunately, only two clusters emerge clearly from the data. Cardboard and plastics are never traded with any other goods. All other goods are connected in some way. For example, although bread is never sold directly with onions, it is sold with other vegetables that are sold with onions. We can thus identify a ‘cardboard-plastic’ cluster and an ‘all others’ cluster. We have experimented with partitioning goods according to the frequency with which they are sold together, imposing a cut-off that goods will belong to the same cluster only if 80% or more of sales are together. However, this does not permit a clean partitioning either.

The multi-product nature of most traders poses interpretive problems for some of the questions we asked, as indeed it does for surveys of formal firms. For example, when

respondents indicated they had never considered selling other types of goods (see Figure 3 above), did they mean that they had never considered selling anything other than 'fruit', or anything other than 'bananas', 'apples', 'oranges' and 'pears'? Our intuition is the former, since the question was about the 'type' of good and came soon after one related to their self-classification in the questionnaire. However, the analysis of clusters of goods sold showed that many respondents sold combinations of goods that fall into different types: for example, apples (fruit) with onions (vegetables). We have to assume that the respondents referred to the dominant type, but cannot be certain how they were deciding. This poses problems for questions related, for example, to price setting behaviour, and is something that will have to be addressed in future studies.

Figure 4 reports on when traders first entered the informal economy. As is to be expected, most traders entered the informal economy after 1995, when informal trading regulations in the urban city, which previously legislated against informal trading, were not vigorously enforced. Surprisingly though, a significant number of traders began trading earlier. Perhaps these traders operated in the townships and moved into the urban areas as the regulations were relaxed.

Figure 4 – Year you began trading in the informal sector

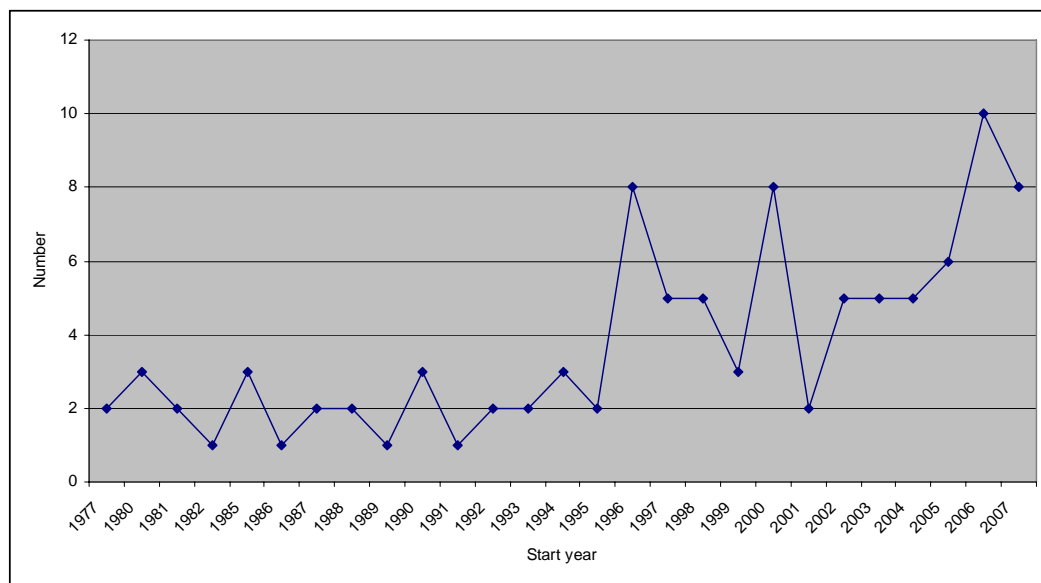


Table 8 shows that there are some important differences by site. It appears that retailers in the Isipingo area have been active in the informal economy for a longer period of time. Interestingly, the township site appears to have the most recent entrants into the informal economy. These results are somewhat unexpected. We would expect that, given that *apartheid* legislation restricted small-scale economic activity in urban centres and this was implemented less vigorously in the townships, informal retail activity would have been more mature in the township areas. There may be two explanations for this unexpected pattern. First, it may simply be the outcome of selection bias. That is, we simply selected older enterprises in the sample and this has no relationship to reality. As this is a pilot survey, this may well be the case. However, based on what is known about the informal economy in the Durban

area (see Skinner, 2003 and Lund, 1998), Isipingo, being close to the large township of Umlazi but being an urban commercial centre, has been the site of a longer history of urban informal economic activity in the Durban area.

Table 8 - Year you began trading in the informal sector, by site

	Site				Total
	Warwick	Pinetown	KwaMashu	Isipingo	
0-5 years	9	10	12	8	39
6-10 years	6	6	5	6	23
11-15 years	5	6	4	2	17
16-20 years	2	2	1	4	9
>20 years	3	1	3	5	12
Total	25	25	25	25	100

One of our prior hypotheses was that the informal economy in South Africa, as elsewhere, is made up of two primary groups: those who have entered it because it offers the only means of surviving and those who have entered for more entrepreneurial reasons. We would expect high informal sector participation where there is a lack of formal income earning opportunities or where incomes from formal sources are low. But even when this is not the case, we would also expect some informal participation by what are essentially small businessmen. In the international literature, these entrepreneurs are often seen to be evading too onerous legislation and bureaucratic procedures, and therefore choose to operate in the informal economy. There is a growing international debate (see Maloney *et al.*, 2007) about whether the informal economy is primarily survivalist or entrepreneurial. The evidence in South Africa suggests that most informal workers are survivalist.

The terminology ‘survivalist’ and ‘entrepreneurial’, which is used in the literature, may carry misleading connotations. People who enter out of necessity may find they do better than merely survive, while many entrepreneurs may be close to bankruptcy. Furthermore, the motivations for entering the sector may not be the same as the motivation for subsequently remaining in it. To avoid these connotations, we will refer to ‘fall back’ and ‘self-motivated’.

Our expectation is that the economic behaviour of these two groups will differ in a number of respects. Our survey was intended to allow us to make a distinction between them and to consider whether this hypothesis might be correct. We need to begin by identifying which of the respondents fall into these categories.

Table 9 shows that those trading in the informal economy would prefer employment in the formal sector, and are only trading because they cannot find employment. Although not shown here, there are no differences evident by the traders’ site.

Table 9 - Reasons for entering informal trading

Reason	Percent
Lack of employment	63.6
I love selling	8.1
Want to be self employed	6.1
Uneducated	5.1
Other	4.0
It's the only thing I can do	3.0
Easy way to get income	3.0
Saw it as an opportunity	2.0
Company I worked for closed down	2.0
Want to own my own business	1.0
Family business	1.0
Disability	1.0
Total	100.0
Want to own my own business	1.0
Family business	1.0
Disability	1.0
Total	100.0

Tables 10 and 11 provide information on incomes and banking services among survey participants. We see that incomes tend to fluctuate, but a surprisingly high level (34%) of traders reported that their incomes were steady. A high number (82%) of traders did not have a bank account. Although we would expect informal entrepreneurs to use banks less than their formal counterparts, the low use of banks is consistent with our view that most of the participants are survivalists.

Table 10 - Availability of steady income

Availability of steady income	Percent
Steady	34.0
Fluctuate	66.0
Total	100.0

Table 11 - Maintenance of a bank account separate from private family account

Bank account	Percent
Yes	9.0
No	9.0
Hold no bank account at all	82.0
Total	100.0

Related to the above results, as shown in table 12, most traders used their own capital resources to begin their trading activities.

Table 12 - Source of capital to start business

Source	Percent
Did not need any capital	6.0
Used own capital	79.0
Used household capital	4.0
Borrowed money from friends/relatives	8.0
Personal loan from private lender	3.0
Total	100.0

4.2 Location

This study sought to explore reasons why traders choose their particular sites. Figures 5 and 6, respectively, show how close traders are to other informal traders selling the same or similar goods and to formal retailers. It is evident that informal retailers tend to be clustered closely together. Informal traders also trade in close proximity to formal traders, but the distance is greater than between informal traders. This suggests that the retail trade is located in specific areas of the city, with formal and informal traders reaping the benefits of agglomeration. We see further evidence of this 'agglomeration' issue in table 17 which explores the factors that affect informal traders' choice of site for trading. Almost half of the traders choose to be close to others selling similar products.³

Table 13 provides some important information of what informal traders' advantages may be in relation to formal retailers. Informal retailers tend to locate very close to transport routes and in spaces where large numbers of pedestrians congregate to access transport services. In this way, informal traders may essentially be offering a 'service' – selling goods at convenient locations.

³ Note that many traders reported not having a choice about their trading site. They traded on sites that were allocated to them by the local government authorities.

Figure 5 – Distance in metres from other informal traders

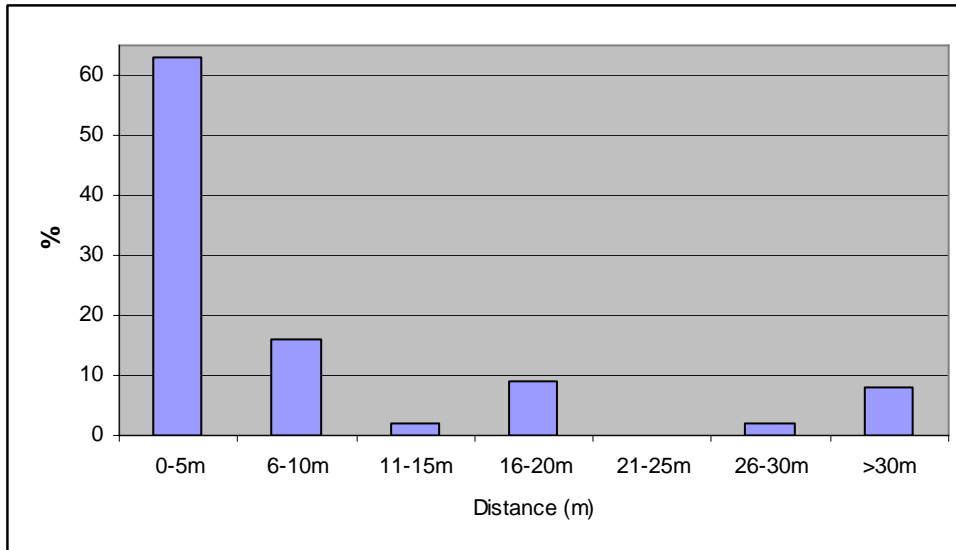


Figure 6 – Distance in metres from formal traders

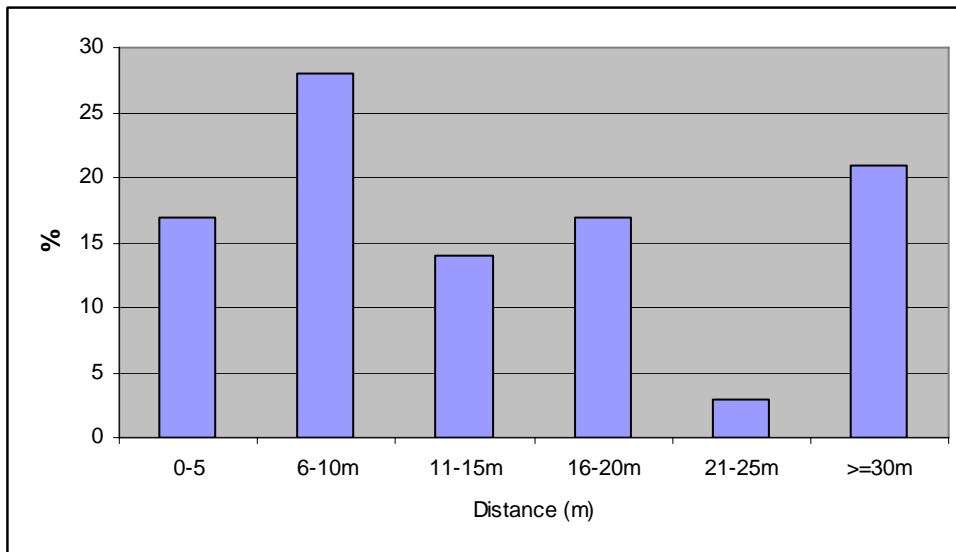


Table 13 - Proximity of informal trading sites to transport network

Frequency	Percent
Other	4.0
Missing	1.0
Close to taxi rank	37.4
Close to bus rank	4.0
On a main transport route	31.3
Near school	1.0
Many pedestrians pass the business	17.2
Main shopping centre	5.1
Total	100.0

As is evident from Table 14 to Table 16, there are some nuanced differences in location among the different sites. Again, the Isipingo site appears to differ somewhat from the other sites, with informal traders somewhat closer to each other and to the formal retailers than in other sites. Table 16 shows that the Isipingo and Pinetown sites are integrated more comprehensively into the transport networks of the city – Isipingo serving as a sub-hub for the south of Durban and the South Coast, and Pinetown for the west of the city. The Warwick site, on the other hand, is very closely integrated with specific modes of transport.

Table 14 - Distance in metres from other informal traders, by site

Distance	Warwick	Pinetown	KwaMashu	Isipingo	Total
0-5m	1	2	3	4	10
6-10m	9	16	16	22	63
11-15m	8	4	3	1	16
16-20m	1	0	1	0	2
21-25m	3	4	1	1	9
26-30m	1	0	1	0	2
>30m	3	1	2	1	7
Total	25	25	25	25	100
mean	15.6m	8.2m	24.6m	6.5m	13.7m

Table 15 - Distance in metres from formal traders, by site

Distance	Warwick	Pinetown	KwaMashu	Isipingo	Total
0-5m	8	1	4	4	17
6-10m	7	5	7	9	28
10-15m	1	5	5	3	14
16-20m	2	6	4	5	17
21-25m	0	3	0	0	3
>30m	7	5	5	4	21
Total	25	25	25	25	100
mean	30.0m	27.5m	20.6m	16.6m	23.7m

Table 16 - Proximity of informal trading sites to transport network by site

	Site				Total
	Warwick	Pinetown	KwaMashu	Isipingo	
Other	0	0	1	3	4
Close to taxi rank	12	6	14	5	37
Close to bus rank	2	2	0	0	4
On a main transport route	8	10	4	9	31
Near school	0	0	0	1	1
Many pedestrians pass the business	3	6	2	6	17
Main shopping centre	0	1	3	1	5
Total	25	25	25	25	99

Table 17 - Factors influencing choice of sales site

Factor	Percent
Close to other informal traders that sell similar products	48.0
Close to other informal traders who sell very different products	22.0
Far from other informal traders that sell similar products	4.0
None of the above	26.0
Total	100.0

Table 18 again shows that traders in Isipingo operate in somewhat different circumstances to other informal retailers in Durban.

Table 18 - Factors influencing choice of sales site, by site

	Site				Total
	Warwick	Pinetown	KwaMashu	Isipingo	
Close to other informal traders that sell similar products	11	19	12	6	48
Close to other informal traders who sell very different products	5	4	5	8	22
Far from other informal traders that sell similar products	1	0	1	2	4
None of the above	8	2	7	9	26
Total	25	25	25	25	100

4.3 Enterprise characteristics

Table 19 provides some insights into the nature of informal trading in our selected sites. 95% of traders buy in bulk and sell in smaller quantities. Taken with the earlier information about the convenience service that informal traders provide for their customers, this is an important finding and suggests a key service that informal traders provide is that of selling in quantities that are more suitable for low-income consumers.

The rest of table 19 provides insights into the nature of margins in the informal economy. Informal traders are flexible to price increases and decreases. However, price changes do seem to pose a burden since they probably lack any market control. So when their input costs rise, 79% said they can pass on only part of the increase to their customers. When input costs fall, 55% said they reduce their prices. Like the formal retail trader, informal traders sell at a fixed price to their customers (ie they do not price discriminate) and they seem to have a diverse consumer base.

Table 19 - Approach to pricing

Factor	True	False
I buy in bulk and sell in smaller quantities	95	5
When the price of my purchases go up, I increase the prices that I charge by the same amount	23	77
When the price of my purchases go up, I increase the prices that I charge by a smaller amount	79	21
When the price of my purchases go up, I am unable to increase my selling price	33	67
When the prices of my purchases fall, I decrease the price of my sales	55	45
When the prices of my purchases fall, I do not decrease the price of my sales	26	74
Compared to last month, the price of my purchases has gone up	74	26
Compared to last month, my selling price has gone up	70	30
I always sell to the same customers	11	89
I charge my customers the same price	86	14

We are able to discern some interesting differences in enterprise characteristics in the different sites surveyed. In Warwick and Pinetown, all the respondents were buying in bulk and selling in smaller quantities. All but one of the traders were operating in this fashion in KwaMashu. However, in Isipingo, four of the 25 traders were not primarily involved in regrating. Although this difference may, by itself, not be significant combined with other data, it does suggest that the Isipingo site differs in important respects from the other informal trading sites that were surveyed.

Table 20 provides some evidence on how these differences may allow informal traders to operate differently in terms of their pricing and mark-up behaviour. Whereas in Warwick, a heavily traded area selling fairly standardised items, traders appear to find it difficult to maintain their margins, this is not the case in Isipingo and Pinetown. The number of years that the informal trader has been operating does not appear to have any systematic relationship to the ability to maintain margins, i.e. newer entrants do not appear to behave any differently in the respective sites.

Table 20 - When the price of my purchases goes up, I am unable to increase my selling price, by site and number of years in business

		Number of years in business					Total
		0-5 years	6-10 years	11-15 years	16-20 years	>20 years	
Warwick	True	7	4	2	2	3	18
	False	2	2	3	0	0	7
	Total	9	6	5	2	3	25
Pinetown	True	1	1	1	0	0	3
	False	9	5	5	2	1	22
	Total	10	6	6	2	1	25
KwaMashu	True	5	2	0	1	1	9
	False	7	3	4	0	2	16
	Total	12	5	4	1	3	25
Isipingo	True	2	0	0	1	0	3
	False	6	6	2	3	5	22
	Total	8	6	2	4	5	25

Table 21 shows that informal traders are mainly responding to market demand. They choose the particular range of goods that they sell primarily because they believe that it is what consumers want. In total, the responses in table 21 that could be deemed to reflect responses to market demand (i.e. “easy to sell”, “sells fast”, “goods always in demand”, “too many fruit and vegetable sellers” and “area good for selling fruit”) are the reason why 84% of those interviewed sold their particular mix of goods. It is interesting, however, to note that some traders’ choice of product mix was largely driven by supply side factors, i.e. by goods that were easily and reliably available.

Table 21 - Reason for trading in particular goods

Reason for trading in goods	Percent
Demand factors	
Easy to sell	27
Sells fast	24
Goods always in demand	30
Too many fruit and vegetable sellers	2
Area good for selling fruit	1
Total demand reasons	84
Supply factors	
Easily obtainable	10
Goods always available	2
Total supply factors	12
Had no choice	1
If unable to sell goods use it for own consumption	1
Other	1
Total	100

Figure 7 explores the price-setting behaviour of informal traders. More traders reported prices among other informal retailers as a very important factor in their price setting. However, almost half of the respondents reported that prices in the formal retail stores are a very important factor.

Figure 7 – Importance of selected factors in setting selling prices

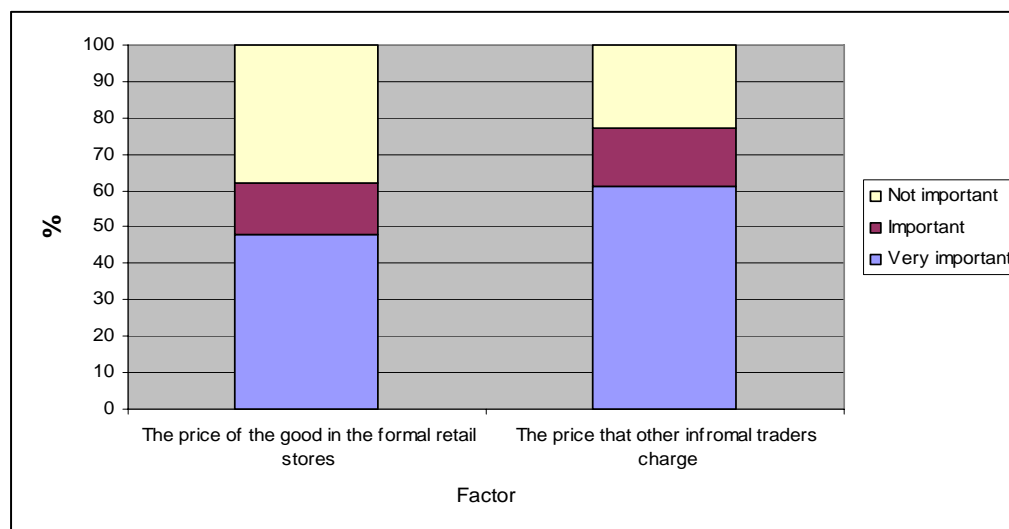


Table 22 - Importance of pricing in competing formal and informal enterprises, by site

Location		The price that other informal traders charge	The price of the good in the formal retail stores
Warwick	Very important	11	8
	Important	7	5
	Not important	7	12
	Total	25	25
Pinetown	Very important	19	13
	Important	2	4
	Not important	4	8
	Total	25	25
KwaMashu	Very important	17	13
	Important	3	3
	Not important	5	9
	Total	25	25
Isipingo	Very important	14	14
	Important	4	2
	Not important	7	9
	Total	25	25

Table 22 shows some interesting differences by site. Informal traders take account of the pricing of other informal traders to a greater degree in Pinetown and KwaMashu. Our assumption would have been that traders in Warwick would have taken most account of the pricing behaviour of other informal traders, given the nature and concentration of informal activity in the Warwick area.

Table 23 further explores the business environment within which informal traders operate. The data confirm the competitive nature of informal trading but also the fact that some general price-setting occurs – 64% of traders reported that other sellers sold the goods at the same price.

We are able to use these data to explore issues around the competitiveness of the informal sector, and the degree of competition between formal and informal retailing. The data in table 23 suggest that informal retailers do, as is often argued, charge a relatively uniform price for the goods that they sell. As table 25 shows, our respondents believe that there are significant new entrants into the informal sector. This seems to be the case in all sites.

Informal retailers appear to be aware of prices in formal retail outputs but, rather surprisingly, appear not to make their own pricing decisions based on this information. This may be because, as we have seen above, prices tend to be uniform in the informal sector, so this effect has a stronger impact on the pricing behaviour of informal traders. Informal retailers believe that the prices they charge are lower than those charged in the formal retail establishment. Based on price data that we collected in the different sites, this appears to be the case. However, it is not clear that the two groups are actually selling the same products – informal retailers may well be selling lower quality produce.

The data do, however, confirm two important points that we have made earlier about informal retailing – that it essentially offers a service to consumers by being conveniently located and by selling in smaller quantities than formal retailers.

Table 23 - Price setting and quality

Factor	True	False
I always charge the same price for the goods that I sell	49	51
All my customers pay the same price for the goods that I sell	73	27
There are too many new formal retailers and that is driving down our selling prices	48	52
All informal traders charge the same price for the goods that I sell	64	36
Sometimes, new informal traders start selling the goods that I sell and then I lose customers	57	43
When new informal traders begin to sell the goods that I sell, I have to decrease my selling price to keep my customers	39	61
Sometimes, informal traders decrease their price and I am then forced also to decrease my prices	57	43
I know the prices at the formal retailers and I charge below their price	67	32
I know the prices at the formal retailers and I charge above their price	6	93
I know the prices at the formal retailers and I charge the same price	16	83
I sell better quality goods than other informal traders	63	37

Tables 24 to 31 provide data on pricing and business environment considerations by the sites. One of the important issues highlighted in the introduction is that, with a growth in formal retail in the townships, informal retailers may be placed under increased price pressure. Table 24 provides some evidence that this is occurring. The two sites with the greatest number of positive responses to the statement, “There are too many new formal retailers and that is driving down our selling prices”, appear to be the two sites most linked to the township market – KwaMashu, which is inside a township, and Isipingo, which draws most of its clients from the township areas in the south of Durban. However, as seen in table 25, competition from other informal retailers seems to be much higher than that from formal retailers across all the sites. This is consistent with other findings above, although slightly less so in Isipingo.

Table 24 - There are too many formal retailers and that is driving down our selling prices

Location	Response	Total
Warwick	True	11
	False	14
	Total	25
Pinetown	True	9
	False	16
	Total	25
KwaMashu	True	14
	False	11
	Total	25
Isipingo	True	14
	False	11
	Total	25

Table 25 - Compared to last year, there are many more informal traders selling the goods that I sell

Warwick	True	20
	False	5
	Total	25
Pinetown	True	20
	False	5
	Total	25
KwaMashu	True	20
	False	5
	Total	25
Isipingo	True	18
	False	7
	Total	25

One of the as yet unresolved debates about the informal economy in South Africa is whether, as is the case elsewhere, informal enterprises offer products at a price that is lower than those of formal enterprises. It is often argued that informal enterprises are able to offer lower prices because they do not have to bear the costs of complying with regulations. Another view often articulated is that informal enterprises in South Africa are not price competitive vis-à-vis the formal sector, and essentially operate by providing a convenient service to consumers, i.e. they have location advantage or offer regrated goods. The responses in table 26 suggest that informal retailers believe they charge prices that are lower than formal retailers, across all the sites. It may be, however, that informal retailers sell products that are inferior in quality. Table 27 shows that a large number of informal retailers believe that they sell inferior products. The field teams monitored prices in the formal and informal retail establishments and the evidence, broadly, is that informal retailers do appear to sell at lower prices. For example, we monitored prices of onions in the Warwick area. The price on 13 July at a large formal retail outlet was R12.99 for two kilograms (14 units). On that day, an informal retailer was selling onions at R5 per dozen – well below the price in the formal sector. Unfortunately, our data do not allow us to assess whether the two retailers were selling exactly the same product. The informal retailer may well have been selling onions of smaller size, or onions that were of a different grade. Nevertheless, it is useful to note that informal retailers' prices were generally lower than those of formal retailers.

Table 26 - I know the prices at the formal retailers and I charge below their price

Location		Total
Warwick	True	17
	False	8
	Total	25
Pinetown	True	15
	False	10
	Total	25
KwaMashu	True	19
	False	6
	Total	25
Isipingo	True	16
	False	8
	Other	1
	Total	25

Table 27 - The formal retailers sell better quality goods than informal traders

Location		Total
Warwick	True	14
	False	11
	Total	25
Pinetown	True	15
	False	10
	Total	25
KwaMashu	True	14
	False	11
	Total	25
Isipingo	True	11
	False	14
	Total	25

Tables 28 to 31 allow us to explore informal traders' views of consumer demand issues by site. Confirming the argument about price competition between formal and informal retailing, Table 28 shows that informal retailers in all sites believe that consumers buy from them because their prices are lower than formal retailers'. As shown in table 29, prices among informal retailers appear to be more consistent. The issues of regrating and convenience appear to be strong in all the sites (tables 30 and 31).

Table 28 - My customers buy from me because my prices are lower than formal traders'

Location		Total
Warwick	True	24
	False	1
	Total	25
Pinetown	True	19
	False	6
	Total	25
KwaMashu	True	22
	False	3
	Total	25
Isipingo	Do not know	1
	True	19
	False	5
	Total	25

Table 29 - My customers buy from me because my prices are lower than informal traders'

Location		Total
Warwick	True	12
	False	13
	Total	25
Pinetown	True	9
	False	16
	Total	25
KwaMashu	True	15
	False	10
	Total	25
Isipingo	True	9
	False	16
	Total	25

Table 30 - My customers buy from me because I am conveniently situated

Location		Total
Warwick	True	25
	Total	25
Pinetown	True	25
	Total	25
KwaMashu	True	24
	False	1
	Total	25
Isipingo	True	22
	False	3
	Total	25



Table 31 - My customers buy from me because I sell in smaller quantities than formal retailers

Location		Total
Warwick	True	20
	False	5
	Total	25
Pinetown	True	21
	False	4
	Total	25
KwaMashu	True	22
	False	3
	Total	25
Isipingo	True	20
	False	5
	Total	25

4.4 Explaining behaviour

In the introduction to this report, we identify a number of issues that we sought to explore in the survey. These were essentially whether informal retailers compete on price, on product, on sourcing strategies, of location or on the advantages of informality. Answering these questions will help us better to understand the behaviour determines the dynamic linkages between the informal and formal economies. Descriptive studies that identify, for example, what goods are sold and to whom, or the sources of inputs, help us to sketch a static picture of the channels through which the two economies are linked. But to understand how these linkages respond to changing economic conditions, we need to know something about behaviour.

The answers to these questions will not be uniform across all informal sector participants. They will depend on both the internal characteristics of the participants – their motivation for being in the sector, the type and range of goods sold – and on the structural contexts in which they operate – their location, their customer base and so on. Our primary interest in the research is to identify the conditioning factors that allow us to distinguish between different types of behaviour.

In a larger study, with a statistically representative sample, we would be able to undertake a probit analysis, identifying the contribution that each relevant characteristic makes to a particular behavioural response. Our survey, being a pilot, does not permit this. Although we will present some results as if it one can draw statistical inferences from them, our main concern is to explore the interpretation of questions to learn whether the way we formulated them would have allowed us to answer the questions we pose. This will provides guidance for the design of future studies.

We have noted above that the informal economy in South Africa, as elsewhere, is made up of two primary groups. Some enter the informal economy as a “fall-back”, because they have no better option. However, finding a job in the formal economy is

seen as preferable. Others start an informal enterprise as a matter of explicit choice. This group does not have a preference to find a job in the formal economy. For ease of reference, we will call them “fall-back” and “self-motivated”. We hypothesize that the members of these two groups will behave differently in many key respects. We therefore need to see whether the survey allows us to distinguish between them.

We did not ask explicitly whether respondents would prefer a formal job to what they are currently doing, which would have gone directly to the heart of the distinction we make. While other studies have asked this direct question, it is fraught with difficulties. One has to control for many factors, such as the wage and conditions of work in the hypothetical formal job. We therefore have to come at the issue indirectly. We asked respondents for their reasons for entering the informal economy. These results, which have already been given (see Table 9 above), are re-displayed in table 42 with an interpretation of whether specific reasons might be thought of as “fall-back” (FB) and “self-motivated” (SM). We classify “fall-backs” as those operating in the informal economy because of a lack of employment, a lack of skills (uneducated) or due to job loss. The responses indicating a preference for trading (for example, “I love selling”, “I want to be self employed”) are classified as “self-motivated”. Table 42 shows that about three-quarters of respondents were in the informal economy as a “fall-back” option.

There are other questions that might be used to corroborate this classification. For example, we might expect SM to be more likely to have bank accounts than FB. As Table 33 shows, although a smaller proportion of SM hold separate bank accounts, 23.8% do hold some account, while 16.6% of FB do. This is consistent with our expectations. Similarly, we could look at whether respondents are registered with any institutions or not, expecting that SM will have taken more steps towards formality by registering than would SM. Here, however, the results are not in keeping with these expectations: a higher proportion of FB than SM are registered. To explore this further, we could distinguish between the different institutions with which informal traders register, separating business support institutions from those that provide community or social support. The small sample size and the small number of registrations do not make this feasible with the pilot study, but it is something that might be done in a larger survey.



Table 32 - Why did you enter the informal sector?

1	Lack of employment	63	FB
2	I love selling	8	SM
3	Want to be self employed	6	SM
4	Uneducated	5	FB
5	Other	4	?
6	Easy way to get income	3	SM
7	It's the only thing I can do	3	FB
8	Company I worked for closed down	2	FB
9	Saw it as an opportunity	2	SM
10	Want to own my own business	1	SM
11	Family business	1	SM
12	Disability	1	FB
13	Missing data	1	?
		100	

Table 33 - Do you maintain a bank account for the business separate from your private/family account?

	Fall back	Self motivated	Other	Grand Total
Yes	10.8%	4.8%	0.0%	9.0%
Not separate	5.4%	19.0%	20.0%	9.0%
No account	83.8%	76.2%	80.0%	82.0%
Grand Total	100.0%	100.0%	100.0%	100.0 %

If we assume that our identification of FB and SM type activities is correct, the next question is whether their behaviour differs. We need to relate this to the various areas of behaviour identified earlier. Below we indicate how survey responses may be interpreted in this regard.

Do the kinds of products traded by “SMs” and “FBs” differ?

It is possible to hypothesize that FBs put less thought into the selection of activities than SMs. People who undertake an activity out of necessity may well turn to whatever is easily at hand or to imitate others who they see surviving in similar circumstances. Against this, one would expect those who see an opportunity for development would have thought more carefully about their niche. Table 21 showed whether traders sold items as a response to demand or supply. In the whole sample, only 12% chose the goods they sold on the basis of their accessibility, while 84% chose on the basis of demand conditions. Table 43 compares behaviour of FBs and SMs in this regard. It shows that only FBs chose their wares on the basis of access to supply of goods. It is easy to construct a reason for this: for example, it is plausible

that those who engage in an activity as a fall back turn to whatever is easily to hand. On the other hand, it is equally plausible that those seeking something to do out of necessity imitate others who they see surviving. Question 7.2 asked respondents what factors affected the types of goods they sold, allowing multiple responses. Table 35 presents results cross tabulated with FM and SM: there were 17 who selected the response “others are selling the same good so I know consumers want these goods”. 14 of these were respondents we classify as FB, suggesting a higher level of imitation amongst the former than the latter. We would need a larger survey to think carefully through these alternative interpretations.

Table 34 - Does reason for entry affect product choice?

	Fall-back	Self-motivated	Other	Total
Demand	61	18	5	84
Supply	11	1		12
Other	2	2		4
Grand total	74	21	5	100

Table 35 - Does reason for entry affect motivation for type of goods chosen?

	Fall-back		Self-motivated		Other		Total	
	No.	%	No.	%	No.	%	No.	%
Seasons	32	18.9	7	12.7	2	13.3	41	17.2
Prices	45	26.6	17	30.9	2	13.3	64	26.8
Consumer demand	34	20.1	14	25.5	3	20.0	51	21.3
Others are selling the same goods so I know consumers want these goods	14	8.3	1	1.8	2	13.3	17	7.1
Formal firms can out-compete me in other goods	0	0.0	0	0.0	0	0.0	0	0.0
I can sell these goods in small quantities	15	8.9	11	20.0	2	13.3	28	11.7
It's the only thing I have thought about selling	29	17.2	5	9.1	4	26.7	38	15.9
	169	100.0	55	100.0	15	100.0	239	100.0

Do FMs and SMs locate differently?

This is shown in Table 36. The SMs were twice as likely to be in KwaMashu and Warwick as in Pinetown and Isipingo. This was not what we expected, since the latter two locations appear to be more lucrative for informal trading. On the other hand, the more competitive markets, KwaMashu and Warwick, may have a higher proportion of SMs because competitive conditions have driven out FBs. A larger sample would help to offer more insights.

Table 36 - Does reason for entering affect site location?

Location	Fall-back	Self-motivated	Other	Total
Isipingo	20	4	1	25
KwaMashu	17	7	1	25
Pinetown	21	3	1	25
Warwick	16	7	2	25
Grand total	74	21	5	100

Do informal retailers compete on price?

Given the centrality of pricing issues to our concerns, and questions of the relationship and interactions of pricing behaviour between the formal and informal economy, we explore some of the pricing issues in greater detail. The question that we would particularly like to answer is whether informal retailers compete on price, with either the formal sector or within the informal sector.

In Q8 we asked directly about the importance informal traders attach to prices in the formal and informal economy for their own pricing behaviour. The responses could be interpreted as giving some indication of the level of competition that the traders thought they faced from the two sources. Figure 7 and Table 22 earlier reported the responses to each of these separately. Table 37 combines the responses so that we are able to assess the responses to formal and informal prices jointly. 33% of the sample saw both formal and informal prices as very important to their own price setting and 11% set their prices seemingly independent of external price considerations. 48 respondents saw formal prices as very important, 10 of whom did not view informal prices as important. In contrast, of the 61 traders that viewed other informal prices to be very important, 18 did not deem formal prices to be very important. This suggests that pricing in other informal enterprises is more important than that of formal enterprises in the price-setting behaviour of informal retailers.

BOX 1 – Questionnaire: questions 8 - 10

8 Selling prices

When you decide on the price of the goods that you sell, please rank how important the following factors are to you. (1 = Very important, 2= Important, 3 = Not important.)

(Fieldworker to show and read out list in table below; fill in first column in table below)

- 8.1 The price of the good in the formal retail stores
- 8.2 The price that other informal traders charge

9 Relationship between purchases and sales

Which of the following statements are True or False: Read out: 1 = True 2 = False

- 9.1 I buy in bulk and sell in smaller quantities
- 9.2 When the price of my purchases goes up, I increase the prices that I charge by the same amount
- 9.3 When the price of my purchases goes up, I increase the prices that I charge but by a smaller amount
- 9.4 When the price of my purchases goes up, I am unable to increase my selling price
- 9.5 When the price of my purchases falls, I decrease the price of my sales
- 9.6 When the price of my purchases falls, I do not decrease my selling price
- 9.7 Compared to last month, the price of my purchases has gone up
- 9.8 Compared to last month, my selling price has gone up
- 9.9 I always sell to the same customers
- 9.10 I charge all my customers the same price
- 9.11 Compared to last year, there are many more informal traders selling the goods that I sell
- 9.12 Compared to last year, the price of my purchases has gone up
- 9.13 Compared to last year, my selling price has gone up
- 9.14 Compared to last year, my profits have gone up

10 The business environment

- 10.1 I always charge the same price for the goods that I sell
- 10.2 All my customers pay the same price for the goods that I sell
- 10.3 There are too many new formal retailers and that is driving down our selling prices
- 10.4 All the informal traders charge the same price for the goods that I sell
- 10.5 Sometimes, new informal traders start selling the goods that I sell and then I lose customers
- 10.6 When new informal traders begin to sell the goods that I sell, I have to decrease my selling price to keep my customers
- 10.7 Sometimes, informal traders decrease their prices and I am then forced also to decrease my prices
- 10.8 I know the prices at the formal retailers and I charge below their price
- 10.9 I know the prices at the formal retailers and I charge above their price
- 10.10 I know the prices at the formal retailers and I charge the same price
- 10.11 The formal retailers sell goods of better quality than informal traders
- 10.12 I sell better quality goods than other informal traders
- 10.13 My customers buy from me because my prices are lower than other informal traders
- 10.14 My customers buy from me because my prices are lower than formal retailers
- 10.15 My customers buy from me because I am conveniently situated
- 10.16 My customers buy from me because I sell in smaller quantities than formal retailers

Table 37 – How important are formal and informal prices in setting price?

		Formal retail stores			Total informal
		Very important	Important	Not important	
Other informal traders	Very important	33	10	18	61
	Important	5	2	9	16
	Not important	10	2	11	23
	Total retail	48	14	38	100

Of course, prices of others may be important for price setting not because of competitive considerations, but because they determine the price of supplies. Table 38 shows that 55% of respondents say they acquire their supplies from the informal sector. This runs counter to our prior expectation that most informal traders buy goods from the formal sector and sell them on after re-grating or transporting them. It suggests that there could be a network of informal middlemen who are supplying informal retailers. However, we have not found evidence of this from other studies. It is also possible that we mis-phrased the question. This is an issue that we will require attention in any subsequent survey.

Table 38 - How do you acquire the goods you sell?

	Warwick	Pinetown	Kwa Mashu	Isipingo	Grand Total
Buy formal	5	9	7	10	31
Buy informal	16	16	9	14	55
Make	4		9	1	14
Grand Total	25	25	25	25	100

Table 39 shows how the source is related to the importance attached to formal retail suppliers when setting prices. The results seem internally consistent. However, one can query the interpretation of the question. We were motivated to ask it by our view that competition with the formal sector in the selling of goods might be an important consideration in determining pricing behaviour. It is, however, possible that it is the formal retailer as supplier that drives the concern. Maybe formal prices are important because they determine the costs of the goods sold.

If the former interpretation was correct, we would not expect a discernable pattern based on sources of goods: source of supplies would not matter if the formal retailers were viewed as their 'benchmark' competitor. However, those who obtain supplies from the formal retailer would tend to pay more attention to its prices than those who obtain supplies from other sources. Table 39 seems broadly consistent with this, although the make/grow category is perverse.

Table 39 – Source of inputs and importance of formal retail in setting prices

		8.1 How important is the price of the good in formal retail stores when you set your price?			
		Very important	Important	Not important	Grand total
5.1 How do you acquire the goods that you are selling?	Buy informal	40.0%	14.5%	45.5%	100.0%
	Buy formal	58.1%	9.7%	32.3%	100.0%
	Make	57.1%	21.4%	21.4%	100.0%
	Grand total	48.0%	14.0%	38.0%	100.0%

One of the lessons we wanted to learn from the pilot study was whether the questions we asked are phrased so as to elicit the ‘correct’ response. We are able to get insight into this by assessing whether the response are consistent, i.e., whether questions which ask different types of questions about the same set of issues show internal consistency. To explore this, we focus on price related responses, drawing mainly on questions 8-10 in the questionnaire. For ease of reading, the questions are listed in Box 1.

Q10.8, Q10.9 and Q10.10 asked whether traders know prices charged by formal retailers. We would expect a high correlation between this and Q8.1; if one regards formal retail prices as important, we would expect knowledge of them. We combined the responses to questions 10.8 to 10.10, so that traders who responded “true” to any one of them were classified as “Knowing”, and “false” to all of them as “Unknowing”.⁴ Table 40 summarises the results. They show a high degree of consistency, with only 2% responding that formal prices are of some importance when they do not know them. 8% say that while they know the prices, they are not important.

Table 40 – Importance and knowledge of retail prices

	Prices in formal retail stores			Grand total
	Very important	Important	Not important	
Unknowing	1	1	30	32
Knowing	47	13	8	68
Total	48	14	38	100

Question 10.14 (My customers buy from me because my prices are lower than formal retailers) also requires knowledge of the formal price. Table 41 shows that 68% of

⁴ Since questions 10.8 to 10.10 are two-part questions, it is possibly wrong to infer that responding false to all three does not mean that respondents do not know, but rather that they regard them as false because of the second factor.

those who responded positively to this question also indicated that they are “Knowing”. 16 of the 84 (19%) who responded that their customers bought from them because their prices were lower than formal retail prices indicated that they did not know formal prices. This is not necessarily inconsistent; it could be that they do not set prices based on formal prices, even though they have a general perception of being cheaper. It is interesting that all those who we have classed as having knowledge of the formal prices also say they are cheaper.

We can similarly test the internal consistency of the responses to Q10.8, Q10.9 and Q10.10; a positive answer to one of these implies a negative answer to the others. We looked at the cross-tabulations possible and found that this was indeed the case. Only 5.1% of answers to Q10.8 and Q10.9 were inconsistent, 16.2% of answers to Q10.8 and Q10.10, and 1.0% of answers to Q10.9 and Q10.10.

Table 41 – My customers buy from me because my prices are lower than formal retailers’ (Q10.14)

	Yes	No	Grand total
Unknowing	16	15	32
Knowing	68		68
Grand total	84	15	100

By this test there does seem to be a reasonable level of internal consistency in these responses.

Table 42 – Verification of Pricing Behaviour (1)

		10.14 My customers buy from me because my prices are lower than formal retailers’		
		Yes	No	Grand total
10.9 I know the prices at the formal retailers and I charge above their price	Yes	6		6
	No	78	15	93
	Grand total	84	15	100

Note: Non-responses and ‘don’t know’ excluded

4.4.1 Are informal traders flex or fix price?

One of the issues we are concerned with is whether traders operate with fixed prices or whether they alter their price in response to changes in input costs or competitors’ prices. In other words, do they perceive themselves as operating in a flexible or a fixed price environment?

There are a number of relevant questions that we can use to infer whether they have fixed or flexible prices. These are shown in Table 43, which also shows the broad interpretation we have placed on the responses. It will be seen that while some of the questions allow us to infer whether prices are flexible, we cannot always infer that they are fixed when the response is in disagreement with the statement. Thus, for example, a respondent who agrees with the statement in question 9.2 clearly has flexible prices. However, when they indicate the statement is false, we can only infer that they do not increase by the same amount, not that they do not increase at all.

However, respondents who say that both Q9.2 and Q9.3 are false seem to suggest that their prices do not respond to increases in purchase prices.

Table 43 – Questions related to price flexibility

Question no.	Question	Broad interpretation	
		True	False
9.2	When the price of my purchases goes up, I increase the prices that I charge by the same amount	Flex	Cannot infer
9.3	When the price of my purchases goes up, I increase the prices that I charge but by a smaller amount	Flex	Cannot infer
9.4	When the price of my purchases goes up, I am unable to increase my selling price	Fix	Flex
9.5	When the price of my purchases falls, I decrease the price of my sales	Flex	Cannot infer
9.6	When the price of my purchases falls, I do not decrease my selling price	Cannot infer	
10.1	I always charge the same price for the goods that I sell	Fix	Flex
10.6	When new informal traders begin to sell the goods that I sell, I have to decrease my selling price to keep my customers	Flex	Cannot infer

As shown in Table 44, 89% of the survey respondents indicated that either Q9.2 or Q9.3 were true, suggesting that they have flexible prices. However, there appears to be a high degree of inconsistency amongst the responses to this set of questions. For example, we would expect all those who responded true to either of these questions would also have indicated Q9.4 was false. However, as Table 44 indicates, 28% of all respondents indicated **both** that they could not and that they could pass on cost increases. Thus, although 89% of respondents suggest they have flexible prices (by this test), 31% of those also indicated they did not. We posed both Q9.2 and Q9.3 because we were interested not only in whether respondents were able to pass on cost increases to customers, but also in how completely they could do so. We were interested in exploring whether respondents faced some kind of profit squeeze. With hindsight, interpretation might have been clearer if we had framed a single question to elicit a clear response about flexibility. On the other hand, the inconsistency might simply be an artefact of the small sample size.

Table 44 - Consistency of price responses

		9.4 When the price of my purchases goes up, I am unable to increase my selling price		
		True	False	Grand Total
Q9.2 or Q9.3: respondent is able to pass on increased purchase price	True	28	61	89
	False	5	6	11
	Grand Total	33	67	100

Excluding those respondents giving apparently inconsistent answers reduces the usable responses to 66. Of these 61, or 92% are able to pass on increases in purchase prices. We would like to be able to identify whether there are any characteristics of these respondents that distinguish them from those unable to do so. The small sample and the small proportion of non-flexible price setters both make it difficult to distinguish patterns. For example, 92% of those who regard formal prices as important in price setting have consistent flexible prices, but so do those who regard it as not important. It is the same for those who regard the informal sector as important.

Our intuition is that ability to pass on cost increases would be constrained by competition. One indicator of competition would be the density of informal sellers selling similar goods. When we examine the closeness of other informal operators it turns out that all those who consistently say they cannot pass on cost increases are within 5 metres of other operators, while 77% of flexible price operators are. However, the sample size means that this is not significant. Similarly, Table 45 shows how the reason for selecting the selling site is related to price flexibility (using the consistent sub-sample). Again, a higher proportion of fix price operators seem to select to be close to competitors than flex-price.

Table 45 - Price flexibility and site selection

		Flexible	Not	Grand Total
6.4 Do you choose to sell at this site because it is:	Close to other informal traders that sell similar products	52.5%	80.0%	54.5%
	Close to other informal traders who sell very different products	18.0%	0.0%	16.7%
	Far from other informal traders that sell similar products	3.3%	0.0%	3.0%
	None of the above	26.2%	20.0%	25.8%
	Grand Total	100.0%	100.0%	100.0%

Of course, proximity of other sellers can work both ways. While it might indicate more competition, it also makes collusion easier. Q10.4 (“All informal sellers charge the same price for the good I sell”) was intended to give some indication of possible collusion. 57% of those giving consistent pricing responses indicated that this was true. However, there was no difference according to proximity of competing informal

traders. There was some difference between the survey sites, with 70% in Pinetown and 47% in Isipingo responding true.

Full price flexibility might be interpreted as encompassing passing on not only cost increases, but also price reductions. The latter would almost certainly be a result of competition: one does not expect a trader to pass on price cuts except in the face of other traders doing so. Q9.5 directly asked this. Here there seems to be an inverse correlation with proximity to other informal traders. The responses of traders within 10 metres of other traders (79 in total) split 50-50 between those who do and those who do not pass on cost decreases. Against this, 15 of the 21 more than 10 metres away indicated that they do pass on the decreases. This could of course be explained by some other factor that is correlated with proximity, but we are unable to test this statistically using the pilot results. 38 of the 74 SM respondents indicate they pass on price decreases, while 14 of the 21 SMs do. This possibly indicates more strategic pricing by SMs, but the data do not allow us to explore this.

The responses on price decreases suffer from inconsistencies. Table 46 provides a schematic interpretation of the consistency between responses to Q9.5 (“When the price of my purchases falls, I decrease the price of my sales”) and Q9.6. (“When the price of my purchases falls, I do not decrease my selling price”) Responses falling in the top left-hand and bottom right-hand cells of the table are inconsistent: it cannot be the case that they say that it is false that they decrease (implying that they do not decrease) and also false that they do NOT decrease (implying that they do. Table 47 provides the actual responses. We see that a substantial proportion of the responses (7% + 26% = 33%) could be regarded as inconsistent. This suggests that the questions could perhaps have been better framed or administered.

Table 46 - Verification of pricing behaviour (2)

		9.5 When the price of my purchases falls, I decrease the price of my sales	
		Yes	No
9.6 When the price of my purchases falls, I do not decrease my selling price	Yes	Inconsistent	Fix
	No	Flex	?

Table 47 – Verification of Pricing Behaviour (3)

		9.5 When the price of my purchases falls, I decrease the price of my sales		
		Yes	No	Grand total
9.6 When the price of my purchases falls, I do not decrease my selling price	Yes	7.0%	19.0%	26.0%
	No	48.0%	26.0%	74.0%
	Grand total	55.0%	45.0%	100.0%

One of the problems with these questions is that they are framed as if there is a single output, whereas most of the respondents sell a range of goods. It could well be that some products have flexible prices while others do not. This permits ambiguity in the responses.

Reverting to Table 42, we could reasonably regard someone who responds that Q9.4, Q9.6 and Q10.1 (I always charge the same price for the goods that I sell) are all true as having fixed prices. In Table 48 we control for Q10.1 to be true. We then find that 67.3% of those who say they always charge the same price also say they decrease the sales price when the cost price falls! Only 22.4% give entirely consistent answers (i.e. Q10.1 = True, Q9.5= False and Q9.6 = True).

Table 48 – Verification of Pricing Behaviour (4)

		9.5 When the price of my purchases falls, I decrease the price of my sales		
		True	False	Grand total
9.6 When the price of my purchases falls, I do not decrease my selling price	True	6 (12.2%)	5 (10.2%)	11 (22.4%)
	False	27 (55.1%)	11 (22.4%)	38 (77.6%)
	Grand total	33 (67.3%)	16 (32.7%)	49 (100%)

These inconsistencies in responses make it difficult to infer what proportion of respondents adjust their prices in response to changing costs.

4.5 Employment

As is evident from Table 49, our questions on employment were unsatisfactory. The table shows that more than 80% of respondents did not have any employees. Consequently, the set of questions that we designed to explore employment issues did not generate data that could be used to analyse employment relationships.

Table 49 - Number of paid employees

Frequency	Percent
0	81.0
1	11.0
2	3.0
3	1.0
4	1.0
5	2.0
7	1.0
Total	100.0

5 Conclusion

This study sought to deepen understandings of competitive behaviour within the informal sector. It is meant to be one contribution to building a picture of informal firms might grow in relation to an expanding formal economy. Can we expect the informal economy to grow or contract? Assessing their strategic behaviour is one way of knowing this. The more strategic behaviour found, the more likely that formal and informal activity might grow together. The more informal firms behave unstrategically, the more probable they would be crowded out by growing formal firms. The reasoning is that in dynamic market conditions, we want to know whether informal firms have capabilities that show they might adapt.

A pilot survey was undertaken, aimed at testing questions about the competitive behaviour of informal retailers. Questions were asked in respect of whether informal retailers compete on price, on product, on sourcing strategies, of location or on the advantages of informality. Answering these questions will help us better to understand the behaviour determines the dynamic linkages between the informal and formal economies. Descriptive studies that identify, for example, what goods are sold and to whom, or the sources of inputs, help us to sketch a static picture of the channels through which the two economies are linked. But to understand how these linkages respond to changing economic conditions, we need to know something about behaviour.

We have emphasized the areas in which we can improve the survey instrument, because that was the purpose of the pilot. It would be wrong to infer substantive results from it. Nonetheless, there were some results that are interesting. For example:

- The behaviour of firms that established as a fall-back (FB) option differed from those that started on the basis of self-motivation (SM). For example, the basis for product choice and pricing differed, with SMs being more strategic. FBs tended to choose products that were identical to the ones they saw others selling, as this indicated there was demand.
- The majority of informal retailers in this pilot said they competed on the basis of selling smaller quantities that is lower quality and lower price, in a convenient location. The latter point, selling in a convenient location, was the most common explanation.
- The majority of informal retailers in this pilot were very aware of prices in their formal and informal counterparts. The price of other informal traders had more influence on their own price setting. This answer might differ in a survey that included a broader range of services that compete more directly with the formal sector – such as photo processing or auto repair.
- There was considerable price flexibility in relation to a rise or fall in input prices. More could be done to assess whether these prices are fully flexible. But it does appear that many informal traders cannot completely pass on input cost increases to their customers.

- Most respondents said they noticed an increase in the number of informal traders in the past year. This might be an interesting question to add to larger national surveys. The annual informal employment figures change so dramatically in ways that are difficult to understand: this might offer one way of verifying a trend.

This pilot offered some interesting insights that could contribute to a more representative survey of economic behaviour in the informal economy. Improvements to the approach used by the pilot are recommended throughout this report. On reflection, we also believe that such research would benefit from consumer surveys to explore demand issues.

Already a number of implications arise for policy makers and local economic development practitioners. For example, this confirms that location matters, and that urban managers should take care in moving traders to new sites that suit the planner but not necessarily the business. Moreover, informal firms would benefit considerably from product identification support and consumer demand analysis to enable diversification and market responsiveness.

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Appendix A: Price Information

	13-Jul		16-Jul		20-Jul		23-Jul	
	Price	Qty	Price	Qty	Price	Qty	Price	Qty
Major Retail								
Bread (White unsliced)	R 3.90	1	R 3.90	1	R 3.90	1	R 3.90	1
Tomatoes	R 5.99	11	R 8.99	12	R 5.99	11	R 8.99	12
Onions	R 11.99	12	R 11.99	10	R 11.99	12	R 11.99	10
Apples	R 7.99	12	R 7.99	12	R 7.99	12	R 7.99	12
Cardboard								
Clairwood Bulk								
Bread (White unsliced)	R 2.50	1			R 3.80	1		
Tomatoes	R 80.00	Box	R 75.00	Case	R 85.00	Box	R 80.00	Case
Onions	R 52.00	Box	R 55.00	Case	R 55.00	Box	R 50.00	Case
Apples	R 37.00	Box	R 40.00	Box	R 37.00	Box	R 40.00	Box
Cardboard	R 1.50	1	R 1.50	1	R 2.00	1	R 1.50	Box
Clairwood Wholesaler								
Bread (White unsliced)					R 3.80	1		
Tomatoes	R 5.00	12	R 25.00	Med. Box	R 5.00	10	R 25.00	Med Box
Onions	R 5.00	12	R 45.00	10kg	R 5.00	8	R 45.00	10 Kgs
Apples	R 5.00	10	R 57.00	Box	R 5.00	8	R 65.00	Box
Cardboard	R 1.50	1	R 2.00	1	R 2.00	Box	R 2.00	1

Informal Trader - Pinetown								
Bread (White unsliced)	R 4.50	1			R 4.50	1	R 4.50	1
Tomatoes	R 2.50	6	R 5.00	9	R 2.50	5	R 5.00	9
Onions	R 3.00	6	R 5.00	9	R 3.00	6	R 5.00	10
Apples	R 8.00	8	R 6.00	10	R 5.00	10	R 6.00	10
Cardboard								
Informal Trader - Warwick								
Bread (White unsliced)	R 4.50	1	R 3.00	1	R 4.50	1	R 3.00	1
Tomatoes	R 5.00	5	R 2.50	6	R 5.00	5	R 2.50	4
Onions	R 5.00	5	R 3.00	6	R 5.00	8	R 5.00	9
Apples	R 4.00	8	R 3.00	4	R 4.00	8	R 3.00	8
Cardboard	R 2.00	1	R 2.00	1	R 2.00	1	R 2.00	1
Informal Trader - KwaMashu								
Bread (White unsliced)			R 5.80	1	R 5.80	1	R 5.80	1
Tomatoes	R 5.00	8	R 2.50	6	R 5.00	10	R 3.00	8
Onions	R 5.00	8	R 3.00	6	R 5.00	10	R 3.00	9
Apples	R 5.00	12	R 2.50	5	R 8.00	8	R 2.50	5
Cardboard	R 1.20	1	R 2.00	1	R 2.00	1	R 2.00	1
Informal trader - Isipingo								
Bread (White unsliced)			R 4.00	1	R 4.50	1	R 4.80	1
Tomatoes	R 5.00	8	R 5.00	9	R 5.00	5	R 5.00	8
Onions	R 5.00	8	R 5.00	8	R 5.00	8	R 5.00	9
Apples	R 5.00	12	R 5.00	5	R 4.00	8	R 5.00	5
Cardboard	R 1.20	Box	R 1.20	Box	R 2.00	Box	R 1.20	Box



Appendix B: Survey Questions

See attached acrobat file