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Barriers to Entry and Business Sustainability in The Langa Informal Sector
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Abstract

The informal sector is a vital source of employment, income, resources and services to the inhabitants of Langa. Its importance cannot be understated yet it remains unexamined. Considerable research regarding the South African informal sector exists however very little work has been conducted with specific reference to Langa. This study represents a first step in understanding the Langa informal sector. Through the collection of original qualitative data, this study investigates the barriers to entry and business sustainability in the Langa informal sector. "Fear of no profit" is found to be the most dominant barrier to entry and sustainability while other barriers such as "Capital" and "Suitable Business premises" are also prominent. The paper also provides insights into the characteristics of the people, businesses and foreign nationals in the Langa informal sector.

UCT KNOWLEDGE CO-OP

The UCT Knowledge Co-op facilitated this collaborative project between Just Grace NPC and UCT.

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1.Introduction

According to data from the 2011 census 82% of Langa's employed work in the informal sector (Stats SA 2012). This indicates that the informal sector in Langa plays a significant role in employment generation and in doing so provides a means of subsistence for the people of Langa (Stats SA 2019). With no literature directly analysing Langa's informal sector, this paper aimed to answer the question, "What are the barriers to entry and business sustainability in the Langa informal sector?". Through the collection of original qualitative data in Langa, this paper has been able to identify and rank the barriers experienced in the sector. Work conducted by Cichello et al (2011) investigated the perceived barriers to entry in Khayelitsha and had a significant influence on the design of this study. Influence aside this paper differentiates itself from the work of Cichello et al (2011) as it focuses on individuals who are currently involved in the informal sector and therefore experienced and not perceived barriers are identified. Reports such as the Survey of Employers and the Self-Employed (SESE) are also used to compare and contrast against the data collected for this survey.

The data collected for this study revealed that the "fear of making no profit" was the biggest barrier to business entry and sustainability. This barrier was followed jointly by "Lack of access to capital" and a "Suitable business premises". Barriers such as "Crime" that were prominent in other studies were not seen as large barriers in Langa. The data collected also allowed for the comparison of experienced barriers between South Africans and foreign nationals. The barriers experienced by both groups were similar for the most part but the ability to compare these two groups is a novelty in itself as most literature overlooks foreign nationals.

This paper is split into six sections. Following this section is a review of previous literature which defines the informal sector and highlights important findings regarding the sector. Section three describes Langa's demographics, geography, history and social indicators. Section four sets out the qualitative research methods and techniques used for the data collection. Section five presents the data collected in

Langa and uses it to identify the characteristics of the people, businesses and the barriers present in the informal sector. Section six concludes the paper.

2. A Review of Previous Literature

This section is the first step in trying to understand the Langa informal sector. In reviewing past work in the field, the questions about Langa's informal sector can be better formed and answered. This review will consist of three subsections. The first defines the informal sector. The second section specifically focuses on the literature exploring the South African informal sector. The third subsection lists the most commonly observed constraints and barriers to growth within the sector.

2.1 Defining the Informal Sector

The International Labour Office (ILO) defines the informal sector as comprising of all jobs in informal sector enterprises. These enterprises are defined as private unincorporated entities that produce goods or services meant for sale (Hussmanns 2004). These entities are not registered under specific forms of national legislation (for purposes of this paper VAT) and exclude agricultural and domestic work (Hussmanns 2004). Individuals that owned or worked for an entity that falls within the scope of this definition were considered part of the informal sector for purposes of this paper.

The definition described above was used to inform the survey design and data analysis of this paper. Individuals and enterprises were selected to form part of this study based on the requirements of this definition.

2.2   A Review of Literature on the South African Informal Economy

The objective of this section is to begin to understand the people, attitudes and barriers to growth in the Langa informal sector. In trying to understand these elements it becomes important to discuss how the South African informal sector has been viewed in previous studies. This subsection split further into three sections. The first provides a theoretical framework to view the informal sector. The second provides an overview of the literature on the South African informal sector. The third highlights the roles of Foreign nationals in the informal sector.

2.2.1 A theoretical framework to view the informal sector

South Africa's history of apartheid, its resultant high levels of poverty and the growing gap between the rich and poor has led to it being described as a dual economy (Callebert 2014). Former President Thabo Mbeki was a proponent of this theory as he saw the gap between the rich and poor as not only being a difference in wealth but being that the two groups inhabited separate economies (Callebert 2014). Mbeki (2003) described the first of the two economies as the modern and productive (contributes the majority of GDP) formal economy. The second economy was described as underdeveloped and containing a large proportion of the population, who are the poorest and most marginalised group in the country. Mbeki (2003) saw the second economy as structurally disconnected from the global and first economy.

The dualist theory that the former President supported, states that the informal sector is a product of informal operators being excluded from modern economic opportunities (Chen 2012). Historically the system of apartheid oppressed and restricted the business activities of black South Africans (Kingdon & Knight 2000). Legislation such as the Group Areas Act, restrictive regulations and special police squads dedicated to the persecution of informal enterprises are examples of how the black majority were economically excluded (Kingdon & Knight 2000). Taking a dualist view of the South African economy implies that due to the mismatch between people's skills and the unequal economic opportunities caused by the past, the informal sector was created as a de facto economy for those excluded from the formal economy (Chen 2012). Following this, the dual economy can be thought of as being in part responsible for the social, political and economic distortion of the informal sector in townships like Langa (The World Bank 2002). Other theories such as the legalist or structuralist approach also attempt to breakdown the informal sector. Each framework provides a different definition of the informal economy. The ILO tends to favour the dualistic approach and this would have informed the definition they use for the informal sector (Wilson 2011). As this paper uses the ILO definition, the dualistic approach informed the questions asked in the survey and how the results were analysed.

2.2.2 An overview of the South African informal sector

Langa's informal sector is a small part of the broader South African context. In understanding the South African informal sector the subtle differences in Langa can be highlighted.

There are numerous methods that previous literature have used to understand the informal sector. The qualitative study of Cichello et al (2011) looked at perceived barriers to entry in Khayelitsha and largely influenced this paper. The specific influences taken from Cichello et al (2011) are discussed in later sections of the paper. Other attempts have also been made to understand the informal sector.

SESE is the most comprehensive national attempt at providing information on the characteristics of businesses in the informal sector. SESE is a household survey conducted every four years, the 2017 edition is used in this paper. SESE identifies individuals who own businesses and interviews these owners to determine the nature of their businesses. If a business is non-VAT registered it is included in the SESE report. SESE is important as it aids in determining the contribution made by informal businesses. It collects data on the people operating these businesses and it produces a comprehensive statistical summary of the informal sector at a national and provincial level (Stats SA 2019).

This following paragraph uses SESE to provide an overview of the informal sector. Beginning with the type of industry present in the sector SESE lists Trade (51,5%) as dominant, followed by Community/social services (12,2%) and construction (12%) (Stats SA 2019). The average business had a turnover of R751-R1 500. Looking beyond turnover there seems to be more longevity in the sector with informal businesses with five or more years in existence increasing, while there was a drop in businesses with less than five years in existence (Stats SA 2019). The province with the most informal activity is Gauteng (28,6%), followed by Limpopo (16,5%) and KwaZulu-Natal (14,7%) (Stats SA 2019). Stats SA (2019) also reported that men were more likely to run informal businesses than women, with the proportion of women running businesses declining since 2005. Black Africans (90,8%) dominate the informal sector with all other groups in decline. People aged between 35 and 44 years were the most active age group. Those between the ages of 45 and 55 were the second most active, closely followed by those aged between 24 and 34 (Stats SA 2019).

As informative as the above statistics are, they don't provide reasons as to why people move into the informal sector. This topic was investigated by Kingdon & Knight (2000) who found unemployment as a significant motivation for entering into the informal sector. With high levels of unemployment in the formal sector, the low level of informal sector absorption is a surprise when compared to other developing countries (Kingdon & Knight 2000). Kingdon & Knight (2000) found that about two-thirds of all jobless workers were unemployed for more than a year, with the median duration being two years. With unemployment being such a prevalent issue, it is no surprise to see 63,5% of business owners stating that they started an informal business due to being "Unemployed/have no alternative income source" (Stats SA, 2019).

When comparing the motivation of informal enterprise owners to that of owners of formal small businesses (SMMEs), over 70% stated that they "Had formal job experience and saw an opportunity". The contrast between the two types of owners is stark (The World Bank 2002). There are other reasons besides unemployment that motivate people to enter the informal sector. The decision to become a participant in the informal sector may be motivated by factors such as identifying a new business opportunity, a desire for flexibility or simply the need to operate a family business (Lloyd 2018). The informal sector seems to be long term in nature. The employment history of many informal participants shows that they often spend their entire working career in the sector (Blaauw 2015). Most informal operators have an education level below matric and this could explain their inability to transition into the formal economy. This reinforces the notion that the informal sector is long-term and dualistic in nature (Blaauw 2015).

This subsection's brief overview of the characteristics of the people and nature of the informal sector has provided a backdrop which the Langa informal sector can be contrasted and compared with. The next section continues providing this backdrop by exploring the role of foreign nationals play.

2.2.3 Foreign nationals in the informal sector

An often-overlooked element of the South African informal sector is the role played by foreign nationals. The data in this study found almost 40% of the informal operators to be foreign nationals. Despite the important role foreign nationals seem to play in the

informal sector, reports such as those published by Stats SA do not explicitly look at their position in the sector. The studies that have explored this area have found that foreign nationals play a significant role both in terms of their numbers and economic contribution. Liedeman et al (2013) looked at foreign nationals in the spaza industry of Delft South (a township near cape town) and found that 47% of the spaza shops were foreign-owned. Blaauw (2015) also found a large percentage (52,3%) of foreign nationals working in the Pretoria day labour economy. Hunter & Skinner (2001) looked at foreign street traders in Inner City Durban and provided insight into the characteristics of the foreign nationals working in the informal sector. Hunter & Skinner (2001) found that half of the foreign traders are from the Southern African Development Community (SADC) region, with others from countries like the Democratic Republic of Congo, Kenya and Somalia. A large majority of the traders are male (96%), with the average foreign national twenty-seven years of age (Hunter & Skinner 2001). Almost all foreign nationals in the informal sector are owners of their businesses and tend to be involved in trade (51%) and service orientated enterprises (47%) (Hunter & Skinner 2001).

Liedeman et al (2013) found that foreign-owned businesses tend to outperform than their South African counterparts. Over two years Liedeman et al (2013) observed a 22% decrease in the total number of spaza shops but foreign-run businesses seemed immune and saw a 31% growth in their numbers. Liedeman et al (2013) attributed this difference to the role of social networks. Through their social networks, foreign nationals can access cheap labour (recruiting other foreign nationals), can engage in group purchasing (securing discounts) and facilitate micro-finance through investment partnerships. Hunter and Skinner (2001) provide other reasons that may contribute to this success. They found that foreign nationals are relatively well educated with only 5% having no formal education, as opposed to the 12% of local traders in Durban. A majority of foreign nationals had also been employed in their home country which suggests that they bring employable skills and/or the ability to be self-employed (Hunter & Skinner 2001).

Foreign run enterprises do not only provide necessary products/service to the communities they operate in but they also employ South Africans with two-thirds of those who employed others employing one or more South Africans (Hunter & Skinner

2001). Foreign nationals experience barriers to sustainability with some being unique (police harassment and xenophobia) and many being similar (crime, lack of economic recognition and infrastructure) (Hunter & Skinner 2001). The economic input of foreign nationals in the informal sector cannot be overlooked and understanding their context and barriers plays a significant role in understanding the Langa informal sector.

2.3 Constraints Observed in the Previous Literature

The Census of 2011 recorded that 82% of the Langa working population was employed in the informal sector (Stats SA 2012). This statistic makes understanding the barriers to informal sector business stability an important topic in Langa. Turning to literature that has attempted to answer this question in other parts of South Africa provides invaluable insight and guidance in trying to answer the question in Langa. Most of the constraints mentioned in the literature are constant across different studies.

Two major constraints listed in the literature are the "lack of access to credit" and "crime". In their 1999 SMME survey the World Bank (2002) found that 80% of black informal firms could not access credit facilities because of past restrictions and prohibitive interest rates. As such, black informal firm owners use little formal or informal financial services. With the main source of business funding coming from the black firm owners' personal or family savings (The World Bank 2002). This constraint is linked to the discrimination experienced by several generations of black owners who were subject to apartheid's discriminatory policies that lawfully restricted the acquisition of business skills and business activities (such as investing, saving, acquiring credit records and collateral) creating further barriers to access credit (The World Bank 2002).

Cichello et al (2011) observed that crime's effect on informal entities is magnified due to the nature of the businesses in the sector. Crime was found to correlate with reduced self-employment activities. Crime is also a major problem for household-based enterprises (HBE) which are the largest of all informal location types (37,3%) (Stats SA 2019). The direct costs of crime also contribute to the problem, as a lack of access to financial products such as loans, credit or insurance mean that the loss of stock impacts business survival (Cichello et al 2011).

Other constraints such as a lack of local government support, business or accounting training, access to infrastructure and transport costs are mentioned by Fourie (2018) and Shabalala (2014) amongst others. All these constraints were used to inform the survey conducted and are explored within the context of Langa in later sections of this paper.

3.A Description of Langa

This section aims to provide further context that can be used to understand the Langa informal sector by presenting a brief overview of its demographics, geography, history and other social indicators.

Langa is a township birthed directly from the migrant labour system, which saw Black African migrant workers travel to towns/cities in search of work from their homelands. Townships like Langa were then formed to house the migrant workers who were prohibited from living in urban areas like Cape Town (Boudreaux 2006). Being 1.8 square kilometres in size, Langa is one of the smaller townships in and around Cape Town (Stats SA 2012). Demographically and historically Langa is a black African township with a population of 25 875, of which 89% list Xhosa as their home language. 54% of the population has not completed matric, with 94% not having attend any form of tertiary education according to the 2011 Census (Stats SA 2012).

Economically 42% of the population is employed, with an average annual income of R30 000 (on par with the national average) (Stats SA 2012). The low employment rate, coupled with the fact that the majority of the population have not passed matric could indicate that Langa's informal sector is set to grow as the informal sector is often seen as an employer of last resort (Lloyd 2018). This paper is a first step in trying to understand the informal sector in Langa and aims to do so by analysing data extracted from Langa. The data, how it was gathered and how it will be analysed is discussed in the following section.

4. Data and Methodology

This section outlines the data collection and methods used in this study. The first part of the section briefly explains the data collection process. The second outlines the

survey design and the techniques employed to analyse the data. The third section explains the methodological limitations of the chosen technique.

4.1 Data Collection

Watson (2002) emphasized the importance of physically experiencing an environment to impart a deeper understanding that cannot be acquired from a textbook or lecture. In the spirit of these ideals and because this study attempts something unique within the Langa context, fieldwork was needed. The UCT Knowledge Co-op, an organization that provides a channel for community groups to access academic resources within the university, was partnered with to find an entity that could facilitate this fieldwork. This community group was Just Grace, a non-profit organization within Langa, which provided a fieldworker who was knowledgeable of the area. Fieldwork was conducted with a pilot taking place before the fieldworker randomly surveyed business operators in Langa. The survey issued was given ethical clearance (see appendix). As mentioned earlier in the paper both employers and employees who met the requirements of the definition given by the ILO were eligible to participate (Hussmanns 2004). The collection of data took place over a week with answers being dictated to the fieldworker and directly recorded into Google Sheets. The data was then transferred to Excel and analysed using STATA.

Data from Stats SA (2012, 2019) have been used to compare and contrast the collected data. The census and SESE both provide information that allow the data collected from Langa to be analysed and contextualised.

4.2 Survey Design and Methodology

The survey for this study had two versions. An English and Xhosa version. The fieldworker who conducted the survey was fluent in both English and Xhosa. 33 participants were surveyed and form part of the data set. These participants include employers and employees of informal sector business. Both these groups were surveyed as they have experience of the Langa informal sector and would be able to identify barriers. As mentioned earlier in the paper the study conducted by Cichello et al (2011) was a large influence on this paper. A Likert scale was used in this study but instead of the five-point scale used in Cichello et al (2011), a three-point scale

was used. Jacoby & Matell (1971) found that both reliability and validity are independent of the number of scale points used for Likert-type items. Based on the findings of Jacoby & Matell (1971) and because it was better received during piloting, the three-point scale was used.

In trying to understand the barriers preventing residents from starting their own business in the informal sector, individuals who were currently involved in the informal sector were surveyed. The participants were asked to identify the extent to which seven potential issues were a barrier to entry and sustainability in the informal sector in Langa. Answers were given on a three-point Likert scale with categories: (1) not a barrier (2) moderate barrier and (3) large barrier. The listed barriers can be found in the surveys in the appendix. Participants were also asked questions about their individual characterises and about businesses they are involved in.

This paper also draws on the influence of the Shabalala (2014) who used a qualitative approach in attempting to find the constraints to securing a livelihood in the Informal Sector of Delft South (a township close to Cape Town). This paper performed analysis on a small group of interviewees, using the case study method to tackle the topic. Shabalala (2014) and Cichello et al (2011) show that there is a precedent and use for the qualitative small scale research that this study conducts.

4.3 Methodological Limitations

Despite the value that small qualitative studies present, there are limitations and concerns in conducting this form of research. Cichello et al (2011) stated that the biggest concern with using a Likert Scale is the difficulty in comparing or aggregating the results as they are subjective and vary between participants. Even at an individual level, not all "large barriers" are weighted the same. Another concern raised by Cichello et al (2011) relates to the ranking of the barriers being dependent on personal experience and this may not reflect the actual barriers present in the informal sector.

Cichello et al (2011) defend the use of this methodology by stating that the information observed through this process still provides valuable information as perceived barriers are likely highly correlated with actual barriers. The second defence emphasizes that

as long as stated perceptions guide behaviour, the information will be useful as it helps model actions regardless of being subjective. With the defences provided by Cichello et al (2011) in mind and the fact that this study represents a first attempt at an in-depth look at the Langa informal sector. The methodology, scope and size of the study should not limit its ability to identify the barriers to entry or business sustainability in the Langa informal sector.

5. Data Analysis

This section presents the findings from the fieldwork conducted in Langa. Divided into three parts, the first provides an analysis of the characteristics of the survey participants. The second focuses on the characteristics of the businesses included in this study. The third part directly answers the primary research question "What are the barriers to entry and business sustainability in the Langa informal sector?".

5.1 Characteristics of the Participants

This subsection provides insight into the informal operators in Langa. In displaying demographics, education levels, motivations and income information this subsection provides information on the people who are experiencing the barriers to sustainability discussed later in this paper.

Table 1

Age of individuals operating in the informal sector	Frequency	Per cent
20-34 years	11	33.33
35-44 years	13	39.39
44-60 years	9	27.27
Sex	**Frequency**	**Per cent**
Female	13	39.39
Male	20	60.61
Country of birth	**Frequency**	**Per cent**
DRC Congo	2	6.06
Ghana	1	3.03

|		
Malawi	4	12.12
Mozambique	1	3.03
Pakistan	2	6.06
Somalia	1	3.03
South Africa	20	60.61
Zimbabwe	2	6.06

Source: Author's Calculations using the Langa informal sector survey

Table 1 reflects the basic demographics of the informal enterprise operators included in this study. Age, sex and country of birth are presented in this table.

In line with the findings of SESE persons aged between 35-44 years are the most prominent in the Langa informal sector (Stats SA, 2019). The participants are close to being evenly distributed between the three age categories. This implies that the Langa informal sector is diverse as each age group is well represented. The split between sexes is identical to that found in SESE with males being more likely to be involved in the informal sector than females (Stats SA, 2019).

The survey used in this paper was designed to include a question regarding country of birth. Such a question is not present in SESE or most other informal sector surveys. This means foreign nationals are often overlooked. When papers have explored the role of foreign nationals they are often found playing a significant role as Liedeman et al (2013) and Blaauw (2015) showed in their papers. This study found that Langa was no exception with 39.39% of the survey participants being foreign nationals. Similar to Hunter & Skinner (2001) most of the foreign nationals (27,27% of all participants) were from the SADC region. The high numbers of foreign nationals in this study are remarkable when considered with the fact the Census found 92.7% of the Langa population was South African born (Stats SA 2002).

Figure 1
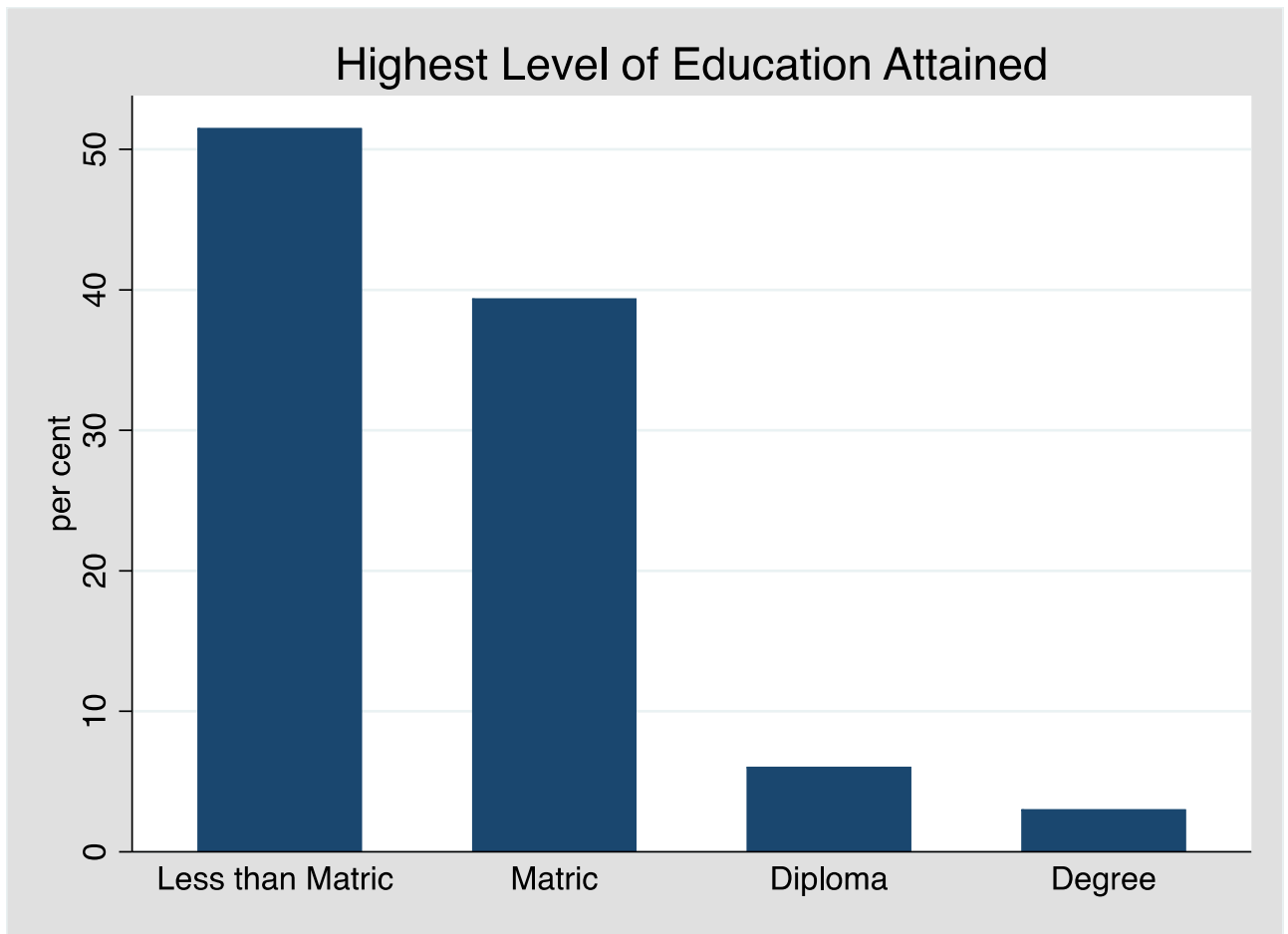
Source: Author's Calculations using the Langa informal sector survey

Figure 1 shows that a majority of the informal operators in this study had not completed matric. The percentage of those who had not completed matric in this study (51.52%) is lower than the percentage found in SESE (67.7%) (Stats SA 2019). A higher percentage (39.39%) of participants have completed matric compared to the 21.8% in SESE (Stats SA 2019). The proportion of those who have attained tertiary level education is similar across both this study and SESE.

The low levels of education may be a significant factor in determining the levels of unemployment in Langa (23%) (Stats SA 2002). This supports the dualistic view of the economy as low levels of education are a barrier in the participants' ability to transition into the formal economy (Blaauw 2015). This suggests that unemployment is a large motivator for entry into the informal sector which is confirmed in Table 2.

Table 2

Motivation to Be Involved in the Informal Sector	Frequency	Per cent
It is a family business	8	24.24
Unemployment	13	39.39
There was an opportunity to make money	9	27.27
Wanted to work from home	2	6.06
Other	1	3.03
Total	33	100.00

Source: Author's Calculations using the Langa informal sector survey

Table 2 shows that the single largest motivation is unemployment (39,29%). The results of SESE also found unemployment as the leading motivator with a significantly higher percentage of 63.6% of people stating it as their motivation. Unemployment is not the only major motivation with the majority of participants entering the informal market because they saw an opportunity to make money or to continue operating a family business. Langa's informal sector seems to be both a destination of choice and last resort.

Table 1 in the appendix shows that the type of motivation impacts monthly earnings. 69.23% of those who entered the sector due to unemployment fall into the R0-R2001 bracket. When analysing the same income bracket for those operating a family business and those seeking opportunities, only 50% of and the 33.33% are observed respectively. This shows that those who are motivated by unemployment are more likely to earn less.

Table 3

Main Source of Income	Monthly Income from Informal Sector					Income Source proportion
	R0-R2000	**R2001-R4000**	**R4001-R6000**	**R6001-R8000**	**R8001 or Above**	
Formal Sector	50%	37.5%	12.5%	0%	0%	24.24%
Informal Sector	52.38	14.29%	14.29%	4.76%	14.29%	63.64%
Relatives	75%	0%	0%	0%	25%	12.12%
Income Group proportion	54.55%	18.18%	12.12%	3.03%	12.12%	100%

Source: Author's Calculations using the Langa informal sector survey

Table 3 provides a closer look at the income of the participants. This table looks at the participants' main source of income and their monthly income from the informal sector.

The majority of the participants' main source of income comes from the informal sector. Those whose main source of income is the informal sector largely earn in the R0-R2000 bracket. This indicates that informal businesses are used as a form of subsistence. This supports the findings of the World Bank (2002) which described the South African informal sector as a survivalist platform. The 27.27% of the participants earning over R4001 show signs that the informal sector can move beyond being a form of subsistence and closer to being a tool of poverty reduction (World Bank 2002). The formal sector represents the second-largest form of main income. This is an interesting result as it could mean that certain participants work in both sectors and use their informal sector involvement as a way to supplement their earnings. This would explain why a majority of the formal sector earners fall in the R0-R2000 bracket and none past the R4001-R6000 bracket, as their informal sector activities only supplement their main income. The last income source is relatives and it also provides an interesting result. A large majority (75%) of those who depend on relatives for their main source of income fall within the R0-R2000 bracket which suggests that the amount they receive from relatives is low and needs to be supplemented by informal sector activity.

5.2 Characteristics of the Businesses

This subsection describes the businesses that operate in the Langa informal sector. With a specific focus on the business type, business location, accounting practices and business longevity. This subsection provides an overview of the type of business that is impacted by the barriers to sustainability discussed in the next section of this paper.

Table 4

Business Type	Frequency	Per cent
Selling Cooked Food	7	21.21
Selling Small Goods	14	42.42
Services	10	30.30
Other	2	6.06
Business Location	**Frequency**	**Per cent**
At Home	5	15.15
Door to door/go to customers	2	6.06
Shopping mall/centre	2	6.06
Street/street corner/pavement	24	72.73
Is Income Recorded?	**Frequency**	**Per cent**
No	12	36.36
Yes	21	63.64

Source: Author's Calculations using the Langa informal sector survey

Table 4 contains basic information about the businesses that the participants of this study operated in. This table provides this basic information by identifying the business type, business location and accounting practices of the businesses.

Trade (Selling cooked food and small goods) represents the largest business type with 63.63% of the participants operating in these businesses. SESE also found trade to

be the most dominant type of business as 51.5% of the businesses they recorded were in this category (Stats SA 2019). The businesses that sell small goods represent 42.42% of the businesses in this study. These businesses are mostly Spaza shops and play an important role as retailers of household grocery items in the community (Liedeman et al 2013). These businesses provide core trade items such as bread, milk, grain staples, soap and cigarettes (Liedeman et al 2013). Businesses that provide services are also important for the community. These businesses take the form of barbers, mechanics and clothing repairs. Both these types of business provide invaluable products and services to Langa. Without the informal sector, the residents of Langa would find it difficult to attain these essential products and services conveniently or at affordable prices.

Most businesses in this study are located on the streets (72.73%). This finding is contrary to that made in SESE, with only 12% of the businesses recorded being located on the streets. SESE found most businesses to be located at an owner's dwelling (37.3%) while in this study those who operated out of a home only represent 15.15%. A possible explanation for the differences between the surveys is the data collection method used. SESE is a household survey and identifies informal businesses owned by household members while the survey in this paper randomly selected participants who were visible from the streets. This made this study more likely to include business on the streets than SESE.

The World Bank (2002) found only 26% of businesses recorded their income and other accounts. In contrast, the majority of informal businesses in Langa (63.6%) keep a record of their income. Despite the relatively high number of Langa businesses keeping a record of their income only one of these businesses keep formal accounts. This means that all but this one business would most likely be denied access to formal credit institutions which require proper accounting records (World Bank 2002). This could be a significant reason for access to capital being listed as a constraint in the informal sector and is examined in the next section.

Figure 2

Years That Business Has Been Running
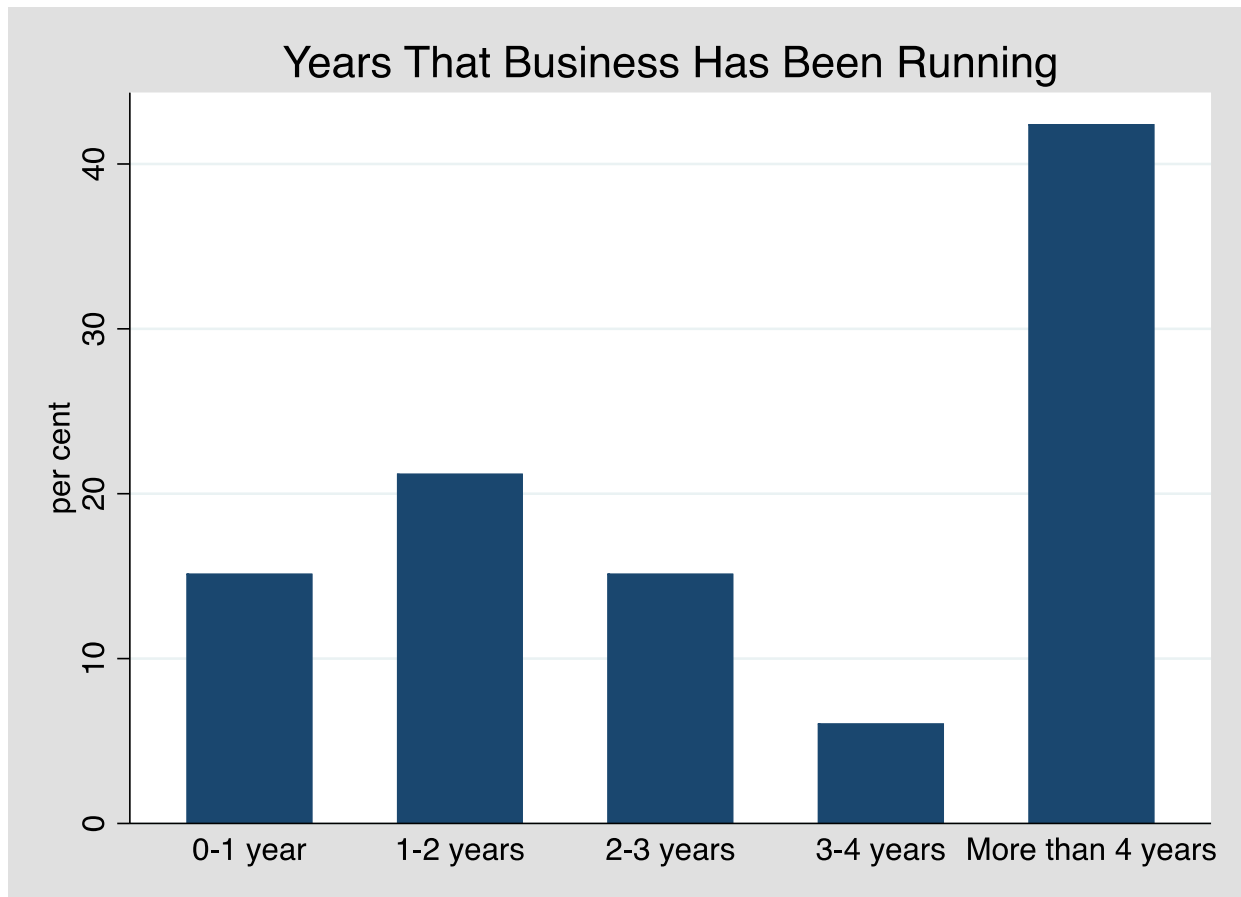
Source: Author's Calculations using the Langa informal sector survey

The biggest proportion of businesses surveyed had been operating for more than four years, which was also true in the findings of SESE. This may be a further indicator of the important role informal businesses play in their communities as their survival is dependent on the continued support of the community. With businesses tending to be operational for more than four years the finding of Blaauw (2015) that the informal sector is "long-term in nature" is reinforced.

5.3 Barriers to Entry and Sustainability

The previous sections have aimed to provide an understanding of the people, businesses and other characteristics of the Langa informal sector. With the context having been set in these previous sections, this section will directly answer the primary research question "What are the barriers to entry and business sustainability in the Langa informal sector?". In this section, barriers will be compared using the measure

used in Cichello et al (2011). Cichello et al (2011) found barrier A to outrank barrier B if the mean response of A was greater than the mean response B.

Table 5

Barriers to Entry and Sustainability		Statistics	
Variable	Obs	Mean	Std. Dev.
Crime	33	1.575758	.7512616
Suitable Business premises	33	1.939394	.7474705
Capital	33	1.939394	.8268689
Transport	33	1.424242	.6139169
Jealousy	33	1.636364	.7423856
Fear of No Profit	33	2.090909	.6784005
Xenophobia	33	1.424242	.7084447

Source: Author's Calculations using the Langa informal sector survey

Note: The original wording for each barrier is presented along with the shorthand that is used in Table 2 in the appendix.

Table 5 shows the weighted average of each barrier for the entire dataset. "Fear of No Profit" is the highest-ranked barrier to entry and sustainability. The majority of those whose main source of income is from the informal sector fall within the R0-R2000 monthly income category (shown in Table 3). This means that they are most vulnerable to poverty if the business experiences no profit and could be a contributing factor towards it being the biggest barrier. This barrier is compounded by the "Capital" barrier as a lack of access to capital significantly reduces a businesses' ability to survive shocks that result in no profit being made (Cichello et al 2011). Cichello et al (2011) had a similar barrier called "Risk of Business Failure". This barrier was the second biggest barrier and shows that it presents a significant obstacle even as a perceived barrier. The risk associated with the making of no profit contributes to the informal sector seeming riskier than a job within the formal economy (Cichello et al 2011). Facing such risk may also influence individuals to avoid the informal sector and rather choose the lower risk alternative of remaining unemployed (Cichello et al 2011).

"Capital" and "Suitable Business premises " were both ranked equally as the largest barriers. "Capital" was briefly mentioned as a compounding factor in the previous

paragraph but it is also a large barrier in its own capacity. As mentioned in the previous section only one of the thirty-three businesses in this study would be able to access formal forms of credit/capital due to the low adoption of accounting principles in the sector. The lack of access to capital may be a barrier that reflects the global informal sector but the dualistic nature of the South African economy compounds this barrier (The World Bank 2002). Past discrimination towards several generations of Black Africans have restricted access to business skill acquisition and business activities that would have increased access to credit (The World Bank 2002). This barrier more likely refers to sustainability and not entry as SESE only found 58.6% of businesses needed start-up capital. With only 24.6% of those acquiring the money from a source other than themselves (Stats SA 2019).

"Suitable Business premises" is a high ranking barrier in this study but does not feature in Cichello et al (2011) and is a low ranking barrier in the World Bank (2002) paper. This could imply that Langa is either a more dangerous area to operate a business in than the areas studied in those papers or there is limited space for businesses to operate out of. Intuitively if a Langa was dangerous then crime would be correlated with it. The results of this paper indicate that Langa is most likely not dangerous as the barrier "Crime" is lowly ranked. The availability of business space is, therefore, the more likely barrier and is a particular hindrance for business with the potential to grow relative to survivalist firms that can be operated out of a home (World Bank 2002).

"Crime" has a low rank in this paper however it has been listed as a major barrier in the papers of Cichello et al (2011) and Shabalala (2014). With both these papers investigating barriers in and around the Cape Town area Langa seems to be an exception. As this paper focuses on experienced barriers the notion that the perceptions of crime among informal businesses are far more pervasive than the reality may also explain the differences between the rankings (World Bank 2002).

"Xenophobia" and "Transport" are the lowest ranking barriers. "Transport" being lowly ranked is unsurprising when considering where the participants reside. Two-thirds of the participants live in Langa (see Table 3 in the Appendix) while the others live in areas near Langa, meaning that transport costs to work in the informal sector are low and not a big barrier. "Xenophobia" is an interesting barrier to investigate since 40%

of respondents were foreign nationals. No papers that focused on areas around Cape Town explicitly look at the barriers that may impact foreign nationals. Hunter & Skinner (2001) found high levels of xenophobia in Inner City Durban but Langa does not seem to have this issue. Table 6 provides an explicit analysis of the barriers experienced by foreign nationals and achieves this by controlling for the country of birth and separating the tables for South Africans and foreign nationals.

Table 6

Barriers to Entry and Sustainability For South Africans	Statistics		
Variable	Obs	Mean	Std. Dev.
Crime	20	1.6	.753937
Suitable Business premises	20	1.95	.759155
Capital	20	1.75	.786398
Transport	20	1.35	.587143
Jealousy	20	1.6	.753937
Fear of No Profit	20	2.05	.759155
Xenophobia	20	1.4	.680557
Barriers to Entry and Sustainability For Foreign nationals	Statistics		
Variable	Obs	Mean	Std. Dev.
Crime	13	1.54	.77625
Suitable Business premises	13	1.92	.759555
Capital	13	2.23	.832050
Transport	13	1.54	.660225
Jealousy	13	1.69	.751067
Fear of No Profit	13	2.15	.554700
Xenophobia	13	1.46	.77625

Source: Author's Calculations using the Langa informal sector survey

Table 6 indicates that the barriers experienced by South Africans and foreign nationals are ranked very similarly. The biggest difference is seen in the rating of "Capital" as a barrier. For Foreign nationals "Capital" is a larger barrier than "Fear of No Profit". This table implies that being a foreign national exacerbates the difficulties of accessing

capital/credit when operating in the informal sector. SESE may provide insight as to why this may be the case. 84.1% of businesses that borrowed start-up capital received that money from friends and relatives (Stats SA 2019). Foreign nationals may not have access to these social resources and would, therefore, find and rate capital access as a bigger barrier than South Africans.

The "Xenophobia" barrier is not significantly different between the two, implying that Langa does not have an issue of xenophobic attacks on businesses or their operators. "Transport" is a barrier that becomes slightly more significant when viewed from the perspective of Foreign nationals. This can be explained when considering where foreign nationals and South African's reside. 61.54% of the Foreign nationals stay outside Langa compared to 15% of South Africans. Meaning that a higher percentage of Foreign nationals would incur transport costs and therefore rate the barrier higher than South Africans.

Sections 5.2 and 5.3 set the context of the Langa informal sector by detailing the characteristics of the people and businesses in the sector. Section 5.3 provided the results which show that the biggest barrier to entry and sustainability in the Langa informal sector is the "fear of no profit". This barrier is compounded by the economic vulnerability of informal sector operators and the low income earned from activities in the sector. Other barriers such as "Capital" and "Suitable Business premises" were also prominent. When country of birth was controlled for, the results between South Africans and foreign nationals were very similar. "Xenophobia" as a barrier remained low with "Capital" being the only barrier that became significantly bigger for foreign nationals.

6.Conclusion

This paper aimed to answer the primary research question, "What are the barriers to entry and business sustainability in the Langa informal sector?". Through the collection of original qualitative data in Langa, this paper has not only been able to answer the research question but also provide insight into other aspects of the informal sector.

These other aspects refer to the characteristics of the people in the Langa informal sector. The data showed that the most active people in the sector were aged between

34-44 years with males the more likely to operate in the sector. Foreign nationals represent 39.39% of the participants in this paper, highlighting the important and often overlooked role they play in the sector. A majority of the informal operators in this study had not completed matric. The low levels of education observed indicate that many of the participants are vulnerable to unemployment and this is the single largest motivator to entering the informal sector. The informal sector represents the main source of income for most participants with the R0-R2000 bracket representing most likely earnings of participants.

The data collected also provided insights into the characteristics of the businesses in the Langa informal sector. Trade represents the largest business type with 63.63% of the participants operating in these businesses. Businesses located on the streets were dominant and 63.64% of the businesses in this study keep some record of their income. Businesses in Langa tend to have longevity with most businesses having been operating for more than three years.

The most significant barrier to entry and sustainability in the Langa informal sector is the "fear of no profit". This barrier is compounded by the economic vulnerability of informal sector operators and the low income earned from activities in the sector. Other barriers such as "Capital" and "Suitable Business premises" were also prominent. When country of birth was controlled for, the results between South Africans and foreign nationals were very similar. "Xenophobia" as a barrier remained low with "Capital" being the only barrier that became significantly bigger for foreign nationals.

The original data collected for this paper presented the first opportunity to identify the barriers to entry and sustainability in the Langa informal sector. In doing so this paper has laid the foundations for further research to fully analyse a sector that is crucial to the lives of the inhabitants of Langa.

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Appendix

Table 1

Motivation to Be Involved in the Informal Sector	Monthly Income				
	R0-R2000	R2001-R4000	R4001-R6000	R6001-R8000	R8001 or Above
It is a family business	50%	0%	25%	12.5%	12.5%
Wanted to work from home	50%	50%	0%	0%	0%
There was an opportunity to make money	33.33%	22%	22%	0%	22%
Unemployed	69.23%	23.08%	0%	0%	7.69%
Other	100%	0%	0%	0%	0%

Source: Author's Calculations using the Langa informal sector survey

Table 2

Shorthand in Tables	Wording in Survey
Crime	**Crime (Robbery, hijacking etc)**
Territory	**Can't find space to run your business or it located in a dangerous territorial zone**
Capital	**No access to money from banks or other investors**
Transport	**Transport costs (getting to and coming from the business)**
Jealousy	**Jealousy if successful**
Fear of No Profit	**Making little or no money**
Xenophobia	**Xenophobic attacks on business**

Source: Author's Calculations using the Langa informal sector survey

Table 3

Where do You Reside?	Frequency	Per cent
Langa	**22**	**66.67**
Outside Langa	**11**	**33.33**

Source: Author's Calculations using the Langa informal sector survey

"Experienced barriers to entry and business sustainability in the Langa informal economy" Survey

This survey aims to understand the informal economy of Langa and in doing so, identify the barriers to business sustainability experienced by those active in the area.

This research has been approved by the Commerce Faculty Ethics in Research Committee.
Survey Number: 2019/hons/02
Your participation in this research is voluntary and by continuing to answer the questions, you have given consent for the information to be used. You can choose to withdraw from the research at any time.
The questionnaire will take approximately 15 minutes to complete
You will not be requested to supply any personal identifiable information, ensuring anonymity of your responses.
Should you have any questions regarding the research please feel free to contact the researchers.

Student: Sihle Msweli (mswmnq001@myuct.ac.za)

1. Age:

2. Gender:

3. Nationality:

4. Highest level of education completed.

   _____

5. What type of business do you run or are involved in?
   - Selling goods like fruits, household items, materials etc.
   - Selling cooked food like amagwinya, kotas, etc.
   - Services like mechanic, hairdresser, garden services etc.
   - Other (please specify)

     _____

6. What was your motivation for getting involved in a business in Langa?
   - Recently lost a job
   - It is a family business
   - Wanted to work from home
   - There was an opportunity to make money
   - Unemployed for more than 6 months
   - Other (please Specify)

     _____

7. What are the barriers, you believe prevent business sustainability? Give each a rating of either **(1)** not a barrier **(2)** medium barrier **(3)** large barrier.
   - Crime (robbery, hijacking etc.)
   - Can't find space to run business or business is located in dangerous territorial zone
   - No access to money from banks or other investors
   - Transport costs (getting to and coming back from the business)
   - Jealousy if successful
   - Making little or no money
   - Xenophobic attacks on business
   - Other (please specify)

     _____

8. Where is the business located?
   - At Home or at a garage
   - Street/street corner/pavement
   - Door to door/go to customers
   - Market area
   - Shopping mall/centre
   - Other (please specify)

9. Which solution do you think would best help businesses overcome these barriers? Give each a rating of either **(1)** not helpful **(2)** helpful **(3)** very helpful.

    o   Entrepreneurial/Business training (the teaching of accounting, business management, marketing, etc.)
    o   Community led crime vigilance group (or other crime discouraging community activities)
    o   Help in getting money from banks or investors
    o   Training in technical manual skills
    o   Help in accessing Wi-Fi, computers, tablets etc.
    o   Other (please specify)

    _____

10. How long has your business been running or how long have you been involved in it?
    o   0-1 year
    o   1-2 years
    o   2-3 years
    o   3-4 years
    o   More than 4 years

11. What was your monthly income (profit) from this business?
    o   R0-R2000
    o   R2001-R4000
    o   R4001-R6000
    o   R6001-R8000
    o   R8000 or more

12. What is the main source of income in your household?
    o   Income from business/work in the informal economy
    o   Income from a business/work in the formal economy
    o   Government grants
    o   Income from relatives (children, parents, grandparents etc.)
    o   Other (please specify)

    _____

13. Number of hours worked a week (including weekends & holidays)
    o   0-10 hours
    o   11-20 hours
    o   21-30 hours
    o   31-40 hours
    o   41-50 hours
    o   More than 50 hours

14. How many months per year is your business operational?
    o   1-3 months

- 4-6 months
- 7-9months
- 12 months

15. Do you record your income and expenses? If yes, did you use formal or informal accounting?
- No
- Yes

16. If answered yes to previous question, did you use formal or informal accounting?
- Formal (balance sheets, income statements etc.)
- Informal (a basic account of what is spent and received)

17. Where do you live?
- Langa
- Khayelitsha
- Gugulethu
- Mitchell's Plain
- Cape Town (surrounding suburbs and CBD)
- Other (please specify)

_____

18. How many people live in your household?

_____

Xhosa Survey

"Imingcele yokufumana ukungena kunye nokuzinza kwezoqoqosho kwi-Langa uqoqosho olungacwangciswanga" Uphando

Olu phando lujolise ekuqondeni uqoqosho olungacwangciswanga lweLanga kwaye ngokwenza njalo, phawula imingcele yokuzinza kwezoshishino ezijongene nabo basebenzayo kuloo ndawo.

Olu phando luvunywe yi-Trade Faculty Ethics kwiKomidi yophando. Inombolo yoPhando: 2019/iiyons/02
Ukuthatha inxaxheba kulolu uphando ngokuzithandela kwaye ngokuqhubeka nokuphendula imibuzo, unike imvume malunga nolwazi oluya kusetyenziswa. Unokukhetha ukurhoxisa uphando nanini na.
Le mibuzo iya kuthatha malunga nemizuzu eyi-15 yokugqiba
Awuyi kucelwa ukuba unikeze nayiphi na inkcazelo engabonakaliyo, uqinisekise ukungabonakali kweempendulo zakho
Ukuba unayo nayiphi na imibuzo malunga nophando nceda ukhululeke ukudibanisa nabaphandi.

Student (Umfundi): Sihle Msweli (mswmnq001@myuct.ac.za)

32

1. Iminyaka:

2. Isini:

3. Ubuze:

4. Elona banga liphezulu oliphumeleleyo?

   _____

5. loluphi uhlobo loshishino oluqhubayo okanye ozibandakanye nalo?
   o Uthengisa impahla encinci njenge lekese, iziqhamo, nemifuno
   o Uthengisa ukutya okuphkiweyo njenge amagwinya, ikota
   o Iinkonza ezifana ne machenic, umntu owenza intloko, umsebenzi wasegadini
   o Nezinye (Cacisa)

   _____

6. Yintoni eyakukhuthaza ukuba uzibandakanye neshishini kwalanga?
   o Iahlekelwe ngumsebenzi
   o Lushishino Losapho
   o Bufuna ukusebenzela ekhayeni
   o Wabona ithuba lokwenza imali
   o Khange ufumane msebemzi kwade kwadlula iinyanga ezisthathandathu
   o Other (please Specify) Nezinye (Cacisa)

   _____

7. Zeziphi izivalo okholelwayo ukuba zingathintela uzinzo kwi shishini lakho? Nika umlinganiselo ngokulandelayo **(1)** Umgobo omncinci **(2)** Umgobo ophakathi **(3)** Umgobo omkhulu
   o Ulwaphulo mthethon (ukuphanga,ukubiwa kwe moto neziny)
   o Andifumani ndawo yoqhuba ishishini lam okanye ishishini lisendaweni enobundlobongela
   o Andifikeleli kwimali ye bank nakubatyalimali
   o Imali yokuthutha (eyokuza neyobuya kwishishini)
   o Umona xa uphumelela
   o Wenza imali encinci okanye awezi kwamali
   o Ukuhlaselwa kwabemi bangahandle
   o Nezinye (Cacisa)

   _____

8. Iphi ishishini yakho?
   o Ekhaya akanye iseGaraji
   o Estratweni/ecaleni kwendlela
   o Ungena indlu ngendlu/Nguwe oya kubathengi
   o Indawo enentengiso

- o   kwi mall yokuthebga
- o   Nezinye (Cacisa)

  _____

9. Zeziphi izisombululo ezinonceda ishishini lakho? Nika umlinganiselo
   ngokulandelayo **(1)** Aysizi **(2)** Isiza kancane **(3)** Isiza kakhulu.
   - o   Ulwaluleko kwezo shishini(uqeqesho kwezoshishino, kwezentengiso,
         kwizibalo)
   - o   Uluntu olukhokhelele kulaphulo mthetho(izinto ezinziwayo luluntu ekulweni
         ulwaphulo mthetho
   - o   Uncedo ekufumaneni imali kwi Bhanki nakubatyali mali
   - o   Uqeqesho kwezobugcisa
   - o   Ufikelelo kwi WI-FI, iminxeba
   - o   Nezinye Cacisa

  _____

10. Mingaphi iminyaka uqhuba ishishini lakho okwany elibandakanye nalo?
    - o   0-1 year (ngunyaka omnye)
    - o   1-2 years (minyaka emibini)
    - o   2-3 years (minyaka emithathu)
    - o   3-4 years (minyaka emine)
    - o   Ingapha kweminyaka emine

11. Ingakanani ingeniso ephuma kwi shishi?
    - o   R0-R2000
    - o   R2001-R4000
    - o   R4001-R6000
    - o   R6001-R8000
    - o   R8000 or more

12. Yeyiphi ingeniso mali eninayo endlini?
    - o   Ingeniso esuka kwishishini/sebenza kuqoqosho olungabonakaliyo
    - o   Ingeniso esuka kwishishini/ Sebenza kuqoqosho olubonakalayo
    - o   Izibonelelo zika Rhulumente
    - o   Ingeniso esuka kwazalamane
    - o   Nezinye Cacisa

  _____

13. Inani le Yure ozisenzileyo ekekini
    - o   0-10 hours
    - o   11-20 hours
    - o   21-30 hours
    - o   31-40 hours
    - o   41-50 hours
    - o   Ngapha kwe Yure eziyi 50

14. Zingaphi iinyanga ngeyeshishini lakho lokusebenza
    o iinyanga 1-3
    o 4-6 iinyanga
    o 7-9 iinyanga
    o 12 iinyanga

15. Ingaba urekhoda ingeniso yakho kunye neendleko?
    o Hai
    o Ewe
16. Ukuba ewe, ngaba usebenzise i-accounting esemthethweni okanye engafanelekanga?
    o Ngokusemthethweni
    o Engafanelekanga

17. Uhlalaphi?
    o Langa
    o Khayelitsha
    o Gugulethu
    o Mitchell's Plain
    o Cape Town (surrounding suburbs and CBD)
    o Other (please specify)

       _____

18. Bangaphi abantu abahlala kwindlu yakho?

   _____

Plagiarism Declaration

Ethics Clarence Form

RESEARCH ETHICS STATEMENT FOR ECO4021W
School of Economics, University of Cape Town

Student number	MSWMNQ001	
Name and surname	Sihle Msweli	
Supervisor	Andrew Kerr	
Short title	Barriers to entry in the Langa informal sector	
Year of registration	2019	
Have you read the faculty guidelines?	Yes ✔	No
Does your research involve human participants?	Yes ✔	No

Only complete the rest of the form if your research involves human participants

Briefly describe your research question and/or focus	Identifying the barriers to developing a small business in the informal township economy of Langa.
Briefly describe the research methods to be used	Previous literature on the subject will be consulted, the SESE survey from STATS SA will be used in conjunction with the questionnaire that will be made and sent to participants.
What information will be given to participants prior to their participation in the research?	Participants will be told that the questionnaire they are completing will be used for an honours student's thesis and presented to a local NGO, Just Grace (UCT Knowledge Co-op partnership), in order to help them better understand and train residents to enter the informal economy.
Will participants be asked to give informed consent? How will informed consent be given and recorded?	Participants will be told about the questionnaire (why it is being collected and how the data collected will be used in the thesis). Participants will be asked to consent (agreeing) that they are happy to do the questionnaire and have the data used as described to them.
If your research involves children or other vulnerable people, will you get consent from appropriate guardians?	N/A
Will any data be anonymised or confidential?	Each questionnaire sent out will have a survey number and will not ask for any identifying information such as a name, ID number, phone number etc. The data will only be uploaded to my personal laptop which has a password, that only I know.
What is the risk of harm for participants?	Due to the anonymity of the questionnaire, the risk posed to the participants is low. What they note or say will be anonymous and confidential.
Do you want to contribute any other information? Additional documents can be appended. **Proposals and questionnaires must be appended.**	The draft questionnaire will be attached with this ethics statement

To be completed by the supervisor

Supervisor's assessment of risk of harm	Significant risk, must be assessed by the ethics representative	No significant risk ✔
Date of supervisor's assessment	4 March 2019	

To be completed to the ethics representative

Date received		
Decision and reference number	2019/hons/02	
Name of ethics representative		
Date of decision		
Comments		