



UNIVERSITY OF CAPE TOWN

SCHOOL OF ECONOMICS

Executive Summary:

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

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

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The research for this report was conducted as an Economics Honours Research Paper based on a request for such research by Just Grace.

This summary report focusses on the findings of the study preceded by a brief introduction.

1. Introduction

The informal sector is a vital source of employment, income, resources and services to many of South Africa's inhabitants. Langa is no exception, with the 2011 census stating that 82% of Langa's employed worked within the informal sector. Statistics such as this show the importance of the informal sector, yet Langa's informal sector remains largely unexamined. With no literature directly analysing Langa's informal sector, the study that this report summarizes represents a first step in understanding the people, attitudes and barriers to sustainability in the Langa informal sector. Through the collection of original qualitative data, the study investigates the barriers to entry and business sustainability in the Langa informal sector and ranks them.

This executive summary is split into 4 sections. Following this introduction, section 2 discusses the data and methodology used in the study. Section 3 will provide an overview of the findings of the study and section 4 will conclude this report.

2. Data and Methodology

This section outlines the data collection process and methodology used in the study.

A survey was designed specifically for the study. This survey had two versions, one in English and the other in isiXhosa. 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 businesses within Langa. Both these groups were surveyed as they have experience of the Langa informal sector and would be able to identify barriers.

A three-point Likert scale was used in the survey, in an attempt to quantify and rank the barriers experienced by participants. The participants were asked to identify the extent to which seven potential issues were a barrier to entry and sustainability in the informal sector. Participants ranked the barriers based on these categories: (1) not a barrier (2) moderate barrier and (3) large barrier. Participants were also asked questions about their individual and business characteristics.

The data used in the study was collected over a week, after receiving ethics clearance. Answers to questions from the survey were dictated to a fieldworker and directly recorded into Google Sheets. The data was then transferred to Excel and analysed using STATA (statistical analysis software).

3. Overview of Findings

The findings of the study are presented in three further subsections. Section 3.1 will provide an overview of the personal characteristics of the participants, while section 3.2 describes the businesses that operate in the Langa informal sector. Section 3.3 directly answers the primary research question "What are the barriers to entry and business sustainability in the Langa informal sector?".

3.1 Personal and Business Characteristics

Table 1

Age of individuals operating in the informal sector	Frequency	Percentage
20-34 years	11	33.3
35-44 years	13	39.4
44-60 years	9	27.3
Sex	Frequency	Percentage
Female	13	39.4
Male	20	60.6

Table 1 reflects the basic demographics of the informal enterprise operators included in the study. Persons aged between 35-44 years seem to be the most prominent in the Langa informal sector. 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. There seem to be more male informal sector operators involved in the Langa informal sector and this in line with national estimates made by Statistics South Africa.

The study found 39.4% of the participants to be foreign nationals. The number of foreign nationals in this study is remarkable when considered that the 2011 census stated that 92.7% of the Langa population was South African born. This means that foreign nationals disproportionately contribute to the Langa informal sector and play a significant role in it.

A majority (51.5%) of the informal operators in the study had not completed matric. This low level of education means that Langa’s informal sector operators are economically vulnerable; this may be the reason why the single largest motivation for entering into the informal sector is unemployment. In support of this, the majority of the participants’ main source of income comes directly from the informal sector. Those whose main source of income is the informal sector, often earn in the R0-R2000 bracket. This indicates that informal businesses are a primary source of employment and a form of subsistence.

3.2 Characteristics of the Businesses

Table 2

Business Type	Frequency	Percentage
Selling Cooked Food	7	21.2
Selling Small Goods	14	42.4
Services	10	30.3
Other	2	6.1
Business Location	Frequency	Percentage
At Home	5	15
Door to door/go to customers	2	6
Shopping mall/centre	2	6
Street/street corner/pavement	24	73

Table 2 contains basic information about the businesses that the participants of this study operated in.

Trade (Selling cooked food and small goods) represents the largest business type with 63.6% of the participants operating in these businesses. These businesses provide core trade items

such as bread, milk, grain staples, soap and cigarettes. Businesses that provide services are also important in Langa. These businesses take the form of barbers, mechanics and clothing repairs. Both these types of business provide invaluable products and services to the Langa community. 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 (72.7%). The biggest proportion of businesses surveyed had been operating for more than four years. The longevity of these businesses is a further indicator of the important and consistent role informal businesses play in the Langa community.

3.3 Barriers to Entry and Sustainability

Table 3

Barriers to Entry and Sustainability		Statistics	
Variable	Observations	Mean	Standard Deviation
Fear of No Profit	33	2.1	.678
Suitable Business premises	33	1.9	.747
Capital	33	1.9	.827
Crime	33	1.6	.751
Jealousy	33	1.6	.742
Transport	33	1.4	.614
Xenophobia	33	1.4	.708

Table 3 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

(not shown). 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.

"Capital" and "Suitable Business premises " were both ranked equally as the second-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. 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 for informal enterprises is not unique to Langa or South Africa.

"Crime" is a low ranking barrier in this study and conflicts with the results found in other papers. This could indicate that crimes committed against informal businesses in Langa are low.

"Xenophobia" and "Transport" are the lowest ranking barriers. "Transport" being lowly ranked is unsurprising when considering that two-thirds of the participants live in Langa while the rest live in neighbouring areas. "Xenophobia" is an interesting barrier to investigate, since 40% of respondents were foreign nationals. "Xenophobia" was not found to be a significant barrier, suggesting that Langa does not have an issue of xenophobic attacks on informal businesses or their operators.

When country of birth was controlled for, barriers experienced by South Africans and foreign nationals are ranked similarly. The biggest difference is seen in the rating of "Capital" as a barrier. Foreign nationals rank "Capital" as their largest barrier. This implies that being a foreign national exacerbates the difficulties of accessing capital/credit when operating in the informal sector. Statistics South Africa state that 84.1% of businesses that borrowed start-up capital received that money from friends and relatives. 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.

Conclusion

The findings of the paper represent the first real look at the Langa informal sector. Through the collection of its original data, the paper was able to provide a glimpse of the characteristics of the people and businesses of Langa.

The paper showed 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 similar. “Xenophobia” as a barrier remained low with “Capital” being the only barrier that became significantly bigger for foreign nationals.

The findings of the paper lay a foundation for further research to fully analyse the informal sector. The paper may have been small in scope but its findings can be used to inform projects/initiatives that aim to aid this sector that is crucial to the lives of the inhabitants of Langa.

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