Conceptualising Informal Business Support in South Africa: A Critical Theory Perspective

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Abstract: It has been said that the next wave of economic growth will come from townships. Over the years several researchers have conducted research on the township economy and the nature of the township economy. Their focus has been predominately on small businesses and entrepreneurial activities. However, as recent as 2020, the Department of Small Business Development has developed a strategy to close the support gap faced by informal businesses. This has been through the establishment of the National Informal Business Upliftment Strategy (NIBUS). Using the critical theory lens for analysis, the authors will argue that strategies like the above seek to play an emancipatory role especially when it comes to ongoing developmental issues such as poverty alleviation and socio-economic transformation in South Africa. The authors believe that choosing to support informal businesses within their informality is a form of emancipatory policy making and implementation. The authors believe that more policies should work towards meeting individuals where they operate such as in informal spaces. Such an approach in economic development will have a positive outcome on poverty alleviation.

Keywords: Economic growth, Informal business, NIBUS, Poverty

1. Introduction

Townships communities in South Africa are a perpetual form of community existence where livelihoods are formed and sustained by individuals and families. South African townships are predominately characterised by poverty and unemployment (Sekhampu, 2013). Township communities were established on city peripheries by black South Africa who needed to live close to their places of employment but were legally not allowed to reside in the formal urban communities, as those places were reserved for White or Europeans. Although South African townships came into existence as a result of historical phenomenon, today’s perspectives on townships is that they are socio-economic in nature (Scheba & Turok, 2020). Socially, they are seen as poor, marginalised and underdeveloped communities. Economically, they are viewed for their informal economic activities and potential these informal economic activities present for sustainable economic development. In the past ten (10) years townships have been the focal point for socio-economic development policy development and implementation (Scheba & Turok, 2020). Furthermore, revitalisation projects have been created and implemented in various townships across the country which have seen individuals, households and communities uplifted. Dyantyi (2017) conducted research in the Eastern Cape township of Mdantsane to analyse revitalisation projects implemented in the town.

The main aim of this contribution is to compare the government strategy vis a vis people led organic efforts to poverty alleviation through informal economic activities such as informal businesses and cooperates. The researchers will consider how regulations impede or promote the informal sector by examining the limitations of the current approaches. This paper starts by providing a contextual exposition of the township informal economy by discussing a few concepts and demarcating the type of context which the authors will be referring to in this paper. The unpacking of concepts and context is important to sensitize the reader to the uniqueness of the township informal economy. Against the conceptual and contextual background, the paper goes on to discuss the nature and scope of informal businesses in South Africa. This discussion also provides an overview on township economic development by highlighting some key debates, policy challenges and opportunities. This is important as it sets a backdrop against which the researchers can critically analyse the National Informal Business Upliftment Strategy (NIBUS) which has been adopted by the Department of Small Business Development. It is after this discussion that critical theory lens will be used to examine
informal business support in South African townships. Finally, the authors will present international perspective on informal business support and draw lessons for South Africa’s ambitions. After this, the authors will present their concluding and recommendation remarks.

2. Township Informal Economy: A Contextual and Conceptual Orientation

The bulk of informal businesses in South Africa are based in township communities. It is in these communities that many individuals participate in the informal sector as a livelihood and survival strategy (Hadebe, 2010; Mukwarami & Tengeh, 2017). The main drivers behind the development and growth of the informal sector are poverty and unemployment (Hadebe, 2010). According to Khumalo (2013), not only is poverty one of the worst calamities against human beings but it is also a Constitutional infringement on an individual’s right to dignity. Khumalo (2013), citing Machado (2006), states there two aspects of poverty should be considered. The first one being that of relative poverty and the second of absolute poverty. Relative poverty is said to occur when an individual’s income much smaller than the income standard in his or her society that puts the individual at the risk of social exclusion (Decerf, 2021:2). On the other hand, absolute poverty refers to when the individual’s income fails to meet their basic needs such as food and clothing (Decerf, 2021). In most townships, the levels of poverty are absolute in nature especially as a result of unemployment. It is why the informal economy is deeply rooted in the township context.

The informal economy in South Africa is a product of the apartheid regime. According to Rogerson (2000), the informal sector emerged during the forty years of apartheid planning when the government ignored and discouraged black entrepreneurs and black owned enterprises. The existence of these enterprises and their geospatial location is parallel to the history of apartheid laws in South Africa (Rogerson 2000). The geospatial location refers to the formal and informal township setting. Urban townships in South Africa need to be understood in accordance with the country colonial and apartheid past (Rogerson, 2019:187). Townships in South Africa are a historical phenomenon born from historic segregation legislation where the black population would exist in a segregated locations (Rogerson, 2019:187). According to Pernegger and Godehart (2007) the term “township” has no formal definition but is used to refer to the underdeveloped, usually (but not only) urban, residential areas which during Apartheid were reserved for non-whites (Africans, Coloureds and Indians). This was under the legislations; Black Communities Development Act (Section 33) and Proclamation R293 of 1962, Proclamation R154 of 1983 and GN R1886 of 1990 in Trust Areas, National Homelands and Independent States. Townships may include or have informal settlements and low-income housing estates (Pernegger & Godehart, 2007). Not all townships were established during the apartheid regime. Other townships such as Ivory Park in the City of Johannesburg is a post-apartheid township settlement (Charman, 2017). Most of the post-apartheid township came about as groups of illegal occupants settled or occupied government land.

Township communities are characterised by high unemployment, low household incomes and high levels of poverty, limited community facilities and the lack of commercial investment (Pernegger & Godehart, 2007). This can be due a number of reasons. For example, if a community is illegally occupying land, then it will not be contributing to rates and will not be formally recognised by local government. Without the legal recognition, the municipality will not include that area in its planning or service delivery mandate. Township communities continue to exist due to persistent poverty and inequality gaps in South Africa. According to Bhurat et al. (2020) the persistent nature of this poverty was highlighted by the establishment of a special COVID-19 grant to combat potential economic harms on vulnerable households as a result of the pandemic.

Township entrepreneurship is one of the fields or phenomenon on which there is limited research and literature (Urban & Ndou, 2019). However, there is consensus amongst researchers (Charman, 2017; Mukwarami & Tengeh, 2017; Legodi & Kanjere, 2015) on the context and concepts such as poor community, survivalist’s nature, poverty alleviation and unemployment survival strategy, lack of regulatory compliance, types of enterprises and challenges these entrepreneurs encounter. As recent as 2021, the Gauteng government has proposed a Bill (the Gauteng Township Economic Development Bill, 2020) which recognises and endeavours to support township firms, the township and informal
economy. Although township communities are rife with informal businesses, small formal enterprises exist there. The nature of informal businesses in townships are centred around the concept of "informality". According to Urban and Ndou (2019) citing Rogerson (2004), the South African informal sector is made up of SMMEs which are not registered with government authorities and are essentially survivalist in nature. Rogerson (2000) defines the informal economy as businesses which are not registered for tax (Rogerson 2000:674). The informality means that these businesses can exist outside of regulation, are easy to set up, requires limited skills to run and operate in an obscure locations and conditions. According to Petersen and Charman (2018), businesses in the informal sector operate outside of the legislative and institutional framework because of their smallness in size and the complexity of the business regulatory environment. However, the lack of regulatory compliance makes it difficult for these businesses to pay taxes and to receive government support. Moreover, without support and compliance, these businesses cannot achieve the potential of growing into small or medium enterprises.

Entrepreneurship scholars agree that township economic development strategies should not neglect informal businesses as they form the bulk of businesses which operate in townships. There are various debates on how township economic development should be approached in South Africa. Many scholars agree that the forms of economic development strategies applied in a township setting should be geared towards poverty elimination, this is because poverty and its effects are evident in townships (Sekhampu, 2013).

3. Nature and Scope of Informal Businesses in South Africa

Researchers have identified various forms of informal businesses in South Africa. Most well-known are tuckshops or spaza shops (Mukwarami & Tengeh, 2017), food vendors "pop up" stalls (Golden, 2019), street hawkers and vendors (Woodward, Rolfe & Ligthelm, 2014), illegal beer brewers (Rogerson, 2000), cooperatives (Khumalo, 2014), liquor retail, grocery retail, early childhood educators, greengrocers, sellers of meat and poultry products, house shops, restaurants, takeaways, and hair care businesses (Petersen & Charman, 2018). In recent years Rogerson and Booyens (2019) argue that some aspects of township tourism forms part of informal businesses and can take the form of slum tourism. Informal businesses and their sector are small scale in nature and are usually family run, home based and located in poor communities (Petersen & Charman, 2018). Businesses in the informal sector develop as a way of creating a livelihood and generating household income. According to Petersen and Charman (2018), informal businesses are a survivalist economic activity which provides household income and food security. In other cases, informal businesses are established by immigrants and refugees who have no other means of entering the formal economy (Tengeh, 2011).

4. The Support of Informal Businesses in South Africa

Informal business support in South Africa exists but is implemented at different spheres of the government, their agencies and private stakeholders. This section examines one of the existing programmes and the nature of their support. Woodward et al. (2014) research examined Coca-Cola's programs that support business development in the African informal economy through corporate social responsibility initiatives. They conducted a survey by distributing and collecting questionnaires from more than 300 owners of informal retail establishments across South Africa. Their statistical analysis was designed to determine whether Coca-Cola's business development program in South Africa had a quantifiable effect on entrepreneurs' sales and income. The potential income gained in the informal retail sector from this support was measured against poverty (living) standards set by the government. Woodward et al. (2014) found that other forms of support informal businesses receive are in form of local economic development and revitalisation projects. As recent as 2020, informal businesses received financial (cash) support from the government to assist them recover the impact of the COVID-19 impact. Furthermore, due to recent political unrest in the KwaZulu-Natal and Gauteng provinces, agencies like the Small Enterprise Finance Agency (SEFA) entered into an agreement with various banking partners to implement a programme to support informal and micro businesses in the informal sector affected by the recent civil unrest (Ngconco, 2021). The lack of business support contributes to the failure of businesses within the first two years of establishment. There are various factors which contribute to business failure. Some
of these factors are more prevalent than others. Moreover, these factors affect formal and informal businesses alike. However, the effects are mostly felt by informal businesses due to their lack of formality. The lack of formality means that informal business owners are not able to apply for support from the government or formal financial services such as banks. These factors include lack of financial access and support (Mukwarami et al., 2020), crime and xenophobia (Waiganjo, 2018; Charman & Piper, 2012), lack of innovation, leadership and motivation (Sithole, 2019). Informal businesses are also able to provide support for each other. This can be through the pulling of collective funds to purchase stock in bulk. This strategy has been observed among Somalian nationals running spaza shops in various Cape Town communities (Basardien et al., 2014).

5. Challenges in Supporting Informal Businesses in Townships

There is a growing need about developing a business environment that allows informal businesses that have the skills and ambition to grow and become formal and sustainable (Deen-Swarray, Moyo & Strok, 2013). Over the years and more especially now during the COVID-19 restrictive national lockdown of March 2020, the government has come recognise the role informal businesses play in household income and in the economy and moved into framing a comprehensive approach to assist them, particularly those which are based in township communities. Some notable outcomes of this recognition have led to the establishment of the Township and Rural Entrepreneurship Programme (TREP) which will offer financial support in the township economy (Business Insider, 2021).

According to Dyantyi (2017), using a local economic development approach to township development means that a community can be assisted using local knowledge and mechanisms. By recognising and capitalising on local knowledge and approaches, economic development models can be adapted to a locale. Township based businesses, both formal and informal encounter barriers in establishment, growth and development. Among the barriers encountered in township entrepreneurship support and development are those of developing and adopting context appropriate approaches. The researchers are of the opinion that without context appropriate support, all support efforts for the informal sector will be short-lived and unsuccessful.

6. The National Informal Business Upliftment Strategy (NIBUS)

The Department of Small Business Development (DSBD) has recently adopted a strategy called the National Informal Business Upliftment Strategy (NIBUS) which targeted at South African owned informal businesses. The DSBD is the main government custodian for SMMEs and cooperatives in South Africa. The aim of the NIBUS is to uplift informal businesses and appropriate local structures established to provide these businesses support. The policy mandate of DSBD is to provide leadership and coordination at a National level (DSBD, 2018).

The South Africa government recognises the need to empower entrepreneurs and businesses at various levels and that each sphere of the government has a role to play in this regard. It is for this reason that various government departments and agencies exist to support entrepreneurs in different needs and aspects. Some of these departments are the department of Trade and Industry (DTI), the Department of Small Business Development (DSBD), Small Enterprises Development Agency (SEDA), Small Enterprises Finance Agency (SEFA), the National Youth Development Agency (NYDA) and all provinces have departments of economic development and their supporting agencies. At local government level, various policies, strategies and agencies exist which play a role in supporting small businesses. The knowledge gap on the effectiveness of their combined efforts as well as impact remains for researchers to close. According to Rogerson (2016), over the past twenty years, the government has been framing and reframing their definitions and scope of Small, Micro and Medium Enterprises (SMMES) to achieve an inclusive plan/strategy. Moreover Charman (2017) argues that some strategic frameworks such as the National Plan (NDP), have left out the informal sector and micro-enterprises by putting more emphasis on creating jobs in the formal economy. Rogerson (2016) contends that previous definitions of SMMES left out informal, survivalist and micro enterprises and thus with such a policy gap, informal businesses and micro enterprises were not on the development radar. It is this gaps that the NIBUS is striving to close.

7. Township Informal Business Support Through the Critical Theory Lens

Critical theory is a branch of philosophy which is interested in the liberation of mankind from being
more than a figure to manipulate in society's production processes (Marcuse, 2020). This theory is the most suitable to use in trying to understand the existence of the informal economy as a socioeconomic phenomenon but also when looking at means of providing support to informal businesses in township communities in South Africa. The researchers understand that the informal economy and its entrepreneurs exist beyond the confines of townships, however, the arguments and discussions in this paper are limited to the general marginalised township contexts. The researchers note that the challenge in public administration does not lie in policy formulation, however, most policies lack imagination and real commitment to dismantling inequality structures which sustain the poverty narrative. Informal business support efforts should be rooted in maintaining individual economic freedom in order to help individuals achieve humane living conditions and lifestyles.

Horkheimer's critical theory stance argues that we should investigate and understand circumstances in the present society which create barriers that hinder human beings from achieving humane livelihoods (Kozlarek, 2021). In South Africa, these barriers can be internal or externally driven. Various scholars agree that the slow growth of the economy due to lack of investment is an external barrier which prevents job seeking individuals from achieving a humane existence (Hodge, 2009; Phiri, 2014; Bana et al., 2016; Pasara & Garidzirai, 2020). According to Banda et al. (2016: 247), economic growth is viewed as the most prominent instrument for reducing unemployment and poverty as it helps people to improve their living standards. Thus, it is important to frame informal business support in the lens of critical theory as they provide a deeper understanding on why the informal sector and informal businesses exist and who are the owners and beneficiaries of the informal businesses are.

South Africa strives to be a market economy but still retains socialist elements through being a welfare state through various social and welfare policies. According to Bhoorat and Van der Westhuizen (2008), the government has used the former as strategies against poverty and inequality in the country. In a country like South Africa, where the vast majority of the population is struggling to achieve economic freedom, Horkheimer's sentiments ring the bell at the effectiveness of our pro-poor policies, not those which are welfare in nature but those which can empower individuals and families economically. The result of a persistently slow economic growth means that many individuals have been relying on the state grant for survival. This burden means that the government has maintained its stance on being a developmental state because it not only realises the potential of the country but also the realities presented by the COVID-19 pandemic. Policies in economic development in South Africa emphasize the concept of sustainability as a core value. As a country whose economic growth has been in a slump the past ten (10) years, achieving sustainable development is a salient component in economic development. Although sustainability refers to long term outcomes and impact, it can easily be a tick box activity and miss the mark of being emancipatory in approach and impact.

Research by Williams and Kedir (2018) identified the lack of financial support for informal business as a determinant for success. This type of support is recognised in South Africa and as a result, numerous institutions provided financial support to small businesses. The NIBUS in this regard has stated that it will provide financial support to informal businesses such as hawkers and vendors, a gap which has been open for too long in the support strategies.

**8. International Perspectives on Informal Business Support**

Various researchers including Williams and Kedir (2018), Rogerson (2008), Rogerson (2016) and Barbour and Llanes (2013) agree that supporting informal businesses can be beneficial and should be encouraged. The support of informal businesses can lead to the formalisation of firms or enterprises. According to Barbour and Llanes (2013) providing support to individual who operate informal businesses which can assist them formalise or legitimise their business can contribute to creating jobs. Their arguments are based on survey which conducted in the United Kingdom on opportunity employment which can be created by informal businesses. Barbour and Llanes (2013) argued that the UK government could create and adopt a replicable and innovative model for informal business formalisation. In their research, they focused on ten (10) UK organisations that were supporting small businesses to formalise and legitimise their existence and operation. The challenge in South Africa is that some businesses in the informal sector could be weary of the potential legitimising could bear on their tax obligations, additional costs of
legitimacy such as operating with the correct safety gear, registering employees with the department of labour could prove difficult as some of whom are undocumented immigrants.

Other perspectives of supporting informal businesses argue that this could translate into improving the quality of employment. According to Mbaye (2019), the rate of unemployment in Africa creates poverty traps for vulnerable members of most societies. These include young people, women, and individuals in rural communities. Mbaye (2019) writes that despite labour demand in the formal sector declining in the past ten, the emerging trends show that there is a rise in informal sector employment. It is for such reasons greater efforts must be made in support informal business as this could translate into quality employment. There are cases of informal economic associations or cooperatives which have been supported with results of transformed communities in many parts of the developed and developing world. Khumalo (2014) identified the community transformative role in well run and supported cooperatives in a poor community of Kerala in India as well as the cheese industries in Europe. Research conducted by Msonganzila (2013) on rural cooperative in some regions of Tanzania found that the purpose of these cooperatives are to coordinate reciprocal self-help as well as improve income generation among women in agriculture. According to Webb et al. (2020), in most countries, it is not easy to discourage participation in the informal sector as employees of the formal sector may participate in the informal to generate additional income due to their low earnings. Others are forced to participate in industries such as child day care facilities which only operate in the informal sector (Webb et al., 2020). Parents in the formal sector may make use of child day care facilities to leave their children there so that they go to work. Other industries driven by the informal sector are recyclers who collect waste and sell it to formal recycling firms in Mexico City and India (Guibrunet, 2021). Their roles are critical for the great good of the environment and health.

9. Conclusion and Recommendations

This paper concludes that the growing support of government efforts in township economic development should work to address the socio-economic contexts of the communities as well as the contexts which these businesses are created so as to support their growth within the right contexts. Township based entrepreneurs understand the environment in which they are operating from and thus support provided to them should be that which fosters their growth and development in the right context. Supporting informal businesses is not unique to South Africa but rather a universal phenomenon from where South Africa can also draw on lessons from a few countries and adapt their methods to the township context. Other strategies which can be utilised include redesigning and reframing local economic development efforts so that they achieve with emancipatory outcomes. Finally successful township businesses can also provide key lessons for the policy process.

References


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