

# The Impact of Informal Traders on The Economic Development of Limpopo Province

24 June 2016

# INTRODUCTION



## Informal Traders Crafts



# **PROBLEM STATEMENT**

- 1.Limpopo province is facing development challenges namely: Poverty, unemployment and inequalities.**
- 2.Accordingly,the Limpopo Province is faced with the huge task of reducing poverty ,creating employment and improving the quality of life for all its inhabitants.**
- 3.Little is known or written about the contribution of the informal traders to the economy of Limpopo province.**
- 4.The informal traders and producers remain largely neglected in the policy making process.**

# METHODOLOGY

- 1. Review of Literature and existing policy documents on informal traders.**
- 2. Research organised in terms of both the qualitative and quantitative forms of analysis.**
- 3. Sampling was applied by focusing on the representation of rural and urban informal traders to obtain sufficient and representative information about the entire informal economy.**
- 4. A questionnaire was developed, field workers were trained on the questionnaire .They administered the questionnaire explaining the purpose and aim of the study.**

# RESEARCH OBJECTIVES

**The overall objective was to investigate the economic impact of informal traders and producers in the Limpopo Province.**

# **DELIVERABLES AS PER TERMS OF REFERENCE**

- **A Review and Collection of existing studies on the informal economy;**
- **A profile of the socioeconomic characteristics of informal traders and/producers in the Limpopo Province;**
- **An indication of the market environment (size of product, sector, capital required to start business;**
- **Price, revenue/profits, availability of or supply from which product is attained, competition; technology and linkages).**

# **DELIVERABLES AS PER TERMS OF REFERENCE**

- **Identification of barriers or non-barriers to trade;**
- **An indication of the contribution of informal business in the economy of Limpopo;**
- **Policy recommendations and proposed interventions;**
- **Progress reporters (via presentation);**
- **A separate executive summary document which includes abstract and introduction;**
- **Methodology used, findings and recommendations;**
- **A final report with the necessary amendments**

# STATE OF KNOWLEDGE: INFORMAL SECTOR

- Literature review is based on existing secondary sources;
- Adopted a cross-country as opposed to country-specific perspective (including South Africa);
- Literature review points to key issues, emerging themes, and existing gaps;
- Increased focus on informal sector is often due to the fact that a huge percentage of the population is employed in the sector,
- contributes to poverty alleviation, and source of income for both rural and urban poor



# KEY DRIVERS

- **Poverty and unemployment (mainly necessity rather than opportunity motives);**
- **Increased urbanization;**
- **Excessive costs and regulatory barriers of entry into formal economy;**
- **Limited education and training opportunities;**
- **Increased demand for low cost goods and services;**
- **Migration**

# KEY CHALLENGES

- **Human resources and skills development**
- **Access to finance**
- **Markets and marketing**
- **Infrastructure and business support services**
- **Policy guidance on how to incorporate informal sector into local economic development planning**



# KEY FINDINGS

**Table 4-38:Jobs Created by Informal Traders in Waterberg District**

Business	Male			Female			Total	Foreign Nationals		No. of Paid Employees	No. of disabled employees
	No. of Seasonal employees	No. of temporary employees	No. of permanent employees	No. of Seasonal employees	No. of temporary employees	No. of permanent employees		Male	Female		
Manufacturing			5			4	9	3		13	
Service	1		70			20	91	4	4	63	
Retail	3	7	60			65	135	3	7	109	
Mechanical engineer			2				2			2	
Financial service						1	1			1	
Transport			1							1	
<b>GRAND TOTAL</b>	<b>4</b>	<b>7</b>	<b>138</b>	<b>0</b>	<b>0</b>	<b>90</b>	<b>238</b>	<b>10</b>	<b>11</b>	<b>189</b>	<b>0</b>

**Table 4-39:Jobs Created by Informal Traders in Capricorn District**

Business	Male			Female			Total	Foreign Nationals		No. of Paid Employees	No. of disabled employees
	No. of Seasonal employees	No. of temporary employees	No. of permanent employees	No. of Seasonal employees	No. of temporary employees	No. of permanent employees		Male	Female		
RETAIL	5	10	57	8	11	123	214	4	4	135	0
SERVICE	7	21	91	3	2	30	154	5	4	103	0
MANUFACTUR E	0	3	10	0	1	3	17	0	2	4	0
FINANCIAL SERVICE	0	0	0	0	0	0	0	0	0	0	0
TRANSPORT	0	1	2	0	0	0	3	0	0	2	0
<b>GRAND TOTAL</b>	<b>12</b>	<b>35</b>	<b>160</b>	<b>11</b>	<b>14</b>	<b>156</b>	<b>388</b>	<b>9</b>	<b>10</b>	<b>244</b>	<b>0</b>

**Table 4-40:Jobs Created by Informal Traders in Sekhukhune District**

Business	Male			Female			Total	Foreign Nationals		No. of Paid Employees	No. of disabled employees
	No. of Seasonal employees	No. of temporary employees	No. of permanent employees	No. of Seasonal employees	No. of temporary employees	No. of permanent employees		Male	Female		
Manufacturing		2	10			8	20			19	
Logistics		4	1				5			5	
Services	4	18	63	4	2	51	142			115	
Retail	2	8	78	6	5	66	165	1	2	151	
Financial services			1							1	
Transport			9							7	
Trading			3			3				6	
Agriculture			1							1	
Rental			1		1					2	
<b>GRAND TOTAL</b>	<b>6</b>	<b>32</b>	<b>167</b>	<b>10</b>	<b>8</b>	<b>128</b>	<b>332</b>	<b>1</b>	<b>2</b>	<b>307</b>	<b>0</b>

**Table 4-41:Jobs Created by Informal Traders in Vhembe District**

Business	Male			Female			Total	Foreign Nationals		No. of Paid Employees	No. of disabled employees
	No. of Seasonal employees	No. of temporary employees	No. of permanent employees	No. of Seasonal employees	No. of temporary employees	No. of permanent employees		Male	Female		
<b>RETAIL</b>	3	8	41	6	9	97	164	4	1	109	0
<b>SERVICE</b>	4	7	23	12	12	43	101	0	0	38	1
<b>MANUFACTUR E</b>	0	2	3	1	0	8	14	0	0	6	0
<b>TRANSPORT</b>											
<b>GRAND TOTAL</b>	<b>7</b>	<b>17</b>	<b>67</b>	<b>19</b>	<b>21</b>	<b>148</b>	<b>279</b>	<b>4</b>	<b>1</b>	<b>153</b>	<b>1</b>

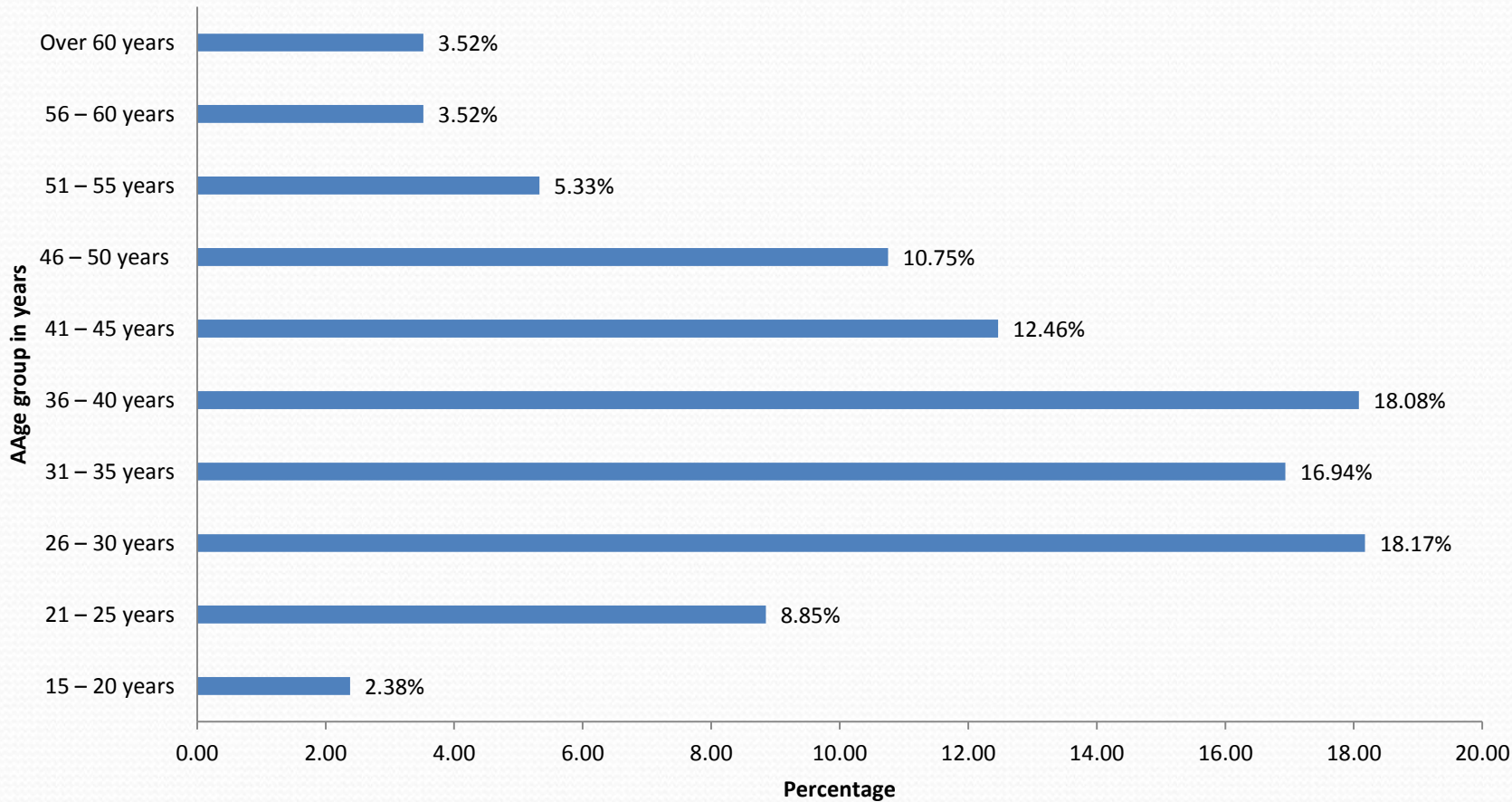
**Table 4-42:Jobs Created by Informal Traders in Mopani District**

Business	Male			Female			Total	Foreign Nationals		No. of Paid Employees	No. of disabled employees
	No. of Seasonal employees	No. of temporary employees	No. of permanent employees	No. of Seasonal employees	No. of temporary employees	No. of permanent employees		Male	Female		
<b>SERVICE</b>	7	18	69		2	16	112	1	1	92	
<b>MANUFACTUR E</b>			3	1		10	14			14	
<b>RETAIL</b>	2	6	60	2	6	104	180	2	1	175	
<b>FINANCIAL SERVICE</b>			2			1	3			2	
<b>GRAND TOTAL</b>	<b>9</b>	<b>24</b>	<b>134</b>	<b>3</b>	<b>8</b>	<b>131</b>	<b>309</b>	<b>3</b>	<b>2</b>	<b>283</b>	<b>0</b>



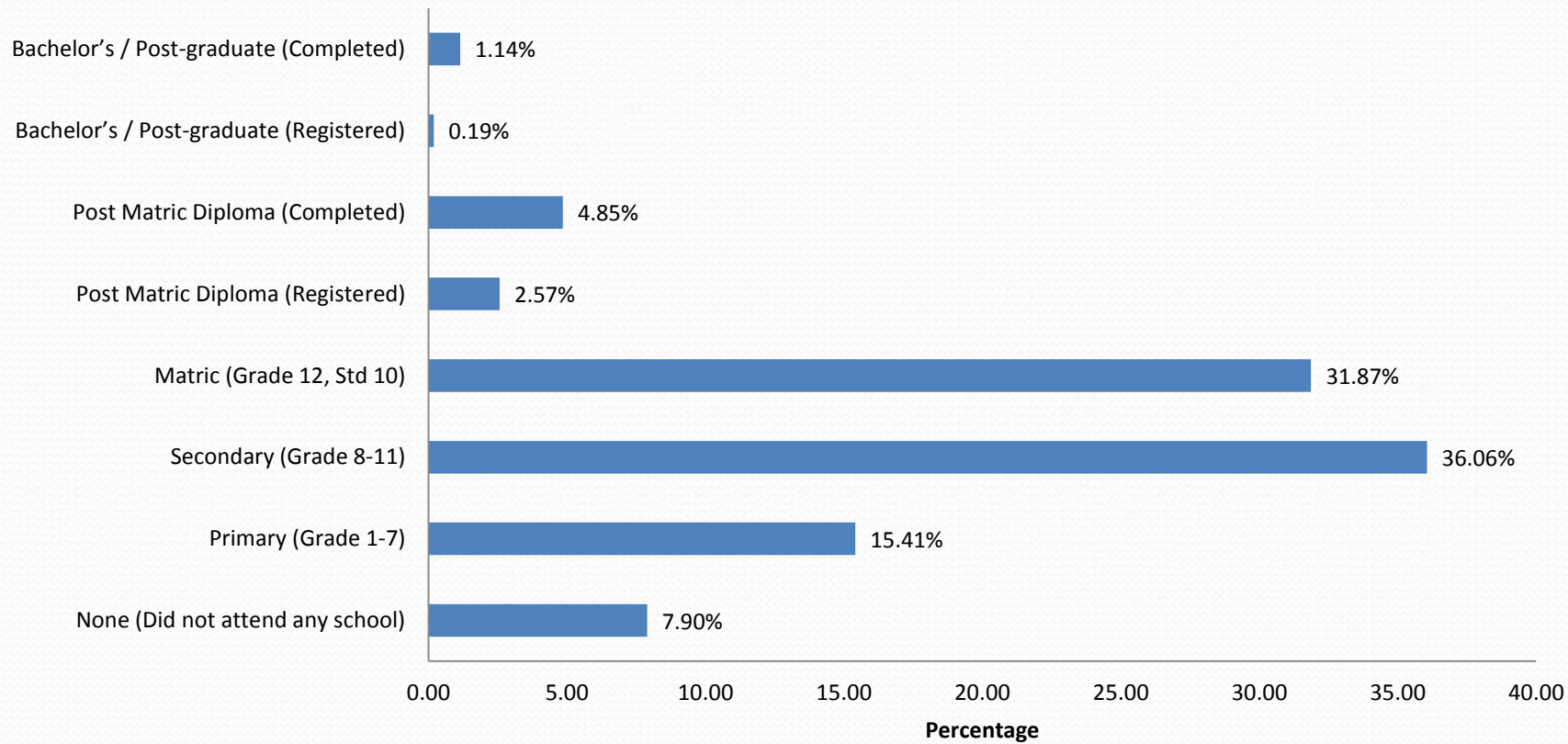


# DEMOGRAPHICS



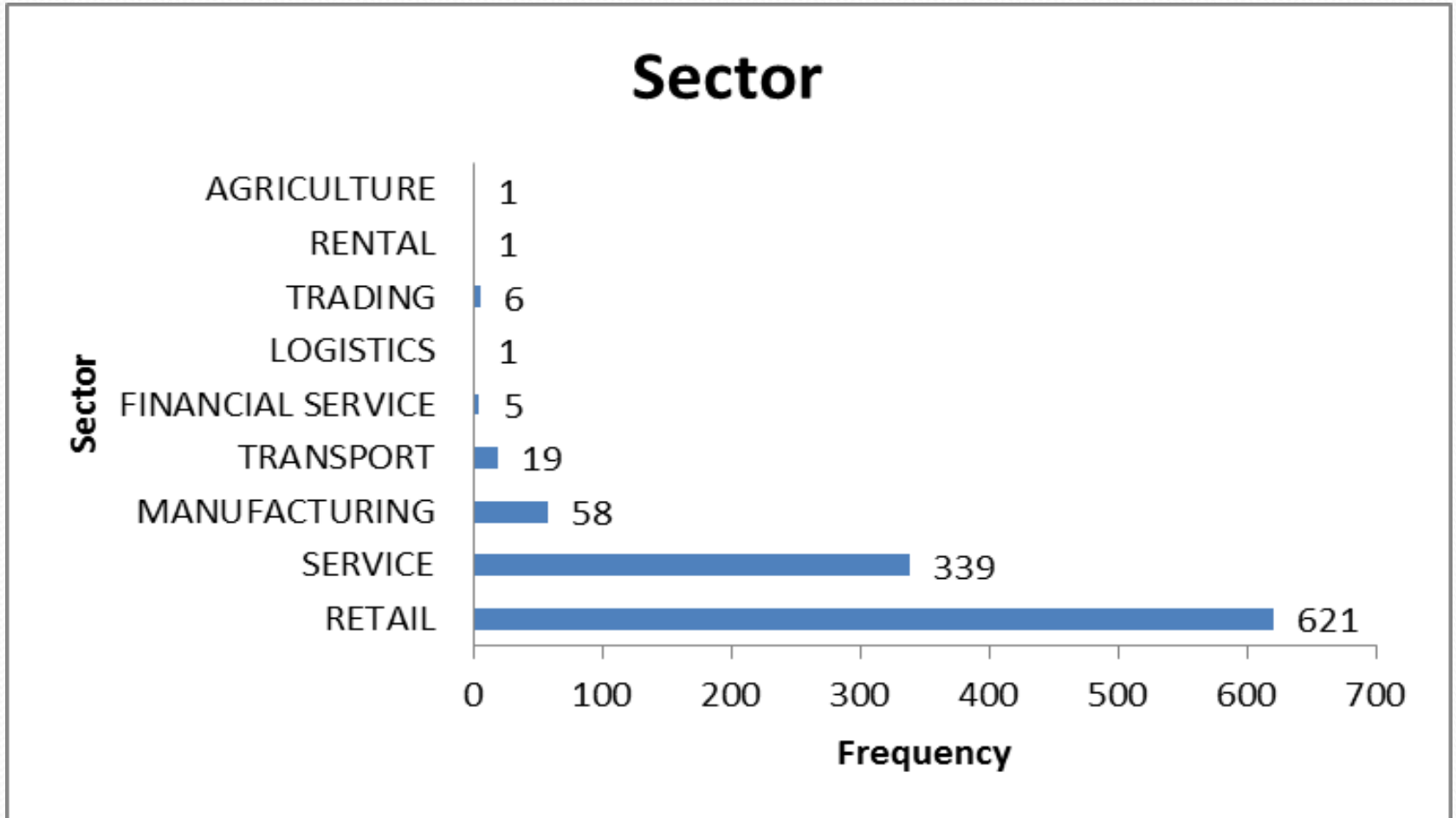


# EDUCATION





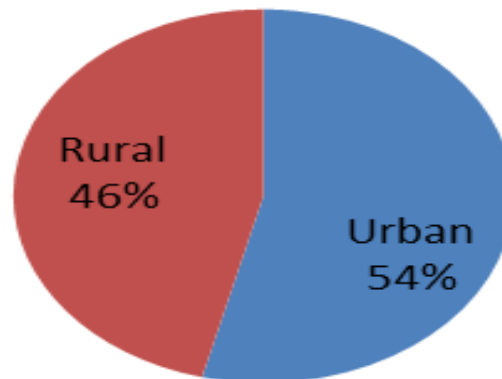
# SECTOR





# MARKET ENVIRONMENT

- Most of the informal traders businesses were located in:
- urban areas (54.0%),
- rural areas (46.0%)

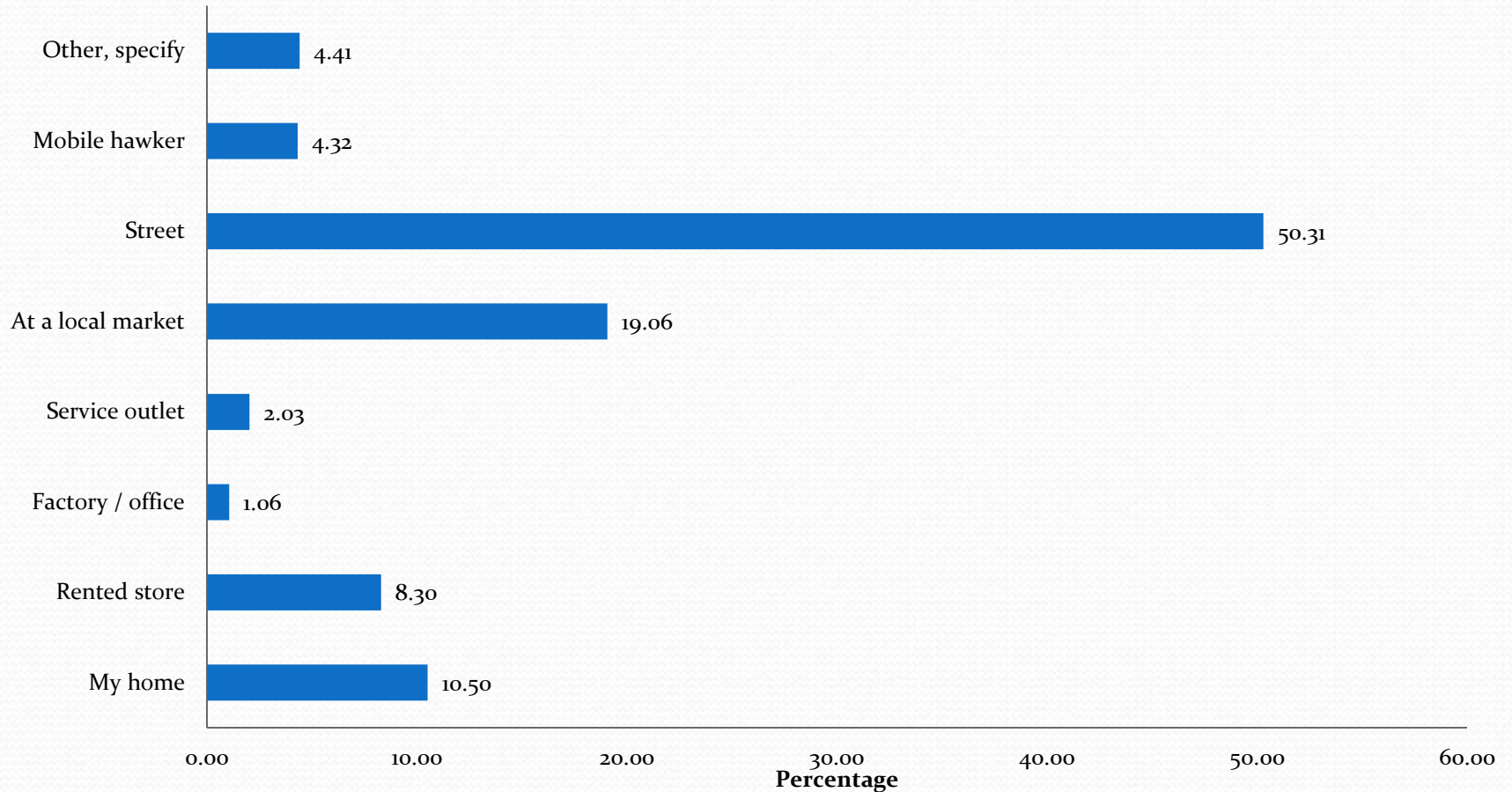




## **MARKET ENVIRONMENT...CONTINUED**

- **50.31% trade from the street**
- **19.06% trade from a local market**
- **10.50% trade from their homes**
- **8.30% operate from rented stalls**

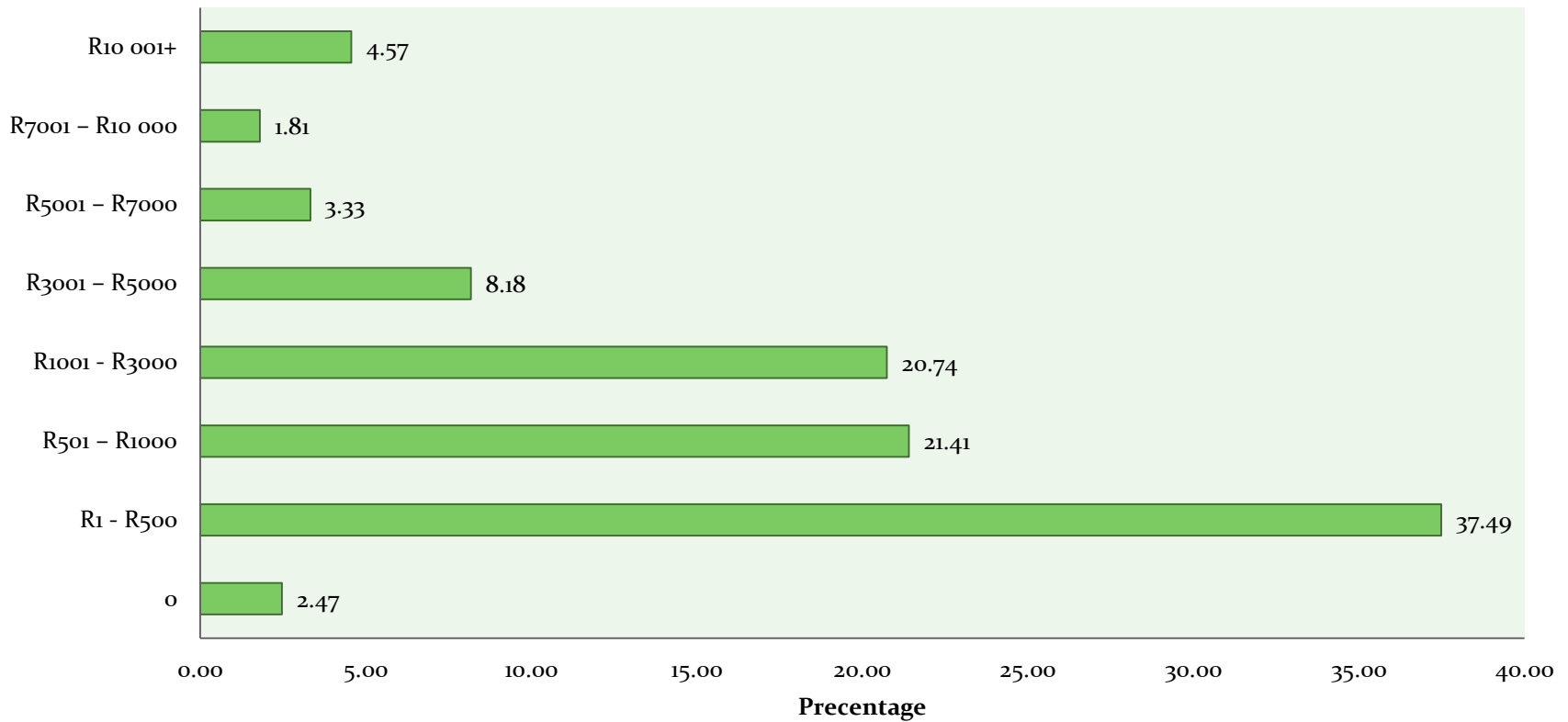
# INFORMAL TRADERS AREAS OF BUSINESS OPERATION





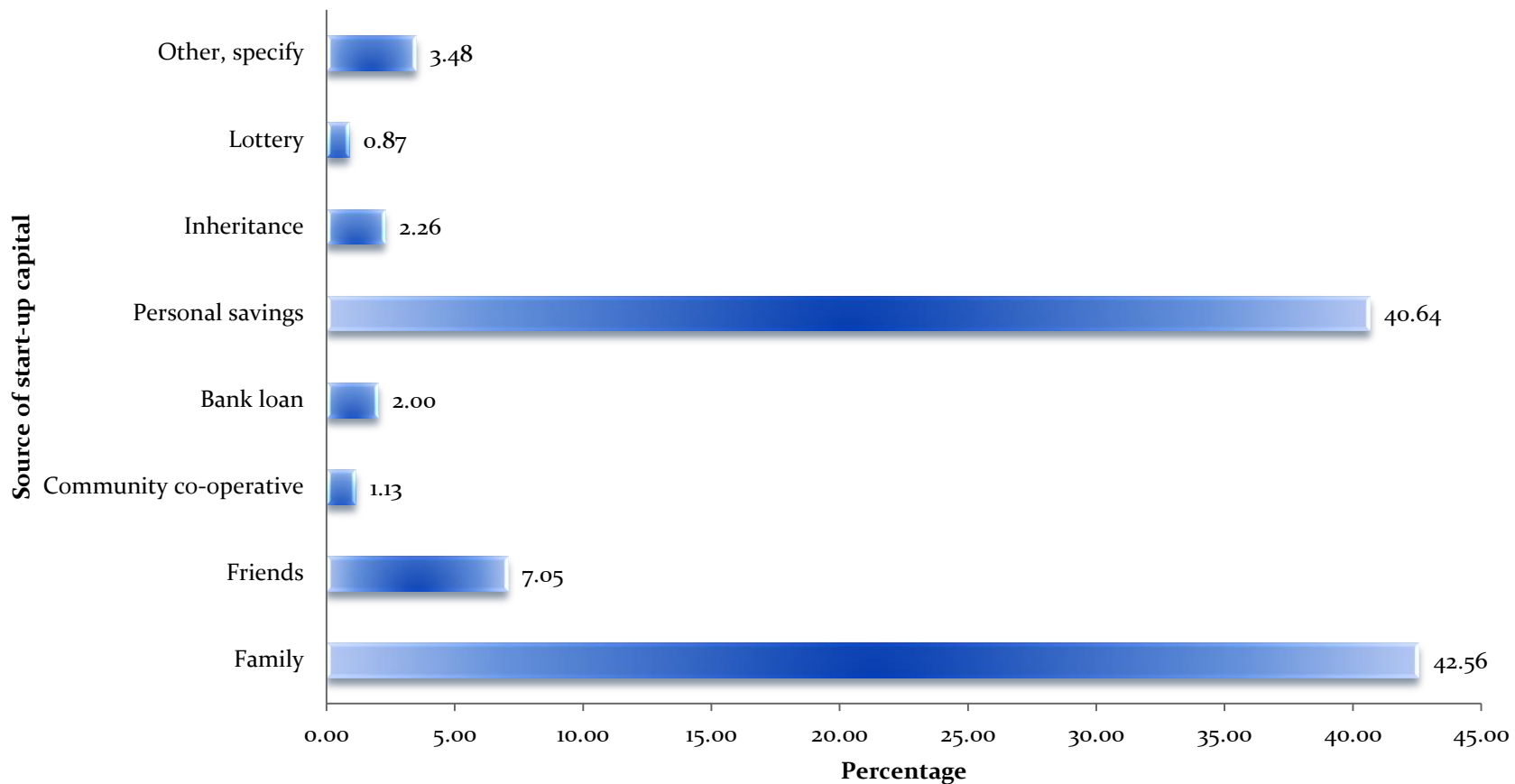
# CAPITAL REQUIRED TO START A BUSINESS

Cost of starting the business





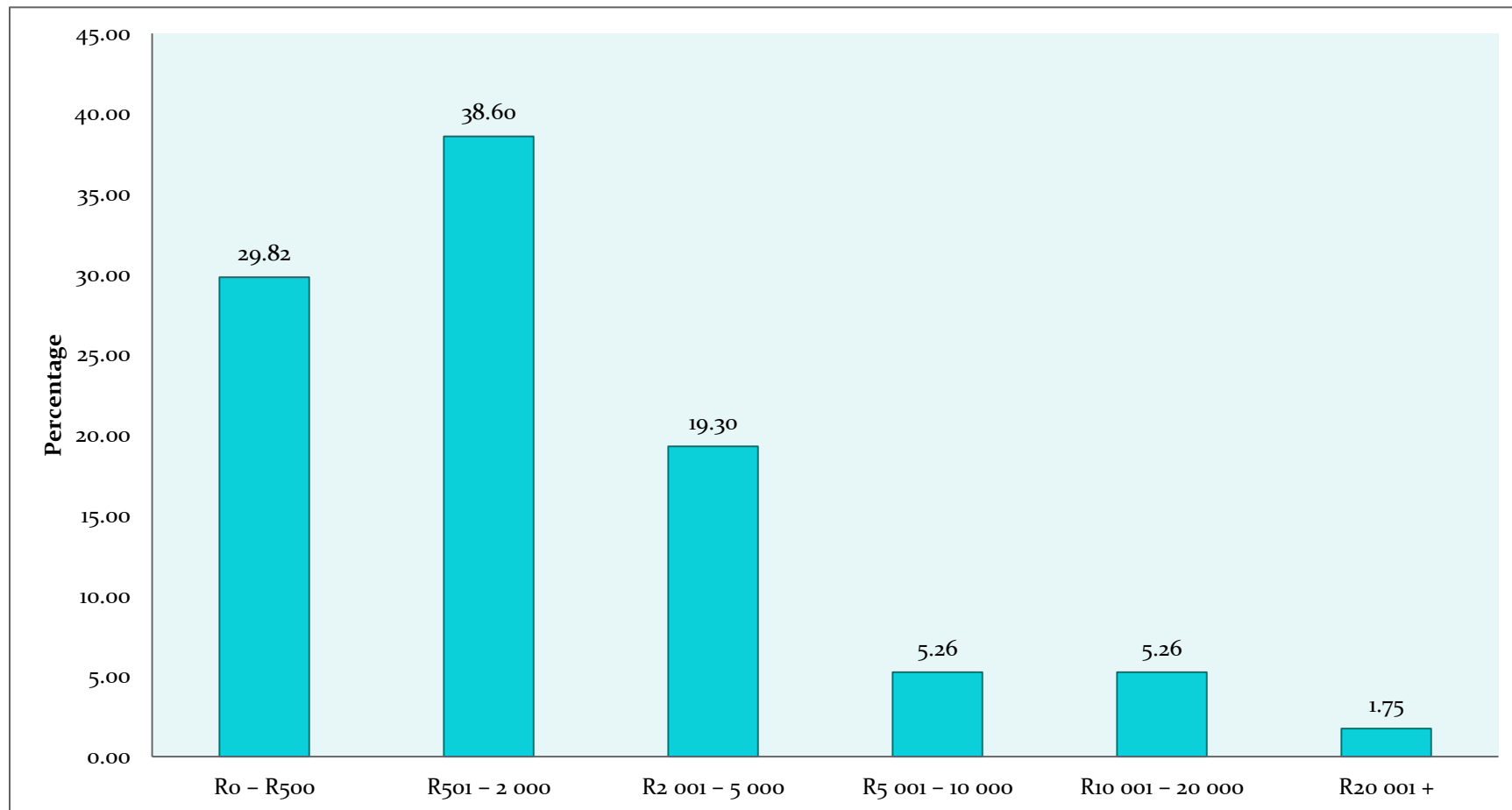
# SOURCE OF START-UP CAPITAL



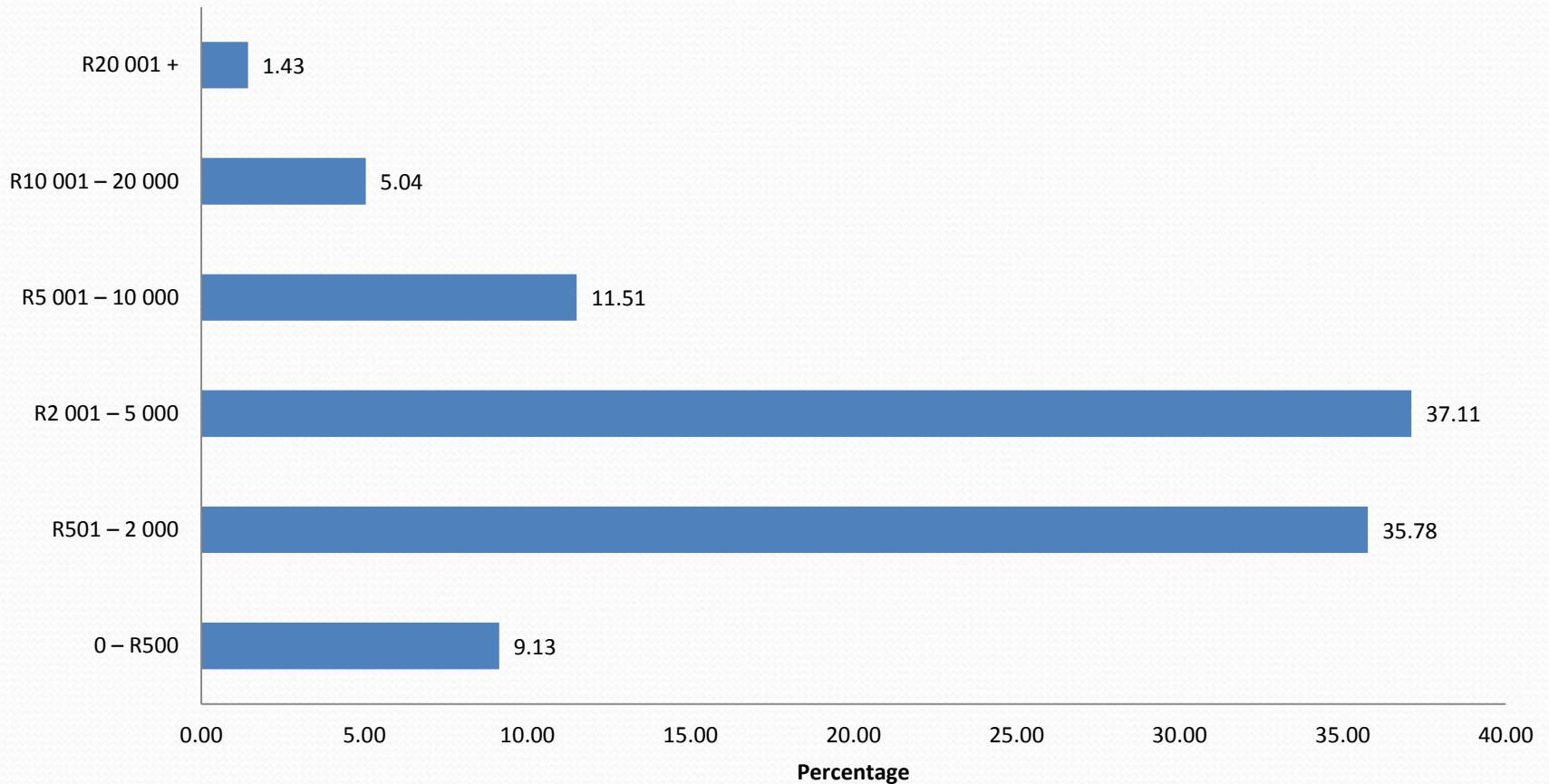




# AMOUNT OF MONEY RESPONDENTS RECEIVED FROM BANK/MATSHONISA

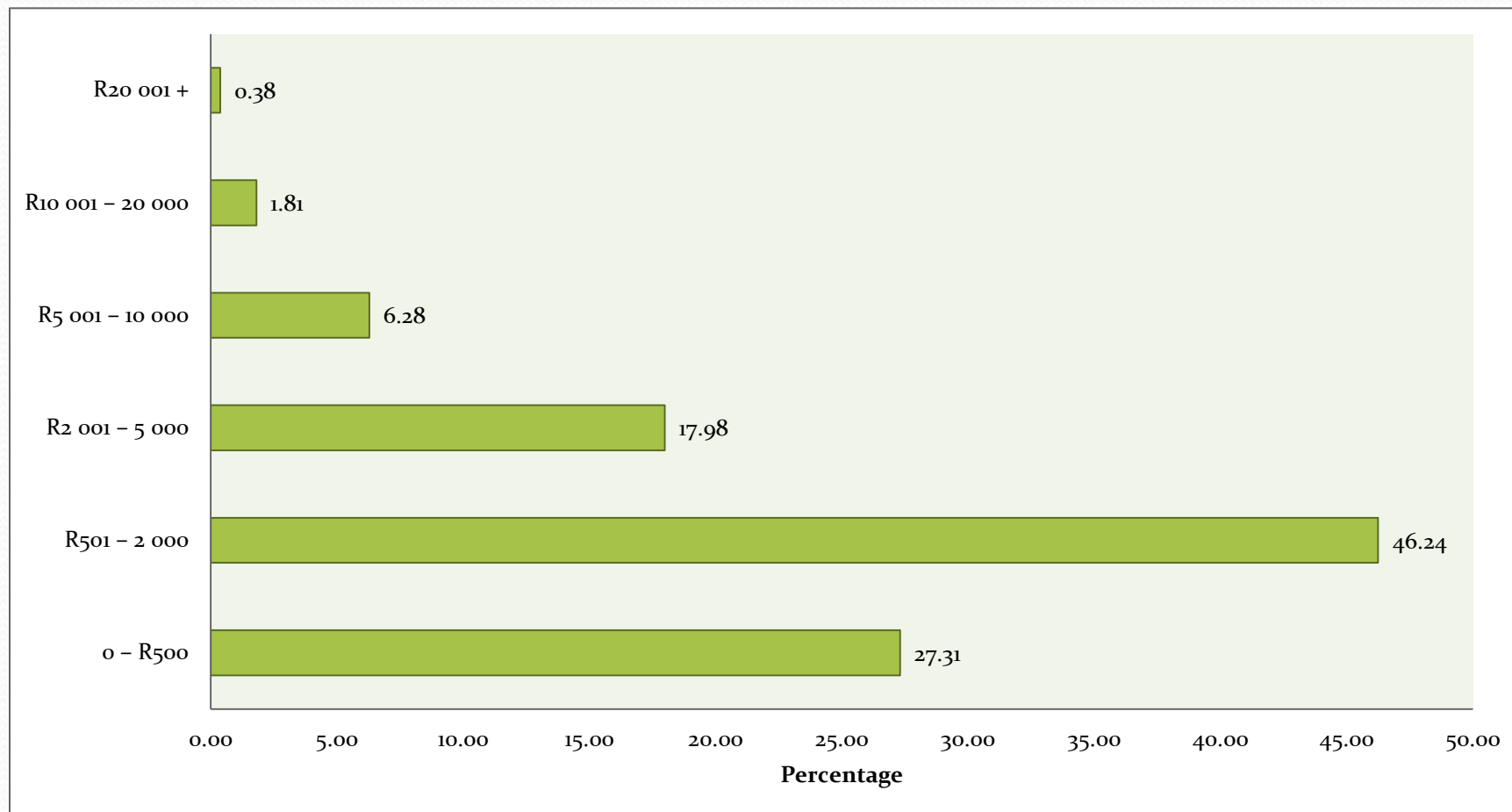


# BUSINESS TURN OVER PER MONTH (IN SOUTH AFRICAN RAND)



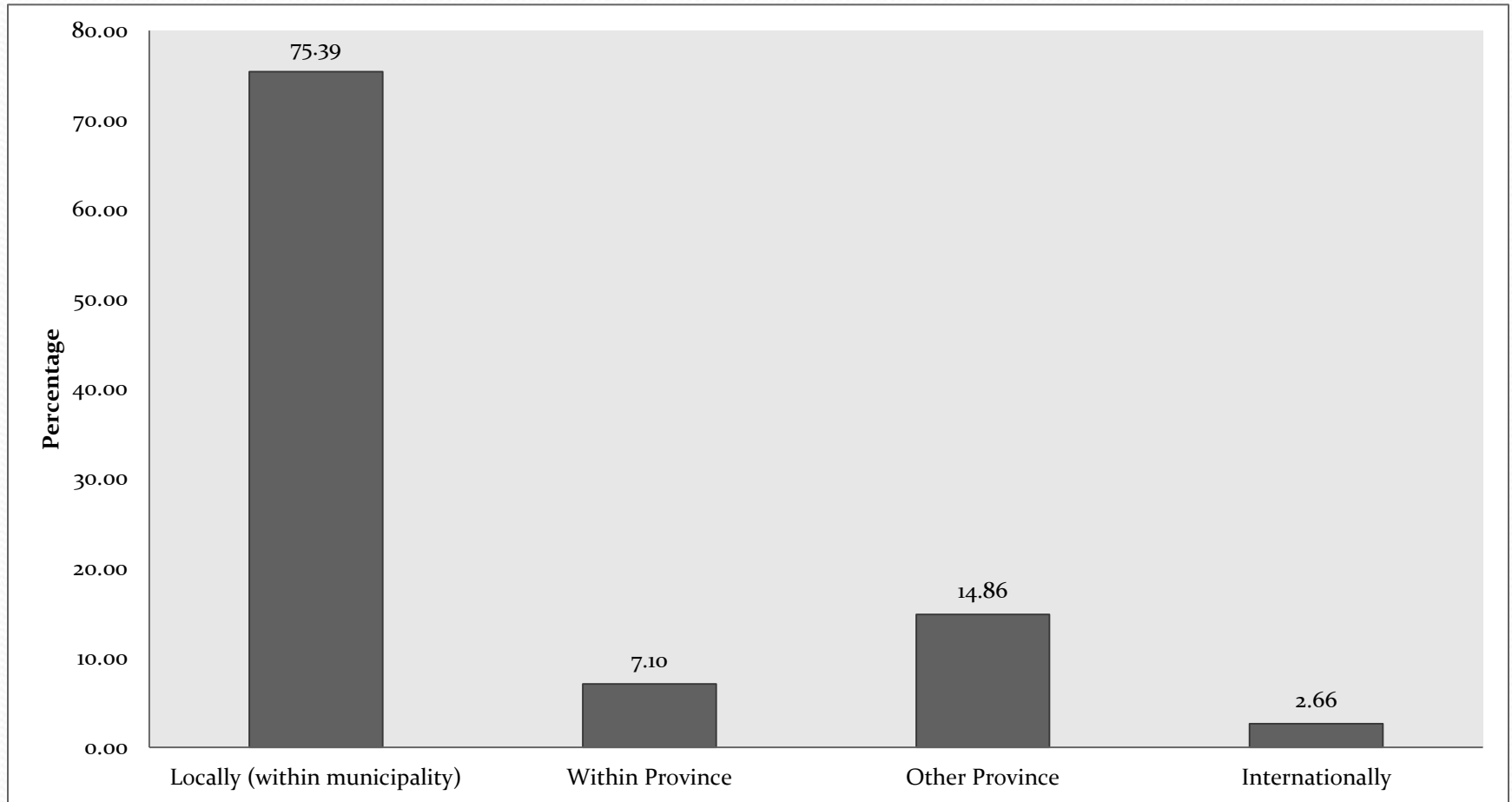


# PROFIT MADE PER MONTH



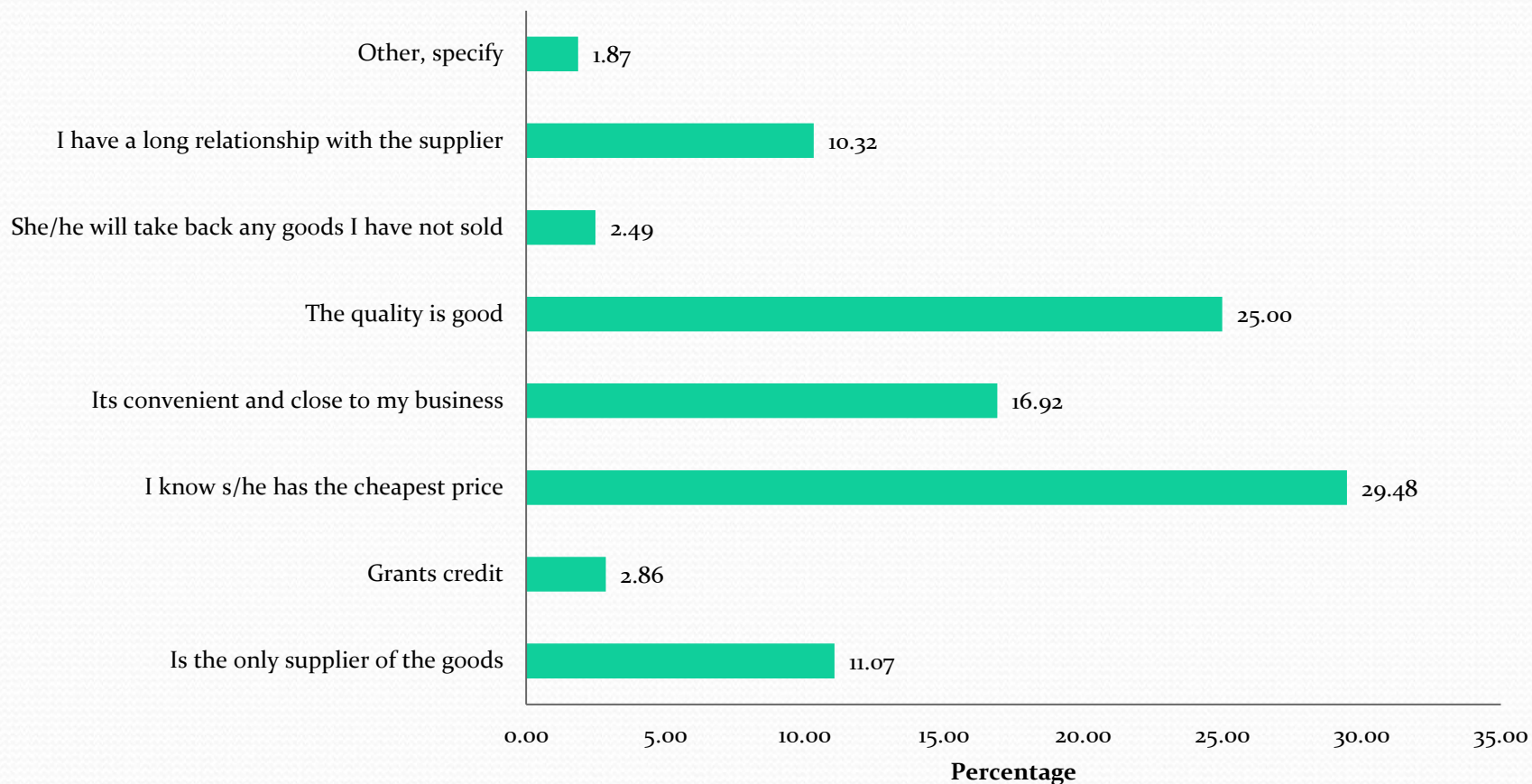


# AVAILABILITY OF PRODUCT OR SUPPLY FROM WHICH PRODUCT IS ATTAINED





# REASONS WHY RESPONDENTS USE THE SAME SUPPLIER

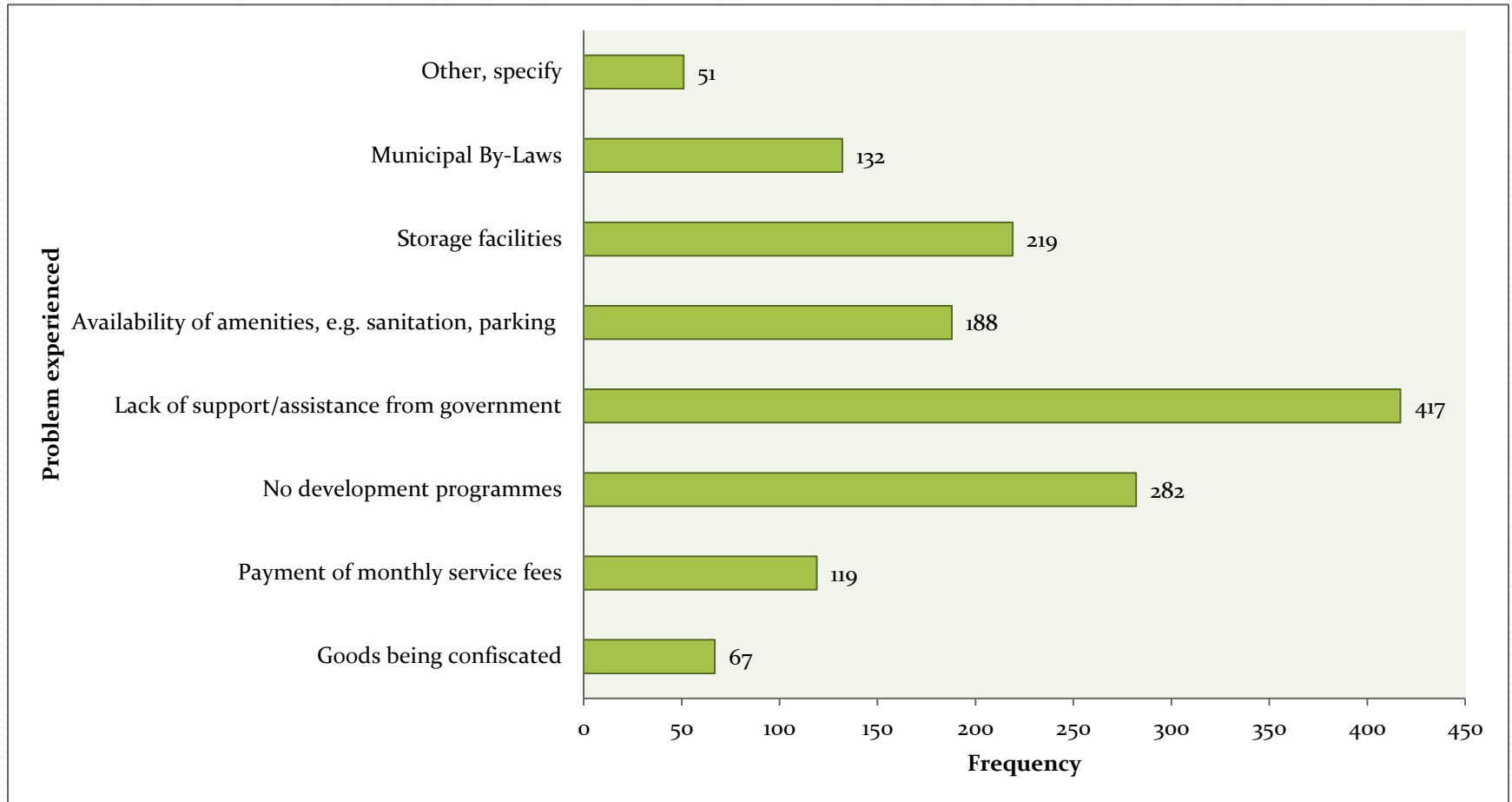




# **BARRIERS OR NON BARRIERS TO TRADE**

- **54% of the respondents have not experienced any problem**
- **46% stated they have experienced problems**

# PROBLEMS FACED BY INFORMAL TRADERS



Economic Analysis



ANALYSING THE CONTRIBUTION OF  
INFORMAL BUSINESSES IN THE ECONOMY  
OF LIMPOPO





# District Findings & Analysis

# Number of interviews per district



Name of District	Number of interviews	Percentage of total
WATERBERG	162	15.56%
CAPRICORN	237	22.77%
SEKHUKHUNE	228	21.90%
VHEMBE	210	20.17%
MOPANI	204	19.60%
Total respondents	1041	100%



# Cost of starting business per district

Amount	WATERBERG	CAPRICORN	SEKHUKHUNE	VHEMBE	MOPANI
	(N =1041)				
0	6	6	6	5	3
R1 – R500	60	100	87	77	63
R501– R1000	37	29	49	65	45
R1001- R3000	32	55	45	39	45
R3001- R5000	12	18	15	16	24
R5001- R7000	6	9	3	2	15
R7001- R10000	3	4	6	3	3



## Sources of start up capital per district

Sources of capital	WATERBERG	CAPRICORN	SEKHUKHUNE	VHEMBE	MOPANI
	N=1041				
Family	81	84	117	96	106
Friends	9	23	13	18	18
Community Coop	2	6	1	1	3
Bank loan	2	6	3	7	5
Personal Savings	79	111	107	82	84
Inheritance	2	4	9	3	7
Lottery	5	0	4	0	1
Other	4	15	11	7	10



# Business turnover per month per district

Amount	WATERBERG	CAPRICORN	SEKHUKHUNE	VHEMBE	MOPANI
	N=1041				
0-R500	11	20	21	28	15
R501-R2000	59	76	83	77	79
R2001-R5000	63	94	78	77	73
R5001-R10000	22	29	25	18	25
R10001-R20000	3	14	16	9	11
R20001+	4	4	5	1	1



# CALCULATING PROVINCIAL GDP

- **Regional Gross Domestic Product (GDPR) is estimated using either the production, income or expenditure approach**
- **Similarly, the contribution of a sub-sector uses the same methodology for comparability & complementarity**
- **Proper contribution analysis helps shape policy to ameliorate living standards & reduce poverty**



## A REVIEW OF ESTIMATING METHODOLOGIES

- **Labour Input Method (LIM) (OECD, 2002)**
  - ✓ makes use of labour input(in each industry) together with corresponding GVAs per worker
- **Modified Method of Apportioning (MMA) -Ramesh-Hazra approach**
  - ✓ This divides sectors into Unorganised and Organised
  - ✓ Non-organised = Informal traders + others
  - ✓ GVAs are calculated for each category
  - ✓ Employment estimates are multiplied by GVAs per worker to get total GVA which then represents the contribution of informal sector

# RAMESH-HAZRA APPROACH IS USED IN THE LIMPOPO STUDY



- Make use of sector's surveyed labour force
- GVA per worker is calculated using the Weighted Average method
- GVA per trader (based on profits) is also calculated using weighted average method
- GVA (based on Overhead Costs + Depreciation) is estimated
- All the GVAs above are extrapolated to reflect annual GVAs using secondary data on employment and number of traders (Agrisystems, 2008)
- Finally the grand GVA is the sum totals of the above GVAs and represents the Sectors' contribution





# STYLISTED FACTS ON INFORMAL SECTOR IN LIMPOPO

- Total number of informal traders = 118660
  - Number of paid workers in sector = 273000  
(Agrisystems, 2008)
  - Nationally informal sector contributes about 4.6% of  
GDP (Skinner, 2005)
- (figure of 4.6% depends on whether current or  
constant prices were used )



## RESULTS

- The informal sector makes up 100% of the unorganised/unregistered businesses.
- By way of formula:
  - **GVA = Total Labour expense + Total Overhead Expenses + Profit + Depreciation**

# CALCULATING GVA BASED ON PROFIT



Profit range(monthly)	Monthly Class midpoint(xi)	Number of Traders (From Survey) (wi)	Class Average * Number of Traders = xi*wi	Average monthly income per trader (from Survey) = $\sum xiwi / \sum wi$	Total income for Province's 118660 traders (Extrapolation)
0 -500	250	95	23 750		
501 – 2000	1250.5	374	467 687		
2001 – 5000	3500.5	385	1347 692.5		
5001 – 10 000	7500.5	119	892 559.5		
10001 – 20 000	15 000.5	53	795026.5		
20001& above	20001	15	3000 15		
<b>Total</b>		<b>1041</b>	<b>3 826 730.5</b>	<b>R3676.01</b>	<b>R436 195 813</b>

Source: Author's calculations

Table above shows that the annual income for the Province's informal businesses = R 436 195 813\*12 = R 5 234 349 756

# Calculating OHE & Wage Bill



**Monthly OHE per informal trader = R256.03 (excludes wages & stock) (survey)**

**(1) Total monthly Overhead Expenses (OHE) for 1041 informal traders =  
 $1041 * 256.03 = R266\ 527.23$**

**Extrapolating this figure to the province's total number of informal traders will give us**

**the Gross OHE =  $256.03 * 118660 = R30\ 380\ 519.80$**

**Therefore Year's estimated OHE =  $R30\ 389\ 519.80 * 12 = R\ 364\ 566\ 237.60$**

**(2) Monthly wage bill for 1176 workers in the informal sector from survey  
 $= 587.67 * 1176 = R\ 691\ 099.92$**

**Average monthly wage per worker = R587.67 (from survey)**

**Applying this figure to the provinces' total number of informal workers the  
Gross wage bill =  $587.67 * 273000 = R160\ 433\ 910$**

**Therefore Year's estimated wage bill =  $R160\ 433\ 910 * 12 = R\ 1\ 925\ 206\ 920$**



# Calculating Gross Value Added

**Total Gross Value Added before Profit and Depreciation = R 364  
566 237.60 + R 1 925 206 920 = R 2 289 773 157.60**

- **GVA for Informal businesses in Limpopo**

**= R 2 289 773 157.60 + R 5 234 349 756**

**= R 7 524 122 913.60**

**= R7.52 Billion per year**

- **The figure of R7.52 billion shown above represents an estimate of the contribution of the informal sector to the total economic activity of Limpopo in 2012.**
- **This compares very well with the figure of R8.175 billion that was reported by Agrisystems Consortium (2008)**



# Calculating % contribution to GDP

- **Percentage contribution of Informal sector to the GDP at Current Prices & at Constant 2005 prices (Limpopo)**
- The provinces GDP for 2011 as reported in the 3<sup>rd</sup> quarter of 2012 Stats SA Release at current prices was R207 308 000 000 which roughly is R207.31 Billion.
- This means that the informal sector contributed  $(7.25/207.31)*100 = 3.62\%$   
*(This figure would change to about  $(7.52/120.58)*100 = 6.24\%$  if constant prices of 2005 are used. )*  
*(Note that the GDP for Limpopo at 2005 constant prices was R120.58 Billion (Stats SA, 2012))*
- The informal sector in Limpopo in 2012 contributed 3.62% of the Regional's GDP and also supported about  $(1.2/5.304)*100 = 22.6\%$  of the Provinces population.



# STRATEGIC RECOMMENDATIONS



- **Sector focus:** since 60% of informal traders and 29% in services its recommended policy focus should be biased in favour of these sectors;
- **Youth enterprises:** since 18% of informal enterprises comprised age group (26-30) and 17% its 31-35 age group;
- 
- **Institutional realignment:** strategic realignment of enterprise support institutions necessary for all enterprises including informal traders



# FINANCING MODELS/SCHEMES



- **Microfinance institutions:** As providers of credit and finance they have to comply with applicable laws and regulations such National Credit Act;
- **Cooperative banks:** All cooperative have to comply with Treasury regulations;
- **Savings mobilisation:** Informal savings initiatives proved helpful for small enterprises in general hence a partnership could be considered



## FINANCING MODELS/SCHEMES (CONT)

- **Formal banks:** Some banks finance individuals which borrow for business needs;
- **Small Enterprise Finance Agency (SEFA):** Provincial government could explore partnership arrangement with SEFA to establish eligibility criteria

# PROGRAMME RECOMMENDATIONS



- **Literacy and demographics:** since 36% of informal traders have secondary education and 32% have matric they can be trained in formal business support programmes
- **Business rationale:** 65% of informal traders caused by necessity & 10% opportunity only 14% are caused by unemployment or retrenchment hence programme support in favour of first two

# PROGRAMME RECOMMENDATIONS

- **Business experience:** 29% of informal traders are within the first three years and 32% within the first five years hence programme support should consider what is already available;
- **Financial management:** training programmes in financial management and stock management should be considered;
- **Urban/Rural paradigm:** 54% of informal traders are in urban areas and 46% in rural areas hence training programmes should take this into account

# REGULATION RECOMMENDATIONS



- **Business premises: 50% of informal traders operate on the street side and 19% operate from sheltered market areas hence its recommended that municipalities should be engage for business friendly bylaws**

# Questions?



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## Discussion

