

# Chapter 11

## The Sustainability of Informal Entrepreneurs

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### ABSTRACT

*This chapter will examine the role of different stakeholders towards alleviating the constraints towards the growth of informal entrepreneurship. The stakeholders that will be investigated include the government, consumers, and the private sector. This study will comprise of a literature review that explores the challenges that affect the growth of informal entrepreneurship. While exploring these factors the role played by different stakeholders to alleviate the challenges are identified and analysed. A methodology that is based on desktop qualitative research, key findings, and discussions are examined, and conclusions based on the acquired research are drawn.*

### INTRODUCTION

Globally, it is believed that the growth of small, medium and micro enterprises (SMMEs) has an impact on emerging economies (Mnisi & Rankhumise, 2015). While it is evident that the provision of support towards the development of small businesses impacts the growth of the economy, the South African government is still not providing sufficient assistance (Rogerson, 2004). According to Stats-SA (2019), South Africa (SA) has an unemployment rate of 30%. With this high unemployment rate, it is imperative that South Africans need to create their own jobs. Informal entrepreneurship is one of the types of businesses created to reduce the unemployment rate (Herrington, Kew, Kew & Monitor, 2010). Herrington et al. (2010) further state that there are difficulties experienced by informal businesses,

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such as the fact that well-established businesses have enough capital to sustain their marketing strategies which enables them to dominate the market compared to small businesses. This creates an environment that makes consumers believe that urban businesses are more credible than those that are informal. This leads to the informal business's growth being hindered. It is important to bring into context the informal business to enable a better understanding of the subject under discussion in this chapter. Informal business does act as incubator for a potential for business and it is transitioning and accessing to a formal economy (ILO, 2002). Ligthelm (2013: 59) defines informal business as a small, unregistered business operating as a street vendor and in-home businesses established on residential sites. Entrepreneurial categories have been classified as productive, unproductive and the destructive [involving illegal aspects] (Aeeni, Motavaseli, Sakhdari & Dehkordi, 2019). This classification has a similarity with the categorisation that the Global Entrepreneurship Monitor (GEM) has. Entrepreneurs are divided into two main categories: those that pursue business opportunities, termed as opportunity entrepreneurs, and those who have no work and are seeking opportunities to get something going, termed as necessity entrepreneurs (Herrington et al., 2010). In developing societies and countries, necessity entrepreneurs, also termed as informal entrepreneurs, form a large percentage (Knox, Bressers, Mohlakoana & De-Groot, 2019). It should be noted that the potential of a necessity/unproductive/informal entrepreneur is a subject of debate in literature (Wiklund, Nikolaev, Shir, Foo & Bradley, 2019). The major reason for the existence of informal business is survival and it serves as a buffer against entering into deeper poverty. The reason they exist is for the survival of the owner and this is pointed out by some authors (Schramm, 2004, Banerjee & Duflo, 2011).

Nonetheless, according to Mnisi and Rankhumise (2015), providing support to small businesses is imperative as these businesses have an impact on the economy through the creation of employment. Earlier research has pointed out the employment potential of the informal sector in South Africa (Sabastian & Marek, 2018). They estimated the number of hawkers in South Africa to be 261,000 and an estimated employment of 415,000 jobs. The 127,000 spaza outlets have an employment of 320,000 while the 127,600 shebeens have an employment of 320 (Döckel & Ligthelm, 2015). The main factors that result in failure of small businesses include competition, the poor control of inventory, customer dissatisfaction, lack of support from stakeholders, poor policy implementation, and poor staff training (Leboea, 2017).

It is essential to find solutions to the problems faced by informal entrepreneurs, thus leading to their sustainability. In the long-run, the resolutions will assist informal entrepreneurs with solutions to alleviate the negative implications faced in the market. These solutions will become a tool that will assist new entry informal entrepreneurs towards becoming successful. The focal area of the study is based on focusing on the

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