

**LOCATION AND CLASSIFICATION OF INFORMAL TRADERS IN  
DRAKENSTEIN MUNICIPALITY**

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## **AUTHOR'S DECLARATION**

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## ABSTRACT

Informal traders and informal business owners are considered a fundamental part of the local economy. The inability of local government and the urban formal sector to provide sustainable employment opportunities are highlighted as one of the main reasons for the increase of informal traders and informal businesses in small cities. Choosing the location for informal traders and informal business owners and the products they sell, reflect the nature of the current economic climate. Informal traders are a reflection of urban economies and the result of a dualistic business setting. The contribution of informal business owners to the local economy has received relatively little attention from stakeholders such as local government and the formal sector, yet informal traders and informal business owners play an important role in job creation for millions of South Africans. The aim of the study is to determine the location of informal businesses in the intermediate-sized cities of Paarl and Wellington and classify the goods and services that are on offer in these businesses. The results conclude that the informal business sector plays a significant role in stimulating local economic growth. The geographical patterns and an economic sector classification model were used for the analysis with the purpose of making planning recommendations that will advance and improve the informal sector.

**Keywords and phrases:** informal traders, informal sector, location, classification

## OPSOMMING

Informele handelaars en informele besigheids eienaars word beskou as 'n fundamentele deel van die plaaslike ekonomie. Die onvermoë van plaaslike regering en die formele sektor om volhoubare werksgeleenthede te skep word as die hoofrede vir die toename in informele handelaars en besighede in klein stede beskou. Die keuse vir die ligging van informele handelaars en die produkte wat hulle verkoop reflekteer die aard van die huidige ekonomiese klimaat. Informele handelaars is 'n refleksie van stedelike ekonomieë en die resultaat van 'n dualistiese besigheids omgewing. Die bydra van informele besigheids eienaars aan die plaaslike ekonomie kry baie min aandag van belanghebbendes soos plaaslike regering en die formele sektor. Nógans, speel informele handelaars 'n groot rol in werkskepping vir miljoene Suid-Afrikaners. Die doel van die studie was om die ligging van informele besighede vas te stel, in die intermediêre stede van Paarl en Wellington en om die goedere en dienste wat hulle aanbied te klassifiseer. Vanuit die resultate kan ons aflei dat die informele besigheids sektor 'n beduidende rol speel in die stimulering van plaaslike ekonomiese groei. Die geografiese patrone en 'n ekonomiese sektor klassifikasie model was gebruik vir die analise met die doel om beplannings aanbevelings te maak, wat die informele sektor sal verbeter.

**Trefwoorde en frases:** informele handelaars, informele sektor, ligging, klassifikasie

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## **ACRONYMS AND ABBREVIATIONS**

Central Business District (CBD)

Central Product Classification (CPC)

Centre for Geographical Analysis (CGA)

Global Positioning System (GPS)

Gross Domestic Product (GDP)

Home Based Business (HBB)

International Labour Organisation (ILO)

International Standard Industrial Classification (ISIC)

Local Economic Development (LED)

# 1 CHAPTER 1: SETTING THE SCENE

## 1.1 Introduction

### 1.1.1 Rationale: Why the study has been undertaken

Upon completion of a review of the evolution of informal trade on an international scale, one comes to the conclusion that much has gone unnoticed in the contribution the sector makes towards local economic development. The growth and expansion of informal trade and the contribution it can potentially make to the urban economy have not been fully recognised. For the average passer-by, informal trading comes across as an unorganised “mess” where people involuntarily trade with goods at any given time. It goes forth in saying that they sell a wide variety of products such as food, fresh produce, cold beverages, arts and crafts, clothing, traditional herbs, cleaning utensils and many more. In addition, many services are on offer from informal business owners such as mechanics, catering, shoe repairs, sharpening of tools and baking, to mention but a few. For others within the informal sector, this commercial entity has contributed to the creation of employment opportunities and a way to overcome poverty. The growth of the informal sector in South Africa is on the rise. It is ever expanding and provide a sustainable means of income for countless numbers of people to support themselves and their families. The focus of this research has emerged from work done on the four major cities in South Africa, whereby emphasis was placed on their location and classification of goods sold. The aims of the research are two-fold: first, to locate the informal businesses and traders in the Paarl-Wellington area and, secondly, to classify the goods and services that are on offer according to the different economic sectors.

### 1.1.2 Issues and questions that need to be answered

The informal economy of South Africa (SA) has witnessed rapid growth and enables unemployed people to become entrepreneurs and provide for their households (Abedian & Desmidt, 1990). Informal trading consists of a group that sells combinations of food and drinks, fresh produce, clothing, arts and crafts, hair and beauty products at various locations. This research focuses on the classification of products sold and the locational choice of informal traders in the study area. The potential contribution of the informal traders towards economic growth is also key in understanding how informality fits into the wider economic climate.

The focus of this research stems from work done on informal traders in bigger metropolitan areas, often neglecting the role that informal traders play in intermediate-sized cities (Willemse, 2011) (Van Eeden, 2011). For this research, the data gathered focuses on the traders in Paarl and Wellington and the products they are selling. The aim is to identify the offered products and

services, why traders have chosen their preferred location and the impact their business has on the local economic growth.

The increase in production via informality has always been associated with pre-modern societies (Cross, 2000), but in recent years has come into its own in economies all over the world (Debrah, 2007). Diversity and being in a constant state of flux are prominent features of the sector. There is little consensus on how to define the informal economy. Some regard it as all economic activities a country does not recognise in its balance of payments (Arabsheibani, Carneiro & Henley, 2006). Portes and Sassen-Koob (1987) describe the informal economy as the sum total of income-earning activities, excluding legally employed individuals. Some of the characteristics of the informal economy include a low level of organisation and providing cheap goods and services to people living off low incomes (Teltscher, 1994).

The most widely recognised definition provided for the informal sector comes from the International Labour Organisation (ILO), which describes it as the sector that is not protected under regulatory frameworks (Motala, 2002). Massive amounts of research pertaining to the informal sector has been done, but a solid theoretical basis for understanding the locational forces driving different kinds of informal businesses is still lacking (Harner, 2010). A unified definition of what the informal economy entails also needs to be found (Tanzi, 1999).

There is still an ongoing debate on what the informal economy constitutes (Yu, 2012). Often, employment is unreliable and insecure within this sector (Ligthelm, 2013). The employees usually operate without a formal contract (Ligthelm, 2013). They are usually not registered for tax and do not receive benefits such as medical aid or a pension fund (Pretes, 2002). The informal sector provides a variety of employment opportunities ranging from selling products to offering unique services to its clientele (Bhowmik, 2012). In this research, the terms: informal sector or informal traders will refer to persons selling a variety of products and services to potential clients in an informal business setting. It sheds a positive light on the informal sector, portraying it as a sector that provides a countless number of people the opportunity to make a sustainable living in the urban economy.

The informal sector has been playing an increasingly important role in addressing key socio-economic issues such as inequality, unemployment and poverty in South Africa in recent years (Rogerson, 2000). In spite of this relatively little research has gone into informal trading in Drakenstein Municipality. Acknowledging this, initiative was taken to conduct an investigation into the location and classification of informal businesses within the area, as well as determining their contribution to the local economy. Statistics show that unemployment is a growing problem in South Africa (Yu, 2012; Stats SA, 2013). One of the key reasons for traders to start informal

trading is because there is a lack of employment opportunities in the formal urban economy. It is a central premise of this study that a better understanding of the forces determining the location of different types of informal businesses are found. It is paramount in better understanding, on the one hand, how to provide space and civil services for the different classes of informal businesses within towns and cities and, on the other hand, how the informal business sector could contribute to the local economy.

## 2 CHAPTER 2: LITERATURE REVIEW

### 2.1 Current knowledge – evidence from international literature

It is widely accepted that the informal trading sector is significantly increasing in countries of the Global South, in order to decrease the amount of unemployed people (Dewar & Watson, 2000). The growth of the ever-expanding population, while facing few job opportunities especially for unskilled labourers adds to the dilemma (Rogerson, 2000). The informal trading sector is therefore a catalyst for job creation and limiting the number of unemployed people. Ligthelm (2003) puts forward the idea that South Africa has an ever-growing informal economy that will change the way many people live. The informal sector not only provides opportunities for employment, but also offers entrepreneurs an opportunity to change their lives. To measure the extent and influence of the informal economy has been a disputable argument, mainly due to variations in the definitions of the phenomenon. The scope of the informal economy varies from businesses struggling to make ends meet to established enterprises. Reddy (2007) argues that the informal sector mainly alludes to an extensive range of economic activities which include market vendors, machine repair shops and garment repairs all performed by enterprises which fall outside government regulation.

Research done in Tanzania by Bagachwa and Naho (1995) found that, what they called, the “second economy” contributed to Tanzania’s Gross Domestic Product (GDP) and was especially high during the early 1990’s. This economy provided an opportunity for job opportunities and served as a source of income for the people of Tanzania. Competition within the informal sector causes some distress and acts as an impediment for this sector to achieve success. Scholars like Saunders & Loots (2005) focused primarily on measuring the economic activity of the informal sector, but this research also provided insight into the contribution of the informal sector towards the local economy. Once again, the increasing amount of employment opportunities created by the informal sector were apparent.

However, the informal sector plays a crucial role towards absorbing those that are unemployed. This is not as easy as what it would seem, since there is a difference in the production systems of the two main economic sectors. By and large, the informal sector makes use of inferior technology, which brings forth lower yields (Moser, 1978). Portes et. al. (1989) argues that the existence of informal traders comes from the production of inferior goods that are in demand amongst poorer people. There are often few downstream linkages between the formal and informal sector since they target different markets but the informal sector is largely dependent on the formal sector for the goods and services it provides, making the upstream linkages between the informal and formal

sector crucial. Despite this, the informal sector will remain an important part of urban economies since it offers an alternative to the unemployed that struggle to find work within the formal sector. Wills (2009) observed during a study that more than 3 million people are taking part in street trading activities in South Africa. To achieve success with the research, an investigation of the informal trading area of the Drakenstein Municipality has to be take place. This will provide decision makers with the kinds of information that are necessary to make better and more informed decisions about informal trade in the area.

### **2.1.1 Growth of the informal economy**

The informal economy is a phenomenon that has been present in the Global North and South, with the rise of this sector witnessed in the latter (Bićanić & Ott, 1997). Furthermore, the factors that contribute to the growth of the informal economy and the way in which it manifests in each country are something unique. With the focus being on the development of the Global South, developing countries tend to utilise the informal economy as a social safety net (Gërkhani, 2004). More than 90% of job opportunities created in Africa are in the informal sector (Debrah, 2007). However, three main factors cause an increase in the informal sector and they are an increase in tax, an increase in government regulation and the inability of the formal sector to provide enough sustainable employment opportunities (Pietersen, 1982). The common thread amongst all these factors, seem to be the government. They have an influence on all facets of the economy and can determine the outcome and survival of an aspect such as the informal economy (Weiss, 1987). Research indicating growth in the informal economy, creates a positive outcome with successful government involvement (Carneiro & Henley, 2006). Furthermore, studies on the informal economy put forth that individuals who are active within this sector would rather take up an employment opportunity in the formal sector, should that become a possibility (Reddy, 2007). The exact opposite could also take place, whereby people employed in the informal sector has an added advantage over occupants in the formal sector (Loayza, 1996). As previously mentioned, because of an increase in urbanisation there is a general increase in the informal economic activities in many cities in the Global South and thus markets are becoming saturated (Frayne, 2004). For this reason, activities in the informal economic sector has also increased. Despite a negative perception amongst many about the informal sector, it provides a sustainable livelihood to people who were previously living in poverty (Charmes, 2001).

### **2.1.2 Perceptions of street traders**

Street trading can be seen as a key factor in the informal sector, not only those who do business in this sector but also for researchers trying to better understand the functioning of the informal sector

(Cross, 2000 & Mitullah, 2004). Street traders take up different forms and are in a constant state of flux, since the economic environment in which they operate is always changing and is somewhat uncertain (Bass, 2000). One of the definitions describing street trading stems from Bromley (2000), stating that it is the “trading of goods and services in public places”. Furthermore, an additional description are entrepreneurs who are in the informal economy and trade on the streets (Motala, 2002). Bhowmik (2005) argues that a street trader is someone who sells goods without a permanent structure from which to do his sales. In this case, they can either be mobile and move around or be stationary at one specific location.

### **2.1.3 Street traders in the developed world**

For many people, it is common knowledge that in the Global North, street traders are not popular because people believe they have a negative impact on the aesthetics of areas in which it occurs. The arguments against street trading are that they bring crime to the location where they sell their products (Bromley, 2000). Governments tend to threaten street traders as they are constantly looking to re-locate them. A good example is that of street traders found in New York City. Here, officials tried to re-locate the street market to a location that according to the traders was not economically viable. Some of the reasons provided for the re-location was that the market impeded the flow of pedestrians. It brought massive amounts of crime to the area, which negatively affected the surrounding built environment (Stoller, 1996). The issue of re-locating street traders is one that is still very contentious. Donovan (2008) studied the effect of street trading re-locations and found that street traders experienced a decrease in income after their re-location. The counter argument was that street traders had to form a cluster as it would help to relieve some of the congestion and supposed disorder caused by street trading.

### **2.1.4 Change in location of trade and services**

Various scholars has taken note of the difference in locality and spatial distribution patterns amongst retail and services. This was also apparent in Latin America and especially in the Central Business District (CBD). It has been a strength of this region and the city centre, with this area typically acting as residential space for the elite, with street traders also located within this vicinity (Harner, 2010). These service centres continue to act as a central place, serving the rural hinterland. Low-density urban sprawl occurred when the labour force was taken out of the city centre and employment opportunities was elsewhere relocated (Harner, 2010). The assumption is thus that fundamental change is taking place about the location of commercial activities and services within the urban area. Large corporations like Walmart are moving into Latin American cities and the question is whether small businesses will now close if they are located within the same areas?

### **2.1.5 Trade and services**

Retail and service centres take up a unique form, being that their locations serve as change agents in many cities. Traditional areas still contain a mix of small businesses with the focus on fresh produce. However, as cities are becoming more modernised, large chain stores are gradually gaining in popularity (Harner, 2010). In the past, big supermarket chain stores would dominantly cater for the upper class household in Latin America. Gaining experience and becoming modernised in consumer services and quality control, the number of formal supermarkets increased in this region (Harner, 2007). A good example is Walmart, who transitioned into Mexico and was bigger than the following three retail food producers put together (Tilly, 2006). Instead of having small businesses along a street in the city centre, these massive companies located within shopping centres on busy highways. Particularly in cities in the Global South, these commodity areas were located far away from city centres. Harner (2007) argues that these firms have since moved throughout the metropolitan areas. Traditional Mexican neighbourhoods moved from being pedestrian focused into areas where private transport is required. This change occurred because these large corporations now located in the area and were located further apart than the informal markets (Tilly, 2006). A paradigm shift took place and changed the view of traditional patterns of consumption. In contrast, there might be some positives stemming from the increase in consumers in the surrounding area where the Walmart stores are located. Firstly, it will generate more employment opportunities and will increase the numbers of small businesses. Furthermore, it will enhance the opportunity for various other sectors to provide services (Harner, 2010). The erection of Walmart stores did not necessarily reduce the number of small businesses, but firms who compete with each other did suffer. Vendors that are more competitive are located in the informal sector, but they have some advantages such as not paying taxes and building client relationships by being flexible and offering informal credit (Biles, 2006).

## **2.2 Evidence from local literature**

Various studies have proved that informal traders contribute heavily to creating employment in SA (Stats SA, 2013). It focuses on the marginalized such as female and child headed households and those living in rural areas. The latter groups, with the ability to start an informal business, are better equipped to survive an economic slump. Hodge (2009) argues that there are less employment opportunities found within the formal sector in relation to the number of people trying to enter the labour force. Authors Abedian and Desmidt (1990) provide four key factors influencing the range of activities found within the informal sector: firstly, the conditions found in the formal economy, the growth of urbanization in Africa, the growth in unemployment and lastly any environmental aspects that support the informal sector.

Normally the activities that dominate the informal sector are retail and services. It is of utmost importance to take note of the geographical distribution and the structure of the informal sector. The informal trading per sector will be analysed to witness what is the activity that informal traders prefer. From the beginning of the new millennium, up until 2013, more changes took place in relation to the composition of the labour force than the number of employed people. The informal sector regressed and the amount of young individuals involved in informal businesses, also decreased. Providing some form of clarification pertaining to a reshuffle in government policy is crucial. The implementation of various youth programmes in post-Apartheid South Africa with a particular focus on the youth involved in informal businesses is a good example of the steps that are necessary to be taken to reduce unemployment.

### **2.2.1 A different form of informal business location**

Concerning the above-mentioned definitions of a street trader, the arguments of the authors might be seen as short sighted or prevalent in the case study / area observed. Opposing views to aforementioned authors are the rise in home-based businesses (HBB's) as an informal business location. These HBB's are one of the more formal types of informal businesses. They reflect the changes in the economic structure of South Africa as well as the changes in spatial dynamics that have taken place in cities (Smit & Donaldson, 2011). HBB's have been on the rise, but there has been a massive failure in understanding their role in the economy. Modernity and the increase in the usage of technology has led to the success of many HBB's. These type of businesses are normally associated with cheap start-up costs and low expenses. The research potential for HBB's is still widely open, since they have been generally absorbed into a broader category of informal businesses (Walker, 2003). Pratt (2008) points out that there are many cases where HBB's have contributed to either economic growth or an increase in employment, as witnessed in the United States of America (USA). In similar fashion, in Australia, HBB's form the largest portion of their businesses (Walker, 2003). Possibly, the most successful business, which was started as a HBB in a garage, is Microsoft. Other firms that were also started in garages include Amazon, Apple, Google, Hewlett-Packard, Magalite, Lotus, and Harley Davidson. Mark Shuttleworth, the well-known South African businessman who sold his product – an Internet-based security system used in the financial sector – for billions of Rand, also started his business in his mother's garage. Despite the increase of HBB's, they are still valued as a survivalist enterprise and a negative stigma hangs over this form of business.

HBB's is the type of business where work takes place from a residential dwelling (Smit & Donaldson, 2011). Many of them create the products at home and street traders sell them (Tipple, 1993). South Africa caters for about 60% of home-based informal businesses (Statistics South

Africa, 2005). There are various types of HBB's that includes spaza shops, clothing retailers as well as services such as hairdressers, barbers, restaurants and traditional healers. It is a well-known fact that that HBB's contribute to a household economy and brings forth an increase in the quality of life of residents (Isandla Institute, 1999).

### **2.3 Study methodology**

Currently there is a lack of knowledge regarding the emergence and growth of informal businesses. These businesses create employment and have a massive positive influence on the local economy. However, the focus shifts to the size and extent of these informal businesses and the possible growth patterns and prospects they may exhibit onto the informal economy. The overall aim is to draw investment into the informal businesses, further their competitiveness and align policies to support these businesses and incorporate them within the formal economy.

Phase 1 of the study will take on the research approach known as the small-area census approach. The research will be undertaken in the Drakenstein Municipality, with specific focus on the Paarl and Wellington areas. Primarily, the research focuses on locations that represent an economic and societal background of people who have been previously disadvantaged. Qualitative research will focus on the changing nature of the informal economy and understanding the scope of the informal businesses within the designated study area. Research undertaken on the spatial distribution of various informal sectors and vendors will occur, to understand how they operate within the prescribed policy framework.

Phase 2 of the research will focus on the social-spatial and changing nature of the informal economy. A key component will be to collaborate with community members to understand how successful their informal businesses are.

Phase 3 of the research will identify the key factors of survival within the business environment of the informal sector. In addition, it will display how to provide a sustainable livelihood for unemployed people from the community. Furthermore, the research will also comprise of making use of academic articles and spatial and statistical tools to help with location and distribution of the informal traders.

In the next section, the concept of classification will be discussed. Two aspects of classification are relevant to this study: firstly, classification of types of informal business activities and secondly, classification of the locations of those informal business activities.

## 2.4 Classification of activities

The classification of informal businesses and determining the location of those businesses are the main objectives of this study. For the purpose of classifying the business activities, a record is first made of the main activity if more than one activity is involved. The classification system tries to distinguish between primary products – i.e. those generating the highest percentage of income – and secondary products or services. The classification system records the goods and service that are offered on sites irrespective of the existence of business infrastructure or lack thereof.

Classification is the grouping of objects into classes based on properties or relationships they have in common (Nation, 2008). Two distinct methods, classification and division form this grouping (Grigg, 1965). Classification was the approach or method that was used in the research. The goods and services were first grouped on the basis of having similar properties, which in this case was the specific economic sector. The first stage of classification was done by using a differentiating characteristic. In the case of the research, this was the main product or service found within the informal sector. When formulating the classification, the differentiating characteristic has to be present in all items of the system. Grouping the elements into classes, in the case of the research, was made on the similarity between elements. This phenomenon is commonly known as association by similarity (Grigg, 1965). The principles of classification give us an indication as to why it is important to follow this method. The classification has been used for a specific purpose, to identify which products and services of the informal sector fall under which economic sector. However, there are differences between the objects, which make it difficult to classify them, as they can be classified into different economic sectors. The classification is subject to change, as soon more knowledge is gained about the similarities of objects (Griggs, 1965). A case of someone producing a good and selling it, to fulfil a service, can be contradictory, which is why the classification is of utmost importance. The differentiating characteristic, which is the goods and services of the informal sector, has to be the cornerstone of the classification.

The International Standard Industrial Classification of All Economic Activities (ISIC) is a standard classification for productive economic activities (Memorandum to Statistician-General, 2013). The main purpose is to provide a set of internationally recognised activity categories that can be used to group the aforementioned activities (Bhojraj et. al., 2003). The ISIC however provides categories for the classification of units based on the activities done, and not necessarily categories for specific types of activity units. An aspect influencing the uniformity is the spatial distribution of geographical areas, which has an impact on the statistics. Despite the fact that the geography has little to do with the classification, it does affect the statistical units. To conclude, the uniformity of units relates to both activities carried out and the locality of said activity (Nation, 2008). Lastly,

the detail required to classify any type of data differs from region to region. Geographical location, the history of a place and the organization of economic activities are causes for differences in the classification of data. However, the ISIC is a classification system for various productive activities, and not necessarily a classification of goods and services. The Central Product Classification (CPC) measures products at a detailed level. This list forms a more appropriate basis for the classification of goods and services (Nation, 2008).

Table 1: Alternative ISIC for analysis and reporting on the informal sector (Nation, 2008).

Category	Title	ISIC sections
I	Agriculture, forestry, fishing	A
II	Mining, manufacturing, electricity, gas supply	B, C, D, E
II a	Of which: Manufacturing	C
III	Construction	F
IV	Wholesale and retail trade	G
IV a	Of which: Retail trade not in stores	G
V	Repair of motor vehicles and motorcycles, repair of computers and personal and household goods	G, S
VI	Transportation and storage	H
VII	Accommodation and food service activities	I
VII a	Of which: Restaurants, mobile food service activities and event catering	I
VIII	Professional, scientific and technical activities, admin activities, arts, entertainment and recreation	M, N, R
IX	Education; human health and social work activities	P, Q
X	Other personal service activities	S
XI	Other activities	J, K, L, S

Do note that Table 1 is merely a broad representation of groups of activities. The categories used in this classification model are too broad to show the diverse range of activities within the research and is not detailed enough to allow for the kinds of distinctions between goods and services that are aimed at in this study. The ISIC classification in the table will therefore differ from the final classification model that will be used in the study.

The classification of a vendor falls into two main categories and relies upon the principle of products and services offered (Bhowmik, 2012). Firstly, food item vendors who sell processed and

non-processed foods and secondly non-food item vendors, who sell household articles, clothes, flowers and services.

Table 2: Classification system used for street vendors in Vadodara, India (Bhowmik, 2012).

Commodity sold	Type of vending activity	Item sold by Vendors
Food items	Processed food	Lunch, dinner, snacks, tea, coffee, juice
	Non-processed foods	Fruits, vegetables, ice creams., cold-drinks, water
Non-food items	Household articles	Utensils, bathroom accessories, electrical fixtures, paintings, decorative articles
	Clothes	Cloth-pieces, ready-mades
	Flowers	Artificial flowers, plants, fresh flowers
	Service providers	Barber, mechanic, painter, potter, electrical goods repairer, newspaper kiosk

The classification (Table 2) above is not applicable to the proposed study area, since it is only limited to food items and non-food items. It neglects an array of other products and services that are on offer. However, this classification was useful to look at in the sense that it could be applicable to the study area in obtaining the information, as these products and services were notable and important to the inhabitants of this area.

## 2.5 Spatial classification

Policy makers at a national level, but still lacking heavily on the municipal level, have noticed the re-invigoration of the informal sector. Various forms of research of scholars have taken place on the informal sector, but knowledge gaps remain on how to support the informal sector to generate employment and further the local economy. It is quite apparent that there is very little current knowledge about the spatial layout of the informal economy and the factors that contribute to making businesses more successful in their specific location. This research will quantify the importance of the informal economy by means of a thorough investigation of the two main towns in the Drakenstein Municipality i.e. Paarl and Wellington.

### **2.5.1 The usage of a small-area census**

To grasp the informal sector and fully understand its economy, one needs to look at the information gathered from national surveys as well as specific case studies. The small-area census will give new insight into the informal economy and look at the spatial distribution and location of businesses in the designated study area. The research will focus on the Drakenstein Municipality, with the aim to identify all the economic activities of the informal businesses. Do take note that there are several businesses in the area specifically used for survival or generating a household income. The sites involved will comprise of formal and informal residential units.

The research will comprise of quantitative as well as qualitative data. To achieve success with the small area census, the information has to reflect all of the identified businesses and their levels of activity. Interviews on the biggest sectors of the informal sector will also take place. Plotting the exact location of the businesses will help to see their proximity in relation to other businesses. The information gathered from the interviews will give an insight into the larger environment and possible constraints for the businesses that may occur.

### **2.5.2 Location: Suburb vs Township**

In the Global North, there is a clear boundary for the layout of any city or town. It will have the distinct residential, business areas and retail centres along major routes. In contrast, towns and cities in the Global South, who rely heavily on the informal economy has less spatial differentiation. Informal businesses are located throughout the community and especially within residential areas. There is however some form of economic agglomeration, whereby enterprises would cluster together in an area. The presence of informal businesses found in residential areas is a key factor in shaping the spatial distribution of informal areas. There are however various policies to promote the economic development of these areas, with implications following suit.

The traditional city suburb normally shows that some form of planning took place in the area. They make use of motorised transport and other modes of large-scale public transport. This is design is specifically done to cater for a specific population group. The difference between these suburbs and the informal areas is that township-like areas development has been unplanned. Their development took place on a smaller scale, and incorporated the majority of inhabitants who walk from one location to the next. No form of urban infrastructure took place, and the informal areas serve high population densities located in the immediate vicinity.

### 2.5.3 Location: “high streets vs residential area”

This is another type of spatial distribution of informal businesses. It looks at the types of businesses found in residential areas versus areas known as the high street. Last mentioned is very similar to a development axis, whereby these high streets are the main roads where the economic activity take place. It does however exclude the streets found in the residential areas. It is clear that the high streets offer different types of businesses, with reference to their size and products or services offered. The residential businesses show the day-to-day operation of what consumers buy. This is mainly because the people from these neighbourhoods do not own a private vehicle or have the financial means to travel outwards. They thus settle to buy the products from these local business owners.

The massive amount of informal businesses located in residential areas, is a key characteristic of the informal economy. This is evident in illustrating the growth of this economic sector and its effort to meet the demand for local inhabitants. There have been various attempts to try to push informal businesses to a designated service area, without much success, as it will disrupt the lives of these informal traders. Policy makers should focus their efforts to supporting informal businesses and take into account their choice of location, as it heavily influences their sales.

## 2.6 HBB Location and Classification

The planning principles of a formal business is applicable to HBB’s. Local government policy would dictate as to where HBB’s should be located, normally next to main collector roads and high activity areas to enhance accessibility to the public. Three focus areas for formal business locations has been visible in various developments. Firstly, there is the CBD node, which remains the main business node of a city. Secondly, a possible decentralised centre and business node located just outside the CBD. Lastly, some form of a development corridor could take place from the CBD to other parts of the city. What follows is a table (Table 3) of the products and services offered by various HBB’s. However, this form of classification is not appropriate for this study as it only focuses on one form of informal trade.

Table 3: Classification of products/ services by HBB’s (Smit & Donaldson, 2010).

Retail	Manufacturing	Service production
Clothing	Clothing	Agency of some kind
Processed food cooked food fast food like take-away meals and/or bakeries	Cosmetic products	Catering
Trinkets	Food and/ or beverages	Childcare

Fresh produce	Technological equipment	Construction
Technological equipment	Jewellery	Florists
Newspapers/magazines	Leather products	Hairdresser
Toys (wooden)	Metal products (art/ consumer objects)	Maintenance and/ or repair
Traditional medicine	Pottery (art/ consumer objects)	Publishing
Beverages/alcoholic drinks	Other art work of any kind	Shebeen
Other	Toys (wooden)	Recreation/ interest facility
	Woodwork/ carpentry	Spaza (house shop)
	Other	Superette (shop/ market)
		Training/ teaching
		Transport
		Upholstery
Other		

### 3 CHAPTER 3: ANALYSIS

The research focused on Drakenstein Municipality and specifically on Paarl and Wellington. Within the municipality, there are demarcated trading areas that have been specifically identified and designated for informal trading. The areas that were covered include residential areas, the CBD and outer city locations. However, there are also areas in which informal businesses occur that are not formally recognised or registered for informal business activities. Some of the raw data include co-ordinates identifying all the sites of the areas involved.

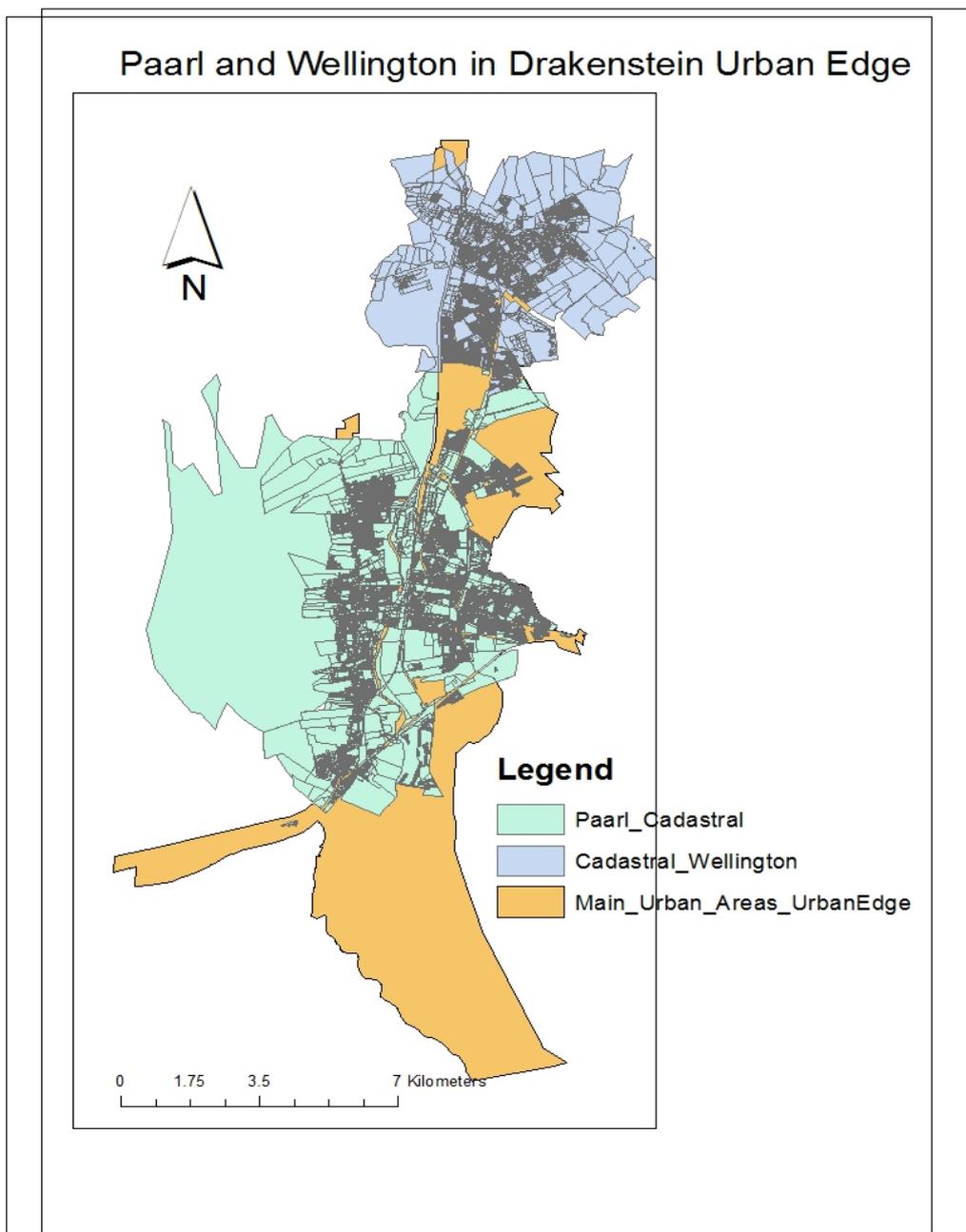


Figure 1: Wellington and Paarl Within the Urban Edge

### 3.1 Study results

#### 3.1.1 Analysis: Classification of goods and services

Table 4: Classification of goods and services by Economic Sector

Primary Mining, fisheries, agriculture	Fruit and Vegetables
Secondary Construction manufacturing	Handmade arts and craft, Herbs, Flowers, Plants, Hardware Tools, PVC pipes, Toilets, Concrete Ornaments
Tertiary commercial	Clothes, Fast food, Cool drink, Cigarettes, Sweets, Newspaper, Confectionery, Condiments, Clothing accessories, Books, Toys, Cleaning utensils, Alcohol, Tin food, Skin care products, Wood, Fruit, Vegetables, Fresh Fish, Second hand tools, Production of tombstones, Wooden benches, Car Silencers, Shoe maker, Cakes and Savouries, Car tyres, Bathroom Taps, Airtime, Electricity, Car parts, Weaved baskets
Quaternary Services (public and private)	Financial service (loan shark), Transport (taxi's), Education (crèche), After care, Hairdresser, Barber, Mechanic, Upholstery, Plumber, Internet Café, IT (fixing pc's at home), Photography, Personal Trainer, Rendering of ID-photos, Bed and Breakfast, Catering, Shoe repair, Renting of trailers, Hiring of tables and chairs, Sharpening of tools, Transport (buses), Hair boutique, Restaurant, Auto Electrician, Hiring of cutlery & crockery, Exhaust repairs, Baking, Internet shop, Grooming Parlour, Car sound installation, Panel beater, Amusement rides, DJ, Hiring of sound equipment
Pentanary Virtual sector	

The table above (Table 4) represents the goods and services offered in the towns of Wellington and Paarl. The research focused on informal traders as well as informal businesses spread throughout the above-mentioned towns. Informal traders on demarcated trading areas, non-demarcated trading areas as well as informal businesses in residential areas and outer city locations offer these goods and services. The classification of products and services were done according to International Standards, with the differentiation on the basis of the various economic sectors. These sectors include the Primary Sector, Secondary Sector, Tertiary Sector, Quaternary Sector and the Pentanary Sector. As noted in the table, there is a wide of variety of products and services on offer. It ranges from handmade products that people can use as gifts or everyday items in and around their house. The three main sectors of businesses that exist in the area is without a doubt the Secondary, Tertiary and Quaternary sectors.



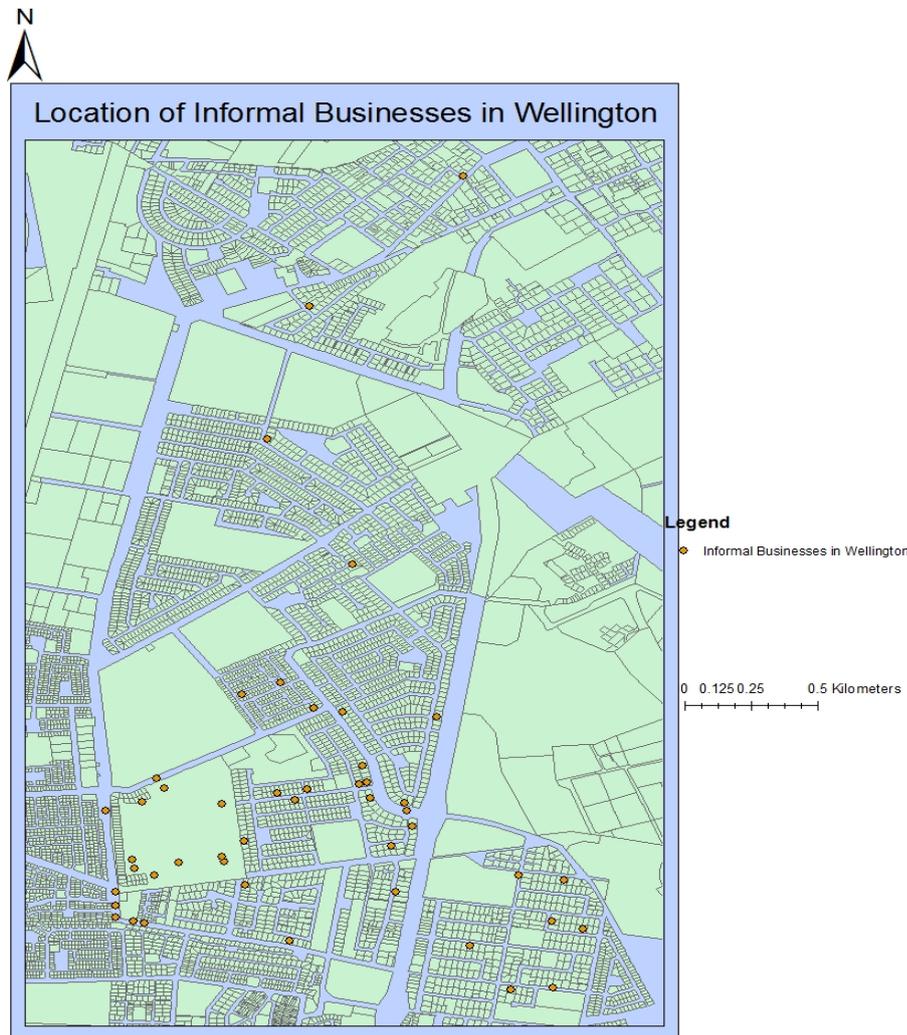


Figure 3: The location of Informal businesses in Wellington

Upon completion of the research on informal businesses in the Drakenstein Municipality, 47 exist in Wellington. It is important to note that these informal businesses do not all under the demarcated trading areas as set out by the municipal by-law for informal trade. The majority of the enterprises are located in residential areas and people work from home. It consists of a great variety of products and services, ranging from mechanics, caterers, spaza shop owners, transport in the form of taxi's and buses as well as fruit and vegetable stalls. From these, spaza shops were by far the highest recorded number with a staggering amount of 14. Six of these were barbers and hair stylists. All the other mentioned businesses (Table 5) were less apparent, and was well spread out throughout various neighbourhoods.

Informal businesses that are located in residential areas are a trademark of the living conditions of previously disadvantaged communities. Inhabitants of the aforementioned neighbourhoods tend to support local businesses much more than what they would shop at a big supermarket. This phenomenon could be due to the fact they have no private transport and that spaza shops and other services are located within walking distance from their homes. In addition, the products offered

by spaza shops are inherently the same as in the big supermarkets, just offered at a fraction of the cost. However, people from middle to high-income groups would classify these products from the spaza shops as inferior goods. The spaza shops not only offer the basic products for the day-to-day living like bread and milk, but also products such as prepaid electricity and airtime. These products can be regarded as an essential component of any modern household, as many people in society make use of this. It thus enables people from low-income households to get their hands on these products without having them to make use of public transport and go to town to obtain these products. Informal businesses allow people to display their skills, often having a formal job and maintaining the informal business either at night or over weekends. Their informal business thus acts as an extra income and tries to relieve them from the poverty cycle. In contrast, for others, an informal enterprise is a full time occupation and is often the sole source of income. Informal business owners rely heavily on the support of people within their neighbourhood and surrounding areas.

Taking into account the abovementioned, the location of these informal businesses are very important. Locality of any type of business plays a key role in the drawing force of attracting customers. The location of a business has to be convenient towards the majority of its clientele, which is the case of informal businesses. The research proved to us that the businesses are located in residential areas, increasing the ease of access for its customers. It has been proven through observation, that the customers are the locals of the community. They are the backbone that keep these informal businesses afloat. It was apparent that some spaza shops were located in collector streets, and less visible businesses such as shoemakers and caterers were somewhat “hidden” in residential areas. However, they still felt the need to be nestled within the community as relating to customers is their biggest drawcard. A further prerequisite for choosing the prime location is the ability of staff members to reach the business premises. In the case of having personnel in your informal business, it is crucial that they stay within walking distance or at least a short travelling distance if using a motor vehicle. Having the necessary skilled individuals within your community and being close to the business premises are real assets. In the case of not needing further personnel such as in the running of spaza shops, fruit and vegetables stalls and selling flowers, the location with regards to staff members is not a key aspect. The locality of these type of businesses just has to reside within community. A final factor influencing the location is the price of renting business space. Since the majority of the researched informal businesses operate from their houses, they save on rent. Obtaining rental or storage space within the city can be quite expensive. With informal business owners working from home, they can store the goods on or offer services on the premises. Aesthetically it might not always look pleasing, especially with businesses being located within residential areas, but the cost of renting space is expensive for an informal business owner.

In terms of the signage of the businesses, it was always noticeable to see where the various spaza shops were located. They are normally branded with the famous red Coca-Cola sign, and in some instances, they had a written blackboard indicating specials of that particular day. In contrast, other informal businesses were more difficult to identify. On the one hand, they either had one small sign indicating the nature of their business, or no sign at all. This made it very difficult to identify the various informal businesses spread throughout the town. Many informal merchants rely on word of mouth to market their businesses. For reasons stated above many informal businesses could not be recorded during the research. The issue of a clear and concise sign and the fact that businesses are not very well marketed, but presumably are known to locals in the area, all contributed to the difficulty in locating them.

Table 5: Classification of informal businesses in Wellington

Economic Sectors	Number per sector	Various businesses in Wellington
Primary	0	
Secondary	0	
Tertiary	26	Spaza (14), Tavern (2), Food (4), Clothes (2), Wood (3), Shoe maker (1)
Quaternary	21	Crèche (5), Barber/ Hair salon (6), Catering (2), Mechanic (4), Transport (3), Sharpening of Tools (1)
Pentenary	0	

Table 6: Spatial classification of informal businesses in Wellington

Spatial Classification of informal businesses in Wellington	Variety of products and services at different locations
Central Business District	Clothes, Hair Salon, Processed food, Barber, Crèche, Spaza
Residential suburb	Spaza shop, Crèche, Catering, Barber, Mechanic, Sharpening of tools, Wood, Tavern
Residential township	Mechanic, Spaza, Tavern, Barber, Hair Salon, Crèche, Catering, Transport, Wood
Outer City locations	Shoe maker, Wood
High Streets	Transport, Spaza, Barber

### 3.3 Paarl Analysis

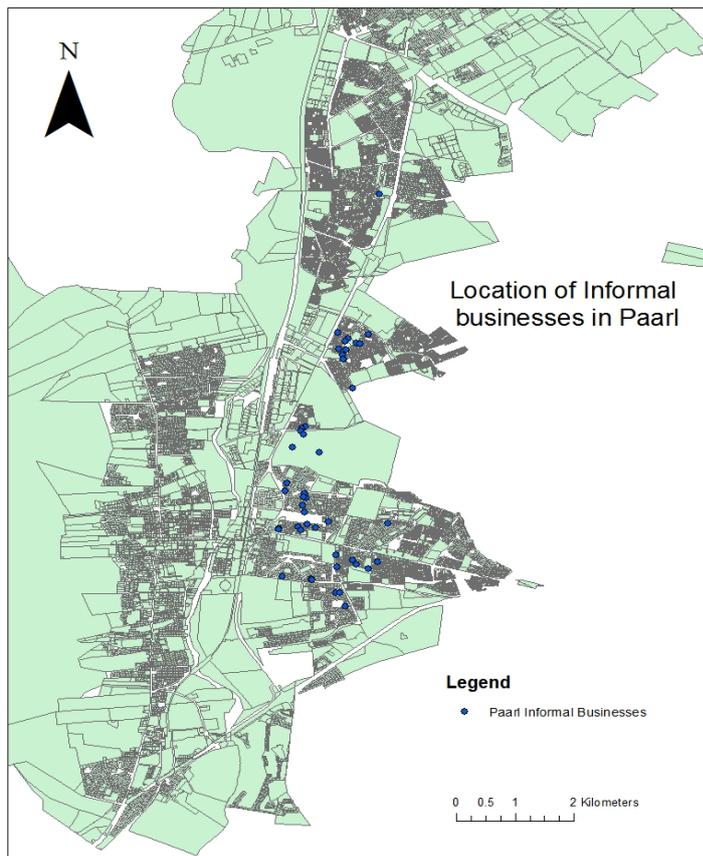


Figure 4: Location of informal businesses in Paarl

Following the work done on the smaller city of Wellington, the focus shifted towards the intermediate-sized city of Paarl. Here, 50 informal businesses had been recorded during the fieldwork. Yet again, these informal businesses do not form part of the demarcated trading areas as set out by the municipality by-law. Individuals who do not have the necessary qualifications to enter the formal market own these businesses. Informal businesses are started as an alternative, since the formal market is currently saturated. The majority of these businesses are run from home as the goods and services offered are found within a residential setting. A wide variety of products exist such as fruit and vegetables, second hand car tyres, skincare products, sweets and beverages and many others. Continuing with the trend, spaza and tuck shops were the most prevalent throughout the area. Furthermore, key services that are high in demand in residential areas were also observed. They include mechanics, hair salons, crèche's, catering, panel beaters and private transport. Refer to Table 7 for a detailed list of businesses and how many were encountered during the research.

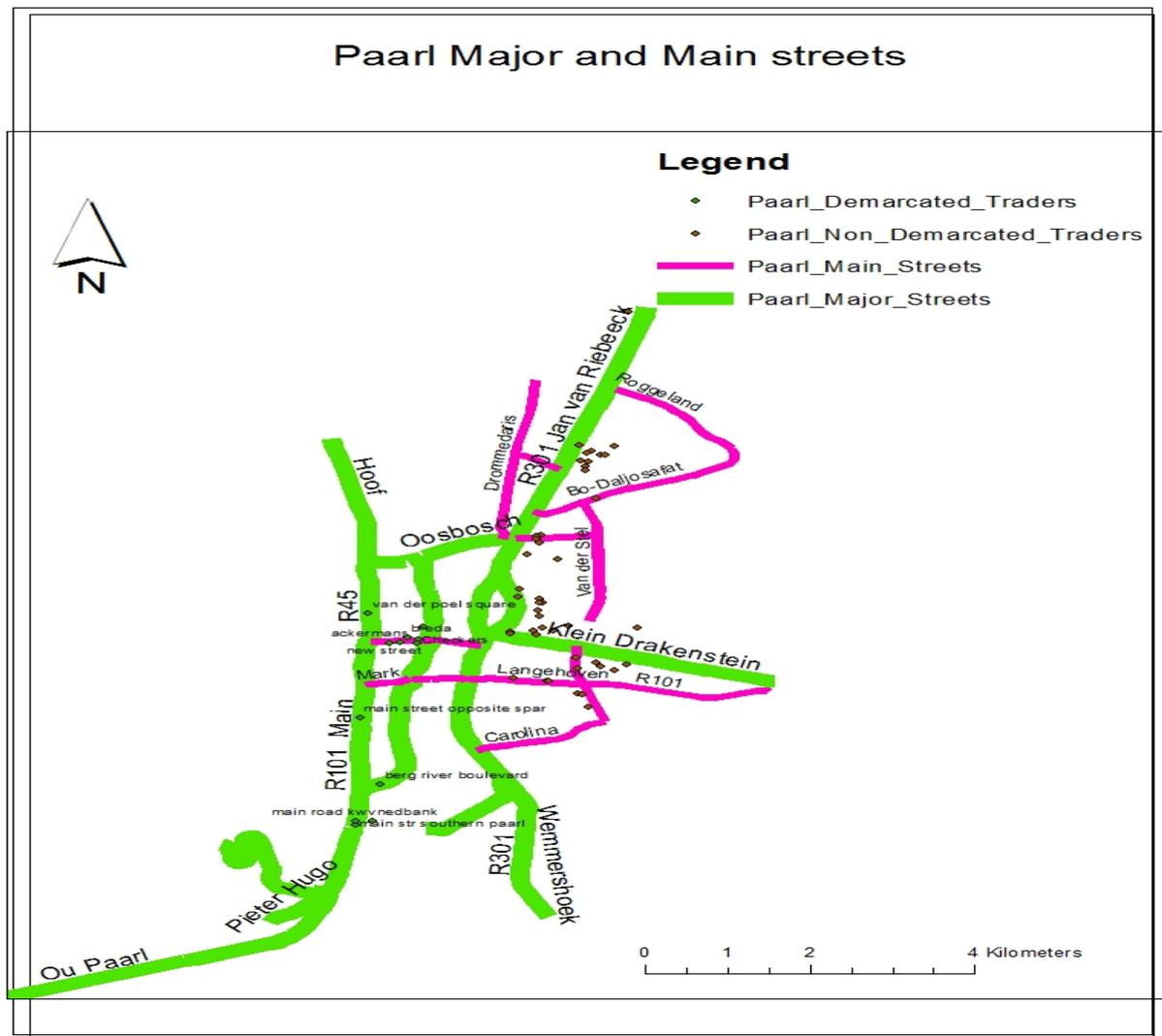


Figure 5: Location of Paarl Traders along major and main streets

The location of these informal businesses were recorded in low to middle-income residential areas. They are a common phenomenon within these areas, and are found throughout the community. Informal business owners rely on the support of the local people who keep these businesses going. The local businesses are so well supported since they offer the goods and services needed by the people. The more profitable businesses are the ones that provide goods and services. These are high in demand. The locality of informal businesses is very important, since they need to be close to their target market. Locals need to stay within the vicinity of these businesses and fall within the range to obtain goods or services. For informal businesses to be viable, the local community has to form the majority of the threshold. Some products and services were of such a high quality that this range has extended to outer city locations with people travelling far to experience the quality on offer. Furthermore, reasons for persisting with locating within a residential setting include the following: saving costs on renting premises, the travel factor for the customers as well

as the owner, not having to move goods to and from a business site and storage of goods or tools needed to provide a service is much easier.

With informal businesses located in a residential setting, it makes it very convenient for the majority of its customers. Here, a prerequisite for business locality is the ease of access it can provide. Since the locals have no or little access to private transport, they are within walking distance of obtaining goods or services. In contrast, the ease of access works perfectly if the roles were reversed. For informal business owners having to make a delivery or having to provide a service at the customer's home, being closely located will save them money on travelling costs.

The types of informal businesses found were arranged according to the classification system of economic sectors. The most prevalent were spaza shops, with catering and mechanical services closely following. The informal businesses in the area fall under the Tertiary and Quaternary economic sectors. Goods are normally manufactured and sold to the locals or services (public or private) are offered to the community. The goods sold were items that are easy to obtain (such as fresh produce) or rather easy to manufacture. Skilled individuals who have been honing their craft for many years offered the services.

Table 7: Classification of informal businesses in Paarl

Economic Sectors	Number per sector	Classification of businesses in Paarl
Primary	0	
Secondary	0	
Tertiary	19	Spaza (15), Tavern (4)
Quaternary	31	Mechanic / car repairs (6), Creche (4), B & B (2), Transport (3), Catering (6), Barber/Hair Salon (5), Equipment for Hire (3), Grooming parlour (1), Internet shop (1)
Pentenary	0	

Table 8: Spatial Classification of informal businesses in Paarl

Spatial Classification of informal businesses in Paarl	Products and services
Central Business District	Crèche, Auto Electrician, Hair salon, Transport, Catering, Barber, Equipment for hire
Residential suburb	Spaza shop, B & B, Transport, Internet shop, Equipment for hire, Mechanic, Catering, Baking

Residential township	Spaza shop, Exhaust repairs, Panel beater, Tavern, Catering, Barber
Outer City locations	Tavern, Grooming parlour
High Streets	Barber, Crèche, Transport

### 3.4 Informal Trade in the Drakenstein Municipality – Demarcated Trading Areas

This part of the research focuses on the spatial aspects of the informal traders within the Paarl and Wellington communities. The 2012 by-law gives way to the spatial distribution and the different types of informal trading that occurs within the Drakenstein area. A critical discussion will follow on the locality of the allocated trading bays within the municipal area. Furthermore, information will be provided on the goods and services sold throughout the informal trading area.

The mapping of the informal traders in the Drakenstein area is important since it gives us a visual aid of where traders are located, hence forming a cluster or being dispersed throughout the area. The collection of informal traders at a specific location is an indication of the economic attributes of the designated location. However, it is important to note that not all the traders choose their location. Local government instructs the informal traders on the specific areas where they can officially trade. In addition, which was very noticeable throughout the area, informal traders were also located at their own homes along major streets or busy intersections. In the case of informal traders deciding on an alternative location, it allowed the researcher to witness the extent of this sector and the spatial distribution over these two intermediate towns.

#### 3.4.1 Recording the location of trading areas

GIS data displaying all the erven in the Drakenstein Municipality was obtained from the Centre for Geographical Analysis (CGA). The last mentioned data, in conjunction with the spatial framework of the by-law for informal trading from the Municipality's Local Economic Development (LED) department indicates the areas designated for trade.

Disseminating the data from the CGA, the allocated trading bays of traders were on display in ArcMap. The Drakenstein Municipality has 12 promulgated demarcated areas for informal trading and they are listed as follows:

Table 9: Demarcated Trading areas in Drakenstein Municipality

Trading Area Number	Trading Area
1	Portion of Merchant Square, Wellington
2	Portion of New Street, Paarl

3	Corner of Main and School Streets, Noorder-Paarl
4	Van der Poel Square, Main Street
5	Next to Ou Tuin Substation, between Lady Grey and New Street
6	Next to Shoprite Supermarket, Klein-Drakenstein Road
7	Mphakalasi Street, Mbekweni
8	Next to Broadway Supermarket, Kudu Street
9	Next to Pick & Pay, Melling Street, Wellington
10	Jan van Riebeeck Drive, opposite Community Hall
11	In front of Checkers Supermarket, Noorder Paarl
12	Jan van Riebeeck Drive, opposite Electricity Department

These areas constituted by trading bays reflected above in Table 9 are declared areas where business of street traders are restricted to persons in possession of a valid permit. These trading bays will be occupied by means of a permit system, with annually renewing the permit. During the research, trading areas 3, 11 and 12 had no traders present. This is because these traders predominantly sell seasonal products (summer fruits) such as grapes, watermelon, peaches, nectarines, strawberries and cantaloupe (traditionally known as “*spanspek*”). Trading area numbers 4, 6, 10 & 12 are located along the major transport routes of Paarl, thus allowing commuters to see what products the informal traders are selling. As you move away from the CBD of both Paarl and Wellington and onto the residential areas, it is quite evident that less demarcated trading areas exist. Trading areas 7, 8 and 9 are all located in residential areas, giving access to local inhabitants to buy the products or make use of the services. In addition, trading areas 6, 8 and 9 are located in close proximity to big supermarkets. The supermarkets act as a pulling factor and all their customers will see the informal traders.

The depicting of the areas on the map indicating the allocated trading areas helped to identify the location of the informal traders as well as number of trading bays. Gathering the data on the informal trading areas was done by walking to each of the designated areas that had the infrastructure as supplied by the municipality. The occupied bays as well as the vacant bays were taken into account.

### 3.4.2 Locational characteristics of informal traders

During the process of gathering the Global Positioning System (GPS) data, further data as the trading bay area and the type of goods sold and services offered were taken into account. The traders are spread out throughout the 12 demarcated trading areas, with the majority being located in the CBD of Paarl and Wellington.

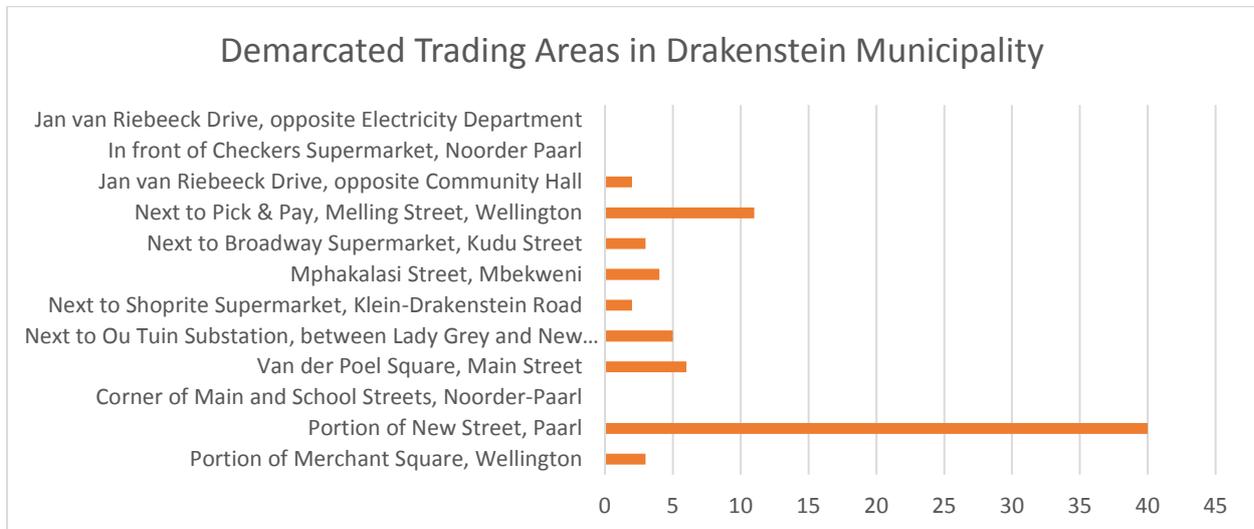


Figure 6: Demarcated Trading Areas and number of traders

The type of goods sold by the traders are determined by how easily they can get the products or what their customers demand. The products sold range from clothes, fast food, fresh produce of fruits and vegetables, wood, traditional herbs, chips and sweets, cleaning utensils, hair and beauty accessories, flowers and plants (Figure 4). The classification of the products were done on the basis of the main product or service offered by the trader. There is a large variety of products sold, not only throughout the entire informal trading area, but at the individual trading bays as well. In addition, there was also the issue of no trading taking place certain demarcated areas. This could be explained by visiting the site during the research, the trader just decided not to trade on that specific day. A further reason could be that the traders vacated their demarcated area and that they had moved to an illegal trading area. During a conversation with one of the traders and witnessing his colleagues not present at their site, it was indicated that they trade only on the weekends.

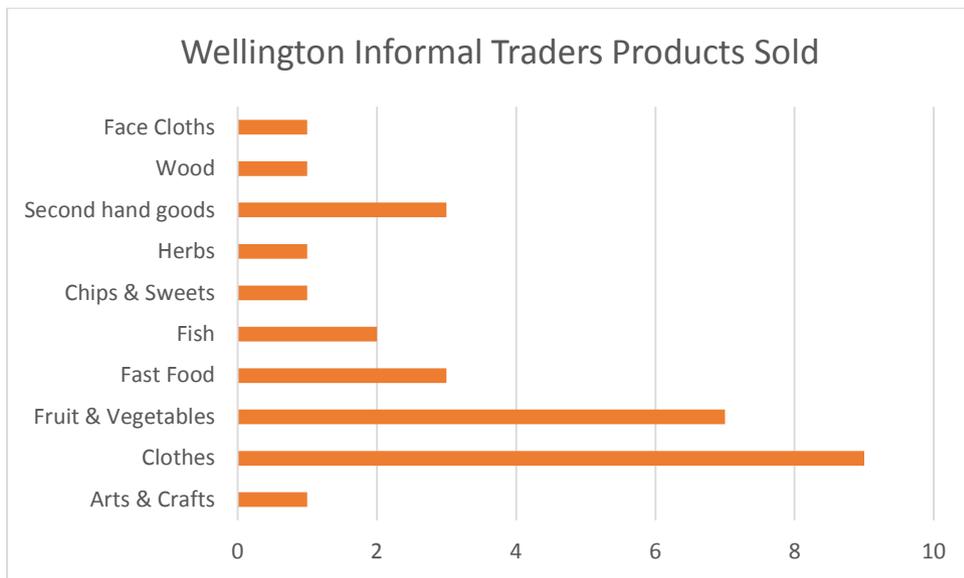


Figure 7: Products sold by Informal Traders in Wellington

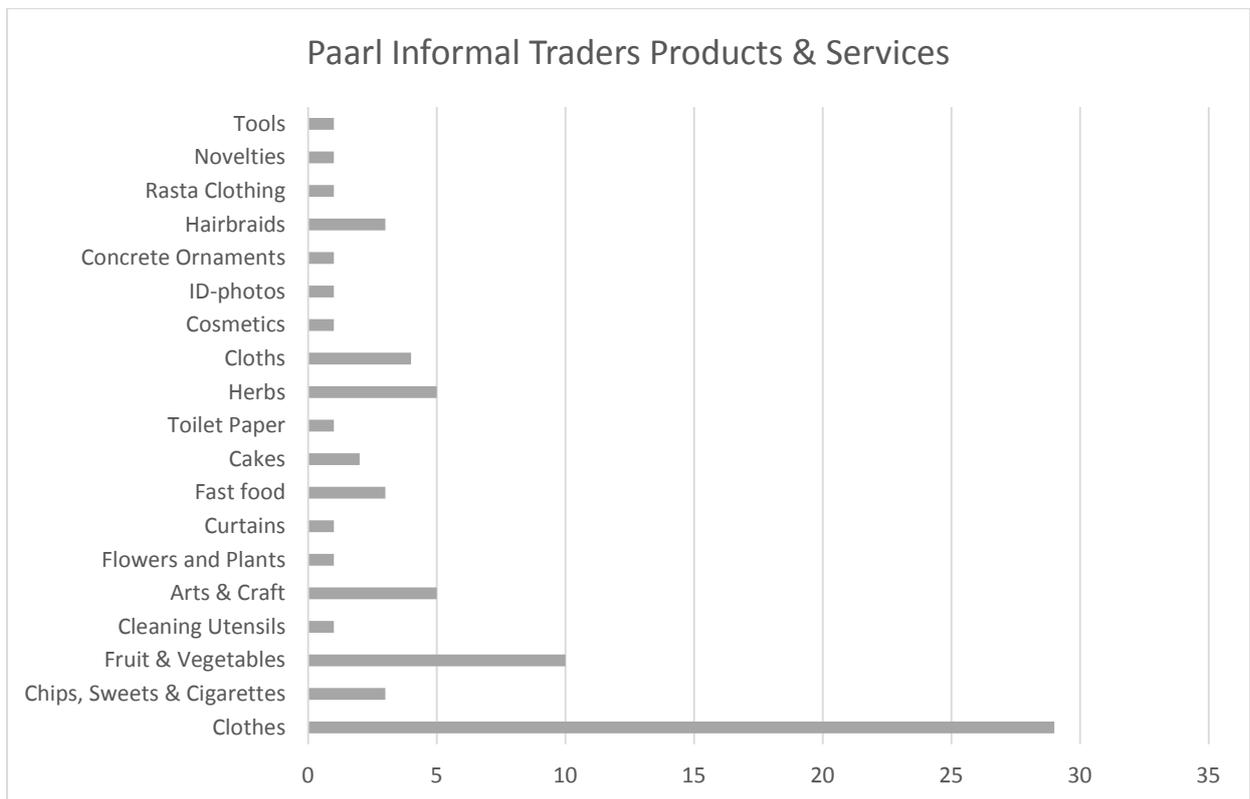


Figure 8: Products sold by informal traders in Paarl

Notwithstanding the trading bays that were inactive, the highest number of products sold were clothes and fresh produce (Figures 5 & 6). Basic snacks like chips and sweets together with cool drink were also amongst the favourite products being sold.

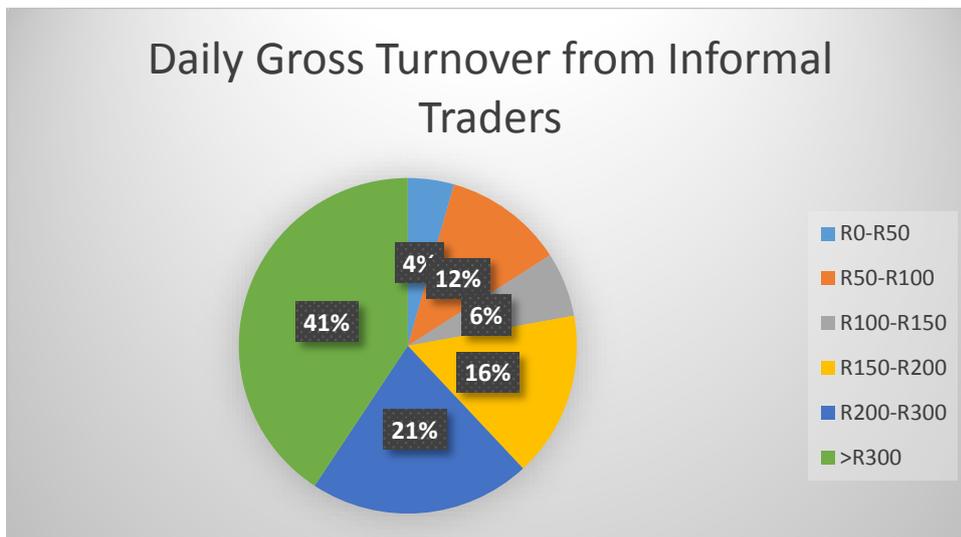


Figure 9: Daily gross turnover from informal traders

Figure 7 depicts the daily gross turnover from 113 informal traders, 57 of whom are located on demarcated trading areas and 56 on non-demarcated trading areas.

### 3.5 Non-demarcated informal trading areas

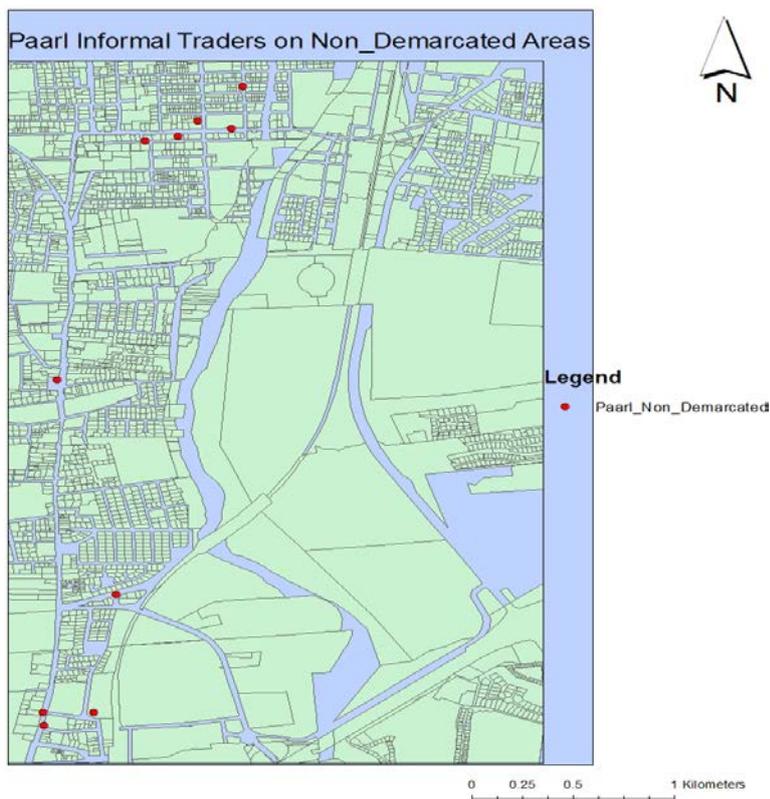


Figure 10: Informal traders located on non-demarcated trading areas

The research not only focused on the demarcated trading areas as set out by the municipal trading by-law, but it also gave a glimpse into the lives of traders operating from non-demarcated areas. The informal traders are spread throughout various areas in and around Wellington and Paarl (Figure 8). They are predominantly in the CBD, with a few traders in residential areas. Their

trading locations can be described as being “illegal”, since it is not located on allocated trading bays. A sense of disbelief exists amongst the traders because their desired location does not fit into the framework of the demarcated trading bays. This gives way to the fact that these traders are not in possession of a valid permit and may not currently be trading. However, for many this is the only source of income and enabling them to escape the claws of poverty that so many people face. The following table contains the locations of the traders found at non-demarcated trading areas:

Table 10: Non-demarcated trading areas in Wellington

Wellington Locations
Jan Van Riebeeck street
Pentz street
Malherbe street
Dr Abduraghman road
C.O Kerk and Fontein street

Table 11: Non-demarcated trading areas in Paarl

Paarl Locations
Lady Grey street (Checkers)
Waterkant street
Breda street
Lady Grey street (Ackermans)
Berg River Boulevard
Patriot Square
Main street

Gathered from Figure 8 it is clear that these locations are mostly within the CBD area. The reason for this being is that supermarkets draw many customers who are somewhat dissatisfied with their purchase, often leading to shoppers buying products from informal traders at a lower cost. The informal traders also provide a convenience shopping experience as people can buy things on the go without having to queue in long lines. A few traders also prefer to be located in close proximity to taxi ranks, with many of the local people relying on public transport. It is exactly the local inhabitants that form the base of their clientele and purchasing many of the products on their way to making use of the public transport. Informal traders also offer customers “last minute products”.

The last mentioned could be regarded as products that customers forgot to purchase whilst shopping at supermarkets. People thus turn to the informal traders for the forgotten goods, since it has a greater ease of access and is very convenient for them. Some of the informal traders are also located far away from other traders, leading them to have no competition. This enable the traders to sell more of their goods or offer services to the customers within a particular setting. Being the sole trader and located in a specific area with no competition, allows traders to have a niche market and gaining regular customers. A further locality exists in the form of collector streets, such as in the case of Pentz and Waterkant streets. These streets are heavily frequented by pedestrians, encouraging locals to buy products from informal traders. They are ideally located, attracting a wide variety of customers. Their customer base stretches from workers in the area to people roaming the streets in and around town. Lady Grey Street, which is located in Paarl, is a big drawing force for informal traders. This is the main street in the town central area, experiencing high levels of traffic (both foot and vehicle), making it ideal for traders. Normally, traders are located right outside clothing stores or on the corners of busy intersections. This type of location makes them visible to a wide array of customers, those being in town or those driving through this main street.

### 3.6 Limitations of the study

<ul style="list-style-type: none"> <li>• The average income of informal traders are unreliable as traders rarely reveal their true income.</li> </ul>
<ul style="list-style-type: none"> <li>• Their location is constantly changing; traders operate from where the most foot traffic is.</li> </ul>
<ul style="list-style-type: none"> <li>• The participants were generally low skilled labourers (did not finish school), so they were not able to answer all questions.</li> </ul>
<ul style="list-style-type: none"> <li>• Often one had to translate the questions and simplify the language, as participants struggled with technical jargon.</li> </ul>
<ul style="list-style-type: none"> <li>• Traders would at times sell a variety of products, the only thing they could get their hands on.</li> </ul>
<ul style="list-style-type: none"> <li>• Some did not want to participate in the study, believing this exercise was pointless and a waste of their time.</li> </ul>
<ul style="list-style-type: none"> <li>• Some traders felt they were going to be handed over to the local authority, as if they were being busy with illegal activities.</li> </ul>
<ul style="list-style-type: none"> <li>• Traders were reluctant to explain details of their enterprise. They do not want their secrets to be made public.</li> </ul>
<ul style="list-style-type: none"> <li>• Some would be located at a fixed position, but would have various other people selling and distributing their goods (difficult to keep track of stuff being sold).</li> </ul>

Table 12: Limitations of the study

### 3.7 Summary of the findings of the interviews

Reasons for specific product or service	<ul style="list-style-type: none"> <li>• “been doing it for years”</li> <li>• Easily accessible to get products</li> <li>• Only service I can render (issue of having a limited skillset)</li> <li>• No formal education or training, so fresh produce is the way to go</li> <li>• The craft (of making food, clothes &amp; artwork) has been passed down for generations</li> </ul>
Reasons for specific location	<ul style="list-style-type: none"> <li>• Close to big supermarkets, this locality draws foot traffic</li> <li>• Situated along public transport routes, most people make use of this form of transport</li> <li>• Traders offer the customers last minute products, so people can avoid busy shops and long queues</li> <li>• The reason for location was made for the traders, with local government enforcing the rules and regulations of the Informal Trading By-Law</li> <li>• Convenience shopping offered to clientele</li> <li>• Product/ service offered from home, so no rent is needed to hire premises</li> </ul>
Move to another location to increase sales	<ul style="list-style-type: none"> <li>• 12/47 Wellington Traders would move</li> <li>• 20/50 Paarl Traders would move</li> <li>• 5/57 Traders on demarcated areas would move</li> <li>• 40/56 Traders on non-demarcated areas would move (Ideally, to receive all benefits from local government)</li> </ul>
Optimal location for trading	<ul style="list-style-type: none"> <li>• It has to be close to the general public</li> <li>• Close to/along public and major transport routes</li> <li>• A location that provides shelter or storage space</li> <li>• A locality that receives a lot of foot traffic</li> </ul>
Is competition advantageous or detrimental?	<ul style="list-style-type: none"> <li>• 22/47 Wellington traders argue that competition within the area is to their advantage</li> <li>• 10/50 Paarl traders believe competition is detrimental to their enterprise</li> <li>• 8/57 demarcated traders feel competition is detrimental</li> <li>• 13/56 non-demarcated traders think competition is advantageous</li> </ul>
During which days do you trade?	<ul style="list-style-type: none"> <li>• Wellington &amp; Paarl Traders (Monday – Saturday)</li> <li>• Traders on demarcated areas (Monday – Saturday)</li> <li>• Traders on non-demarcated areas (Monday – Sunday)</li> </ul>
More trading locations per month	<ul style="list-style-type: none"> <li>• Wellington and Paarl traders (only at one location)</li> <li>• Demarcated traders (one location)</li> <li>• Non-demarcated traders are at various locations</li> </ul>

Happy with allocated trading bay	<ul style="list-style-type: none"><li>• Demarcated traders are very happy, since they receive a lot of support from local authority</li><li>• Non-demarcated traders are not happy, and would like to move to a demarcated trading area to receive similar benefits</li></ul>
Tips to improve business environment?	<ul style="list-style-type: none"><li>• Provide bulk services like water and electricity</li><li>• Financial aid to informal traders in the form of a business loan</li><li>• Build shelter for goods or to render a service</li><li>• Create a clean and niche trading market</li></ul>

Table 13: Summary of interviews

## 4 CHAPTER 4: CONCLUSION AND RECOMMENDATIONS

### 4.1 Conclusion

This research confirms that informal traders and business owners form part of the local economy in the Drakenstein Municipality. In both the towns of Paarl and Wellington, the majority of informal traders were selling fresh produce or manufactured goods. Informal business owners were renowned for having well established spaza shops or offering services that showcased the skills they have honed throughout the years. The goods and services on offer were those that were high in demand from the public. An analysis of the spatial distribution showed that the majority of informal businesses were located in residential areas. In contrast, informal traders were located on either demarcated trading areas or locations that the trader felt is the prime location to achieve success with his business. Furthermore, a classification model was used to distinguish between the goods and services by means of the various economic sectors. While the research reports a number of findings, like the location and classification of informal traders and business owners, many areas remain unexplored in relation to said research. These include, further empirical research into the relationship of the informal and formal sector; the influence of choosing an optimal location instead of being located at a demarcated area and diurnal patterns that may exist for when traders receive a lot of foot traffic and an increase in sales. Nevertheless, the research indicates a great need for urban planning and all relevant stakeholders to witness the impact the informal sector has on the growth of the local economy. Despite the fact of focussing on just the individual needs of informal traders, the spatial distribution calls for numerous opportunities for local government to act in providing business support to the informal sector. The existing spatial distribution indicates that almost half of informal traders are not on demarcated trading areas. This phenomenon can be turned into the creation of a niche market, whereby all traders are placed within the same location. In essence, it would create the feeling of an urban market, attracting a wide variety of customers and heavy foot traffic in the area.

The local people operating as informal traders are normally not qualified to enter the formal sector. They are forced to turn somewhere else for an income, and can only rely on their skills on producing goods and selling them. Majority of informal traders fall under the Tertiary sector, where they sell goods at a lower cost than their competitors do, which is supermarkets. Throughout the research, the most apparent form of goods sold by informal traders were fruit and vegetables. A way for these informal traders to increase their turnover is if they were able to grow the crops themselves. Currently, they receive the produce from local farmers and sell it at a profit. Some even sell the fresh produce for these farmers and get a percentage of the money made. In addition to the fruit and vegetables sold, informal traders would sell goods like sweets, chips or cigarettes

as secondary products. This allows them to create a bigger customer base and still make an income if their main product, the fresh produce, is struggling to sell.

Owners of informal businesses tend to fall within the categories of the Tertiary and Quaternary sectors. They either sell manufactured goods to their customers, or provide a service that is in high demand within their area and surrounding hinterland. Through participant observation, it was noted that Spaza and Tuck shops were the most prevalent. They were especially located throughout residential areas, since the local people are their biggest customers. What made them so high in demand was the fact that they sold your everyday items such as bread, milk and processed foods. In addition, they also provided high-end goods like prepaid electricity and airtime. This is thus the ideal setting for the local people. Here at these spaza shops, they can purchase almost anything they need. Since locals tend to not own a private motor vehicle, the location of spaza shops are crucial. They need to be in central areas, such as collector streets so that they are within walking distance from the people.

The services provided by informal business owners range from transport, catering, personal training, mechanics to hairdressers. Yet again, we witness the wide variety on offer. Locals have obtained these skills by plying their craft throughout the years. The urban formal market also offer these services, but is currently so saturated that business owners opt to work within the informal setting. Furthermore, informal businesses owners prefer to work from home as they save on rental; and obtaining space within the CBD area is difficult and expensive. By having them work from home, they feel somewhat more connected to their customers as what owners of big franchises would feel. For many of these owners, the reason they continue with their service is that it has been passed down through generations. They have no other reference of work, and will continue, since it has become a thriving enterprise.

## **4.2 Recommendations for informal trading in Drakenstein Municipality**

The purpose of this research was to look at the location and classification of informal traders in the Drakenstein Municipality. The physical trading environment had quite a few issues. Some of these include a lack in storage, shelter and toilet facilities. Furthermore, demarcated areas are given to traders even though it is not in their best interest or will necessary up their sales. Some traders had the luxury of trading in a secure facility, whilst others were not protected against the weather or security issues that may arise.

### **4.2.1 Administrative policy**

A recommendation is made that guidelines are implemented for all intermediate towns and cities. This will ensure that all informal traders are kept within the area and that sufficient development

takes place. The Business Act of 1991 states that local government has to employ a by-law that deals with informal street trading. In the case of the Drakenstein Municipality, such a by-law has been promulgated. However, the issue with this by-law is that it only caters for the informal traders who are located on the demarcated trading areas as set out by the municipality. The by-law has to include all informal businesses and regulate their trading space. To improve the challenges faced by informal traders, local government has to form a good working relationship with all stakeholders involved. It is of utmost importance that the local authority has to get to the grassroots level in order to eradicate all the problems faced by informal traders.

#### **4.2.2 Local governance**

Informal trading is an issue that is currently receiving attention at the grassroots level, and is therefore necessary to have a fully functional department that works with the public. Drakenstein Municipality has only one dedicated staff member that deals with informal trading. This is apparent in the negative results shown with the regards to the control, spreading and increase of traders. It has to be mentioned that massive strides have been made, in that an official by-law exists and traders are expected to pay an annual fee as registered traders in the near future. If a fully-fledged department handling the workings of informal traders are to be established, better control and administrative measures can be put in place. This will lead to issues and problems being easily addressed and the burden of such a task not only placed on the shoulders of one individual. A further recommendation is that a committee is to be established that handles all complaints, grievances and other issues from informal traders. Lastly, some of the emphasis has to be shifted to other informal traders as well. Currently, Drakenstein Municipality only focuses on the demarcated trading areas, often neglecting enterprises that are run from residential areas or outer city locations. A recommendation is made that the current by-law has to include all forms of informal trade and not only placing the focus on specific trading areas or trading bays.

#### **4.2.3 Economy of informal trading**

Every so often, the view of informal traders are that they reflect unhygienic tendencies and acts as a hub for crime to take place. However, informal traders also have a positive underlying effect on the community that they trade in. For many, the main reason to get involved in trading is to create a sustainable livelihood for their families. There is an outcry to call on the public to remove this negative connotation with regards to the informal traders, in that it has to be replaced with realising the important role they play in job creation and maintaining the local economy. The last mentioned are aspects only seen on the surface, with their role in providing daily goods and services acting as one of the fundamental reasons why people from previously disadvantaged areas still have

access to the most basic day-to-day products. The importance of informal trading cannot be stressed enough as it has to be better incorporated into the local economy.

Relating to the above, to achieve this goal, educational programmes in business training and development have to be introduced to the informal traders. From the outset, these initiatives will not only improve their lives, but have a positive impact on their businesses as well. The said department to be established handling informal traders, as mentioned in the recommendations, could develop these programmes.

A further component relating to the economy of informal trading is the lack of providing sufficient financial aid to traders. Official organisations like banks, believe informal enterprises provide an element of risk, since they are considered unpredictable and unreliable. It is because of this type of reasoning that owners of informal businesses struggle to get financial help. For many, the financial assistance acts as a starting point to establish their business, growing it to a viable one that creates sustainable growth. A recommendation is made that some form of financial aid be provided to the traders, which can be governed by the local authority. If all of the above were to be successfully implemented, the negative connotation surrounding informal traders can be lifted and all stakeholders involved will perceive them in a positive light.

#### **4.2.4 Physical trading environment**

Streets and houses are the most common areas for informal traders. Trading within the same area, whilst offering the same product or service, stimulates the growth of the local economy and creates healthy competition amongst traders. Problems that may arise can be addressed if proper control measures are introduced and trading areas for all traders, together with sufficient services, are created.

#### **4.2.5 Creating market areas**

It is important to understand the market in which informal traders operate and how to successfully incorporate them into the community and local economy. Through the creation of market areas you inherently develop a prime location for informal traders, increasing the drawing force of having traders concentrated in one area. However, take due cognisance of the fact that a variety of products and services have to be offered within this space, to eliminate the competition that may exist. In addition to having the traders located in the same vicinity, it is easier to control one market area as opposed to having different localities for trading areas.

With the focus shifting to informal traders operating from residential units, further recommendations are made with regards to storage and bulk services like water and electricity. It

is often difficult for traders to keep all their products on site, as there is not always sufficient space and they are under the threat of being robbed of their goods. The local authority could intervene and provide space to rent for traders from which they can operate their business. For many traders a sufficient supply of running water is a prerequisite, with great emphasis on services such as hairdressers and a car wash needing this to survive. Many traders also require electricity for the daily running of their businesses. With the last two mentioned services, local government can help informal traders by giving them a discount on their utility bill (if they have or need these services) or install the necessary services at trading areas.

Table 14: Findings during research and possible recommendations

<b>Findings</b>	<b>Recommendations</b>
Many informal traders lack basic skills, like bookkeeping and controlling stock	Provide training to improve accounting skills
Not all trading areas had storage space or offered bulk services to traders	Provide or upgrade the infrastructure being used
There is a by-law for informal trading that exists, yet very few of them know about it	Get more involved with traders on the grassroots level, with a simplified version of the trading by-law, in order for everyone to understand and interpret it correctly
Some informal business owners lack the experience of running a business	Provide a mentorship with formal business owners and guide informal traders through the various processes
A lot of traders cannot start up their business or look to expand due to financial constraints	Traders that have a viable business can apply for financial assistance, subject to certain terms and conditions
Many traders are registered, but they do not pay a fee for their allocated space from which they trade	Set an annual fee for informal traders to pay, granting them access to the sites and offering services accompanied with proper infrastructure

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## **Appendix A: Interview**

1. I see you are selling the following products. Are there any other products/s or services that you offer?

2. Why did you decide on selling/ offering this specific product or service?

3. What is your daily/ weekly gross turnover?

R0 – R50

R50 – R100

R100- R150

R150- R200

R200-R300

>R300

4. Why did you decide on this specific location?

5. Are you trading on an allocated trading spot?

6. Would you have liked to move to another location to increase sales?

