THE ROLE OF THE INFORMAL RETAIL BUSINESS SECTOR IN ECONOMIC DEVELOPMENT: THE CASE OF MANGAUNG TOWNSHIP, BLOEMFONTEIN

John Ntema & Lochner Marais

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International Perspective

1. Economic Contribution:
   • Creation of job opportunities by the informal sector particularly the informal retail business, remains an undisputable reality
   • The World Bank estimates that 40% of the GDP in developing countries is generated from the informal economy
   • Despite being neglected, the informal economic sector contributes two-thirds of urban employment in Africa
• It is an acknowledged fact that the informal retail business, as a sub-sector of the broader informal business sector, also contributes to job creation, as well as the GDP, although their contribution remains unrecorded and thus, excluded from any government’s official statistics on employment.

2. Challenges:
• Despite this contribution, state continued to perceive the informal business sector as a non-viable and inconvenient reality that will, no doubt, disappear as modernisation spreads through the economy.
• Widespread non-recognition and thus a lack of regulation of this sector by governments.
• Lack of government’s support.
• Lack of business skills and training.
South African Perspective

1. Economic Contribution
   - Provide basics such as bread, paraffin, candles etc. at prices perceived to be reasonable at times, through negotiated or arranged terms of payments
   - In 2002/03 the informal retail business was found to have contributed an estimated 28.4% of South Africa’s GDP
   - In 2002, South Africa’s informal outlets contributed an estimated 10% of the potential retail trade (amounting to approximately R32 billion)
   - Of this, the share of spaza shops amounted to approximately 2.7% of the retail trade with a total sales volume of just more than R8 billion
It is estimated that in 2006, the informal retail industry (spaza shops) contributed about 320,000 job opportunities.
2. Challenges

- Most challenges are inherited from apartheid era, when the practice was declared illegal
- Thus, small informal retailers had to operate from hidden and places declared illegal (eg.)
- Although legalized currently, informal retail Industry in particular, continues to operate without government’s support, regulation and recognition

Other challenges:

- A widespread lack of business skills and training
- Crime, lack of cooperation amongst entrepreneurs, competition from big retail stores in township areas
EMPIRICAL FINDINGS: MANGAUNG CASE STUDY

1. Economic Contribution
   • There is an estimated turn-over of R431 million per annum
   • some of the leading products in this respect:

   The seven most prominent products sold at spaza shops and their share of the spaza shop market in Mangaung, 2010
<table>
<thead>
<tr>
<th>Items</th>
<th>Percentage of households purchasing this product</th>
<th>Average amount spent (in rand)</th>
<th>Market value of the product</th>
<th>Percentage of total spaza shop market</th>
<th>Percentage of Mangaung market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bread</td>
<td>69.6</td>
<td>87.26</td>
<td>65,634,823.61</td>
<td>15.0</td>
<td>76.1</td>
</tr>
<tr>
<td>Airtime</td>
<td>56.2</td>
<td>107.56</td>
<td>65,232,509.95</td>
<td>14.9</td>
<td>65.2</td>
</tr>
<tr>
<td>Alcohol</td>
<td>15.0</td>
<td>235.00</td>
<td>38,091,399.66</td>
<td>8.7</td>
<td>62.7</td>
</tr>
<tr>
<td>Paraffin</td>
<td>34.4</td>
<td>91.55</td>
<td>34,013,989.88</td>
<td>7.8</td>
<td>54.1</td>
</tr>
<tr>
<td>Milk</td>
<td>37.1</td>
<td>56.71</td>
<td>22,722,252.95</td>
<td>5.2</td>
<td>58.8</td>
</tr>
<tr>
<td>Cigarettes</td>
<td>24.1</td>
<td>74.12</td>
<td>19,303,697.81</td>
<td>4.4</td>
<td>70.1</td>
</tr>
<tr>
<td>Cool drinks</td>
<td>37.4</td>
<td>39.68</td>
<td>16,043,299.83</td>
<td>3.7</td>
<td>66.2</td>
</tr>
</tbody>
</table>
2. Employment

- Quantitative data indicates that in addition to the owners who mostly work in these shops, another 1.2 persons are employed per shop (2.2 persons in total)
- To a large extent this figure confirms the 2006 national average of 2.5 persons per shop in SA
- Since there are about 200 such shops in Mangaung township, this sub-sector creates about 440 jobs
- This again probably contributes to the livelihoods of 300-400 households
3. Challenges

- Crime-related problems are one of the main concerns of a large number of enterprises in Mangaung township.

  “We no longer buy in bulk because once the criminals see a bakkie (truck) offloading stock in the morning, that evening we are robbed of everything...”

- Informal traders blaming each other for unfair competition instead of working together.
- Government’s failure to regulate this sector.
- Some of consequences of government’s failure to regulate this sector are:
  (a) A significant number of informal traders, particularly foreigners, trading without business permits.
  (b) A seriously compromised quality and standard of business products and environment in general.
“Last year in September we had a pilot project in collaboration with the SAPS and Home Affairs where we checked on the hygiene status of tuck shops in Mangaung. On that specific day we closed about 32 tuck shops, of which 30 belonged to Bangladeshis, while two belonged to local people...we found that foreigners were sleeping inside their shops and there were products on their shelves with expired dates”

- Evidence from quantitative data suggests that basic business skills especially amongst South African entrepreneurs are often lacking
CONCLUSION

• Despite its lack of recognition by most governments in developing countries (South Africa included), informal retail sector continues to thrive as a potential source of local economic development and thus, a source of employment.

• Mangaung case study further demonstrates that a thriving informal retail business sector, like elsewhere in other developing countries could be attributed to social networks and social capital amongst these informal traders.

• The case study also indicates that the root cause of various problems faced by the informal retail business industry in Mangaung area is the lack of regulation (application of by-laws) by the local municipality.
RECOMMENDATIONS

• It is pivotal that government and larger enterprises accept that this sector makes a small but significant contribution to the grocery trade in former black townships
• A need for ‘a light form of regulation’ where basic health standards and product quality control should be present
• In addition, external business support should be strongly considered
Thank You
Dankie