

The Informal Sector, Entrepreneurship and Economic Development

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Abstract

The role of entrepreneurship in economic development has been extensively studied in the richer Western (i.e. first world) countries, but it could be argued that entrepreneurship is even more vital in developing countries. The informal sector in developing countries not only makes a significant contribution towards gross domestic product, but is a major potential source of entrepreneurship. This study explores the emerging nature of the informal sector, and attempts to distinguish entrepreneurial from non-entrepreneurial business activity within this sector. Results are reported of a series of in-depth interviews with tavern owners within South African Black townships. Significant relationships are identified between measures of the entrepreneur's background, the operational sophistication of his/her enterprise, and company outlook.

Introduction

It has been suggested that the entrepreneurial sector accounts for as much as ninety percent of the new job creation in countries where the relevant research has been conducted (Birch, 1987; Davidson, 1989; Reynolds, 1986). That entrepreneurship is the major source of economic dynamism within capitalist economies is widely acknowledged (Morris & Lewis, 1991; Schumpeter, 1934). At the same time, there is little agreement as to what exactly constitutes the entrepreneurial sector. Many small businesses do not appear to be all that entrepreneurial, while examples of highly entrepreneurial behaviour in some mid-sized and large corporations and non-profit organizations are commonly reported in the literature (e.g. Morris, Sexton & Lewis, 1993; Peters, 1993).

A particularly vexing question concerns the extent to which businesses within the informal sector can be characterized as entrepreneurial. Complicating the matter is the lack of a generally accepted definition of the informal sector, helping to explain significant discrepancies regarding its size in any given country. Nonetheless, in many so-called “developing nations”, the informal sector is believed to account for well over half of GDP. Even these sorts of statistics tell little of the story, for it is generally assumed that informal sector businesses provide little real economic growth or dynamism. Such businesses are often assumed to be inefficient, survival-oriented enterprises whose proprietors would gladly take jobs in the formal sector were they available.

Entrepreneurship can be defined as the process of creating value by bringing together a unique set of resources to exploit an opportunity (Stevenson, et al., 1989). It has three key underlying dimensions: innovativeness, calculated risk-taking, and proactiveness (Morris & Sexton, 1996). As such, it is a variable phenomenon, with different degrees and amounts of entrepreneurship present in a given organization at any point in time. There is a growing body of evidence to suggest that a positive relationship exists between a company’s entrepreneurial orientation and performance over time (Covin & Slevin, 1989; Miller & Friesen, 1983; Morris & Sexton, 1996).

The purpose of this study is to assess the extent to which entrepreneurship is a characteristic to be found among informal sector businesses. Based on a survey of tavern owners from black townships in South Africa, we examine relationships between the background of the tavern owners, a number of operational characteristics of their enterprises, company performance, and future outlooks. Implications are drawn for theory and practice.

The Informal Sector and Economic Development

The informal sector typically includes providers of economic activities not recorded in the national accounts and not subject to formal rules of contract, licensing, labor inspection, reporting and taxation (International Labor Organizations 1984). These activities can be characterized in terms of ease of market entry, reliance on indigenous resources, small scale operation, labor intensity, skills acquired from outside the formal school system, and markets that are unregulated and competitive (Marius 1987).

While some of these businesses are one-person operations, in developing countries there tends to be heavy reliance on the family unit (Berger 1991). Specific roles are likely

to evolve for children, adult males, and older relatives. Frequently, the female head of the family is the driving force behind the business, providing the skills, hard labor, stamina, and an unwavering desire to keep the business going. Alternatively, the male head of household may go back and forth, looking for formal sector jobs but falling back on the family business much of the time.

The motivation behind most informal sector businesses is generally assumed to be personal survival, as opposed to return on investment (Rauch 1991). Although this sector will tend to have rich and poor components, most of these businesses provide a subsistence existence. Returns tend to be low and intermittent, security and stability are minimal; working hours are long, and working conditions are poor (Devarintert & Watson 1981). Thus, the scope and importance of informal activities will tend to parallel the levels of poverty and underemployment in an economy (Marius 1987). The tremendous growth of this sector in recent decades is also said to parallel urbanization, with migration to cities in developing countries far out spacing the employment capacity of modern manufacturing and other formal sector activities (Sethuraman 1981).

The significance and role that the informal sector can play in the economic development of a country is a controversial issue. On the one hand it is argued that those comprising the informal sector are doing little more than eking out a bare existence and their primary concern is survival. They are disadvantaged through lack of capital, expertise, training, contacts and experience to grow beyond mere survival income. Informal sector businesses are often assumed to demonstrate low levels of productivity, especially given their labor intensity, limited skill pool, and small scale operation.

In a study on the viability of informal sector businesses, Hirschowitz (1992) notes that “in its present form the informal sector cannot be regarded as making a significant contribution to creating viable employment opportunities. Employment is created through replication of businesses that barely survive, rather than through expansion of successful businesses”. He found that there was interaction between the formal and informal sectors, but that the money mainly moved from the informal to the formal sector with very little moving the other way.

An alternative point of view holds that the informal sector serves as an incubator for a country’s ongoing economic development. It acts as a dynamic training ground for the establishment of more formal businesses, and a major vehicle for reducing unemployment. Further, it serves as a vital component of the free market system by performing a number of functions, such as reducing the bargaining power of unions, preventing monopolies, and keeping inflationary pressures, caused by rising costs of rentals, rigid regulations, and high overheads in check (Thomas 1988). Others (e.g. Koray 1991) suggest that this sector is quite efficient at generating job opportunities and satisfying basic population needs at very low cost.

It is also assumed that the structure or make-up of this sector is relatively homogeneous in developing economies, yet some evidence exists of significant diversity (Berger 1998; Fall 1989). There appear to be disproportionate numbers of retail trade and service-oriented enterprises, but various country studies have reported sizeable numbers of manufacturing, metal working, construction, assembly, and wholesale operations (Lubell &

Zarour 1990). Diversity has also been observed in the size and operational sophistication of informal sector enterprises (Halverson-Quevedo 1992; Vosloo 1988).

Informal Sector Activity in South Africa

The South African economy has experienced tremendous turbulence in recent years, owing in large part to the dynamic process of internal transformation towards democracy and majority rule. The informal sector in South Africa is estimated to represent between 16 and 40 percent of gross domestic product (GDP) (Abedian & DeSmidt 1990; DeSmidt 1988; Thomas 1989). Approximately 4 million jobs are attributed to this sector, while the formal sector accounts for about 7.7 million jobs (Thomas 1989). Some 22 percent of the potentially active black population is thought to be involved in informal activities (Raine 1989), while this sector is projected to include between 500,000 and 700,000 businesses (Vosloo 1988). One major study of informal business activities identified four general categories: trading and hawking (55 percent of total businesses), production and construction (23 percent), services (16 percent), and illicit activities (6 percent) (Raine 1989).

As a function of the dismantling of apartheid, and some general deregulation of the economy, informal sector activity is rapidly expanding in two arenas. The first of these is in the major cities, where the granting of civil and economic rights to blacks has resulted in a burgeoning unlicensed taxi industry, large numbers of street and mall hawkers, and an abundant supply of unrecorded domestic and household maintenance services. The other growth area is the black townships. The removal of restrictions on where blacks could live, work and travel produced large migrations from rural areas to cities. However, lack of available and affordable housing led to the development of squatter camps, some of which rapidly evolved into substantial communities. A number of these black townships surround every major city, and most have experienced uncontrolled population growth.

Informal sector activity is pervasive in black townships. In one study (Aymes 1989), it was found that an informal business was operating in every fifth township house. Most of these were single-person operations, with about one-third employing a family member. Close to 70 percent were operated by females. The most prevalent types of businesses appear to be grocery shops, butcheries, hairdressers, seamstresses, and shebeens (liquor establishments) (DeSmidt 1988).

Ongoing socio-economic developments in South Africa suggest that the economy would collapse without sizeable and growing informal sector (Broom & Joyce-Clark 1989; Ntoula 1989). The population is on course to double its size within 27 years. The economy, which had actually contracted in some recent years, must grow at a rate of five percent per year to absorb the burgeoning labor pool (Manpower Brief 1993). At issue, particularly from a public policy standpoint, is the extent to which the informal sector represents a viable solution to the growth needs of the country, and so should be prioritized in ongoing economic development efforts.

The Tavern Industry in South Africa

The history of the township shebeen stretches back to the last century and the discovery of gold. The discovery resulted in the establishment of the mining town of Johannesburg and surrounding townships and this fact, together with the decline of agriculture and cattle farming in the rural areas, led to a major shift in the demographics of the country as both whites and blacks migrated to the urban areas.

In the rural areas, sorghum, the primary ingredient for traditional beer, was in abundant supply and often free. However, in the urban areas it was regarded as a valuable commodity and shebeens were established to cater to the emerging demand. The word "shebeen" is of Irish origin and refers to a house selling illicit liquor. The shebeens were soon legislated against and laws were introduced outlawing the brewing and selling of the traditional sorghum beer, and forbidding blacks to drink "white man's liquor" which referred to malt beer and spirits.

In short order, a thriving industry of bootleggers became firmly entrenched in the township as it was realized that there were excellent opportunities to make a profitable living from beating the system. The rate at which the industry grew spawned a mass of prohibitive legislation aimed at creating the impossible - a teetotaling black population. Despite the legislation, the shebeens continued to flourish and various commissions of inquiry were appointed to look into the matter.

An example of the kind of legislation introduced was the 1928 Liquor Act which attempted to strike a compromise between the two points of view that prevailed at the time. On the one hand it was believed that the non-whites had not reached a sufficient level of civilization which entitled them to have liquor and that they should be protected in this regard by legislation. On the other hand it was believed that there should not be total prohibition and that exemptions could be made in specific circumstances allowing non-whites who had attained a certain standard of living to have access to liquor. These exemptions normally referred to clergymen, graduates, university students and the holders of certain educational certificates.

In 1961 the Liquor Amendment Bill was introduced. The Bill provided that any adult could buy liquor from bottle stores in white areas. Blacks, however, were still not allowed to sell liquor, and the only legal outlets in the township were run by the Administration Boards which were a central government agent and acted as local authorities.

Many believed that the introduction of the Liquor Amendment Bill would effectively lead to the demise of the shebeens, as the Administration Board could effectively supply better drinks at cheaper prices. However, contrary to this speculation, the shebeens continued to flourish, despite the fact that it was during this period that some of the harshest fines were administered to those found trading in liquor without a licence. Those charged for a second offence received up to six months imprisonment without the option of a fine. On top of this, all liquor found on the premises of the offender was confiscated. Stiff penalties also faced those found trafficking liquor from the white bottle stores to the shebeens with the vehicle transporting the liquor often being confiscated.

It was in this context that the shebeeners started to organize associations that could represent them against the myriad of prohibitive legislation imposed by the Liquor Act. The Soweto Tavern Association was founded in the mid 1970's, closely followed by the National Tavern Association (NTA) in 1978. The NTA was founded so that taverners could belong to a national body and be represented on that scale. The association achieved success when the Liquor Act was amended to allow some shebeens to operate legally on conditional licences. Against this background, the first legal taverns were established. The most recent legislation is Liquor Act 27 of 1989, which has attempted to simplify the requirements and procedures for the acquisition of a licence and promotion of free enterprise.

The Study

To develop further insights regarding entrepreneurial activity within the informal sector, a cross-sectional survey was directed to a sample of tavern owners. A convenience sample of 26 tavern owners within four black townships situated within the Western Cape province of South Africa, were interviewed. The research was limited to this sector for a number of reasons. Firstly, taverns are well established within the informal sector, having been in existence since the turn of the century. They have a well-documented history and a good understanding of their development over the years can be obtained. They have also shown remarkable resilience, surviving years of prohibitive legislation and constant police raids and arrests.

The positioning of the industry within the informal sector is also interesting. On the one hand they have conformed to certain regulations through the attainment of liquor licences and according to some definitions would fall outside of the informal sector. However, they operate deeply within the townships and possess other characteristics, such as non-registration for tax, which place them firmly within the informal sector.

The tavern industry has received a fair amount of publicity over the years. One of the reasons for this is that a number of community leaders in the townships have emerged from the industry. Significant capital is involved and considerable success has been achieved by many in the industry. This would indicate the presence of characteristics typically associated with entrepreneurial activity, such as achievement motivation and a reward orientation. Due to the well established nature of the industry, as well as the large amounts of capital involved, one would also expect the businesses to have attained a higher level of operational sophistication than other businesses operating within the sector. The tavern industry thus exhibits many of the characteristics which could help in developing an understanding of the entrepreneurial activity in the informal sector and it is hoped that the insights that are gained can be used to foster economic growth.

The interviews were conducted by means of a questionnaire at the respondents place of business. Although there was initial scepticism by some of the respondents, once the purpose of the survey was understood the respondents were extremely helpful. All the surveys were conducted in English and lasted approximately one hour.

The questionnaire was designed consisting of 45 open-ended items covering the following seven areas: motivation for starting the business (two items), background before starting the business (seven items), initial resources (two items), obstacles encountered in start-up and expansion (three items), operational sophistication of the business (fourteen items), performance of the business (eight items) and future outlook/entrepreneurial orientation (nine items).

Most of the items were accompanied by a scale of possible answers if the respondent needed assistance in understanding the question. Although some misunderstanding was occasionally encountered it was not generally considered a problem.

Results

Descriptive Findings

The respondent businesses were located in the townships of Guguletu (42%), Khayelitsha (27%), Langa (15%) and Paarl and Stellenbosch (15%). The median age of the proprietors was 45 years and ranged from 35 to 64 years. As summarized in Table 1, many of the respondents had resided in the general region for their whole lives with the median length being 40 years. All but three of the respondents had resided in the region for over 30 years. Although not as strongly represented as reported in other surveys, females comprised 39% of the respondents.

Table 1
Background and Related Characteristics of Respondents

Background

Length of time residing in the general region:	median = 40 years
Number of businesses owned before current one:	77% indicated none
Length of time operating without a licence	median = 5.5 years
Prior experience in the liquor industry:	77% indicated no
Level of formal education:	standard 2 = 8%
	standard 5 = 31%
	standard 8 = 46%
	standard 10 - 15%
Sources of training for your business:	self-taught = 77%
	ad hoc source = 15%
	as employee = 8%
Outside help in starting business:	none = 54%
	colleagues = 12%
	family = 12%
	suppliers = 4%
	tavern association = 19%

Motivation

Reason for starting business:	unemployed = 15%
	supplementary income = 31%
	me-too syndrome = 8%
	new opportunity = 46%
Other employment opportunities:	76% indicated yes

Initial Resources

personal savings = 81%
family loan = 12%
SBDC = 4%
moneylenders = 4%

Obstacles

Obstacles to starting business	regulations = 85%
	access to finance = 73%
	training = 31%
	availability of sites = 4%
Level of difficulty of regulations	extremely difficult = 81%
	moderate = 12%
	not difficult = 4%
Level of difficulty of access to finance:	extremely difficult = 23%
	moderate = 15%
	not difficult = 46%
Obstacles to expansion of business:	access to finance = 73%
	training = 15%
	crime = 12%

Most of the respondents had not owned any business before the current one (77%). All of the owners had started operating their taverns prior to attaining licences enabling them to trade legally and had thus run the gambit of police raids and arrests. The median period for operating without a licence was 5.5 years. The typical respondent had obtained a licence three years ago and had thus been involved in the informal sector for about eight years. Only 23% had any prior experience in the liquor industry and in the majority of cases this was at relatively low level in a retail or liquor store. Unlike the general population in the townships, over 60% of the respondents had attained grade ten education or higher. However, very few had obtained any form of job training with the majority being self taught (77%). Most had not used any professional or formal help in the start-up phases of their businesses. Colleagues (12%) and the tavern association (19%) were the principal providers of initial help.

Contrary to suggestions in the literature, a significant proportion of respondents (46%) indicated that they had started their business as a result of identifying a new opportunity. Other major reasons included starting the tavern to supplement their income (31%) and the fact that they were unemployed at the time (15%). The majority of respondents also indicated that there were other employment opportunities available to them at the time.

The initial finance required to start the business was for the most part extremely low with 50% requiring R300 or less, and 80% requiring R1000 or less. The majority of this money was obtained from personal savings (81%). Bank loans were not used at all and

only one respondent indicated that they had obtained a loan from the Small Business Development Corporation (SBDC).

A number of factors were cited as obstacles in the start-up phase of the business. Regulations were cited by 85% of the respondents, access to finance by 73% and business training by 31%. The respondents also assessed the level of difficulty of the obstacles. Regulations were rated as being extremely difficult to overcome by 81% of the respondents. Access to finance was considered to be extremely difficult by 23% and availability of business training by 19%. However, in considering obstacles to the continued expansion of their businesses, access to finance was rated as a major obstacle by 73%, training by 15% and crime by 12%.

Table 2
Operational Sophistication of Respondent Business

Marketing of business:	promotions and specials = 23% word of mouth = 42% flyers and business cards = 31% local newspaper = 27%
Frequency of stock orders:	Twice weekly = 23% weekly = 73% twice monthly = 4%
Method of pricing:	variable markup = 35% price comparison = 39% combination of above = 27%
Registration of Tax:	92% indicated no
Supportiveness of suppliers	not at all = 50% somewhat = 42% very = 8%
Supplier payment method	cash = 73% cheque = 27%
Source of stock:	producers = 86% wholesalers = 12%
Method of transport:	delivery = 89% public transport = 4% own transport = 35%
Ownership of premises:	100% indicated yes
Form of business entity:	sole proprietor = 92% close corporation = 8%

The operational sophistication of respondent firms is summarized in Table 2. With regard to marketing, while word of mouth was used as the sole form of marketing by 42% of the respondents, 58% used some other method, including offering promotions and specials, advertising in the local newspaper and distributing fliers. In terms of inventory management, orders were predominantly placed on a weekly basis (73%) and stock was generally ordered based on some kind of stock count (73%). The majority placed orders

directly with the producers and had the stock delivered to their premises. Pricing of products was based on a variable mark-up (35% of respondents), a price comparison with other taverns (39% of respondents), or a combination of these two (27% of respondents). Administrative staff who dealt with, inter alia, wages and the books of account were employed by 31% of the respondents. The primary factor cited for customers frequenting their taverns was the level of service provided (58%).

Performance was assessed in a number of ways (see Table 3). Contrary to certain findings reported in the literature and other surveys, the businesses had created relatively significant employment. All the businesses had offered employment to other family members, with 98% of the businesses offering employment to two or more family members. With regard to non-family members the statistics were also impressive, with 96% of the businesses offering employment to non-family members and 60% of these providing employment for two or more non-family members. Over the past twelve months, 65% had increased both their profits and revenues and 27% had employed more staff. All the businesses had significantly increased the number of products that they offered now compared to when they first started with the median increasing from 5 to 20. The majority of the businesses also offered other services to their customers apart from liquor, with the most common being food (54%) and TV/stereo/video (50%). The monthly turnover figures were exceptional with a median of R135 000. Monthly turnovers of between R50 000 and R200 000 were being attained by 42% of the respondents and turnovers of more than R200 000 by 16% of the respondents. These exceptional turnover figures are an indication of the taverns' role as suppliers to the shebeens who are not in a position to deal directly with the producers. The regulations which allow them to provide liquor for consumption only on their premises appeared to be totally ignored. Certain of the respondents did indicate that they only acted as on-consumption taverns and their turnover figures normally reflected this. The major source of finance for their businesses was from profits from the business (62%). Other sources included family loan (8%), SBDC (4%), bank loan (12%) and moneylenders (4%).

Table 3
Performance and Future Outlook for Sampled Businesses

Performance

Non-family Employees:

4% none 27% 1 19% 2 31% 3 12% 4 8% 5-more

Monthly Turnover (Sales):

23% less than R20 000 19% R20 000-R50 000 20% R50 001-R150 000

22% R150 001-R200 000 16% R200 001-R800 000

Sources of finance for expansion of business:

8% family loan 12% stokvel 4% SBDC 12% bank loan

62% profits 4% moneylenders

Future Outlook

Where business will be in three years:

8% no idea 4% out of business 15% no change 58% larger business

4% enlarged premises 12% formal sector

New business opportunities in next three years:

35% don't know 15% new customers 4% new products 45% diversification

Overall outlook for the business:

8% poor 27% good 65% very good

Plans to pass on business:

73% children 15% spouse 4% partner 8% new owner

Give up business if offered stable job:

46% no 31% with difficulty 23% yes

Looking to the future, respondents demonstrated a proactive growth orientation. Considering their business plans over the next three years, 58% of the respondents anticipated growth in the form of a larger business, and 12% thought they would become part of the formal sector. With respect to new business opportunities, 46% felt that they were likely to diversify their current offerings, while 35% did not foresee any new opportunities. Overall, 65% felt positive about the future, 27% believed things would remain stable and only 8% were negative. This was further reinforced by the fact that 77% would not give up their businesses or would give them up with difficulty, if offered a stable job with an established company. The owner's conceptualization of their businesses also provided insights, with 46% saying that they perceived their businesses in terms of return on investment, 46% seeing it as providing a comfortable living, and only 8% viewing it in terms of personal survival. Finally, the respondents were asked to provide an estimate of the rate of growth which they expect to achieve in turnover over next year. The median rate was an ambitious 40%.

Key Relationships

For the purposes of examining relationships among the variables in the survey, summated scales were constructed for the various measures of the respondents' background, the operational sophistication of the business, and future outlook. For instance, in the case of a person's background, responses to the questions regarding prior experience, level of education, sources of training, and use of outside help in starting the business were recoded into values of "0" and "1" based on a subjective classification of the responses as being reflective of a lesser developed or more highly developed background. Thus, a respondent would generate a score on this composite measure ranging from 0 to 4. Similarly, operational sophistication had a range of 0-10, while future outlook had a range of 0-4. This approach involves subjectivity, and arbitrarily places equal weights on each of the component items, but does produce an intervally-scaled variable. Correlation analysis was then used to assess key relationships.

Significant positive correlations were identified between a better-developed background and the operational sophistication of the enterprise ($r = .81, p = .000$), company performance ($r = .64, p = .001$), and the future growth (or entrepreneurial)

orientation of the business proprietor ($r = .62$, $p = .001$). In addition, operational sophistication was positively associated with company performance ($r = .61$, $p = .001$) and with having an entrepreneurial future outlook ($r = .67$, $p = .001$). Finally, those with an entrepreneurial future outlook also tended to perform better ($r = .78$, $p = .000$).

Conclusions

These findings indicate that members of the tavern industry within the informal sector represent a dynamic subgroup who are entrepreneurially motivated and opportunity driven. Despite having to overcome various forms of prohibitive legislation and the constant threat of police raids and harassment, they have nevertheless persevered in their endeavours to act as a vital link in the supply chain within the liquor industry. Hostile, turbulent environments may actually give rise to more pronounced levels of entrepreneurial activity.

The informal sector is often characterized as consisting of businesses whose owners have limited skills, whose operations are unsophisticated, and who create little in the way of profits or employment growth. The results here are contrary to such characterizations. At the same time, they may be consistent with studies of the formal sector, which suggest that a relatively small percentage, perhaps only 10 percent, of small business are responsible for creating most of the growth, especially in employment. This subset, which can be labelled the “entrepreneurial sector”, would appear to have its parallel in the informal sector.

The sample selected here may provide telltale signs regarding the characteristics to look for in searching for the entrepreneurial subset in the informal sector. The individuals involved tend to be longer-term members of the community, to have moderate levels of education, to have alternative employment opportunities, to self-fund their start-ups with a relatively low financial commitment, and to demonstrate sophistication in their business operations. They employ two or more non-family members, generate respectable turnover, and have an optimistic, growth-oriented future outlook with no intention of abandoning their businesses.

The significant relationships identified in this study also have important implications. Direct positive linkages were identified between how well-prepared a person is in terms of their background, the corresponding level of sophistication they are able to achieve in operations, the subsequent performance of the enterprise both in terms of revenues and jobs created, and the future (optimistic) outlook that they demonstrate and these would appear to make intuitive sense. These linkages become a potential focal point of public policy.

Economic development cannot happen in third world environments without the informal sector. The issue should not be one of supporting the informal sector per se, but instead, one of instituting policies that are supportive of growth-oriented enterprises. Work by others (e.g. Davidson 1989) suggests policy-makers should concentrate less on trying to “pick the winners” by investing in certain enterprises, and more on “building the infrastructure or environment”. We believe that entrepreneurs are not necessarily born, and that the entrepreneurial potential is extensive throughout the population, but that certain environmental conditions lead individuals to self-identify themselves as potential

entrepreneurs, to better prepare themselves to become more opportunity-driven, and to “step up to the plate”.

The informal sector in countries like South Africa does not provide an especially conducive environment for entrepreneurship. One must start with attitudes and values. Not only must there be a significant investment in education, but the educational system should reinforce values of individual initiative, an achievement orientation, adaptability and growth. Educational programs should address opportunity identification and evaluation, as well as organizational skills, but the real issue may be less the start-up issues and more the issues related to business growth. Also critical is the need to create easy to obtain growth loans and pools of venture growth capital. Another priority concerns the need for user-friendly regulation and long grace periods wherein informal sector businesses can register themselves but only become subject to various tax and regulatory stipulations over a decade or so. Governments must strategically define the economic role for the informal sector, and achieve effective co-ordinating mechanisms for exchanges between informal and formal sector activity.

The informal sector is not the ugly stepsister of the formal small business sector. Its entrepreneurial sub-sector holds considerable promise if properly identified and incentivized. In much of the world, the formulation of enlightened policies that tap the growth potential of this sector may be the only hope in the battle to avoid economic and social disintegration.

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