Relationship between the Informal Economy and Local Economic Improvement in the Thembisile Hani Local Municipality in South Africa

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ABSTRACT

Purpose: The LED in South Africa complies with the formalisation of economies, the legislative context and the economic development framework. It involves the progression of the informal economy through consideration of its characteristics and potentials together with the standard LED requirements that associate the notion of a green economy and the connections among the unregulated and the official economies. This study investigates the relationship between the informal economy and the LED in the Thembisile Hani local municipality in South Africa.

Methodology: The scholarship uses face-to-face interviews to collect data from respondents in the Thembisile Hani municipality regarding their economic survival experiences.

Findings: The study results show that several limitations such as infrastructure, capital, suitable skills, excessive regulations and security apprehensions compromise the informal economy growth. In addition, the study showed that employment opportunities are created in the informal sector for poverty reduction and economic improvement. Furthermore, inclusive economic development is required because the government have excluded the informal economy from their economic planning processes.

Implications: Municipalities should ensure the enhancement of basic knowledge and a better environment for the informal economy players to create the bridge between the unofficial economy and a sustainable LED in the country.

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Introduction
South Africa lingers to face fundamental progressive tasks of redundancy, inequality as well as poverty. Alternative approaches to economic development are needed to achieve equitable economic expansion and growth. Often ignored in analyses of economic policy is the informal economy. Amplified attention on the informal economy based on the reflection that it employs a large number of people and therefore can contribute to the decline of poverty (Ndabeni, 2014:1). As economic transformation processes are managed and social and economic difficulties are faced, local governments are increasingly playing a significant role in these endeavours. The demand for inclusive economic growth emphasizes the need of including the informal economy in municipal economic planning. Because of the job and income options provided by the informal sector, this is more important and specifically connected to the LED (Ndabeni, 2014:2). Local governments will be persuaded to assist and hasten the creation of an environment that allows participants in the informal sector to make a living by promoting policies that recognise the casual economy as a crucial role played in LED (Ndabeni, 2014:2). Hobson (2011:6), asserted that there has been a change in perspective that has led municipalities to see the informal economy as a crucial component of service delivery. Local governments are best positioned to identify and address specific obstacles impacting certain informal sector activity (Ndabeni, 2014:2). In the informal sector of the economy, self-employment is increasingly being recognised as a viable solution to South Africa's growing unemployment and poverty problems (Hobson, 2011:1).

Background
LED would compel the local government to put in place a structure that will allow participants in the informal economy to make a living (Ndabeni, 2014:2). The Thembisile Hani Local Municipality is a rural municipality with poverty levels and the unemployment rate at 38.3% and 47.5% respectively (Mpumalanga Province, 2016). Thembisile Hani Local Municipality reflects several rural municipalities in South Africa in respect of poverty prevalence, unemployment, inequality, underdevelopment and lack of industrial development potential. Due to the high rate of joblessness, the majority of the people resorted to the creation of informal employment through participating in the informal economy to generate income and livelihoods.

Literature Review
Literature review for this study mainly concentrated on the theories related to both the informal economy and the LED as displayed in figure 1 below.

Figure 1: Informal economies and local development theories

Informal Economies and Local Development Theories

Theories Related to the Informal Economy
Four theories led the discourse of the large and heterogeneous informal economy regarding its
nature and composition namely the structuralist, dualist, legalist and voluntarist schools of thought. These four schools of thought predominantly consent on the economic worth of the informal economy through its input to the national GDP, in addition to the creation of work for the deprived, equally the rural and urban regions of improvement and predominantly, emerging nations (Chen, 2016; Schneider, Buehn & Montenegro, 2010).

The Dualist School of Thought
The International Labour Organisation World Employment Mission Kenya established the dualist school of thinking in 1972 and Hart in 1973. The dualist school focuses on those involved in traditional and survivalist activities and it views the informal economy as a separate segment of the economy characterised by low productivity, poor technology, low incomes and low levels of skills (WIEGO, 2014). It thus lacks the capabilities to comply with the requirements of the contemporary economy (La Porta & Schleifer, 2014). Wilson (2011), noted that those with low skill levels and low incomes see the informal economy to be their sole option for ensuring their livelihoods.

The Structuralist’s School of Thought
In 1989, when attention was focused on minor traders, producers, subcontracted employees, and casual workers, Castells and Portes presented the structuralist school of thinking. The informal sector is seen by structuralist as a source of subordinated economic resources and labour that helps giant capitalist companies compete more effectively by lowering input and labour prices (WIEGO, 2014). However, Wilson (2011), argued regarding the existence of the connections between the formal and informal economies that the latter is cowed and abused by the prior. Portes (1994:426-427), viewed the informally self-employed emphasis on their linkages with the formal economy. Both Castells and Portes believed that the informal sector consisted of inferior organisations and labourers who reduced costs as a means of contributing to the competitive growth of large capitalist businesses (Katalin, 2015:62-63).

The Legalist’s School of Thought
In 1989, Hernando De Soto developed the legalist school of thinking. The informal economy and entrepreneurs are emphasised by the legalist school of thinking. According to legal experts, the informal sector is home to brave businesspeople who choose to avoid the exorbitant and frightening costs, time, and effort of the official registration and who want legal rights to convert assets into a formally owned property (WIEGO, 2014). Legal scholars contend that the oppositional legal system that produced casual activities and informal extra-legal standards is to blame for the casual economy's existence.

The Voluntarist’s School of Thought
William Maloney introduced the school of thought known as the voluntarists in 2004. The volunteers concentrated on the self-employed, particularly men in business and their side businesses (WIEGO, 2014). According to voluntarists, the informal sector is made up of entrepreneurs who prefer to operate haphazardly to avoid paying taxes, fines for breaking commercial regulations, rent and power bills, and other overhead associated with operating officially. The voluntarists pay little attention to the economic connections between informal businesses and formal businesses, but they hold the belief that since informal businesses avoid formal rules, taxes, and other production expenses, they pose an unfair competitive threat to established businesses (WIEGO, 2014).

Local Economic Development Theoretical Frameworks
Economic Fundamental Theory
Blakely and Leigh (2016), held the view that the economic base theory of an increase in a community's economy is directly related to and driven by demand for its goods and services in
areas outside of its national economic confines. The philosophy considers that firms that use domestic means such as material and labour to produce merchandise and services transferred away to create domestic prosperity and career opportunities. Thus, the economic base theory may be essential in thoughtful of turbulences in the economic growth of a country in reaction, to modifications in overseas demands for merchandise produced in domestic regions (Blakely & Leigh, 2016).

The Location Theory
The locality principle seeks to shed light on how firms and industries choose sites that reduce the costs of manufacturing and shipping their goods to marketplaces for economic growth. To encourage different businesses to invest in their LED, domestic towns are going to play a key role in making sure that the infrastructure and quality of services are given. Guidelines created to address infrastructural and socioeconomic issues in rural regions are used in South Africa to guide the exploration of the LED process (Lukhele & Madzivhandila, 2018:880).

The Empowerment Theory
Kahika and Karyeija, (2017), observed that this philosophy is valid since the 1980s and entails supporting people in their efforts to improve themselves is what empowerment, especially in poor countries, is all about. The process of giving the weak and disadvantaged people their first opportunities and skills is called empowerment. The empowerment theorists argue that a lack of progress is due to the population not being able to initiate and improve their conditions due to the deficiency in power and capabilities to make choices.

The Neoclassical Economic Theory
Blakely and Leigh (2013: 78-79), submitted that neoclassical economic philosophy provides two main ideas for local and regional growth namely the mobility of capital and the equilibrium of economic systems that will reach a natural balance if resources can move around without restriction. The Neoclassical economic theory was tested in several states with devastating consequences and rejected by the advocates of regional and local economic development citing unfairness in its outcomes regarding lack of collective benefits.

Endogenous Development Philosophy
The thought of growth from within philosophy occurred about 1980 as part of the reaction to the exogenous model that argued that economic progress is a result of exterior elements. This philosophy held that economic advancement is significantly facilitated by investments in information, human capital, and innovation. The philosophy has significance to LED bearing recollect that the concept of “local” denotes the process of acknowledging and making use of endogenous abilities Kahika and Karyeija, (2017).

Contribution of the Study
The current study investigates the connection between the casual economy and LED in the Thembisile Hani local municipality in South Africa. This scholarship first highlights theories related to the informal economy and the LED before elaborating on the actual link between the two concepts. The study shows how LED in South Africa complies with the formalisation of economies, the legislative context and the economic development framework. The research additionally emphasises the progression of the informal economy through consideration of its characteristics and potentials together with the standard LED requirements that associate the notion of a green economy and the interconnections between the official and the unregulated economy.
Research Methods and Materials
A qualitative design technique was used in the current investigation, since it, elaborates on the perception and the experience of research participants regarding the association between the unofficial economy and LED in the Thembisile Hani local municipality in South Africa (Bless, Higson-Smith & Sithole, 2016:58). Information from the research participants was gathered using a well-structured interview questionnaire. The purposive sampling method was employed since the researcher used the narrative interview technique targeting opinions on a specific concern. The sample comprises 199 participants from three research sites. At these intersections of the roads where informal trade takes place, additionally, there are three major malls located in KwaMhlanga, Phola, and Kwaggafontein, respectively. A questionnaire divided into four components, A, B, C, and D, was used to gather data for this study.

Analysis and Discussion of Data
Socio-demographic Information
The demographic information collected included the Age Bracket, Gender, Trading Licenses, Education and form of employment.

Age Bracket: 43% of participants were between 30 and 39 years old and the least number of respondents were 60 years and older (3%).

Gender: The sample comprised 137 female and 62 male respondents, which translated into 69% and 31% respectively. This is an indication that the sample was predominantly female.

Trading License: 61% of the participants have acquired trading licenses while 39% had no trading license to do business in Thembisile Hani Local Municipality.

Education Level Frequency: 75% of the respondents had secondary education and 4% of them had no formal schooling. 17% of the respondents have primary education and 8% held a diploma in education.

Form of Employment: 86% of the research participants were self-employed and 1% of them were employed. 13% of the respondents were unemployed. The results also indicate that most of the participants in the research were self-employed as the source of revenue. The literature suggests that approximately 37% of South Africa's poor work in the informal sector of the economy and it has been appraised that informal self-employment was responsible for 63% of the earnings of official employment (Rakabe, 2017).

Figure 2 below depicts the relationship between the informal economy and the LED in South Africa in combination with the standard economic development approaches that transform the entire economy as elaborated in the upcoming sections.

Figure 2: Informal economy and Local economic development

Source: Own Compilation
Unofficial Economy
The prevalent perception of the economic relevance and expansion of the informal sector is that many of the operators would prefer regular work and do not possess the expertise and assets to manage an efficient formal firm (Turok, Scheba & Visagie, 2017). Thus, they trade in drenched markets and their merchandises and services add little worth parallel to their counterparts, so, their returns are low, and they make slim profits. Still, there is a more hopeful perspective, which suggests that the informal economy may service critical niche markets while increasing the impact of other events (Turok et al., 2017: 35).

Characteristics of the Casual Economy
Figure 3 below depicts the characteristics of the unofficial economy.

![Figure 3: Characteristics of the unofficial economy](image)

Source: Own Compilation

Significance of the Informal Economy
Rakabe (2017), argued that South African metropolises are described as adjoining parish housing settlements with insufficient regulated employment prospects and basic shortage. The Group Areas Act of 1950 officially constituted and implemented townships as housing settlements for non-white individuals, with a focus on the working class official and casually populated metropolitan areas forming before 1994. These locations are physically cut off from the commercial districts and city centres. The casual economy—which is widely defined as tiny, unregistered enterprises that are run out of people's homes, sidewalks, and other impromptu locations—has also grown considerably larger and more prevalent in the townships (Statistics South Africa, 2014: XII). Ghecham (2017), opined that the casual economy has been a serious challenge for emerging nations. It has a subject of numerous discourses that debated policies that support economic expansion and paucity lessening. The casualness of the economy is associated with the reduced tax collection in the country, the socially unprotected labour and the size-restricted firms.

Restrictions of the Informal Economy
Despite its importance, the informal sector has a lot of barriers that prevent it from being a successful economic force. Economic success is constrained by many factors, such as infrastructure, legislative obstacles, managerial and marketing capabilities, financial accessibility, and human capital. The most significant barrier preventing participants in the informal economy from increasing their productivity is considered to be access to money (Hobson, 2011). However, Cohen (2010:279), added to Madichie and Nkamnebe's opinion (2010:305), that economic hurdles are the main limitations that people face to effectively enter the casual economy. Due to their inability to obtain employment in the official sector, many people have little choice but to enter the informal economy. For the less fortunate, obtaining start-up money from loans or savings is particularly challenging (Madichie & Nkamnebe, 2010:307). In the townships, inappropriate land-use guidelines, construction criteria and registration procedures likewise deject endorsement and side-lined informal businesses.
Informal Economy and Women
Given the disproportionate contributions that females make and their participation in informal economy activities, paying specific attention to the needs of women in the casual economy has the potential for alleviating gender inequalities. Cultivating the performance of the casual economy is likely to positively influence women in terms of better revenue and employment outcomes (Hobson, 2011:4). Todaro and Smith (2015: 354), argued that in other areas of the world, women prevail among rural-urban immigrants and may even constitute the mainstream of the urban populace. As a result, women frequently constitute the majority of the informal economy labour supply, working for mediocre earnings at unsteady employment with no work or social safety benefits (Todaro & Smith, 2015: 354).

The Strategy for National Informal Business Upliftment (NIBUS)
The announcement of the NIBUS was a turning point for the informal economy strategy being the initial nationwide inventiveness concentrated on the informal economy, signifying a recognition from state that the unofficial economy was overlooked in the historic (DSBD & ILO, 2016:5). NIBUS suggested an all-embracing approach for the informal economy grounded on permitting the formalisation and incorporation of informal businesses into the formal economy. It acknowledged a sequence of probable intermediations to address inadequacies in informal and microenterprises such as financing, skills development, and infrastructure (Rogerson, 2016; Crush et al., 2015). NIBUS moreover suggested a novel Business Licencing Bill that would call for every enterprise to be licensed no matter how trivial. This has been severely condemned for being virtually impractical, hypothetically dispiriting informal entrepreneurship and discriminating in contrast to foreign immigrants by attempting to omit them (Rogerson, 2016; Crush et al., 2015). NIBUS envisioned generating an empowering strategy, managing and creating an environment that supports and encourages the integration of informal businesses into the bulk of South Africa's official economy (DTI, 2014:24; DSBD & ILO, 2016:3).

Informal Employment
ILO (2011:12), believed that unregulated labour that incorporates jobs contained within the notion of the job in the unregulated economy excluding those that are categorised as formal employments in the unregulated economy businesses denotes those employments that commonly lack rudimentary societal or lawful safeties or job assistances and could be learnt in the formal economy, traditional economy or households. These concentrated jobs acknowledge that enterprises occasionally hire employees informally, avoiding the expense of societal safety contributions, compensation expenses and other expenses in the instance of discharge.

Policy Approaches to Informal Employment
In philosophy, regimes hold numerous procedure alternatives for addressing informality. The government can choose to do nonentity and can pursue to lessen it either by derestricting the formal economy or by enabling formalisation and regularisation. In application though, a comprehensive universal procedure consent has been realised on the formalisation decision as echoed in the resolution regarding decent employment and the unregulated economy espoused by the ILO in 2002 (ILO, 2013a).

Formalisation of Economies
The formalisation of economies can be done through a firm technique which pursues to apply dissuasion procedures and or makes formalisation valuable and phlegmatic. It can also be done using a lenient technique that pursues to push for an ethos of obligation to act legitimately, counting through the quest for wider expansion objects (Williams, 2013). Generally, though, this firm technique espouses that partakers in the traditional economy are coherent economic mediators and that it is merely a circumstance of varying the expense/ advantage proportion antagonising them. The soft approach concentrates on sowing a value of obligations to being...
legitimate by moving the rule concentration from straight to ancillary controls. Explicit rule quantifies comprise cultivating individuals into the assistances of formality and not escaping workforce regulations, providing consciousness movements about assistances of formality (Williams, 2013).

**LED in South Africa**

**Economic Development Framework**

Building diverse and innovation-driven local economies, creating inclusive local economies, creating learning and skillful economies, supporting and fostering entrepreneurship, improving economic governance and infrastructure, and strengthening local innovation systems are the pillars of the National Framework for LED 2018–2030 (D-COG, 2018). The inclusive local economy pillar introduces six issues that are close to the informal economy from the LED perspective namely the Development of informal economies; Programs for small-town economic development; inclusive and integrated rural economies; and township economic development.

**Context of Legislation and Policy**

The South African government accepted responsibility for accelerating the development of LED policy. The policy and legislative context for the uplifting LED to a compulsory mandate for all South African domestic governments were at first acknowledged by the 1994 RDP and the 1996 Constitution, distinctly. The concept of developmental government is made known by the LED concept introduced in the 1998 White Paper on Domestic Government (Mpumalanga Province, 2016). The National Framework for LED was reviewed and adopted by the D-COG in November 2017. The National Road Traffic Act 93 of 1996, the Business Act and Business Amendment Act, Business Licenses, Safety and Health Regulations, Pollution, Noise, and Tobacco Regulations, the National Framework for LED: 2018–2030, the NDP, and Land Use Planning and Management are all included in the overall legislation (Turok et al., 2017).

**Standard Local Economic Development**

The debate on the concept of LED is viewed as one of the significant improvement approaches pursued by local governments in South Africa. Domestic economic enlargement is a fundamental domestic government directive and one that is nationally conceptualised as allowing for the pursuit of both socio-economic improvement recompense and economic improvement (Nel & Rogerson, 2015). Notwithstanding the momentous provision put into application for LED for nearly twenty years, outcomes have been unassertive and concerns about a latent over-focus on pro-poor LED at the expense of concurrently engaging with the private sector on pro-market interventions have been recognised as a limiting factor for a possible achievement (Nel & Rogerson, 2015). LED in recent years acknowledged mounting consideration worldwide, mainly for its assumed latent to address localised economic and social encounters and encourage domestic expansion.

**The Informal Economy and the Green Economy**

The view of a broad green economy from the perspective of sustainable growth and poverty extinction needs a method that involves the informal economy. Though the casual economy is ordinarily overlooked in the discourse on the green economy. The South African regime views a green economy as offering prospective evolution to a low-carbon economy, resource proficiency and the generation of pro-poor employment. Ordinarily, the green economy is not a new notion but a re-emerging idea, and it is getting a reputation in global and national deliberations (Smith & Musango, 2012: 151). The United Nations Environment Programme describes the green economy as one that leads to enhanced human welfare and societal justice while considerably decreasing ecological threats and natural insufficiency. The consequence of the broad green economy is that together the formal and the informal economy necessitate highlights in green economy debates (Smith & Musango, 2012:151).
Relationships between the Official and Unregulated Economies

Narula (2018:587), noticed that rising nations frequently have a modern sector referring to the formal economy that is knowledge and capital-intensive and a traditional sector referring to the informal economy that is labour heavy. The post-industrial revolution era's division of the land economy and the capitalist economy into common sectors and geographical regions with varied resource endowments reflect on each component of this connection. Concerning its association with other sectors, the casual economy allied with a rural segment in that it permits a surplus workforce to outflow from risky rural paucity and underemployment while under residing and employment circumstances and for incomes that are barely improved (Todaro & Smith, 2015:350). It has been carefully connected to the official urban section. The informal economy depends on the formal sector for financial support and to pay its workers in goods, while the latter in turn depends on the growth of the former for a respectable portion of its commerce and income (Todaro & Smith, 2015:350). To comprehend the connections between informal and formal businesses it is imperative to reflect on the nature of the invention method through which they are connected. The connections occur through the distinct trades of which some informal firms or individual account operatives interchange products and services with formal businesses in whatever is possibly categorised as exposed or uncontaminated market interchanges. In such circumstances, the central business regarding market understanding and influence typically the formal business reins the interchange or trade (Chen, 2012).

Commendations and Final Thoughts

Commendations

Thembisile Hani Local Municipality's overall development is improved by the recommendations made in light of the study's findings, which are provided for consideration. By laying up streams and value chains, you may create a thorough understanding of the many relationships that exist between informal economic activity. To advance the comprehensiveness, acceptance, approbation, and effectiveness of policies, this strategy will centre all management efforts on a vibrant public engagement with informal traders. By providing an appropriate trading environment, sufficient public lighting, and patrols, the municipality should provide a welcoming and safe environment for unregistered business owners, and as a result, support capacity building for the growth of the unregulated sector. Provide the casual traders with training in the form of short learnings for the enhancement of their basic knowledge to solidify the informal economy and thus create the bridge from the economy of subsistence to the regulated including workable commercial undertakings.

Final Thoughts

The general findings of this study's final deduction and analysis show that the informal economy contributes to and affects LED. Significant emphasis was placed on the relevance of the informal economy for economic growth and job creation. The presence 18-29 age group in the informal economy represents a failure of the education system which could have seen this age group taken to institutions of higher learning. Nevertheless, the informal economy was the only shelter that could accommodate this age group to generate income for survival. The dominance of females in the study indicates that they are mostly the breadwinners of their households. Unemployment and poverty are the sources of this kind of situation. Malls and shopping centres have become magnets attracting a huge number of shoppers that are also targeted by informal traders. A way to create jobs and fight poverty in the informal sector is through self-employment. However, this will go a long way to help feed, clothe, and pay for university tuition for countless people whose family depends on the informal sector for existence. The informal economy does, to some extent, offer actual sources of income albeit it is insufficient for many. The results of the study equally show that the informal economy participants contributed towards decreasing unemployment and poverty gave approximately 395 employment opportunities created in Thembisile Hani Local Municipality. In a family where there is no member with employment, the informal economy
becomes highly significant since the entire family rely on the income that flows from the informal business on the daily basis.

The study results show that there are several limitations, counting, infrastructure, capital, suitable skills, excessive regulations and security apprehensions that limit the progress of the informal economy. The study's findings, however, indicated that job possibilities are being established in the unofficial sector to combat poverty. Because the government and municipalities have not included the informal economy in their economic planning procedures, further inclusive economic growth is necessary. This is supported by the necessity for government interventions, which will need that the government adopt a favourable stance toward the informal sector by creating appropriate laws and regulations for the informal economy's development. The South African LED conforms with the framework for economic development, the setting of the law, and the formalisation of economies. It entails the development of the informal economy via analysis of its traits and potentials together with the minimal LED standards that relate to the idea of a green economy and the connections between the unofficial and official economies.

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