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Project number: MFAQVA (Formal and informal sector linkages)

Title: Exploring economic behaviour in South Africa's informal economy, especially in relationship to the formal economy

Authors: Imraan Valodia, Prof Rob Davies, James Thurlow and Dr Miriam Altman

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Human Sciences Research Council

October 2007

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EXPLORING ECONOMIC BEHAVIOUR IN SOUTH AFRICA'S INFORMAL ECONOMY, ESPECIALLY IN RELATIONSHIP TO THE FORMAL ECONOMY

Report to the Conflict and Governance Facility (CAGE)

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October 2007

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1. Introduction

This report, on a survey of informal retailers in the Durban area, was designed as part of a larger project that explores the linkages between the formal and informal economy in South Africa. The larger project has three principal components: a social accounting matrix (SAM) to explore the flows and relationships between the formal and informal economy, a computable general equilibrium (CGE) model of South Africa's informal economy as a key component of the model and a survey of the informal economy.

Our interest in the informal economy of South Africa stems from a broader interest in employment in South Africa. Specifically, the HSRC's Employment, Growth and Development Initiative (EGDI) has been working on Employment Scenarios for South Africa. Government has set itself the target of halving the rate of unemployment by 2014. The Scenarios Initiative is an attempt to explore how this target may be achieved. For our purposes here, a key question is the possible contribution that informal employment can make to achieve the employment target. Based on data from the Labour Force Surveys (LFSs), tables 1 and 2 show that a significant number of South Africans do not work in formal jobs. In absolute terms, four million informal economy workers are recorded at national level in 2000 and 3.7-million in 2005 for the informal economy broadly defined (i.e. including those working in informal enterprises, domestic work and informal agriculture.) This constitutes between 34% and 31% of the labour force in 2000 and 2005, respectively. How might these numbers grow over the next 15 to 20 years? And is the informal economy likely to grow significantly?

Table 1 – South Africa: population 15+ by employment status and sector

	2000	2001	2002	2003	2004	2005
Formal agriculture	686,219	678,910	826,343	845,182	639,194	591,772
Formal other	6,865,361	6,927,409	7,075,966	7,512,036	7,739,645	8,075,451
Domestic work	1,215,165	1,070,362	1,053,834	1,204,010	1,085,946	1,080,341
Informal agriculture	1,083,211	412,193	576,781	394,515	474,304	381,087
Informal other	1,802,050	1,797,722	1,590,343	1,779,371	1,800,332	2,340,984
Don't know	110,516	119,032	60,288	39,875	52,488	35,457
Unspecified employed	206,752	28,562	29,123	17,254	19,606	42,422
Unemployed	4,088,846	4,541,111	4,846,492	4,578,243	4,143,553	4,501,277
Not economically active	12,657,110	13,591,432	13,740,966	15,747,509	15,392,429	14,751,856
Total	28,714,426	29,166,734	29,800,137	32,117,995	31,347,498	31,800,646

Source: LFS

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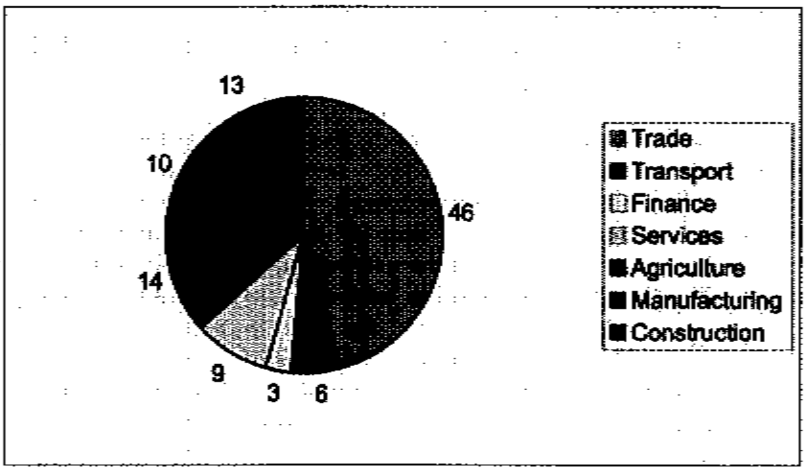
There is now a large and growing literature on the informal economy in South Africa (see, for example, Devey *et al.*, 2006). However, for our purposes, we require some evidence of the linkages between the formal and informal economy – what is the nature of the forward and backward linkages between these components of the economy? While an interesting literature is now beginning to emerge on the linkages between the formal and informal economy in South Africa (see Devey *et al.*, 2006; Valodia *et al.*, 2006 and Banerjee *et al.*, 2007), we know very little about the economic behaviour of those operating in the informal economy in South Africa. In order to understand possible trajectories for the informal economy, we need to have some evidence of economic decision-making in the informal economy, especially vis-à-vis the formal sector.

The survey was designed as a pilot survey to understand the economic behaviour of informal retailers. We chose to focus on the retail sector because, as shown in figure 1, retailing forms the largest component of the informal economy in South Africa. Furthermore, there is a large literature on informal retailing which could be used to inform the survey.

Figure 1 – Informal enterprises by sector (%)



(Source: LFS, September 2005)

Some of the issues that we sought to explore in the survey include:

- *The products that traders choose to sell.* We intended to explore the basis upon which traders chose their product range. We hoped to use the survey to get some information on what the key 'product' is that informal retailers offer their consumers – is it cheaper prices than formal retailers, or convenience? In other words, why do consumers purchase from informal retailers in preference to formal retailers?
- *The location of informal retailers.* How do informal retailers choose their trading locations? Do they take cognisance of formal retailers and other informal retailers in choosing their site? Are there some conglomeration advantages?

Table 2 – South Africa: distribution of employed by sector (%)

	2000	2001	2002	2003	2004	2005
Formal agriculture	6	6	7	7	5	5
Formal other	57	63	63	64	66	64
Informal other	15	16	14	15	15	19
Informal agriculture	9	4	5	3	4	3
Domestic	10	10	9	10	9	9
Total	100	100	100	100	100	100

Source: LFS
Note: Percentages do not add up to 100 due to rounding off.

As the South African economy continues to grow and incomes increase, one possible scenario is that the large formal retailers will move into spaces that informal retailers presently occupy (there is some evidence that this is already occurring) and that many consumers, now with higher incomes, will no longer purchase in very small quantities in the informal sector. This will undermine the competitive advantage of informal retailers who will be displaced by formal retailers. This may well be a desirable outcome, since informal activities will now be moved into the formal economy with all of the desirable legislative and tax considerations. But there may also be undesirable outcomes, such as the displacement of informal retailers who would lose their livelihoods.

An alternative scenario may be that there is a pro-cyclical relationship between formal and informal retailers, so that a growth in formal retailing facilitates a growth in informal retailing. We have some evidence in our survey that informal retailers tend to locate in close proximity to formal retailers – there is clearly some advantage to being located near a consumer base. The argument here is that small informal retailers 'feed off' large retailers, offering a special convenience service (it may be smaller packaging). In this case, informal retailers offer a product that is an imperfect substitute for formal sector products. Although there is some competition between formal and informal retailers, the advantage of being close to a formal retailer outweighs the costs of competing with formal retailers. In this scenario, growth in formal retailing into previously informal trading spaces may well facilitate a growth in informal retailing.

Another illustrative example would be to consider the impact of crime on the informal economy. Micro-level studies amongst informal entrepreneurs suggest that crime is an important barrier to entry into the informal economy. An alternative argument, which considers the relationship between the formal and informal economy, may be that the informal retail sector exists because formal retailers have opted out of certain markets as a strategy to avoid high-crime areas. In this scenario, significantly reducing crime levels may result in growth in formal retailing at the expense of informal retailers[1].

[1] This example is only given for illustrative purposes.

2. Sites and questionnaire

Since this was a pilot survey which sought to explore and provide some indicative evidence on economic behaviour, on advice of several experts on micro-level studies of the informal economy, it was decided to focus the survey among retailers in the Durban area. Four sites were selected, each a node for informal retailing in a cross-section of the city: the Warwick Junction (an urban, inner-city location), Pinetown (an urban concentration), KwaMashu (a township) and Isipingo (an urban concentration not in the city centre). The four sites each have quite unique characteristics, thus offering some diversity amongst the sites.

Warwick Junction, a precinct in the inner city of Durban, currently contains over 5,000 street traders and many other informal workers like waste collectors. In 1997, the city council launched a project to redevelop the area, with a particular focus on trading and employment opportunities. Some estimates show that the annual turnover generated by the informal economy in the area is over R1-billion (see Dobson and Skinner, forthcoming). The area is a major transport hub for the city, with commuters often changing from one mode of transport to another (e.g. from taxi to train) or between service providers. The informal trade in the area is largely passing trade, with consumers often purchasing goods in very small quantities.

Pinetown's informal retail trade is concentrated in the southern part of the area and is also linked to the transport system, but primarily to the bus and taxi services. Pinetown's informal retail is much smaller than Warwick's, more spread out and caters for a mix of passing trade and more purposive purchasing from residents of Pinetown's townships.

KwaMashu, in the north of Durban, is one of the largest townships in the city. The retail trade is concentrated in KwaMashu 'town' – the retail centre for the township. Like Pinetown, the trade is more spread out and smaller but in this case it is linked less to the transport network and is focused on purposive retail purchasing on the part of consumers.

Isipingo, in the south of the city, is an urban concentration close to Umlazi, the largest township in Durban. It serves both as a sub-hub for transport to the south of the city and further to the south coast of KwaZulu-Natal. The distinctive feature of the retail trade in Isipingo is that it is more purposive purchasing of larger quantities of goods. Many residents of the southern townships and in towns along the south coast would specifically travel to Isipingo to purchase goods.

Since we planned a pilot survey to generate indicative findings that could not be generalised, we cannot claim to have a representative sample. The objective rather is to pilot a survey to explore economic behaviour in the informal economy, to test some hypothesis and to assess the efficacy and reliability of the questionnaire.

A draft outline of the questions to be explored was generated at a workshop of the research team and a draft questionnaire was prepared. We then approached three survey companies and asked them to submit proposals for conducting the survey. Data Research Africa (DRA) submitted the cheapest proposal and was selected to

- *Why informal retailers choose to operate in the informal economy.* Are they 'hiding' from legislation or operating as survivalists unable to find formal employment?
- *Employment relationships in informal retail enterprises.* On what basis, for example, do informal retailers set the wages of any employees?
- *Informal retailers' purchasing and sales decision-making,* and the relationship between these. For example, do informal retailers operate on a fixed margin?
- *Competition among informal retailers and among formal and informal retailers* and the business environment within which informal retailers operate.

3. Findings

The survey data will be analysed further over the coming months, both for informing the modelling of the informal economy and for broader analysis of the nature of economic behaviour in the South African informal economy. Below we provide some broad summary finds, organised thematically.

3.1 Profile of traders

Table 3 shows the main activities of the respondents. Half of our sample is made up of vegetable sellers. Together with sellers of fruit, our sample is made up of some 85% of sellers of perishable food products. This skewness is appropriate for two reasons. It accords broadly with the pattern of informal trade in the Durban urban concentrations (see Skinner, 2005) and the survey was designed to explore pricing behaviour. We therefore chose activities where prices fluctuated on a day-to-day basis.

Table 3 – Activities of traders

Fruit	35
Vegetables	50
Bread	7
Cardboard	8
Total	100

Table 4 shows the traders' activities by the four sites that were chosen.

Table 4 – Activities of traders by site

	Site				Total
	Warwick	**Pinetown**	**KwaMashu**	**Isipingo**	
Fruit	8	6	12	9	35
Vegetables	15	17	9	9	50
Bread	1	2	1	3	7
Cardboard	1	0	3	4	8
Total	25	25	25	25	100

Figure 2 shows that most traders sold the same good all the time. This suggests that informal trading is a fairly stable activity – once someone enters the informal retail trade, (s)he tends to focus on selling the same goods. Figure 3 reinforces this point – we see that most respondents did not even consider selling other goods.

conduct the survey. DRA assisted us to finalise the questionnaire, to train the field team and to pilot the survey before embarking on the fieldwork. The final questionnaire is attached as Appendix 1. DRA's field report is attached as Appendix 2.

Table 5 – Have you ever considered selling any other type of goods by site

	Site				Total
	Warwick	Pinetown	KwaMashu	Isipingo	
Yes	10	7	6	13	36
No	14	18	19	12	63
Total	24	25	25	25	99

Although the survey was directed at traders, the precise nature of the goods sold was asked in an open-ended question. In total, 49 different products were specified. Table 6 lists the goods and shows the number of sellers selling them.

Table 6 – Goods sold and number of sellers

Description	No. of sellers
Onions	53
Tomatoes	50
Apples	44
Potatoes	39
Oranges	38
Bananas	34
Green peppers	25
Cabbages	21
Pears	20
Carrots	19
Sweets	14
Bread	12
Cardboard	8
Chips	8
Chillies	7
Naartjies	7
Butternut	6
Cakes	5
Cigarettes	5
Plastics	5
Snacks	5
Amadumbes	4
Drinks	4
Garlic	4
Grapes	3
Green beans	3
Pineapples	3
Spinach	3
Cosmetics	2
Curry leaves	2
Ginger	2
Peaches	2

Figure 2 – Do you sell the same goods all the time or do you change?

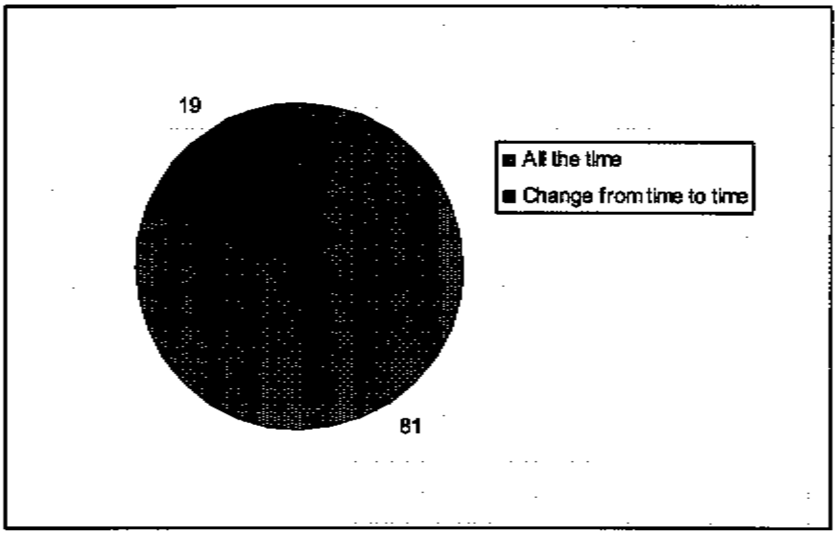
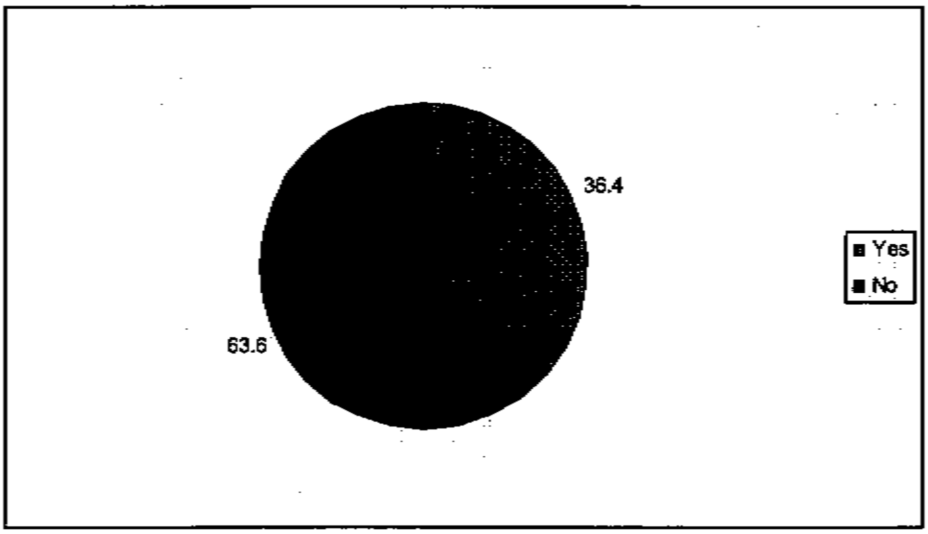


Figure 3 – Have you ever considered selling any other type of goods?



There are, however, some subtle differences in traders' choices about what goods to sell in the different sites. The behaviour of traders in Isipingo and Warwick appears to differ slightly from the other two sites, with a larger number of traders having considered selling other goods. As we shall see, Isipingo in particular has a longer history of informal trading, and this may be the reason why traders at that site seem to have looked at different options for their trading activities. In other words, traders who have been involved in informal retailing for a longer period may be less risk averse and therefore may be more open to exploring other opportunities in the informal economy.

the frequency with which they are sold together, imposing a cut-off that goods will belong to the same cluster only if 80% or more of sales are together. However, this does not permit a clean partitioning either.

Figure 4 reports on when traders first entered the informal economy. As is to be expected, most traders entered the informal economy after 1995, when informal trading regulations in the urban city, which previously legislated against informal trading, were not vigorously enforced. Surprisingly though, a significant number of traders began trading earlier. Perhaps these traders operated in the townships and moved into the urban areas as the regulations were relaxed.

Figure 4 – Year you began trading in the informal sector

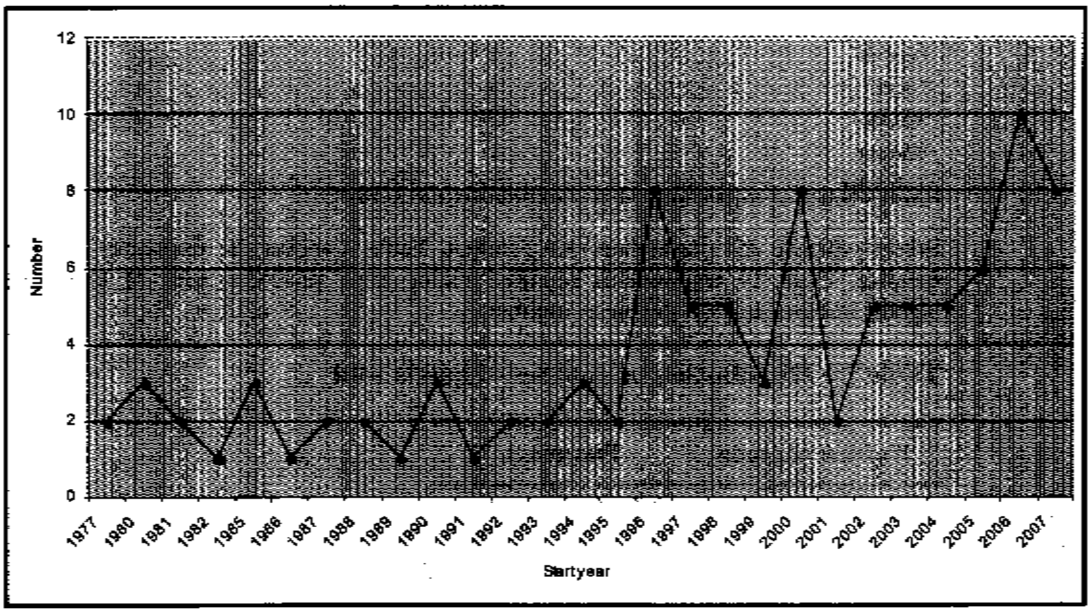


Table 8 shows that there are some important differences by site. It appears that retailers in the Isipingo area have been active in the informal economy for a longer period of time. Interestingly, the township site appears to have the most recent entrants into the informal economy. These results are somewhat unexpected. We would expect that, given that *apartheid* legislation restricted small-scale economic activity in urban centres and this was implemented less vigorously in the townships, informal retail activity would have been more mature in the township areas. There may be two explanations for this unexpected pattern. First, it may simply be the outcome of selection bias. That is, we simply selected older enterprises in the sample and this has no relationship to reality. As this is a pilot survey, this may well be the case. However, based on what is known about the informal economy in the Durban area (see Skinner, 2003 and Lund, 1998), Isipingo, being close to the large township of Umlazi but being an urban commercial centre, has been the site of a longer history of urban informal economic activity in the Durban area.

Description	No. of sellers
Samp	2
Savlon	2
Toilet paper	2
Voda phones	2
Airtime	1
Avocado	1
Biscuits	1
Brooms	1
Clothes	1
Cooked meat	1
Curry powder	1
Impepho	1
Lemons	1
Limes	1
Mealies	1
Peanuts	1
Zulu beer	1

Sellers typically sell more than one product. Table 7 shows the frequency of each number. Thus, 19 respondents reported selling three products, with 11 being the highest number and 4.8 the mean number.

Table 7 – Distribution of number of goods sold

Number of goods	Frequency
1	6
2	11
3	19
4	10
5	18
6	12
7	8
8	13
9	1
10	0
11	2
	100

For purposes of analysis, it would be useful to aggregate these commodities into a smaller number of groups. We can do this either by classifying goods on *a priori* criteria – 'vegetables', 'fruit', etc. – or by seeing what clusters emerge from the respondents as groups of goods that are typically sold together. The latter has the appeal of identifying the range of products that are typically chosen by traders. Unfortunately, only two clusters emerge clearly from the data. Cardboard and plastics are never traded with any other goods. All other goods are connected in some way. For example, although bread is never sold directly with onions, it is sold with other vegetables that are sold with onions. We can thus identify a 'cardboard-plastic' cluster and an 'all others' cluster. We have experimented with partitioning goods according to

Table 11 – Maintenance of a bank account that is separate from private family account

Bank account	Percent
Yes	9.0
No, separate bank account	9.0
Hold no bank account at all	82.0
Total	100.0

Related to the above results, as shown in table 12, most traders used their own capital resources to begin their trading activities.

Table 12 – Source of capital to start business

Source	Percent
Did not need any capital	6.0
Used own capital	79.0
Used household capital	4.0
Borrowed money from friends/relatives	8.0
Personal loan from private lender	3.0
Total	100.0

3.2 Location

One of the key areas that we explored in the survey was why traders choose particular sites. We were interested to understand the economic rationale for traders' choices about their sites. Figures 5 and 6, respectively, show how close traders are to other informal traders selling the same or similar goods and to formal retailers. It is evident that informal retailers tend to be clustered closely together. Interestingly, informal traders also trade in close proximity to formal traders, but the distance is greater than between informal traders. This suggests that the retail trade is located in specific areas of the city, with formal and informal traders reaping the benefits of agglomeration. We see further evidence of this 'agglomeration' issue in table 17 which explores the factors that affect informal traders' choice of site for trading. Almost half of the traders choose to be close to others selling similar products.[2]

Table 13 provides some important information of what informal traders' advantages may be in relation to formal retailers. Informal retailers tend to locate very close to transport routes and in spaces where large numbers of pedestrians congregate to access transport services. In this way, informal traders may essentially be offering a 'service' – selling goods at convenient locations.

[2] Note that many traders reported not having a choice about their trading site. They traded on sites that were allocated to them by the local government authorities.

Table 8 – Year you began trading in the informal sector by site

	Site				Total
	Warwick	Pinetown	KwaMashu	Isipingo	
0-5 years	9	10	12	8	39
6-10 years	6	6	5	6	23
11-15 years	5	6	4	2	17
16-20 years	2	2	1	4	9
>20 years	3	1	3	5	12
Total	25	25	25	25	100

Table 9 shows that those trading in the informal economy would prefer employment in the formal sector, and are only trading because they cannot find employment. Although not shown here, there are no differences evident by the traders' site.

Table 9 – Reasons for entering the informal trade

Reason	Percent
Other	4.0
Lack of employment	63.6
Easy way to get income	3.0
Want to be self employed	6.1
Want to own my own business	1.0
I love selling	8.1
Uneducated	5.1
Family business	1.0
Company I worked for closed down	2.0
It's the only thing I can do	3.0
Disability	1.0
Saw it as an opportunity	2.0
Total	100

Tables 10 and 11 provide information on incomes and banking services among informal traders. We see that incomes tend to fluctuate, but a surprisingly high level (34%) of traders reported that their incomes were steady. A high number (82%) of traders did not have a bank account.

Table 10 – Availability of steady income

Availability of steady income	Percent
Steady	34.0
Fluctuate	66.0
Total	100.0

Table 13 – Proximity of informal trading sites to transport network

Frequency	Percent
Other	4.0
Missing	1.0
Close to taxi rank	37.4
Close to bus rank	4.0
On a main transport route	31.3
Near school	1.0
Many pedestrians pass the business	17.2
Main shopping centre	5.1
Total	100.0

As is evident from tables 14 to 16, there are some nuanced differences in location among the different sites. Again, the Isipingo site appears to differ somewhat from the other sites, with informal traders somewhat less consolidated in one area, and informal traders in Isipingo (and Pinetown) appear to trade at a slightly greater distance from formal retailers. Table 16 shows that the Isipingo and Pinetown sites are integrated more comprehensively into the transport networks of the city – Isipingo serving as a sub-hub for the south of Durban and the South Coast, and Pinetown for the west of the city. The Warwick site, on the other hand, is very closely integrated with specific modes of transport. These differences, which we are exploring in further work, may explain some of the differences that appear to exist in informal retail among the sites chosen for this study.

Table 14 – Distance in metres from other informal traders by site

Distance	Warwick	Pinetown	KwaMashu	Isipingo	Total
0-5m	1	2	3	4	10
6-10m	9	16	16	22	63
11-15m	8	4	3	1	16
16-20m	1	0	1	0	2
21-25m	3	4	1	1	9
26-30m	1	0	1	0	2
>30m	3	1	2	1	7
Total	25	25	25	25	100

Table 15 – Distance in metres from formal traders by site

Distance	Warwick	Pinetown	KwaMashu	Isipingo	Total
0-5m	8	1	4	4	17
6-10m	7	5	7	9	28
10-15m	1	5	5	3	14
16-20m	2	6	4	5	17
21-25m	0	3	0	0	3
>30m	7	5	5	4	21
Total	25	25	25	25	100

Figure 5 – Distance in metres from other informal traders

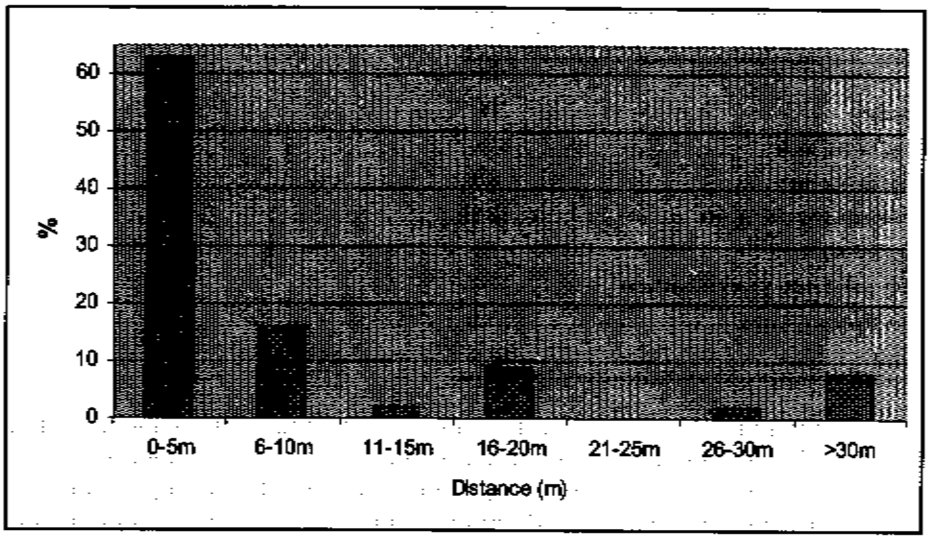
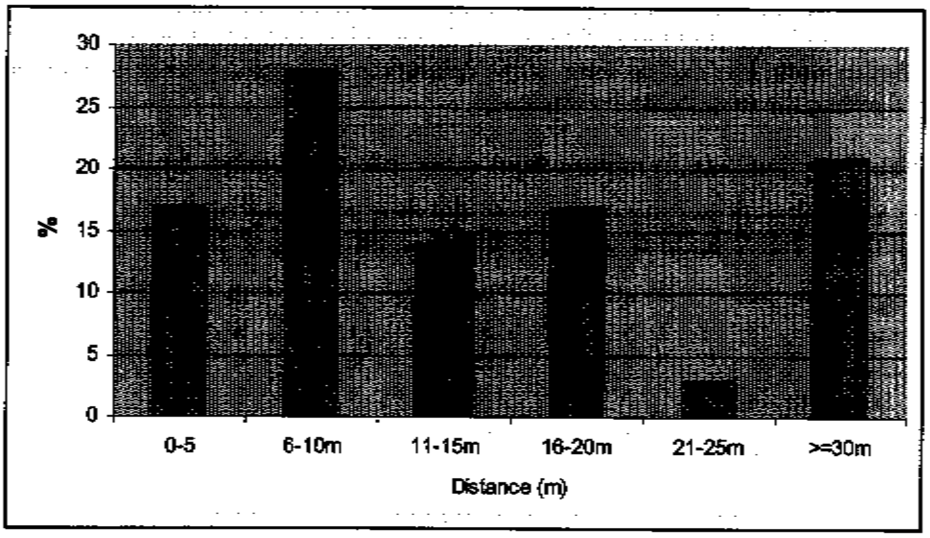


Figure 6 – Distance in metres from formal traders



The rest of table 19 provides insights into the nature of margins in the informal economy. Informal traders operate in markets where they are able to pass on to the consumers any increases in the price of the goods that they purchase for resale. Like the formal retail trader, informal traders sell at a fixed price to their customers and they seem to have a diverse consumer base.

Table 19 – Nature of the enterprise

Factor	True	False
I buy in bulk and sell in smaller quantities	95	5
When the price of my purchases go up, I increase the prices that I charge by the same amount	23	77
When the price of my purchases go up, I increase the prices that I charge by a smaller amount	79	21
When the price of my purchases go up, I am unable to increase my selling price	33	67
When the prices of my purchases fall, I decrease the price of my sales	55	45
When the prices of my purchases fall, I do not decrease the price of my sales	26	74
Compared to last month, the price of my purchases has gone up	74	26
Compared to last month, my selling price has gone up	70	30
I always sell to the same customers	11	89
I charge my customers the same price	86	14

We are able to discern some interesting differences in enterprise characteristics in the different sites surveyed. In Warwick and Pinetown, all the respondents were buying in bulk and selling in smaller quantities. All but one of the traders were operating in this fashion in KwaMashu. However, in Isipingo, four of the 25 traders were not primarily involved in regrating. Although this difference may, by itself, not be significant combined with other data, it does suggest that the Isipingo site differs in important respects from the other informal trading sites that were surveyed.

Table 20 provides some evidence on how these differences may allow informal traders to operate differently in terms of their pricing and mark-up behaviour. Whereas in Warwick, a heavily traded area selling fairly standardised items, traders appear to find it difficult to maintain their margins, this is not the case in Isipingo and Pinetown. The number of years that the informal trader has been operating does not appear to have any systematic relationship to the ability to maintain margins, i.e. newer entrants do not appear to behave any differently in the respective sites.

Table 16 – Proximity of informal trading sites to transport network by site

	Site				Total
	Warwick	Pinetown	KwaMashu	Isipingo	
Other	0	0	1	3	4
Close to taxi rank	12	6	14	5	37
Close to bus rank	2	2	0	0	4
On a main transport route	8	10	4	9	31
Near school	0	0	0	1	1
Many pedestrians pass the business	3	6	2	6	17
Main shopping centre	0	1	3	1	5
Total	25	25	25	25	99

Table 17 – Factors influencing choice of sales site

Factor	Percent
Close to other informal traders that sell similar products	48.0
Close to other informal traders who sell very different products	22.0
Far from other informal traders that sell similar products	4.0
None of the above	26.0
Total	100.0

Table 18 again shows that traders in Isipingo operate in somewhat different circumstances to other informal retailers in Durban.

Table 18 – Factors influencing choice of sales site by site

	Site				Total
	Warwick	Pinetown	KwaMashu	Isipingo	
Close to other informal traders that sell similar products	11	19	12	6	48
Close to other informal traders who sell very different products	5	4	5	8	22
Far from other informal traders that sell similar products	1	0	1	2	4
None of the above	8	2	7	9	26
Total	25	25	25	25	100

3.3 Enterprise characteristics

Table 19 provides some insightful information on the nature of informal trading in our selected sites. 95% of traders buy in bulk and sell in smaller quantities. Taken with the earlier information about the convenience service that informal traders provide for their customers, this is an important finding and suggests a key service that informal traders provide is that of selling in quantities that are more suitable for low-income consumers.

Figure 7 explores the price-setting behaviour of informal traders. More traders reported prices among other informal retailers as a very important factor in their price setting. However, almost half of the respondents reported that prices in the formal retail stores are a very important factor.

Figure 7 – Importance of selected factors in setting selling prices

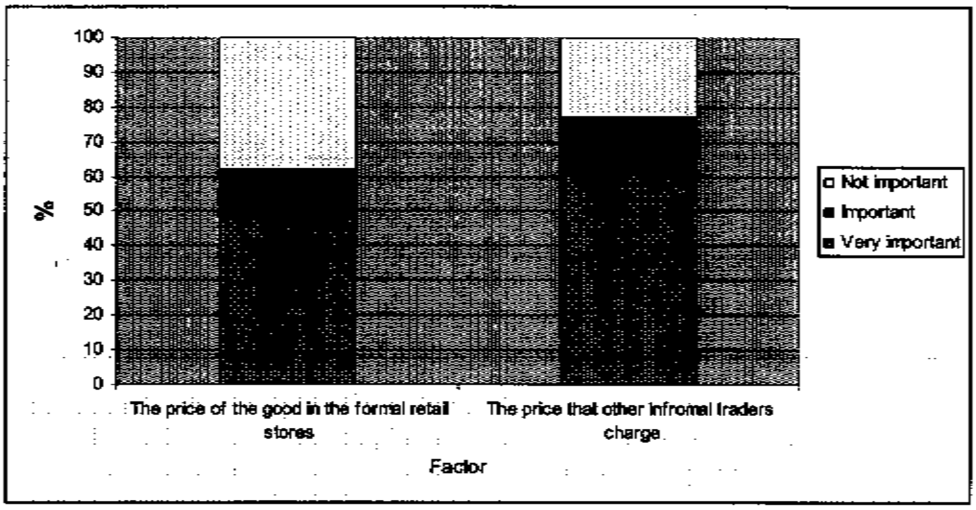


Table 22 shows some interesting differences by site. Informal traders take account of the pricing of other informal traders to a greater degree in Pinetown and KwaMashu. Our assumption would have been that traders in Warwick would have taken most account of the pricing behaviour of other informal traders, given the nature and concentration of informal activity in the Warwick area.

Table 22 – Importance of pricing in formal and informal by site

Location		The price that other informal traders charge	The price of the good in the formal retail stores
Warwick	Very important	11	8
	Important	7	5
	Not important	7	12
	Total	25	25
Pinetown	Very important	19	13
	Important	2	4
	Not important	4	8
	Total	25	25
KwaMashu	Very important	17	13
	Important	3	3
	Not important	5	9
	Total	25	25
Isipingo	Very important	14	14
	Important	4	2
	Not important	7	9
	Total	25	25

Table 20 – When the price of my purchases goes up, I am unable to increase my selling price, by site and number of years in business

		Number of years in business					Total
		0-5 years	6-10 years	11-15 years	16-20 years	>20 years	
Warwick	True	7	4	2	2	3	18
	False	2	2	3	0	0	7
	Total	9	6	5	2	3	25
Pinetown	True	1	1	1	0	0	3
	False	9	5	5	2	1	22
	Total	10	6	6	2	1	25
KwaMashu	True	5	2	0	1	1	9
	False	7	3	4	0	2	16
	Total	12	5	4	1	3	25
Isipingo	True	2	0	0	1	0	3
	False	6	6	2	3	5	22
	Total	8	6	2	4	5	25

Table 21 shows that informal traders are mainly responding to market demand. They choose the particular range of goods that they sell primarily because they believe that it is what consumers want. In total, the responses in table 21 that could be deemed to reflect responses to market demand (i.e. "easy to sell", "sells fast", "goods always in demand", "too many fruit and vegetable sellers" and "area good for selling fruit") are the reason why 84% of those interviewed sold their particular mix of goods. It is interesting, however, to note that some traders' choice of product mix was largely driven by supply side factors, i.e by goods that were easily and reliably available.

Table 21 – Reason for trading in particular goods

Reason for trading in goods	Percent
Demand factors	
Easy to sell	27
Sells fast	24
Goods always in demand	30
Too many fruit and vegetable sellers	2
Area good for selling fruit	1
Total demand reasons	**84**
Supply factors	
Easily obtainable	10
Goods always available	2
Total supply factors	**12**
Had no choice	1
If unable to sell goods use it for own consumption	1
Other	1
Total	**100**

be the two sites most linked to the township market – KwaMashu, which is inside a township, and Isipingo, which draws most of its clients from the township areas in the south of Durban. However, as seen in table 25, competition from other informal retailers seems to be much higher than that from formal retailers across all the sites. This is consistent with other findings above, although slightly less so in Isipingo.

Table 24 – There are too many new formal retailers and that is driving down our selling prices

Location	Response	Total
Warwick	True	11
	False	14
	Total	25
Pinetown	True	9
	False	16
	Total	25
KwaMashu	True	14
	False	11
	Total	25
Isipingo	True	14
	False	11
	Total	25

Table 25 – Compared to last year, there are many more informal traders selling the goods that I sell

Warwick	True	20
	False	5
	Total	25
Pinetown	True	20
	False	5
	Total	25
KwaMashu	True	20
	False	5
	Total	25
Isipingo	True	18
	False	7
	Total	25

One of the as yet unresolved debates about the informal economy in South Africa is whether, as is the case elsewhere, informal enterprises offer products at a price that is lower than those of formal enterprises. It is often argued that informal enterprises are able to offer lower prices because they do not have to bear the costs of complying with regulations. Another view often articulated is that informal enterprises in South Africa are not price competitive vis-à-vis the formal sector, and essentially operate by providing a convenient service to consumers, i.e. they have location advantage or offer regrated goods. The responses in table 26 suggest that informal retailers believe they charge prices that are lower than formal retailers, across all the sites. It may be, however, that informal retailers sell products that are inferior in quality. Table 27

Table 23 further explores the business environment within which informal traders operate. The data confirm the competitive nature of informal trading but also the fact that some general price-setting occurs – 64% of traders reported that other sellers sold the goods at the same price.

We are able to use these data to explore issues around the competitiveness of the informal sector, and the degree of competition between formal and informal retailing. The data in table 23 suggest that informal retailers do, as is often argued, charge a relatively uniform price for the goods that they sell. As table 25 shows, our respondents believe that there are significant new entrants into the informal sector. This seems to be the case in all sites.

Informal retailers appear to be aware of prices in formal retail outputs but, rather surprisingly, appear not to make their own pricing decisions based on this information. This may be because, as we have seen above, prices tend to be uniform in the informal sector, so this effect has a stronger impact on the pricing behaviour of informal traders. Informal retailers believe that the prices they charge are lower than those charged in the formal retail establishment. Based on price data that we collected in the different sites, this appears to be the case. However, it is not clear that the two groups are actually selling the same products – informal retailers may well be selling lower quality produce.

The data do, however, confirm two important points that we have made earlier about informal retailing – that it essentially offers a service to consumers by being conveniently located and by selling in smaller quantities than formal retailers.

Table 23 – The business environment

Factor	True	False
I always charge the same price for the goods that I sell	49	51
All my customers pay the same price for the goods that I sell	73	27
There are too many new formal retailers and that is driving down our selling prices	48	52
All informal traders charge the same price for the goods that I sell	64	36
Sometimes, new informal traders start selling the goods that I sell and then I lose customers	57	43
When new informal traders begin to sell the goods that I sell, I have to decrease my selling price to keep my customers	39	61
Sometimes, informal traders decrease their price and I am then forced also to decrease my prices	57	43
I know the prices at the formal retailers and I charge below their price	67	32
I know the prices at the formal retailers and I charge above their price	6	93
I know the prices at the formal retailers and I charge the same price	16	83
I sell better quality goods than other informal traders	63	37

Tables 24 to 31 provide data on pricing and business environment considerations by the sites. One of the important issues highlighted in the introduction is that, with a growth in formal retail in the townships, informal retailers may be placed under increased price pressure. Table 24 provides some evidence that this is occurring. The two sites with the greatest number of positive responses to the statement, "There are too many new formal retailers and that is driving down our selling prices", appear to

Tables 28 to 31 allow us to explore informal traders' views of consumer demand issues by site. Confirming the argument about price competition between formal and informal retailing, Table 28 shows that informal retailers in all sites believe that consumers buy from them because their prices are lower that formal retailers'. As shown in table 29, prices among informal retailers appear to be more consistent. The issues of regrating and convenience appear to be strong in all the sites (tables 30 and 31).

Table 28 – My customers buy from me because my prices are lower than formal traders'

Location		Total
Warwick	True	24
	False	1
	Total	25
Pinetown	True	19
	False	6
	Total	25
KwaMashu	True	22
	False	3
	Total	25
Isipingo	Do not know	1
	True	19
	False	5
	Total	25

Table 29 – My customers buy from me because my prices are lower than informal traders'

Location		Total
Warwick	True	12
	False	13
	Total	25
Pinetown	True	9
	False	16
	Total	25
KwaMashu	True	15
	False	10
	Total	25
Isipingo	True	9
	False	16
	Total	25

shows that a large number of informal retailers believe that they sell inferior products. The field teams monitored prices in the formal and informal retail establishments and the evidence, broadly, is that informal retailers do appear to sell at lower prices. For example, we monitored prices of onions in the Warwick area. The price on 13 July at a large formal retail outlet was R12.99 for two kilograms (14 units). On that day, an informal retailer was selling onions at R5 per dozen – well below the price in the formal sector. Unfortunately, our data do not allow us to assess whether the two retailers were selling exactly the same product. The informal retailer may well have been selling onions of smaller size, or onions that were of a different grade. Nevertheless, it is useful to note that informal retailers' prices were generally lower than those of formal retailers.

Table 26 – I know the prices at the formal retailers and I charge below their price

Location		Total
Warwick	True	17
	False	8
	Total	25
Pinetown	True	15
	False	10
	Total	25
KwaMashu	True	19
	False	6
	Total	25
Isipingo	True	16
	False	8
	Other	1
	Total	25

Table 27 – The formal retailers sell goods of better quality than informal traders

Location		Total
Warwick	True	14
	False	11
	Total	25
Pinetown	True	15
	False	10
	Total	25
KwaMashu	True	14
	False	11
	Total	25
Isipingo	True	11
	False	14
	Total	25

BOX 1 – Questionnaire: questions 8 - 10

8 Selling prices

When you decide on the price of the goods that you sell, please rank how important the following factors are to you. (1 = Very important, 2= Important, 3 = Not important.)

(Fieldworker to show and read out list in table below; fill in first column in table below)

8.1 The price of the good in the formal retail stores
8.2 The price that other informal traders charge

9 Relationship between purchases and sales

Which of the following statements are True or False: Read out: 1 = True 2 = False

9.1 I buy in bulk and sell in smaller quantities
9.2 When the price of my purchases goes up, I increase the prices that I charge by the same amount
9.3 When the price of my purchases goes up, I increase the prices that I charge but by a smaller amount
9.4 When the price of my purchases goes up, I am unable to increase my selling price
9.5 When the price of my purchases falls, I decrease the price of my sales
9.6 When the price of my purchases falls, I do not decrease my selling price
9.7 Compared to last month, the price of my purchases has gone up
9.8 Compared to last month, my selling price has gone up
9.9 I always sell to the same customers
9.10 I charge all my customers the same price
9.11 Compared to last year, there are many more informal traders selling the goods that I sell
9.12 Compared to last year, the price of my purchases has gone up
9.13 Compared to last year, my selling price has gone up
9.14 Compared to last year, my profits have gone up

10 The business environment

10.1 I always charge the same price for the goods that I sell
10.2 All my customers pay the same price for the goods that I sell
10.3 There are too many new formal retailers and that is driving down our selling prices
10.4 All the informal traders charge the same price for the goods that I sell
10.5 Sometimes, new informal traders start selling the goods that I sell and then I lose customers
10.6 When new informal traders begin to sell the goods that I sell, I have to decrease my selling price to keep my customers
10.7 Sometimes, informal traders decrease their prices and I am then forced also to decrease my prices
10.8 I know the prices at the formal retailers and I charge below their price
10.9 I know the prices at the formal retailers and I charge above their price
10.10 I know the prices at the formal retailers and I charge the same price
10.11 The formal retailers sell goods of better quality than informal traders
10.12 I sell better quality goods than other informal traders
10.13 My customers buy from me because my prices are lower than other informal traders
10.14 My customers buy from me because my prices are lower than formal retailers
10.15 My customers buy from me because I am conveniently situated
10.16 My customers buy from me because I sell in smaller quantities than formal retailers

Table 30 – My customers buy from me because I am conveniently situated

Location		Total
Warwick	True	25
	Total	25
Pinetown	True	25
	Total	25
KwaMashu	True	24
	False	1
	Total	25
Isipingo	True	22
	False	3
	Total	25

Table 31 – My customers buy from me because I sell in smaller quantities than formal retailers

Location		Total
Warwick	True	20
	False	5
	Total	25
Pinetown	True	21
	False	4
	Total	25
KwaMashu	True	22
	False	3
	Total	25
Isipingo	True	20
	False	5
	Total	25

Given the centrality of pricing issues to our concerns, and questions of the relationship and interactions of pricing behaviour between the formal and informal economy, we explore some of the pricing issues in greater detail. We are especially concerned here to assess whether our data are consistent, i.e., whether questions which explore the same set of issues but by asking different types of questions show internal consistency. We draw mainly on questions 8-10 in the questionnaire. For each reading, the questions are listed in the text box below.

Figure 7 and table 22 explored the issue of the importance informal traders attach to prices in the formal and informal economy to their own pricing behaviour. We examined the importance of prices in the formal and informal economies independently. Table 32 combines the responses so that we are able to assess the responses to formal and informal prices jointly. 33% of the sample saw both formal and informal prices as very important to their own price setting and 11% set their prices seemingly independent of price considerations in both the formal and informal enterprises. Of the 48 respondents that saw formal prices as very important, 10 did not view informal prices as important. In contrast, of the 61 traders that viewed other informal prices to be very important, 11 did not deem formal prices to be very important. This provides further evidence that pricing in the informal enterprises is more important in the price-setting behaviour of informal retailers.

Table 32 – How important are formal and informal prices in setting your price

		Formal retail stores			
		Very important	Important	Not important	Total informal
Other informal traders	Very important	33	10	18	61
	Important	5	2	9	16
	Not important	10	2	11	23
	Total retail	48	14	38	100

Questions 10.8 to 10.10 asked whether traders know prices charged by formal retailers. We would expect a high correlation between this and Q8.1; if one regards formal retail prices as important, we would expect knowledge of them. We combined the responses to questions 10.8 to 10.10, so that traders who responded "true" to any one of them were classified as "Knowing", and "false" to all of them as "Unknowing".[3] Table 33 summarises the results. They show a high degree of consistency, with only 2% responding that formal prices are of some importance when they do not know them. 8% say that while they know the prices, they are not important.

Table 33 – Importance and knowledge of retail prices

	Prices in formal retail stores			
	Very important	Important	Not important	Grand total
Unknowing	1	1	30	32
Knowing	47	13	8	68
Total	48	14	38	100

Question 10.14 (My customers buy from me because my prices are lower than formal retailers) also requires knowledge of the formal price. Table 34 shows that 68% of

[3] Since questions 10.8 to 10.10 are two-part questions, it is possibly wrong to infer that responding false to all three does not mean that respondents do not know, but rather that they regard them as false because of the second factor.

those who responded positively to this question also indicated that they are "Knowing". 16 of the 84 (19%) who responded that their customers bought from them because their prices were lower than formal retail prices indicated that they did not know formal prices. This is not necessarily inconsistent; it could be that they do not set prices based on formal prices, even though they have a general perception of being cheaper. It is interesting that all those who we have classed as having knowledge of the formal prices also say they are cheaper.

We can similarly test the internal consistency of the responses to Q10.8, Q10.9 and Q10.10; a positive answer to one of these implies a negative answer to the others. We looked at the cross-tabulations possible and found that this was indeed the case. Only 5.1% of answers to Q10.8 and Q10.9 were inconsistent, 16.2% of answers to Q10.8 and Q10.10, and 1.0% of answers to Q10.9 and Q10.10.

Table 34 – Prices below formal and knowledge

	10.14 My customers buy from me because my prices are lower than formal retailers'		
	Yes	**No**	**Grand total**
Unknowing	16	15	32
Knowing	68		68
Grand total	84	15	100

Table 35 – Q10.14 and Q10.9

		10.14 My customers buy from me because my prices are lower than formal retailers'		
		Yes	**No**	**Grand total**
10.9 I know the prices at the formal retailers and I charge above their price	**Yes**	6		6
	No	78	15	93
	Grand total	84	15	100

Note: Non-responses and 'don't know' excluded

3.4 Are informal traders flex or fix price?

One of the issues we are concerned with is whether traders operate with fixed prices or whether they alter their price in response to changes in input costs or competitors' prices. In other words, do they perceive themselves as operating in a flexible or a fixed price environment?

There are a number of relevant questions that we can use to infer whether they have fix or flex prices. These are shown in table 36, which also shows the broad interpretation we have placed on the responses. It will be seen that while some of the questions allow us to infer whether prices are flexible, we cannot always infer that they are fixed when the response is in disagreement with the statement. Thus, for example, a respondent who agrees with the statement in question 9.2 clearly has flexible prices. However, when they indicate the statement is false, we can only infer that they do not increase by the same amount, not that they do not increase at all.

However, respondents who say that both Q9.2 and Q9.3 are false seem to suggest that their prices do not respond to increases in purchase prices.

Table 36 – Questions related to price flexibility

Question no.	Question	Broad interpretation	
		True	**False**
9.2	When the price of my purchases goes up, I increase the prices that I charge by the same amount	Flex	Cannot infer
9.3	When the price of my purchases goes up, I increase the prices that I charge but by a smaller amount	Flex	Cannot infer
9.4	When the price of my purchases goes up, I am unable to increase my selling price	Fix	Flex
9.5	When the price of my purchases falls, I decrease the price of my sales	Flex	Cannot infer
9.6	When the price of my purchases falls, I do not decrease my selling price		
10.1	I always charge the same price for the goods that I sell	Fix	
10.6	When new informal traders begin to sell the goods that I sell, I have to decrease my selling price to keep my customers	Flex	

Table 37 provides a schematic interpretation of the consistency between responses to questions 9.5 and 9.6. Responses falling in the top left-hand and bottom right-hand cells of the table are inconsistent: it cannot be the case that they say that it is false that they decrease (implying that they do not decrease) and also false that they do NOT decrease (implying that they do). Table 38 provides the actual responses. We see that a substantial proportion of the responses (7% + 26% = 33%) could be regarded as inconsistent. This suggests that the questions could perhaps have been better framed or administered.

Table 37 – Interpretation of Q9.5 and Q9.6

		9.5 When the price of my purchases falls, I decrease the price of my sales	
		Yes	No
9.6 When the price of my purchases falls, I do not decrease my selling price	Yes	Inconsistent	Fix
	No	Flex	?

Table 38 – Results for Q9.5 and Q9.6

		9.5 When the price of my purchases falls, I decrease the price of my sales		
		Yes	No	Grand total
9.6 When the price of my purchases falls, I do not decrease my selling price	Yes	7.0%	19.0%	26.0%
	No	48.0%	26.0%	74.0%
	Grand total	55.0%	45.0%	100.0%

One of the problems with these questions is that they are framed as if there is a single output, whereas most of the respondents sell a range of goods. It could well be that some products have flexible prices while others do not. This permits ambiguity in the responses.

Reverting to table 36, we could reasonably regard someone who responds that Q9.4, Q9.6 and Q10.1 (I always charge the same price for the goods that I sell) are all true as having fixed prices. If we control for Q10.1 in table 39, however, we find that 67.3% also say they decrease the sales price when the cost price falls! Only 22.4% give entirely consistent answers (i.e. Q10.1 = True, Q9.5= False and Q9.6 = True).

Table 39 – Results for Q9.5 and Q9.6, for Q10.1 = True

		9.5 When the price of my purchases falls, I decrease the price of my sales		
		True	False	Grand total
9.6 When the price of my purchases falls, I do not decrease my selling price	True	6 (12.2%)	5 (10.2%)	11 (22.4%)
	False	27 (55.1%)	11 (22.4%)	38 (77.6%)
	Grand total	33 (67.3%)	16 (32.7%)	49 (100%)

Table 40 – Source of inputs and importance of formal retail in setting prices

		8.1 How important is the price of the good in formal retail stores when you set your price?			
		1 Very important	2 Important	3 Not important	Grand total
5.1 How do you acquire the goods that you are selling?	Buy informal	40.0%	14.5%	45.5%	100.0%
	Buy formal	58.1%	9.7%	32.3%	100.0%
	Make	57.1%	21.4%	21.4%	100.0%
	Grand total	48.0%	14.0%	38.0%	100.0%

55% of the respondents reported that they acquired the goods they sell from the informal sector, 31% from the formal and 14% said they made or grew them themselves. Table 40 shows how the source is related to the importance attached to formal retail suppliers when setting prices. The results seem internally consistent. However, one can query the interpretation of the question. We were motivated to ask it by our view that competition with the formal sector in the selling of goods might be an important consideration in determining pricing behaviour. It is, however, possible that it is the formal retailer as supplier that drives the concern. Maybe formal prices are important because they determine the costs of the goods sold.

If the former interpretation was correct, we would not expect a discernable pattern based on sources of goods: source of supplies would not matter if the formal retailer were viewed as their 'benchmark' competitor. However, those who obtain supplies from the formal retailer would tend to pay more attention to its prices than those who obtain supplies from other sources. Table 40 seems broadly consistent with this, although the make/grow category is perverse.

3.5 Employment

As is evident from table 41, our questions on employment were unsatisfactory. The table shows that more than 80% of respondents did not have any employees. Consequently, the set of questions that we designed to explore employment issues did not generate any reliable and usable data.

Table 41 – Number of paid employees

Frequency	Percent
0	81.0
1	11.0
2	3.0
3	1.0
4	1.0
5	2.0
7	1.0
Total	100.0

3.6 Entrepreneurs and survivors – do they operate differently?

The informal economy in South Africa, as elsewhere, is made up of two primary groups. First, 'survivalists' operate in the informal economy because they have no better option and would prefer to have employment in the formal economy. Second, entrepreneurs operate in the informal economy by choice, i.e. they do not necessarily prefer a formal job opportunity. In the international literature, these entrepreneurs are often seen to be evading too onerous legislation and bureaucratic procedures, and therefore choose to operate in the informal economy. There is a growing international debate (see Maloney *et al.*, 2007) about whether the informal economy is primarily survivalist or entrepreneurial. The evidence in South Africa suggests that most informal workers are survivalist. Our survey allows us to make a distinction between these two groups, and to consider whether entrepreneurs and survivalists operate in a different fashion.

Using the data in table 9 which explore why respondents entered the informal economy, we are able to group the responses into survivalist and entrepreneur. This is shown in table 42. We classify survivalists as those operating in the informal economy because of a lack of employment, a lack of skills (uneducated) or due to job loss. The responses indicating a preference for trading (for example, "I love selling", "I want to be self employed") are classified as entrepreneurs' responses.

Table 42 – Why did you enter the informal sector? Survivalists versus entrepreneurs

1	Lack of employment	63	Survivalist
2	I love selling	8	Entrepreneur
3	Want to be self employed	6	Entrepreneur
4	Uneducated	5	Survivalist
5	Other	4	?
6	Easy way to get income	3	?
7	It's the only thing I can do	3	Survivalist
8	Company I worked for closed down	2	Survivalist
9	Saw it as an opportunity	2	Entrepreneur
10	Want to own my own business	1	Entrepreneur
11	Family business	1	Entrepreneur
12	Disability	1	?
13	Missing data	1	
		100	

Using this in relation to the data presented in table 21, which explore the reasons why traders choose to trade in particular products, allows us to assess whether survivalists and entrepreneurs respond different to market signals, i.e. whether their trading is essentially a response to demand or supply. Table 43 shows this relationship. We see that 61 of the 74 (82%) survivalists respond to demand conditions – that is, the goods that they sell are informed by demand. All but one of the entrepreneurs chooses goods by considering demand conditions.

Table 43 – Broad reason for entering by type

	Survivalist	Entrepreneur	Other	Total
Demand	61	18	5	84
Supply	11	1		12
Other	2	2		4
Grand total	74	21	5	100

Table 44 shows the survivalist : entrepreneur differences by site. It is interesting that KwaMashu and Warwick have a slightly higher representation of entrepreneurs. This is somewhat against our assumption, since Isipingo and Pinetown were identified earlier as more lucrative sites for informal retail trading. It may, however, be that the more competitive markets, KwaMashu and Warwick, have a higher proportion of entrepreneurs because competitive conditions have driven out survivalists.

Table 44 – Survivalist and entrepreneur by site

Location	Survivalist	Entrepreneur	Other	Total
Isipingo	20	4	1	25
KwaMashu	17	7	1	25
Pinetown	21	3	1	25
Warwick	16	7	2	25
Grand total	74	21	5	100

4. Conclusion

Although there is now a large literature exploring aspects of the informal economy, there is little, if any, information on the microeconomic behaviour of informal entrepreneurs. This is certainly the case in South Africa where the available literature documents the rise of informal employment, interrogates the estimate of the size of the informal economy and explores, at the micro level, the extent and nature of some informal occupations.

The recent debates in South Africa about the "second economy", and especially the policy focus on alleviating poverty and creating employment opportunities in the so-called second economy have highlighted the paucity of reliable data on this component of the South African economy, and how the informal economy is linked into the formal economy. This survey, the first of its sort in South Africa as far as we know, has explored some aspects of the economic decision-making of informal retailers.

Being a pilot study, we cannot make any generalisations about economic behaviour in South Africa's informal economy. However, the study has generated some very useful insights about how informal traders behave, it has provided some evidence on a few hypotheses about price signals, competitive pressure, and formal-informal linkages, and generated many new hypotheses for us to consider. The findings highlight the fact that the informal economy in South Africa, and elsewhere, is made up of a heterogeneous set of actors involved in a diverse range of activities.

To the best of our knowledge this is the first survey of informal traders exploring their economic behaviour. Our analysis of the findings suggest that while the pilot survey has generated a number of interesting avenues for further research, a number of our questions were unsatisfactory. Most striking, we did not generated any useful data on employment relationships in the informal economy. Also, the questionnaire did not provide for a sufficiently nuanced exploration of product differentiation and quality issues.

The survey provides a useful platform for beginning to explore economic behaviour in the informal economy. More comprehensive surveys of this nature would clearly be useful for deepening our understanding of the informal economy. This should, we believe, be supplemented with surveys among two others groups. First, consumer surveys in the informal economy would help us to understand demand issues better. A critical question for policy is why South Africa continues to have such high levels of unemployment but, by international standards, a relatively small informal economy. Surveys of the unemployed would assist us to deepen our understanding of entry issues.

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DRAID: (Office Use)		*Questionnaire No: (Office Use)*

Hello, my name is_________. I am from Development Research Africa (DRA), an independent research company, conducting research on behalf of the Human Science Research Council (HSRC). We are conducting a study on the relationship between the formal and informal economies, and would very much appreciate your help by agreeing to participate in a brief interview. I would just like to ask you a few questions about your business and your occupation as a trader. And I assure you that your responses will be treated as strictly confidential.

Would you be willing to participate in this interview? Yes / No

A1: ***If Yes**, proceed with interview*
***If No**, close the interview.*

A2: Respondent Name			
A3: Location Code	1 = Warwick 2 = Pinetown 3 = KwaMashu 4 = Isipingo		
A4. GPS Reading			
A5: Name Of Interviewer			
A6: Date of interview (DD-MM-YYYY)	**A7:** Time interview started (HH:MM)	**A8:** Time interview ended (HH:MM)	**A9:** Length of interview (total minutes)

FOR SUPERVISOR / OFFICE USE ONLY:				
A10: Name of supervisor			**A11: Date checked *[dd/mm/yy]***	
A12: Selected for callback	1=Yes 2=No		**A13: Call back record number**	
A14: Name of quality controller			**A15: Date checked *[dd/mm/yy]***	
A16: Name of 1st capturer			**A17: Date captured *[dd/mm/yy]***	
A18: Name of 2nd capturer			**A19: Date captured *[dd/mm/yy]***	

A20. Circle Category

Tomatoes	1
Onions	2
Apples	3
Cardboard	4
Bread (white, un-sliced)	5

2. BUSINESS CLASSIFICATION

2.1	**Would you classify your business as formal or informal?** **If classified as formal end interview**	1 = Informal 2 = Formal 3 = not sure	
2.2	**Do you maintain a bank account for the business that is separate from your private/ family account?**	1 = Yes 2 = No separate bank account 3 = Hold no bank account at all	
2.3	**List all of institutions that you are registered with** **RECORD ALL MENTION**		
2.4	**How would you classify your business?** **READ OUT OPTIONS**	1 = Fruit seller 2 = Clothing 3 = Meat seller 4 = Muti seller 5 = Beer seller Other (Specify)__________	

3. BACKGROUND OF YOUR BUSINESS

3.1	**When did you start this business?**	***Write in Year:***__________	
3.2	**Why do you choose to do this job?** **RECORD ALL MENTION**		
3.3	**Why did you start trading in these specific goods?** **RECORD ALL MENTION**		
3.4	**Did you consider selling any other types of goods?**	1 = Yes 2 = No	
3.5	**Who owns this business**	1 = Myself 2 = Family 3 = Partnership Other (Specify)__________	
3.6	**How did you get the capital (money) to start the business?** **MULTI- MENTION ALLOWED**	0 = Did not need any capital 1 = Used own capital 2 = Used household capital 3 = Borrowed from friends/ relatives 4 = Personal loan from a private lender 5 = Personal loan from a bank 6 = Loan from a microfinance institution Other (Specify)__________	
3.7	**What did you do before you started up this business** **RECORD ALL MENTION**		

1. OVERVIEW

1.1	**What goods to you sell?** ***ASK RESPONDENT*** ***LIST ALL GOODS SOLD***		
1.2	**Quality of product** ***OBSERVE ONLY***	1 = Low Quality 2 = Good Quality 3 = High Quality	
1.3	**Packaging of Goods – Quantity** ***OBSERVE ONLY***		
1.4	**Do you sell these goods all the time or do you change the goods.**	1 = All the time 2 = Change from time to time Other (Specify)________________	
1.5	**What factors affect any changes that you make to the goods that you sell.** **Eg. Seasonal factors, irregular supply.**	1 = Seasonal 2 = Irregular supply Other (Specify)________________	
1.6	**Location of business in relation to consumers** ***(Field worker to describe by entering relevant codes or any additional description)*** ***READ OUT OPTIONS*** ***MULTI- MENTION ALLOWED***	1 = Close to taxi rank 2 = Close to bus rank 3 = On a main transport route 4 = Near school 5 = Near homes 6 = Many pedestrians pass the business 7 = Main shopping centre Other (Specify)	
1.7	**How far would a consumer have to walk to buy similar products in the formal sector (Shops, formal, established)**	Write in Metres________________m	
1.8	**How far would a consumer have to walk to buy similar products in the informal sector (trader/ street trader)**	Write in Metres________________m	
1.9	**Type of Premises** ***(Field worker to describe by entering relevant ONE code or any additional description)*** ***OBSERVE***	1 = Open market 2 = Stall on the side of road 3 = In a formal building next to or with other business 4 = An informal building next to or near other business 5 = In a formal building NOT next to or with other business 6 = An informal building NOT next to or near other business 7 = In a formal home 8 = In an informal home Other (Specify)________________	
1.10	**Where do you live? (region / suburb)** **RECORD ALL MENTION**		
1.11	**Do you have a steady income, or does your income fluctuate on a daily basis?**	1 = Steady 2 = Fluctuate Other (Specify)________________	

4. EMPLOYMENT IN THE BUSINESS

4.1	**How many paid employees do you have in your business?** **NOT INCLUDING OWNERS**	***Write in Number:*** ______ ***If "None" SKIP TO Q4.5***	
4.2	**How many employees are permanent?**	***Write in Number:*** ______	
4.3	**Have you increased or decreased the number of permanent workers?**	1 = Yes 2 = No	
4.4	**Have you increased or decreased the number of permanent employees in the last 6 months?**	1 = Yes 2 = No	
4.5	**How many employees are temporary or seasonal?**	***Write in Number:*** ______ ***If "None" SKIP TO Q5***	
4.6	**Have you increased or decreased the number of temporary or seasonal workers**	1 = Yes 2 = No	
4.7	**Have you increased or decreased the number of temporary or seasonal workers in the last 6 months?**	1 = Yes 2 = No	
4.8	**Do you pay a salary (same / fixed amount) or is it piece-rate (commission / percentage rate)**	1 = Salary 2 = Commission	
4.9	**How do you decide how much to pay your employees?**	1 = We look at wages for similar work in other Informal business 2 = We look at wages for similar work in formal businesses Other (Specify) ______	
4.10	**When wages in the formal retail sector increase, I...** **READ OUT OPTIONS**	1 = Increase the wages of my employees 2 = Did not increase the wages of my employees	

5. PURCHASES

5.1	**How do you acquire the goods that you are selling?**	1 = Make them or grow them myself 2 = Buy them from a formal business 3 = Buy them from an informal business Other (Specify)____	
[redacted]	**Do you always purchase these goods from the same supplier?**	1 = Yes 2 = No ***SKIP TO Q5.4***	
5.3	**Why do you always purchase from the same supplier?** ***DO NOT READ OUT***	1 = Is the only supplier of the goods 2 = Grants credit 3 = I know s/he has the cheapest price 4 = Its convenient and close to my business 5 = The quality is good 6 = She/he will take back any goods I have not sold 7 = I have a long relationship with the supplier Other (Specify)____	
5.4	**When you're choosing among different suppliers please rank how important the following factors are to you:** **1 = Very important, 2=important, 3 = Not important.** ***(Fieldworker to show and read out list in table below; fill in first column in table below)***		
5.4.1	**Price of goods**		
5.4.2	**Credit (account system)**		
5.4.3	**Reliability of supply**		
5.4.4	**Quality of goods**		
5.4.5	**Returning of items to seller**		
5.4.6	**Size of the package (quantity)**		
5.4.7	**Supplier transporting the goods to you**		
5.4.8	**Supplier is close to your business**		
5.4.9	**Other reason. Specify**		

6. SALES SITE

6.1	**Why do you choose to sell at this site?**	1 = only site I could get 2 = allocated by the council Other (Specify)____	
6.2	**Do you only sell at this site whenever you trade?**	1 = Yes 2 = No	
6.3	**How often do you trade at this site?**	1 = Daily (Mon – Sat) 2 = Weekdays (Mon – Fri) 3 = Weekends (Sat – Sun) Other (Specify)____	
6.4	**Do you choose to sell at this site because it's:**	1 = Close to other informal traders that sell similar products 2 = Close to other informal traders who sell very different products 3 = Far from other informal traders that sell similar products 4 = None of the above	
6.5	**Do you choose to sell at this site because its:**	1 = Close to other formal traders that sell similar products 2 = Close to other formal traders who sell very different products 3 = Far from other formal traders that sell similar products 4 = None of the above	
[redacted]	**If you sell at different sites do you sell different goods at different sites?**	1 = Yes 2 = No ***SKIP TO Q7***	
6.7	**Why do you do this?** **RECORD ALL MENTION**		

7. GOODS SOLD

7.1	**Why do you sell the types of goods that you do?** ***READ OUT OPTIONS***	1 = It's what the customers want 2 = It's what other informal traders sell 3 = It's what the formal traders around here sell	
7.2	**What factors affect what types of goods you sell?** ***READ OUT OPTIONS***	1 = Seasons 2 = Prices 3 = Consumer demand 4 = Others are selling the same goods so I know consumers want these goods 5 = Formal firms can out-compete me in other goods 6 = I can sell these goods in small quantities 7 = It's the only thing I have thought about selling	

8. SELLING PRICES

	When you decide on the price of the goods that you sell please rank how important the following factors are to you. **1 = Very important, 2=important, 3 = Not important.** ***(Fieldworker to show and read out list in table below; fill in first column in table below)***	
8.1	**The price of the good in the formal retail stores**	
8.2	**The price that other informal traders charge**	

9. RELATIONSHIP BETWEEN PURCHASES AND SALES

Which of the follow statements are TRUE or FALSE: READ OUT		**1 = True** **2 = False**
9.1	**I buy in bulk and sell in smaller quantities**	
9.2	**When the price of my purchases go up, I increase the prices that I charge by the same amount**	
9.3	**When the price of my purchases goes up, I increase the prices that I charge but by a smaller amount**	
9.4	**When the price of my purchases goes up, I am unable to increase my selling price**	
9.5	**When the price of my purchases falls, I decrease the price of my sales**	
9.6	**When the price of my purchases falls, I do not decrease my selling price**	
9.7	**Compared to last month, the price of my purchases has gone up**	
9.8	**Compared to last month, my selling price has gone up**	
9.9	**I always sell to the same customers**	
9.10	**I charge all my customers the same price**	
9.11	**Compared to last year, there are many more informal traders selling the goods that I sell**	
9.12	**Compared to last year the price of my purchases has gone up**	
9.13	**Compared to last year, my selling price has gone up**	
9.14	**Compared to last year, my profits have gone up**	

10. THE BUSINESS ENVIRONMENT

	Please state whether the following statements about your business environment are TRUE or FALSE	1 = True 2 = False
10.1	I always charge the same price for the goods that I sell	
10.2	All my customers pay the same price for the goods that I sell	
10.3	There are too many new formal retailers and that is driving down our selling prices	
10.4	All the informal traders charge the same price for the goods that I sell	
10.5	Sometimes, new informal traders start selling the goods that I sell and then I lose customers	
10.6	When new informal traders begin to sell the goods that I sell, I have to decrease my selling price to keep my customers	
10.7	Sometimes, informal traders decrease their prices and I am then forced also to decrease my prices	
10.8	I know the prices at the formal retailers and I charge below their price	
10.9	I know the prices at the formal retailers and I charge above their price	
10.10	I know the prices at the formal retailers and I charge the same price	
10.11	The formal retailers sell goods of better quality that informal traders	
10.12	I sell better quality goods than other informal traders	
10.13	My customers buy from me because my prices are lower than other informal traders	
10.14	My customers buy from me because my prices are lower than formal retailers	
10.15	My customers buy from me because I am conveniently situated	
10.16	My customers buy from me because I sell in smaller quantities than formal retailers	

RESPONDENT'S CONTACT NUMBER
(Assure respondent that this is for call-back purposes only – their responses are strictly confidential)

CLOSE INTERVIEW

11.1	No of competing sellers in immediate area	Write in number
11.2	No of non-competing sellers	Write in number

INTERVIEW NOTES OF ENVIRONMENT AND SURROUNDING AREA:

DEVELOPMENT RESEARCH | **AFRICA**

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ENUMERATOR DECLARATION

I declare that I have asked this entire Questionnaire as it is laid out and as I have been briefed.
I declare that all the responses and answers recorded by me in this Questionnaire were given to me by the correct respondent. This Questionnaire has been fully checked by myself.

PLEASE PRINT:

First name	
Surname	
Signature	
Date	

QUALITY CONTROL RECORD SHEET

QUALITY CONTROL				CORRECTION		CORRECTION CHECKED	
Date	Initial	Q number	Description of problem	Date	Initial	Date	Initial

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