

**AN EXAMINATION OF BARRIERS IN TRANSITIONING FROM INFORMAL
TO
FORMAL BUSINESS SECTOR IN WINDHOEK (NAMIBIA)**

**A THESIS SUBMITTED IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS
FOR THE MASTER OF BUSINESS ADMINISTRATION (FINANCE)
DEGREE**

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BY

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DECLARATION

I declare that this dissertation titled *An examination of barriers in transitioning from informal to formal business sector in Windhoek (Namibia)* is my own work, that it has not been submitted for any degree or examination in any other University, and that all the sources I have used or quoted have been indicated and acknowledged by complete references.

Jefta Jeomba



October 2021

Name of Student

Signature

Date

The study examined the barriers in transitioning from the informal to the formal business sectors in Windhoek (Namibia). The statistics in Namibia indicate that there are several informal businesses in Namibia that have the potential to boost the economy. However, the transition of these informal businesses to formal businesses is not satisfactory. Thus, the study was carried out to examine barriers contributing to this slow formalization of informal businesses. The study was premised in the pragmatic research paradigm and followed the mixed methods approach. The mixed methods approach was used to draw upon beliefs, views and experiences of informal entrepreneurs on the barriers in transitioning from the informal to the formal business sectors in Windhoek. A sample of 40 businesses was drawn from five business categories. Convenience sampling technique was employed to select 40 participants who were administered with the questionnaires, which contained both close-ended and open-ended questions. Quantitative data collected from the section of the questionnaire which had close ended questions was analyzed through descriptive analysis and the frequency graphs, charts and tables were used to present the data. Qualitative data collected through the section of the questionnaire which had open ended questions was analysed thematically. The findings of the study indicated that advancements in technology challenges and lack of capital funding from banks and the government are the major barriers for the transitioning of the informal businesses to formal businesses. The study concluded that for business to be formalized, they need information, government support and sufficient technological advancement to assist them in transitioning. The study recommends that the government needs to consider the informal sector as fundamental part of its economy and come up with some solutions to integrate it into the main national economic programs, to facilitate the transition to formal sector, which will result in a high contribution to the country's GDP.

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MAC	Manufacturing Advice Centre
MoT/MoPSSC	Ministry of Trade, Ministry of Finance and Social Security Commission
MSME	Micro, Small and Medium Enterprises
NSIC	National Small Industries Corporation
NYDA	National Youth Development Agency
SEDA	Small Enterprise Development Agency
SIDBI	Small Industries Development Bank of India
SMEs	Small Medium Enterprises
SSA	Social Security Administration
SSC	Social Security Contributors
SSI	Small-Scale Industries
UCT	University of Cape Town

LIST OF ACRONYMS

BEE	:	Black Economic Empowerment
GDP	:	Gross Domestic Product
ILC	:	International Labor Conference
IOL	:	Institute for Open Learning
ISO	:	International Organisation for Standardization
LEAP	:	Lean Enterprise Acceleration Programmes
MAC	:	Manufacturing Advice Centre
MoTMoFSSC	:	Ministry of Trade, Ministry of Finance and Social Security Commission
MSME	:	Micro, Small and Medium Enterprises
NSIC	:	National Small Industries Corporation
NYDA	:	National Youth Development Agency
SEDA	:	Small Enterprise Development Agency
SIDB I	:	Small Industries Development Bank of India
SMEs	:	Small Medium Enterprises
SSA	:	Social Security Administration
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INTRODUCTION AND BACKGROUND

1.1 Introduction

According to Sparks and Baines (2010), informal firms are an untapped pool of entrepreneurial energy that is held back by government regulations. In most developing countries, the informal sector makes up to about half of economic activity. They are a source of livelihood for many people, yet their role towards economic development remains unclear. Unleashing the potential that SMEs have, by reducing formalization requirements, would encourage growth and development. Formal entrepreneurs pay taxes, raise capital, and access public goods. These entrepreneurs are often educated and find it more profitable to run bigger formal firms rather than the smaller informal ones (Gomber & Lounsbury, 2012). Informal entrepreneurs, on the other hand, have limited education and they run small businesses that produce low-quality products for low-income customers using little capital and adding little value. Levy (2008), believes that informal entrepreneurs enjoy the advantages enjoyed by informal firms and workers from avoiding taxes and regulations.

Almost 40,000 SMEs are currently registered in Namibia and they do contribute to the Namibian economy in a number of ways such as employment creation and generations, adding value to the gross domestic product of the country, helping towards the realization of the government 2030 vision agenda just to mention a few of them (Ogokobor & Ngeendepi, 2012). Even though a large number of small businesses are registered, many small businesses still operate in the informal

CHAPTER ONE

INTRODUCTION AND BACKGROUND

1.1 Introduction

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sector and they are not registered or recorded by the government (All Africa, 2018). These businesses include barbershops, kapana, cuca shops, shebeens among many others. According to World Bank (2013), making it easier to formally register a business is the area of business regulatory policy has seen most attention from policymakers over the past decade, with the Doing Business project of the World Bank finding 368 reforms took place in 149 economies between 2003 and 2012. As a result of these reforms, the world average time to start a business has fallen from 50 days to 30, while the cost of starting a business is one-third of what it was (World Bank, 2013). However, despite these reforms, the majority of businesses in most developing countries remain informal. By formality, we mean whether a business is registered for the relevant municipal licenses and with the tax department.

1.2 Background of the study

It is almost indisputable that many small businesses are operating in the informal sector of the Namibian economy, especially in Windhoek. All Africa (2018) defined informal sector as non-recorded business activities that fail to contribute to the gross domestic product of the country. These kinds of business activities are unregistered with formal institutions like the Ministry of Trade, Social Security Commission, Ministry of Finance and National Planning Commission. Larsson and Svensson (2018) state that the informal economy constitutes the majority of economic activities which are located 'outside' of regulated business activities. Therefore, they are hardly controlled, supported, audited and taxed by the government. According to Larsson and Svensson (2018), the informal sector is a large segment of self- or sporadically employed low-earners with no job security which implies the absence of social protection, health coverage and written contracts. These businesses operate for many years in the informal sector, but yet, they fail to transform from the informal to the formal sector.

The same applies to Namibia as reported by All Africa (2018) that the informal sector in Windhoek consists of countless small businesses like barbershops, hair salons, taxi operators, hawkers of fruit and vegetables, plumbers, welders, builders, tillers, shebeens, gambling machines, roasted meat practitioners and many more. This is exactly what Shindondola-Mote and Ohlsonn (2013: p.6.) said, “In Namibia, more especially in Windhoek, people sell *kapana* (roasted meat) along the road. There are also small stalls offering sliced meat, operating in the informal sector”. Having observed the business environment in Windhoek, one would have an unanswered question as to why many small and medium enterprises continually operate in the informal sector. It is against this background that it is imperative to conduct thorough research to gather evidence which will help the researcher, governmental institutions and the general public understand the barriers which hinder informal businesses from transitioning to the formal sector.

1.3 Statement of the problem

Namibia Statistics Agency (2017) indicates that 66.5% of the employed population is in informal employment. The report further indicated that 57.3% of the employed population in urban areas were in informal employment, of which the employed population in the informal sector stood at 55.6% in Khomas Region. These statistics indicate that a large number of businesses in the Khomas Region are operating in the informal sector of the economy and do provide a large number of jobs there. According to Julius et al. (2020), the informal sector is continuously expanding everyday with Namibian women and men who are excluded from the formal sector. This is an indication that the transition of informal businesses in Namibia to formal businesses is moving at a slow pace.

According to Dzansi and Tasssin-Njike (2014), ‘graduated’ businesses are able to derive benefits associated with formalization while society in general will also benefit through increased job creation, tax contributions and social responsibility contributions. However, when a business fails to ‘graduate’ and remains informal, it will continue to provide owners with only survival income whilst depriving the state of taxes. Some entrepreneurs have been operating in the informal sector ever since they established their businesses and failed to transform into formal enterprises. According to Shindondola-Mote and Ohlsonn (2013, p.3.), the Namibian economy is unable to create sufficient formal sector jobs in the short term to accommodate the majority of the economically active population, hence the Namibian job market is characterised by a relatively small formal sector alongside a growing informal economy”. Shindondola-Mote and Ohlsonn (2013) further said that the Namibian informal economy is growing and is increasingly becoming an important source of employment for many people”. But the question remains: why?

This is a clear indication that there are barriers inhibiting entrepreneurs from operating in the formal sector of the economy. This problem requires a well-designed research study to examine the factual problem in terms of barriers facing small businesses in the informal sector when attempting the transition to the formal sector and thereby growing their businesses.

1.4 Research objectives

The primary objective of the study was to examine the barriers impeding the transitioning of SMEs from the informal to the formal business sector in Windhoek.

This objective is split into the following specific objectives:

- To determine factors influencing entrepreneurs to operate their businesses in the informal sector in Windhoek.
- To identify barriers to the transition of businesses from informal to formal sectors of the economy in Windhoek.
- To establish strategies that can be used for transitioning the informal economy to formalization in Windhoek.

1.5 Significance of the study

According to Maillard (2013), the significance of the study reflects the extent of the contribution made by the study to improve our understanding, to change a concept or to promote a new hypothesis in a particular field of research. Significance of the study which is referred to as the “rationale” of the study is crucial because it is the research area in which the researcher tries to convince an audience that the research study is worth undertaking (Muhammed, 2017). Firstly, the study is important to the small and medium entrepreneurs who are running their businesses in the informal sector country-wide because the findings would indicate the importance and benefits of upgrading informal SMEs to formal businesses. Secondly, the study would help policy makers, especially in the Ministry of Trade and Industry, to establish relevant policies, as the findings will impart clear knowledge and understanding of factors influencing most SMEs to operate in the informal sector. The findings of the study would be a stepping stone to policy makers in transforming entrepreneurship activities from the informal sector to the formal sector. Thirdly, the study’s findings would be used by the policy makers and small entrepreneurs to draw up significant transitional methods of SMEs from the informal to formal sectors.

Since there is no entrepreneurial policy regulating the transformation of businesses from the informal to formal business sectors, the research findings would contribute towards a drafting of a policy that would smoothly assist entrepreneurs in the informal sector to easily transform their businesses to the formal sector of the economy. Finally, the study's findings would be used as a literature review by future researchers.

1.6 Limitations of the study

Entrepreneurs operating in the informal sector of the economy are scattered all around Windhoek and can almost be found around all corners of Windhoek. Consequently, it was difficult for the researcher to visit all the places of informal businesses to gather the needed information. Language barriers was considered to be a limitation as it negatively impacted communication between the researcher and some participants. Some selected entrepreneurs did not clearly understand the research questions which were posed in English as the mode of communication. This led to some respondents answering questions wrongly. Furthermore, time constraints affected the information gathering process as most entrepreneurs in the informal sector had little time to participate in the interview.

1.7 Delimitation of the study

The research study was strictly limited to informal businesses in Windhoek. Entrepreneurs operating in the formal sector in Windhoek and informal entrepreneurs outside Windhoek were not included in the study. Entrepreneurs outside Windhoek were excluded from the study because the research period was limited and could not allow a large number of participants to be covered nor the researcher to travel to different places of the country for data collection. Informal traders

in the industries like food and beverage, beauty, tailoring, artisans and retail participated in this study.

LITERATURE REVIEW

1.8 Outline of the study

This dissertation is composed of five chapters. Chapter one, which is an introductory chapter, introduced the study by discussing the background of the study, problem statement, research objectives, significance of the study, limitations, delimitations, and outline of the study. Chapter two discusses the literature review of the study, which is divided into subsections according to the research objectives. Chapter three explains the research design, research instruments, research population and sampling technique, data collection, data analysis and research ethics. Chapter five presents and interprets gathered data, study findings, conclusions, and recommendations.

1.9 Summary

This chapter introduces the research by clearly explaining the research background, problem statement, objectives, significance, limitations and delimitations of the study. As a result, this chapter is followed by the literature review chapter.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter provides the literature review and theoretical framework on the issue of upgrading from informal to formal businesses. Also, it looks at the importance of the formal economy or the formal sector. This forms the basis for the examination of the barriers that hampers small businesses from growing into bigger businesses. The chapter discusses the following sections: definition of terms, examples of informal sector businesses found in Windhoek, factors contributing to informal businesses, the importance of formalization of businesses, lessons from other countries, challenges facing informal businesses, what formalization of a business is, and the barriers to formalization.

2.2 Definition of terms

- Transitioning

The process or a period of changing from one state or condition to another (Al-Yateem and Docherty, 2015). Only by one author.

- Informal sector

All Africa (2018) defined informal sector as non-recorded business activities that fail to contribute to the Gross Domestic Product (GDP) of the country. Also, Fourie (2018) stated that the informal

sector mostly comprises of very small enterprises often based in poor neighborhoods and generates quite low earnings for enterprises and individuals, whereas in terms of gross domestic output, the informal sector is estimated to contribute about 6% to the GDP.

- Formal sector

Activities that are taxed and monitored by the government and activities involved are included in the GDP (Kay, 2011).

2.2.1 Transitional theories

As suggested by La Porta and Sheleifer's (2014) definition, theories of change provide 'a way to describe the set of assumptions that explain both the mini-steps that lead to a long-term goal and the connections between activities and the outcomes of an intervention. The change can be likened to the transition from being informal to becoming a formal business. A theory of change can be perceived as producing an outcome that describes how activities lead to outcomes, highlighting assumptions, justifications and pathways which 'unpack the black box of causality', or as a procedure. Emphasis is placed on conceptual thinking and ongoing reflection or cycles of learning designed to understand the relationship between activities and outcomes (La Porta & Shleifer, 2014).

Among the lessons from the use of theories of change in international development are that they can have both positive and negative impacts. Understanding of theories of change in development range from a highly technical planning tool – an extension of the assumptions made in a log frame, for example – to a politicized approach to understanding how particular actions impact on power relations in a specific context. Much of the enthusiasm for theories of change has come from what

might be called the 'results agenda': a desire to demonstrate that donor funds in international development are delivering change and 'value for money'. Whilst such approaches might seek to use the language of participation, they are often driven in a top-down way and prioritize donor agendas. However, theories of change can also be envisaged as a process-based, problem-solving, reflective and participatory approach in which a change model is developed and continuously revisited, inclusive of a range of stakeholder perspectives. Theories of change can also facilitate a move beyond a focus on projects and programmes to a reflective and flexible understanding of how change takes place in a given context and community, and what role organisations and interventions could play in supporting such change.

Sustainability transitions

A sustainable transition is a long term process of changing the structure of a system or network. Sustainable change is therefore change that is directed from unsustainable to sustainable modes of production and consumption systems. The change transitions are a long term process. Sustainability transitions, therefore, happen when change is directed from unsustainable to sustainable modes of production–consumption systems. The change entails switching technology, business, industries, value chain and distribution, user-practices, values, and culture. Sustainability transitions refer to a complex and long-term process involving a web of multiple actors operating at various levels of a system. Transition management therefore refers to an analytical and normative approach that derives theoretical insights from transition dynamics, complex systems thinking, resilience theory, and governance approaches. The framework advocates for effective governance of a transition towards sustainability through four levels of activities.

2.3 Examples of informal sector businesses found in Windhoek

(a) Food and Beverage Industry - Kapana meat sellers in Katutura



(b) Beauty Industry – A hairdresser in Wanaheda



(c) Tailoring Industry – Dress tailoring at Shetu Market in Katutura



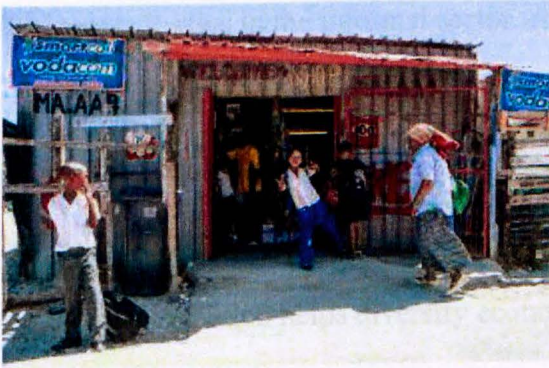
(d) Artisans Industry – Auto and Tyre Repairs in Katutura



(e) Retail Industry – Spasa shop in Khomasdal

2.4.1. Income generation in response to poverty and rural-urban migration

It is generally believed that the informal sector is the foundation and backbone of the economy in many countries. Everywhere you go, in every country, be it a developed nation, a developing or a newly-developed country, the situation is clearly visible as one witnesses people operating



2.4. Factors contributing to informal business

Sparks and Barnett (2010) have highlighted some factors that have contributed to employment growth specifically in the Informal Sector (IS) in Sub-Saharan Africa (SSA). These factors are urban bias and labour laws; rural-urban migration; structural adjustment policies; difficulty in establishing new firms; peace and demobilisation of the military. Some of these factors are also mentioned by other scholars. For instance, Ikoja-Odongo and Ocholla (2004) in their study of the IS identified demobilisation of soldiers as a major reason for the growth of the sector in Uganda. Other factors include retrenchment in the public sector; layoffs in public enterprises, the increasing numbers of school dropouts without formal employment; the on-going rural-urban migration, the increasing entry of women and children into the IS; and “frozen” vacant positions in the public sector. Gunther and Launov (2012) found in their study of Cote d’Ivoire, that the IS includes both individuals for whom informality is a strategy of last resort to escape unemployment and individuals who have a comparative advantage in the IS.

2.4.1. Income generation in response to poverty and rural - urban migration

It is generally believed that the informal sector is the foundation and backbone of the economy to many countries. Everywhere you go, in every country be it a developed nation, a developing or a newly developed country, the situation is clearly visible as one witnesses’ people operating

business activities in the informal sector. According to Lean Enterprise Acceleration Programmes (LEAP) (2015), informal trading has always been playing a role in South Africa's economy as it creates livelihood opportunities, contributes to alleviating poverty and serves as a safeguard between employment and unemployment. This was supported by Khumalo (2015) who noted that employment creation helps diversify economic activity, makes a significant contribution to trade, provides raw materials to local producers, and also helps in alleviating poverty and sustaining human livelihoods. In relation to what LEAP (2015) and Khumalo (2015) in agreement with Ghatak (2017) states that India's informal sector is the backbone of the economy as it employs the vast majority of the workforce, and the formal sector depends on its goods and services. Ghatak (2017) further states that the nation's quality of life hinges on things becoming better for masses of informally employed people.

According to Dasgupta (2016), many female employees who are being underpaid are in the informal sector in Asia. Information issued by African Development Bank (ADB) (2013) showed that many rural and urban workers have informal jobs in Africa, of which the majority are women. In addition, Weidlich (2006) indicated that the majority of entrepreneurs in the informal sector are women who are young. ADB (2013) pointed out that the informal sector which makes up 55% of Sub-Saharan Africa's GDP is habitually linked to the poverty and unemployment rate. Weidlich (2006) notes that the informal economic sector in Namibia provides daily income to many Namibians; hence it should not be ignored. Dasgupta (2016) said that people run their businesses in the informal sector to earn income and meet their basic needs, but not by choice. The 104th ILC session (2015) indicted that the lack of opportunities in the formal economy and the absence of other means of livelihood, unemployment, and inadequate social protection as well as the absence of social dialogue, are among factors contributing to informal businesses.

2.4.2. School dropouts and retrenched uneducated workers

Ledritz and Stiftung (2015) stipulated that low requirement for education, skills, technology, and capital are some of the contributing factors that contribute to many people entering the informal economy by necessity rather than by choice, in order to have access to basic income-generating activities as a means of survival. Education level, years of experience and wage differentials by sector have a significant effect on worker transitions, showing that benefits and costs vary depending on the individual's preferences and skills (Núñez, 2017).

IOL (2018) news report indicated that the level of education is a key factor affecting the level of informality. IOL further highlighted that when the level of education increases, the level of informality decreases, hence people who have completed secondary and tertiary education are less likely to be in informal employment compared to workers who have either no education or completed primary education. Having said that, Tassin (2014) noted that the decision by small business owners to formalize is motivated by their desire to grow and expand their businesses, to gain access to proper banking services, and to access government contracts and tenders. Moreover, ADB (2015) further indicated that lack of skills, education and training, lack of financial resources and infrastructure are some of the recognized barriers restricting the transformation process. Gunther and Launov (2012) note that the motivation among micro (informal) entrepreneurs in African countries is primarily in response to poverty and, by implication, meeting of immediate needs.

2.4.3 Cost of registering

A firm's decision to become formal depends on the costs and benefits of formality. There are two prevailing views of informality as suggested by Perry et al. (2007) as exclusion and exit. The

exclusion view focuses on the costs of registering. This view is most notably associated with the work of De Soto (1989), who argues that burdensome entry regulations prevent small firms from becoming formal. These firms suffer a loss in productivity as a result of remaining informal. The natural policy response should be to remove the burdensome regulations. World Bank/IFC Doing Business project, suggests that governments around the world have in recent years streamlined the process of becoming formal. Indeed, since 2004, 75 percent of the countries included in the Doing Business survey have adopted at least one reform making it easier to register a business (IFC, 2009)

2.4.4 Size of business

Informal social networks and relationships have also been associated with the growth of the IS in SSA. Meagher (1995) emphasized that social networks and relationships are important features of informal businesses in Africa. This derives from the African system of kinship which makes it possible for parents, uncles, siblings, friends, among others, to set up small informal businesses for their kin and friends and assist in subsequent matters relating to such businesses. Sparks and Bernnett (2010) referred to this kinship tendency as “pillar of resilience”, and adds that it is a feature of traditional societies. This tendency for relatives and friends to set up their loved ones in small informal businesses in SSA has a strong impact on the reduction of unemployment and growth of the IS in the sub-region.

2.5 What is formalization of business sector

Formalization of the businesses sector includes the formalization of economic units, increased compliance, extension in the application of labour and social security regulations. The formalization of jobs considers the registration of labour relations, and registration of own account

endeavors. Coupled with that, formalization leads to job creation in the formal economy in the sense that new entrants secure jobs in the formal economy; it leads to formal employment intensity of growth and prevents in-formalization of formal jobs (Tendler, 1997). Formalization entails the registration of the job and the firm with the relevant authorities. According to Khamis (2020), formal entrepreneurship is the creation of new businesses that are legally registered in a given country. It is defined as those activities of an individual or a group aimed at initiating economic activities in the formal sector under a legal form of business. It is defined as involving somebody actively engaged in starting a business the paid production and sale of goods and services that are legitimate in all respects besides the fact that they are unregistered by, or hidden from the state for tax and/or benefit purposes. There can be many reasons why firms do not formalize. Firms and employees may not have enough information on how to register or on the benefits and costs of registration. For many firms, the number of procedures and the cost and time required to register may be barriers to formalization and to entrepreneurial activity (Khamis, 2020).

2.5.1 The formalization process of informal sector

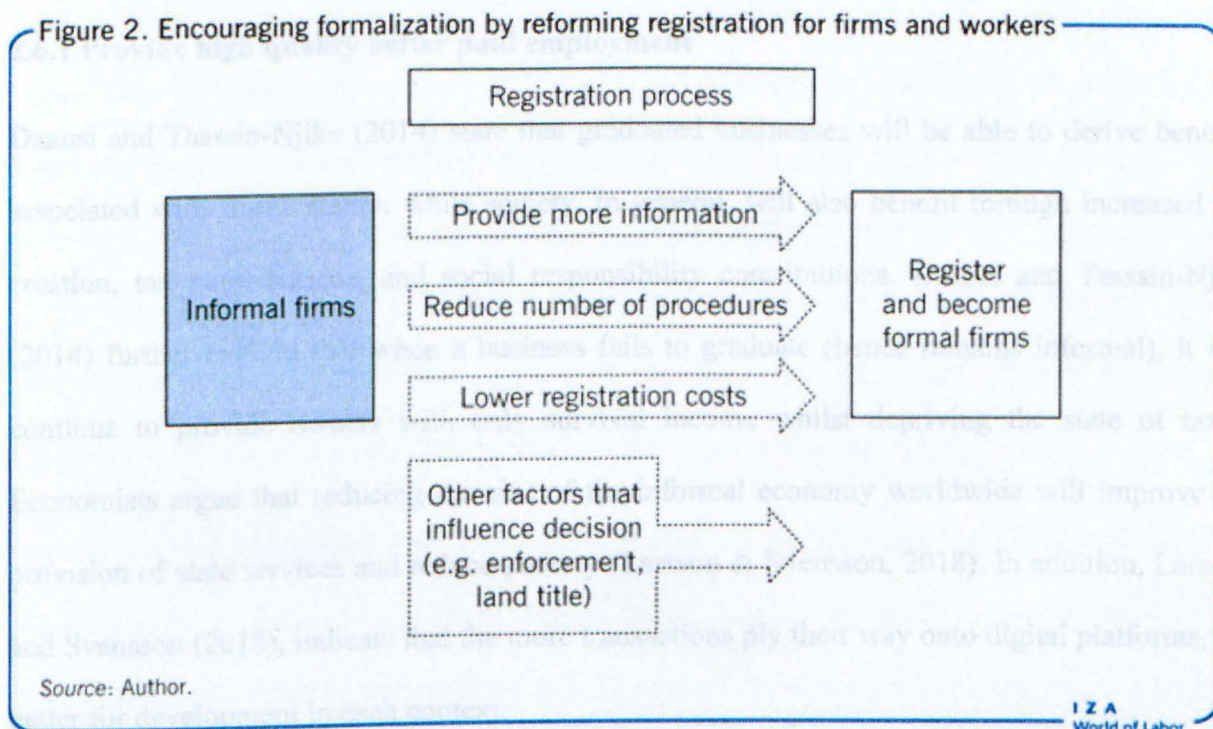


Figure 2.1. Encouraging formalization by reforming registration for firms and workers

(Source: Khamis 2020)

To encourage more firms and workers to regularize their status, the government could take several steps, including simplifying registration, lowering the cost and time to register, and making more information on registration readily available (see figure 2.1). For example, Brazil simplified its taxation system for small businesses and the state of Minas Gerais introduced a “one-stop shop”, which is a popular way of streamlining the registration process for firms worldwide. After these efforts, a government survey found 72 percent of enterprises in the state were still informal (Andrade et al, 2013).

2.6 The importance of formalization of business

2.6.1 Provide high quality better paid employment

Dzansi and Tasssin-Njike (2014) state that graduated businesses will be able to derive benefits associated with formalization while society, in general, will also benefit through increased job creation, tax contributions, and social responsibility contributions. Dzansi and Tasssin-Njike (2014) further explain that when a business fails to graduate (hence remains informal), it will continue to provide owners with only survival income whilst depriving the state of taxes. Economists argue that reducing the size of the informal economy worldwide will improve the provision of state services and reduce poverty (Larsson & Svensson, 2018). In addition, Larsson and Svensson (2018), indicate that the more transactions ply their way onto digital platforms, the better for development in each context.

2.6.2 Reinforce social contract between the state and its citizens

According to ADB (2016), there is a need for African governments to rejuvenate their policies and strategies to support the formalization of the informal sector. Issues such as effective regulatory framework, good governance, better government services, improved business environment, and improved access to financing, technology and infrastructure need to be considered in the process. The organisations LEDRIZ and Stiftung (2015) indicate that, in order to promote the transition to formality and the growth of micro to small, small to medium and medium to large enterprises, and to integrate hitherto marginalised groups into the mainstream formal economy, the Government must play a facilitating and coordinating role by formulating active labour market policy measures that influence the quality of labour supply and enhance demand which are important aspects of any integrative employment agenda. The organisations LEDRIZ and Stiftung further indicated

measures that local authorities can take to support transition which may include supporting community-based management initiatives, facilitating market access as well as increasing inward investment and local procurement. Tassin (2014) recommends government - both provincial and national - to play a more proactive role in regulating the informal economy by creating an environment conducive to their growth and development and facilitating their transition to the formal sector. Furthermore, Tassin (2014) states that informal small business owners must also be provided with information on the process of formalization and of the existing government structures put in place to support businesses in their transition phase.

According to Sandada (2014), if policy makers provide an enabling and favourable environment, the demand for formality will increase. Therefore, the government needs to provide training and advice services to informal traders because most of them need to be empowered through training programmes to acquire the skills that are needed to operate in the formal sector (Sandada, 2014). Sandada(2014) further state that the use of tax incentives for informal traders joining the formal sector could also motivate them to formalize business operations. In addition, Sandada (2014) notes that informal entrepreneurs would consider registering if the government reduces the amount of tax, provide financial assistance as a support for entrepreneurs to start and support their businesses, as well as reducing the registration procedures and requirements by making them flexible and fast. Formal firms can more easily increase production and employment, moving to a larger, more efficient scale of operation and potentially bringing in higher revenues and profits.

2.6.3 Broaden the tax base

Fourie (2018) suggested that, informality is associated with lower tax collection, restricting the government's ability to finance public services. There are several factors that could guide the design of effective policies to support and develop the informal sector and point to the need for

carefully designed and differentiated policies. Fourie (2018) further notes that the size and prevalence of existing informal markets in rural towns suggest that the provision of basic infrastructure (e.g., vending sites, storage facilities, and basic utilities) could make a significant difference to many in the informal business sector. Slonimczyk (2014) indicates that several developing countries have attempted to simplify the tax code and reduce the tax burden in hopes of formalization. Formalization can boost tax revenues.

2.6.4 Formal sector

According to Nunez (2017), the formal sector has an organised system of employment with clear written rules, recruitment agreements, and job responsibility. A standardised relationship between employers and employees is maintained through a formal contract. The difference between the formal and informal sectors is that the grey economy of the informal sector is neither monitored nor taxed by the government. Activities of the informal sector are not included in the country's gross domestic product (GDP). Sparks and Barnett (2010) note that the formal sector is largely regulated and properly registered with governing authorities. These companies include service providers, such as financial institutions, mining, and quarrying, electricity and water supply, construction, wholesale retail, motor trade, hotels and restaurants, and transport and communication. The informal sector is largely characterized by single individual commercial activities that are generally not formally registered, for example, meat vendors, mechanics, small butcheries, fat cake sellers, dressmakers, etc. In Namibia, informal traders are made up of, but not limited to, vegetables merchants, cross-border traders, builders, plumbers, hairdressers, private tutors, tyre repairers, motor mechanics, panel beaters, tailors, and taxi drivers (Sparks & Barnett, 2010).

2.7 The barriers to formalization

According to Tesiorna (2016), there are many factors hindering the formalization of informal businesses, such as inappropriate macro-economic policy frameworks, incoherence of legislations and policies, regulatory reforms, and lack of access to resources such as training, technology, and the market. Factors, such as the inappropriate macro-economic framework, need to be integrated into the national economy. The informal economy needs mainstreaming with national legislation. The business environment needs to be properly focused. Statistics of the operating businesses being formal or informal need to be regularly updated (Tesiorna, 2016).

2.7.1 Taxation and labour laws

Slonimczyk (2014) asserts that an increasing burden of taxation and social security payments is the major driving force underlying the size and growth of the shadow economy in developing countries. According to Slonimczyk (2014), individuals might choose to go informal out of concern that the tax system is unfair, and the social norms also matter the most. Thus, in many developing countries where there is a “culture of informality,” policies attempting to reduce informality must contend with this fact, says Slonimczyk (2014). ADB (2016) stipulates that tax payments by businesses in the formal sector, prevent informal sector operators from formalizing their activities.

2.7.2 Redundant application process and difficulty in establishing new firms

A study by Tassin (2014) revealed that the quest for growth is, however, hindered by long queues endured by business applicants during the process of formalization; resulting from a lack of adequate and relevant information on the process of formalization. In addition, the registration process is very long and hectic because it comprises impractical requirements (Tassin, 2014).

Moreover, Tassin (2014) indicated that the lack of support from government is another barrier hindering informal businesses to transition to the formal sector. Tassin (2014) further revealed that adequate information on the process of formalization and self-trust are key coping mechanisms needed by small business owners to successfully progress or transit to the formal sector. Firms can be encouraged to register by providing them with more information about how to register and by reducing the cost and time it takes to register.

2.7.3 Liquidity and structural adjustment policies

Liquidity challenges, high taxes from the government, the lengthy registration process to apply for a formal business permit, an uncondusive business environment and a lack of financial assistance, neither from banks, nor from the government, are factors negatively affecting the transition of businesses from the informal sector to the formal economy. Maloney (2004), notes that more attention should be on the balance between the costs and benefits of formality. The decision to become formal is comparable to any other investment decision taken by the firm. Each firm compares its perceived costs of being formal—including both initial registration and ongoing costs (e.g., tax payments)—with its perceived benefits of being formal (e.g., access to banks and courts and to government contracts). More able firm owners with larger efficient scales rationally become formal as they grow large enough to benefit from the formal institutions of civil society. Smaller, less productive, firms do not find formality desirable because they receive no benefit from access these formal institutions (Maloney, 2004).

2.7.4 Heavy regulations

Koroma, Nimarkoh, You, Ogalo, and Owino (2017) notes that the formalization of enterprises in many developing countries is cumbersome mainly due to heavy regulations, which generally bring

longer delays and higher costs of public services, higher corruption, and fewer investments. Koroma et al. (2017) further state that the checks and balances in government are also the weakest; and the possibility of using regulation to harass entrepreneurs and extract bribes is high. The process of registering a business in many other developing countries, with multiple levels of registration.

2.7.5. Limited stock

Sandada (2014) highlights barriers such as the tedious registration process, and lack of stock, resulting from the lack of financial assistance from the government, which in turn affects the transition to the formal sector. The limited stock brings in limited income that hardly grows the business as expected. That is why most small businesses remain literally small forever. Formalization helps firms gain access to formal credit, comply with the law, and avoid paying fines.

2.8 Lessons from other countries

2.8.1. South Africa

South Africa's 1995 White Paper outlined, among other things, the need for the government to create an enabling legal framework, facilitate access to information and advice, boost procurement from small firms, and improve access to finance and affordable physical infrastructure. The drafting of the White Paper led to the 1996 National Small Business Act and the launch in the same year of Khula Enterprise Finance Limited, a government agency to finance small businesses, and Ntsika Enterprise Promotion Agency to dispense non-financial support. But in 2003 after calls to create a "one-stop" body where small businesses could get assistance from reputable sources, the government decided to do away with Ntsika, by merging it with the Community Private

Partnership Programme and the successful Manufacturing Advice Center (MAC) programme, to form the Small Enterprise Development Agency (Seda) in 2004 - to dispense market support and business advice to business owners (Timm, 2011, p.20).

- **Market access**

The government's key focus with regards to small businesses has been on supporting black entrepreneurs, which the 1995 White Paper pointed out were the most marginalised group during apartheid. Two policies, aimed at helping more black people to become active in the economy and to aid small business owners, have been developed; the 2000 Preferential Procurement Policy Framework and Economic Empowerment (BEE) codes of good conduct (Timm, 2011).

The BEE codes, which came into effect in 2008, award points to businesses, based on seven elements, namely the percentage of black ownership, black management, black staff, black staff trained, procurement from black suppliers, business or financial assistance to black small businesses, and corporate social investment. Under the BEE codes, businesses with an annual turnover of above R35 million can score 15 points on the BEE scorecard if they spend 3% of their net profit on Enterprise Development. For those businesses with an annual turnover of R35 million and below, the target is 2% of net profit. Yet to date there has been no study carried out on the impact BEE or preferential procurement has had on small business promotion. Presently the South African government hopes that large and medium firms will step in to assist small businesses by adopting enterprise development to score BEE points (Timm, 2011). While this would go some way to expanding support and finance for small businesses, the BEE codes' strong emphasis on black ownership has inadvertently created a rent-seeking behaviour among wealthy or skilled black businesspeople, in effect curbing entrepreneurship among this group. Instead of using their

skills or capital to start their own businesses, many have instead chosen to buy into existing large, often listed, companies.

Black ownership may only form one of seven codes on the BEE codes of good conduct, but it is often perceived by companies to be the quickest and most visible way to transform. Companies with high BEE scores can win business with government. According to Nazeem Martin, managing director of small business financier Business Partners, this not only acts as a deterrence to entrepreneurship, but it means that the number of wealthier and perhaps more creative black businessmen are drawn away from starting productive, innovative enterprises (Timm, 2011). This has a direct effect on limiting manufacturing and high-growth companies, thus in effect further threatening to deindustrialize the country. BEE also threatens the tax base from growing, putting more strain on the country and its already 14 million welfare recipients

- **Business support**

According to Small Business Researchers(SBP), despite numerous initiatives over the last 15 years aimed at both high-end enterprise development, and the encouragement of micro enterprises, government support agencies and initiatives “have been less successful than intended”, adding that this could also be “inferred from the institutional re-jigging” (Timm, 2011, p.21). SBP concludes that the impact and achievements of the government’s initiatives have “fallen disappointingly short of aspirations (Timm, 2011, p.21). The small business research organisation points out that, since 2009, there has been a large-scale acknowledgement from those inside as well as outside of the government that the significant funding and support initiatives for small businesses have not had the desired effect in growing the sector. On top of this awareness of government, support has remained limited in the country: a 2007 report by Centre of Entrepreneurship at the University of

Cape Town's (UCT) Graduate School of Business revealed that in Gauteng just 13.5% of entrepreneurs had heard of Seda and 1.3% had accessed the agency (Timm, 2011).

In the Western Cape, awareness of Seda stood at just 10%, with 0.5% having visited a Seda branch there. Added to this, in the recent Fin Scope 2010 South Africa Small Business Survey only 3% of entrepreneurs reported that they had heard of Khula, while 10% said they had heard of National Youth Development. When it comes to selling to the government, the Preferential Procurement Policy Framework Act of 2000 provides that, depending on the value of a government tender, 10% or 20% of the points awarded to a bidder should be for the percentage of ownership in the bidding company of women, blacks or disabled people (Timm, 2011). The act is presently being aligned with the Black Economic Empowerment (BEE) codes of good conduct, which currently only apply to businesses bidding for work from the private sector (Timm, 2011).

South Africa's small business policies have done little to create effective support agencies to help support business owners to start up and grow their businesses (Timm, 2011). Added to this, awareness of many of the government's support schemes also remains very low. Much of this is because of the government's lack of coordinated strategies aimed at small businesses and a government support architecture which is both clumsy and confusing – both to business owners and to government officials themselves (Timm, 2011). The government simply has too many agencies trying to assist business owners, which are in turn spread across two different departments – in turn confusing government officials (Timm, 2011). Added to this, the country's BEE legislation has acted as a deterrent to skilled black people starting their own businesses (Timm, 2011). The government should take active steps to get entrepreneurs to steer away from such rent-seeking behavior by recrafting BEE legislation so that it incentivizes and supports black

Rural Industries and the Ministry of Small Scale Industries in 2007) serves as the central authority which assists the states in their efforts to support small businesses (Timm, 2011,). The Ministry is empowered by the 2006 MSME Development Act which aims to boost support and promotion of small businesses (Timm, 2011). Among other things, the act makes it easier for business owners to register their businesses, allows for the setting up of facilitation councils to deal with late payments owed to small firms and provides for the crafting of preferential procurement policies by government for small enterprises (Timm, 2011). The Government of India has several support schemes for small businesses, including schemes aimed at increasing the competitiveness of small firms, making it easier to access finance, export and helping firms to acquire new technology (Timm, 2011).

However, business owners and small business associations offer a mixed account of how the Indian government has fared when it comes to supporting small businesses. Of note is the fact that the awareness of government schemes is very low (Timm, 2011). A study by consultancy Milagrow Business & Knowledge Solutions shows that only between 20% and 30% of micro, medium and small enterprises are aware of various government initiatives (Timm, 2011). This is somewhat similar to the situation in South Africa. Milagrow's Rajeev Karwal believes part of the problem is that the MSME ministry plays only a minor role in the Indian central government and is often subjugated by the various industries ministries in central government. Most of these ministries are dominated by big businesses (Timm, 2011).

- **Market access**

The 2006 MSME Development Act introduced a new definition for small businesses (MSMEs) which the government applies to determine which enterprises can benefit from its support schemes,

but critically. It also introduced a system by which small businesses waiting on payments from corporate or public-sector organizations can approach facilitation councils to settle outstanding debts (Timm, 2011). On the other hand, according to some scholars, the act has made little if no difference to small enterprises in India; and in the words of the general secretary of Fisme Anil Bhardwaj, it is “basically a promotional act” which “doesn’t have any teeth” (Timm, 2011). Added to this, not all the facilitation councils have been set up so far. Only 13 of the country’s states and territories had set up, one as of March 2010. However, the uptake of cases to the councils is affected by business owners staying away from the councils, fearing that though they may be able to recover their outstanding money by taking an entity to a council, that entity will simply never want to do work with them ever again (Timm, 2011)

- **Business support**

The National Small Industries Corporation (NSIC) which has been tasked by government to support small businesses was also criticised, including most notably by a leading small-business financier running a government-backed fund and by Milagrow’s Karwal. Karwal points out that the NSIC has made next to no impact in supporting small businesses, other than in its warehousing of raw materials programme. Dr H.P. Kumar, the NSIC’s chairman and managing director, however disagrees (Timm, 2011).

He says the corporation has made an impact and has been “highly successful” in assisting small enterprises. He points out that the amount of total manufacturing sector output contributed by MSMEs and the fact that these entities contribute 40% of exports is evidence of this (Timm, 2011).

Added to this, the sector has raked up growth of 12% to 13% in recent years. Kumar’s view is that the sector needs further support, not protection or reservation or direct grants and subsidies, but

rather support through programmes like the government's scheme which subsidised ISO 9001s, to build the capacity of small businesses (Timm, 2011). On the other side, new developments in India could introduce changes to small business support and the business landscape. In August 2009, after a meeting with 19 small business associations with Prime Minister Manmohan Singh, the prime minister constituted a task team in September that year to investigate ways of boosting support to small businesses (Timm, 2011).

The associations highlighted a few things, such as the problem of obtaining finance from banks, the need for a focused procurement policy, the need for prompt payment of small businesses and simplification of labour laws. The task force subsequently submitted its report to Singh (in January 2010). An expert group was formed by the government to look at recommendations for the promotion and development of micro, small and medium units.

The various problems India faces around business support and, as a result of its less than satisfactory institutional landscape, are being dealt with following the task force meeting to ensure a further boosting of small businesses. One of the recommendations that has emerged from the resulting report to target at least 20% of the central government's purchases, from micro and small enterprises (MSEs), has, however, since been done away with (Timm, 2011). Currently, the Development Commissioner (MSME) is the focal point for all policy matters, the formulation of various promotional and developmental schemes as well as channeling certain incentives and subsidies to the MSME sector. The Small Industries Development Bank of India (SIDBI) is the principal financial institution for financing and related promotional and development work for small businesses, while the National Small Industries Corporation Limited (NSIC) has been set up to facilitate MSMEs in procurement of raw material and helping in marketing of their products (Timm, 2011). The idea is that the proposed independent body could use the existing structures of

these organizations after making appropriate changes in their charter and mandate. India's support for small businesses has been less than impressive, in a country also marred by high corruption. This may well play a part, along with the country's confusing and clumsy government support architecture for small businesses (Timm, 2011).

2.9. Challenges facing Informal Business Sector in formalizing their businesses

According to Tamaro et al. (2016), despite the role played in the economy, SMEs are still faced with challenges that hinder their growth. Up to 75% of SMEs fail within the first five years of existence and indicates that the most cited causes of the failure of SMEs include poor management skills, limited financial resources, a lack of proper book keeping and government regulation (Appels, 2010). Some challenges experienced by the informal traders include lack of support from the local municipality, structural challenges like lack of ablution facilities and limited access to electricity, and overcrowding of small businesses in one area due to limited space (Kudu, 2001).

2.9.1 Poor management skills

Baporikar et al (2016) carried out a study in Namibia on the challenges faced by small businesses and concluded that the limited management skills possessed by owners and managers of SME often leads to failure of SMEs. Most SME owners do not have basic management skills or formal training in business management which makes it difficult to manage the enterprise (Appels, 2010). Some of the SMEs at times have limited funds and so may not be able to afford to hire trained personnel to manage the enterprises as compared to larger enterprises that can afford to hire experienced and knowledgeable managers (Petrus, 2009).

2.9.2 Government regulation

Petrus (2009) argues that tax systems are not conducive for the growth of SMEs but rather have a negative effect on the attempts to increase wealth. The degree of difficulty of the tax legislations, on SMEs, and subsequent paperwork is among the major hurdles for SMEs. SMEs can still play a significant role in economic development and wealth creation if entrepreneurship is encouraged by legislation and not discouraged by tough laws (Petrus, 2009).

2.9.3 Poor planning

Petrus (2009) defines planning as 'the design of a desired future', and one of the best ways of planning is coming up an action plan of what is intended. Planning helps in determining the effective way of apportioning the limited resources of an enterprise such as money. Planning is important in identifying objectives and targets that need to be met and come up with efficient ways to reach the targets so SMEs need better planning to succeed (Petrus, 2009). Analoui and Karami (2003) concluded that SMEs fail because of the following reasons;

- Nepotism;
- Limited technical skills possessed by the entrepreneur;
- Inadequate records;
- Absenteeism in leadership and
- Poor business location

2.9.4 Cost cutting techniques

SMEs sometimes apply cost cutting measures which result in poor service delivery (Kambwale et al., 2015). Sometimes SMEs deliver poor quality work and often miss deadlines and this leads to

disappointed customers who may not be willing to come back again or sometimes give a bad report on the enterprise (Monks 2010).

2.10 Strategies to promote the formalization of informal businesses

According to Ogbokor and Ngeendepi (2012), the Khomas region, particularly the Municipality of Windhoek, has limited employment creation capacity to accommodate the large number of human resource migrating into the city from the rural areas and smaller towns. The government needs to promote small businesses because they are self-sustainable and start productive activities on a local and regional scale, since small businesses serve as an important source of income generation and poverty reduction (Ogbokor & Ngeendepi, 2012). There is the need to identify and develop appropriate financing models for SMEs in Namibia. Government could develop SME friendly loaning systems so that SMEs can have access to funding. This could be a strategy that could be used to encourage SME growth and registration.

According to Muronda and Muronda (2014), formalisation of SMEs brings about job creation and employment, it is therefore imperative to ensure that more SMEs are registered by providing an enabling environment to facilitate business operations that increase profitability, enhance expansion, job creation and employment. In India a company registered as a Small Scale Industry under the MSME Act enjoys several benefits including exemption on interest in the overdraft facility, bank financing and subsidies on the purchase of machinery (Muronda & Muronda, 2014). The taxes and fees that are expected to be paid by small businesses on registering their businesses are high and burden the businesses. This causes many SME owners to keep operating informally. In order to encourage SME registration, taxes and fees paid by SMEs could be reduced to encourage registration (Muronda & Muronda, 2014). Ogbokor and Ngeendepi (2012) believe that

simplification of the registration process can lead to an increase in the number of businesses registered in Namibia.

Ogbokor and Ngeendepi (2012) carried out a study on the challenges that are faced by SMEs in Namibia and concluded that there is need for management and training capacity building activities for SMEs. This would encourage SMEs to be registered because they would get training on how to manage and run their businesses. Ogbokor & Ngeendepi (2012) also suggested a platform where small business owners would market their products and services which would expose them to more customers. Such a platform would encourage small businesses to register because it would benefit the SMEs.

2.11 Conclusion

This chapter discussed the literature available on the topic in order to serve as a guide to the research project. The review of literature focused on the factors that acts as hindrance in the transitioning of informal businesses to formal business. The chapter also looked at the different role of the informal sector in the economy as well as the strategies that maybe utilized to speed up the transition to formal businesses. The following chapter discusses methodologies used by the researcher in gathering data.

CHAPTER 3

RESEARCH METHODOLOGY

3.1. Introduction

This chapter focuses on the research methodology which was used in the study. The chapter presents the research design, research methods, research instruments, population and sampling technique, data collection, data analysis as well as research ethics.

3.2. Research Paradigm

Galliers (1991) explains a research philosophy as a belief about the way in which data about a phenomenon should be gathered, analysed and used. There are three research philosophies as noted by Creswell (2011). These are positivism, interpretivism (anti-positivism or constructivism) and pragmatism. According to Ali and Chowdhury (2015), positivists believe that reality is stable and can be observed and described from an objective viewpoint. As per Morris (2006) analysis, the positivist researcher maintains that it is possible to adopt a distant, detached, neutral and non-interactive position. A position such as this would enable the researcher to assume the role of an objective analyst, making detached interpretations about those data that have been collected in an apparently value-free manner.

Creswell (2007) argues that interpretivists adopt a relativist ontology in which a single phenomenon may have multiple interpretations rather than a truth that can be determined by a process of measurement. As per Ali & Chowdhury (2015) assertion, interpretivists contend that only through the subjective interpretation of and intervention in reality can that reality be fully

understood. This research will seek to use various phenomenon in order to understand interpretations from participants. The philosophical foundation of this research is pragmatism. Pragmatism borrows concepts from both positivism and interpretivism. According to Maree (2013), pragmatism is a research philosophy that combines qualitative and quantitative methods. Pragmatists believe that the truth is 'what works' best for understanding a particular research problem. The reason for this paradigm to be the most appropriate for the envisaged study is because, it presents the platform for both objectivity and subjectivity of the ontology of the study.

3.3. Research Design

A research design is a general plan about what the study will do to answer the research question (Saunders, Lewis & Thornhill, 2012). There are three major research designs in the spectrum of research, that is qualitative, quantitative and mixed methods research designs. The qualitative approach has a heavy reliance on descriptive data (Andrew, 2009). The quantitative approach is a manner of generating numerical data that can be turned into usable statistics (Gronroos, 2008). The mixed approach is whereby two forms of data (qualitative and quantitative) are integrated in the design analysis through merging of the data, connecting the data, or embedding the data (Creswell, 2018). Pragmatic researchers on the other hand grant themselves the freedom to use any of the methods, techniques and procedures typically associated with quantitative or qualitative research. They recognise that every method has its limitations and that the different approaches can be complementary. A design might be considered mixed if it employs qualitative and quantitative

approaches at any stage, including research questions development, sampling strategies, data collection approaches, data analysis methods, or conclusions (Cresswell & Garrett, 2008)

Therefore, this study employed the mixed methods research design to collect the needed data from primary sources. The basic premise is that integration of quantitative and qualitative approaches permits a more complete and synergistic utilization of data in providing a better understanding of research problems and complex phenomena than either approach alone (Fetters & Freshwater, 2015). This study used mixed methods because better understanding can be obtained by triangulating one set of results with another and thereby enhancing the validity of inferences. By using mixed methods, the results from one method can be used to help develop the use of the other method. In this study, the design involved two phases. The initial quantitative instrument phase used close ended questionnaires which was followed by a qualitative data collection phase which used open ended questionnaires. In this study, the qualitative phase built directly on the results from the directly on the results from the quantitative phase. In this way, the quantitative results were explained in more detail through the qualitative data. According to Mason (2006), mixing methods offers enormous potential for generating new ways of understanding the complexities and contexts of social experience, and for enhancing our capacities for social explanation and generalization. Thus the reason for the employment of mixed methods in this study.

3.4. Research Instruments

There are several research instruments which can be employed in mixed methods research. The researcher engaged structured and open-ended questions that were designed based on the research objectives. A questionnaire is a set of questions used for research to derive qualitative (open-ended questions) and quantitative (closed-ended questions) data. The questionnaire has both open ended questions which are quantitative and open ended questions which were used to collect qualitative

data. Questionnaire were used to collect data in this study because they the simple, affordable and fast means of collecting data. Questionnaires were used because they are easy to administer and can be administered to many respondents in the shortest possible time as compared to other data collection tools.

3.5. Population of the Study

A population of a study is defined as a complete set of individuals, cases or objects with some common observable characteristics (Saunders, Lewis & Thornhill, 2012). It is the total collection of elements about which the study wishes to make some inferences (Creswell, 2018). According to the official statistical figures obtained from the City of Windhoek for 2018, a total number of 1000 informal businesses, have official operating licenses with the City of Windhoek for operating businesses in stalls or open spaces in different suburbs. Therefore, to obtain valid information needed for research purposes, the population of the study comprised all the businesses in the informal sector in Windhoek with operating licenses from the Municipality of Windhoek.

3.6. Sample and Sampling Procedure

According to Alvi (2016), a sample can be defined as a group of a relatively smaller number of people selected from a population for investigation purposes. Gentles, Charles, Ploeg and McKibbon (2015) define sampling as the selection of specific data sources from which data are collected to address the research objectives. Taherdoost (2016) notes that researchers neither have time nor the resources to analyse the entire population, so they apply sampling technique to reduce the number of cases. Since the bulk of informal businesses is scattered all over Windhoek, conducting research which included all informal businesses was not going to be an easy exercise. The researcher, therefore, used a non-probability sampling method in the form of convenience sampling technique whereby the researcher conveniently selected the first SMEs from each

identified stratum of industries, namely the food and beverage industry, beauty industry, tailoring industry, artisans, and retail industry. This meant the researcher gave a total of forty (40) questionnaires to entrepreneurs from five (5) strata. Convenient sampling procedure is a non-probability procedure which uses respondents who are convenient to the researcher (Saunders et al., 2012). The convenience sampling technique was considered to be appropriate as the researcher had limited time to collect data.

3.7. Data Collection Procedure

To properly prepare each respondent for the data collection session, the researcher informed the participants about their selection and made arrangements with them for the interview according to the day scheduled. The questionnaires with both open ended and close ended were designed according to the research objectives to maintain consistency during the research. The researcher gave the questionnaire to the possible respondents and left them to fill in the question and collect the filled in questionnaires after a period of one and half hours. This allowed the respondents to fill in all the necessary information required on the questionnaire and still be able to return it back to the researcher. Open-ended questionnaires on the other hand allowed the participant to freely give their views on the issue under study. The researcher avoided leaving the respondents with the questionnaire for a longer period of time because some of the questionnaires might get lost. The use of questionnaires also deemed relevant especially that it is an era of the pandemic (COVID-19), some participant may have had reservations to be interviewed and therefore they will be given the benefit of completing a questionnaire at their most convenient times.

3.8 Data Analysis

Data analysis is the process of bringing order, structure and meaning to the mass of data collected (Strydom et al. (2005). According to Creswell (2012), analysis of data is a process of inspecting, cleaning, transforming, and modelling data with the goal of discovering useful information, suggesting conclusions and supporting decision-making. This study generated both qualitative and quantitative data. The most used data analysis methods in qualitative methods include content analysis, descriptive analysis, discourse analysis and grounded theory. Data collected from the open ended section of the questionnaire was analysed using thematic analysis. Thematic analysis is the process of identifying patterns or themes within qualitative data. Braun & Clarke (2006) suggest that it is the first qualitative method that should be learned as it provides core skills that will be useful for conducting many other kinds of analysis. The goal of a thematic analysis is to identify themes, i.e. patterns in the data that are important or interesting, and use these themes to address the research or say something about an issue. This is much more than simply summarising the data; a good thematic analysis interprets and makes sense of it. This simply means that the answers that were common from all the participants formed subthemes while the objectives of the study made up the main themes when data were analysed. Conclusions and recommendations were drawn from both the literature and the data collected from the participants.

3.9. Research Ethics

Ethics refers to rules of conduct and refers to the researcher's conduct throughout the research process. There are various ethical issues that a researcher should avoid or practice when undertaking research such as confidentiality and privacy. The study observed the following ethics:

- Informed consent – Resnik (1998), quoted by Parveen and Showkat (2017), postulated that a standard procedure in professional codes of ethics is informed consent. In this case, the researcher first sought consent from the respondents before engaging them in the research procedures.
- Confidentiality, privacy and anonymity – Jensen (2002) advised that the privacy, anonymity and confidentiality of the participants and data must be given due consideration. The researcher assured the respondents that the information they were providing was only going to be used in research and nothing else. Also, the researcher made it clear that no names will be used in the research.
- No harm – The purpose of the research, objectives, nature of the research, duration of the study and how their information was going to be used, was explained in detail to the respondents.
- Right to withdraw – The participants were notified that they were free to withdraw from the study if they wished, before the engagement started.

3.10 Conclusion

This chapter documented the research philosophy, design, population, sample, and sampling procedure, data collection instruments, data collection procedure, data analysis and ethical consideration.

CHAPTER FOUR

PRESENTATION, INTERPRETATION AND DISCUSSION OF RESEARCH FINDINGS

4.1. Introduction

This chapter presents the findings, interpretations, and discussions of the study. The findings are presented according to the way the questionnaire was designed and administered to the participants. Therefore, the chapter is divided into sections, namely demographic information, the importance of informal businesses to the Namibian economy, barriers to formalization of informal sector, advantages of registered businesses and kinds of assistance needed to upgrade to formal businesses.

4.2. Demographic Information

The first section of the questionnaire required the participants to provide their demographic information. The participant's biographical information was analysed and presented in the sections below.

4.2.1. Gender

The information collected on the gender of the participants was presented in the figure below.

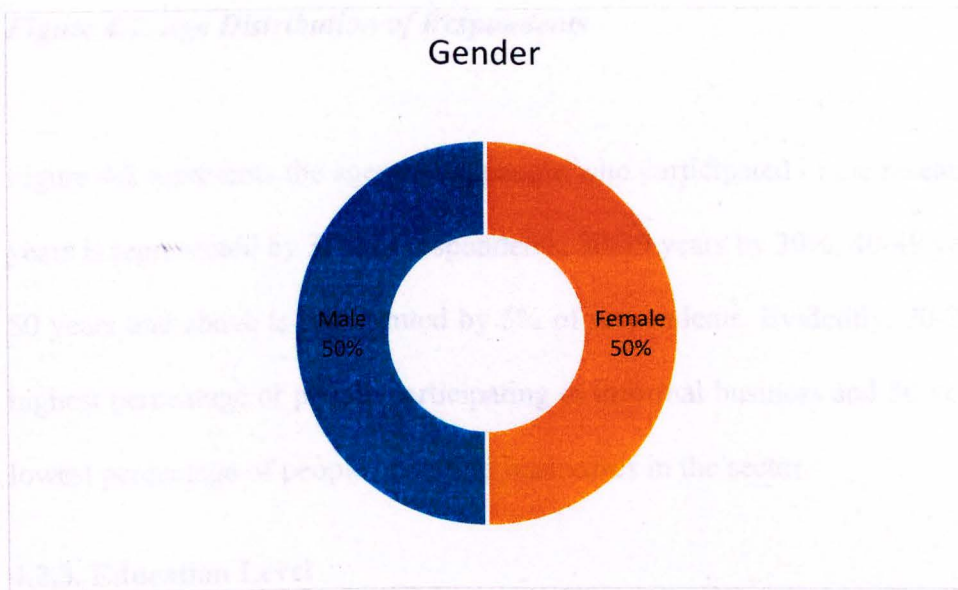


Figure 4.1. Gender Distribution of Respondents

Figure 4.1 shows the gender distribution of the study's participants. An equal proportion of gender distribution (50% Males and 50% Females) was observed among the owners of small businesses operating in the informal sectors who participated in this study.

4.2.2. Age

The information collected on the age of the respondents was presented in the figure below.

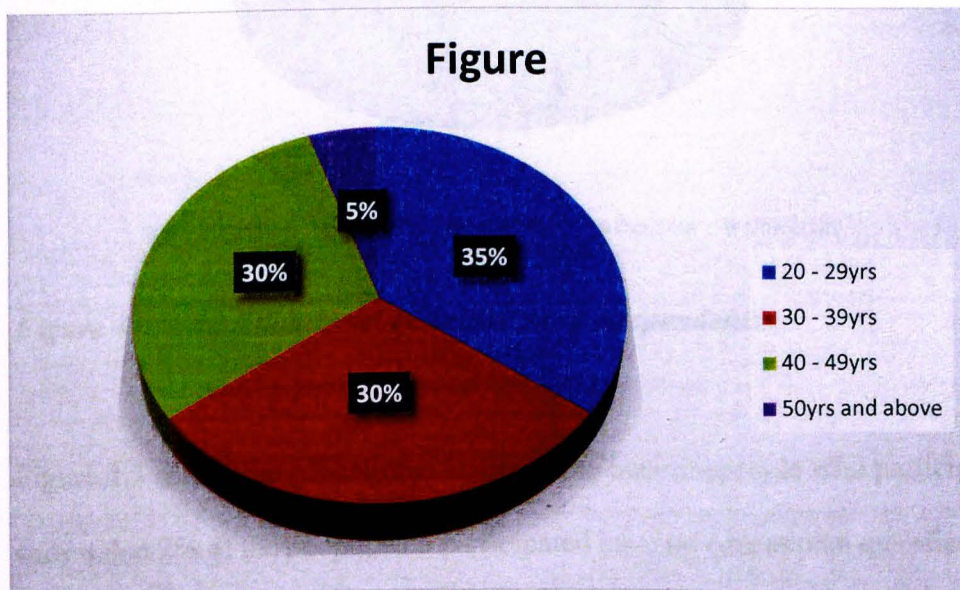


Figure 4.2. Age Distribution of Respondents

Figure 4.2 represents the ages of the people who participated in the research. It shows that 20-29 years is represented by 35% of respondents, 30-39 years by 30%, 40-49 years by 30%, and lastly, 50 years and above is represented by 5% of respondents. Evidently, 20-29 years constituted the highest percentage of people participating in informal business and 50 years and above have the lowest percentage of people operating businesses in the sector.

4.2.3. Education Level

The information collected on the educational level of the participants was presented in the figure below.

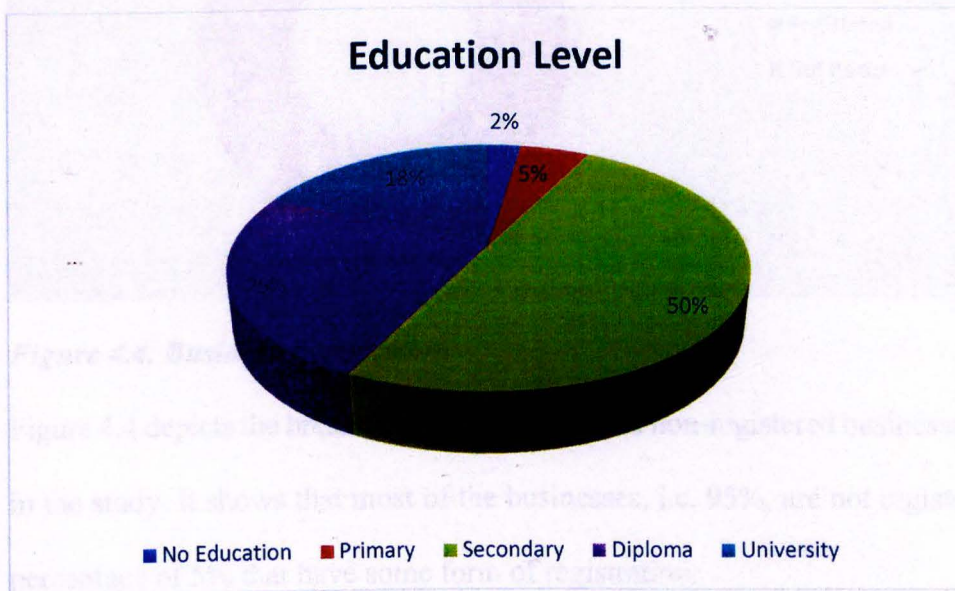


Figure 4.3. Education Level Distribution of Respondents

Figure 4.3 shows the educational levels of the businesspeople who participated in this research. It shows that 2% of the people who participated have no educational qualifications, 5% of them have

primary school education, 50% of the people have secondary school education, 25% have a diploma and, lastly, 18% reached university level. The highest number of respondents who run informal businesses have secondary school qualifications.

4.2.4. Business Registration

The information collected on the business registration of the participant's business was collected and presented in the figure below.

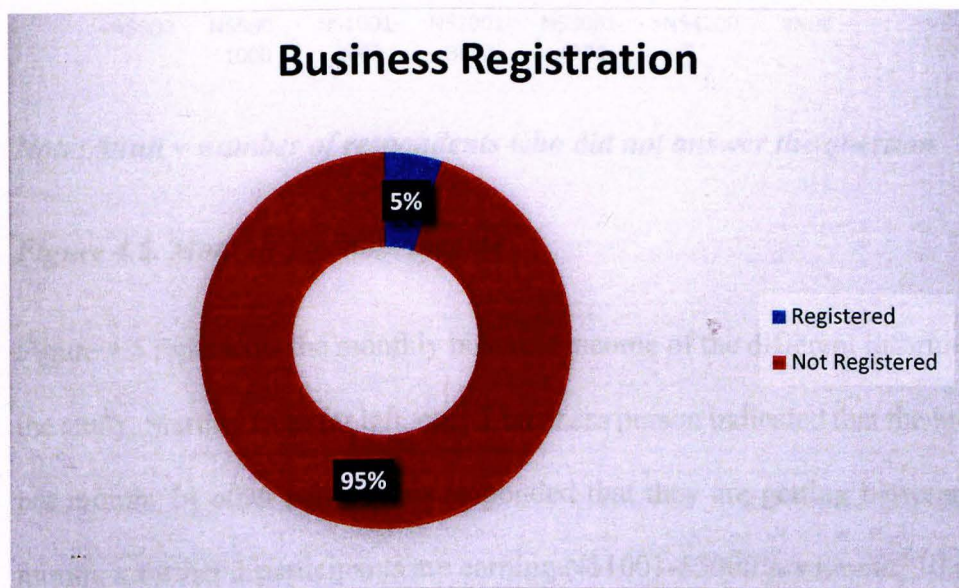


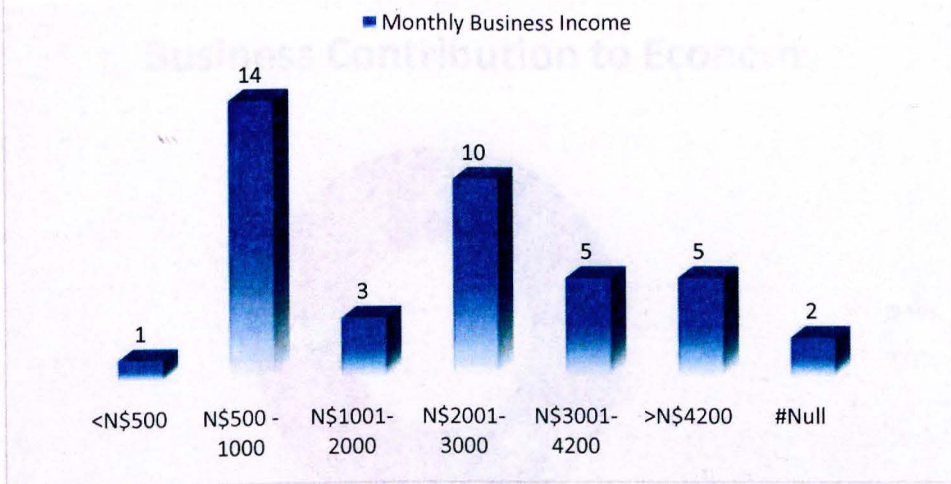
Figure 4.4. Business Registration

Figure 4.4 depicts the breakdown of registered and non-registered businesses among those engaged in the study. It shows that most of the businesses, i.e. 95%, are not registered compared to a low percentage of 5% that have some form of registration.

4.2.5. Monthly Business Income

The information collected on the monthly business income earned by their business was presented in the figure below.

Monthly Business Income



Note: #null = number of respondents who did not answer the question

Figure 4.5. Monthly business income

Figure 4.5 represents the monthly business income of the different informal businesses engaged in the study. Starting from far left, only 1 business person indicated that the business is earning N\$500 per month. 14 other participants responded that they are getting between N\$500 and \$1000 per month, a further 3 participants are earning N\$1001-\$2000 per month, 10 participants have shown that they are getting between N\$2001 and \$3000, 5 participants are in the ranges of N\$3001-\$4200, a further 5 participants indicated that they get more than N\$4200 per month and, lastly, 2 participants spoiled the question as they did not provide an answer.

4.2.6. Business contribution to economy

The respondents in this study were asked about the contributions of their businesses to the economy. The respondents' responses were analysed and presented in the figure below.

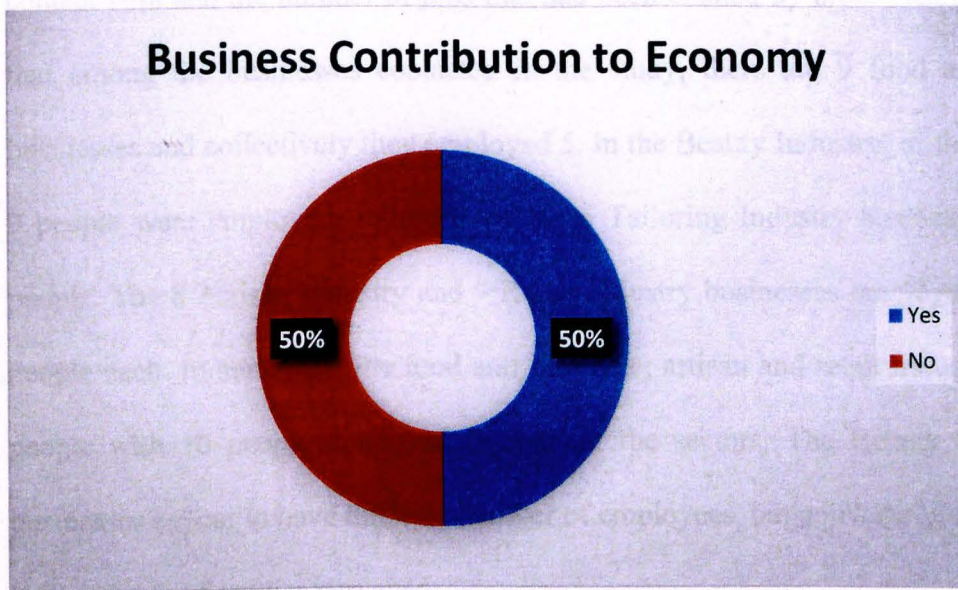


Figure 4.6. Business Contribution to Economy

Figure 4.6 captures the respondents' views as to whether their informal businesses contribute to the economy of the country. Fifty percent of the participants affirmed that their informal businesses are contributing to the growth of the country's economy whereas the other half disagreed.

4.3. Section 2: The importance of informal businesses to the Namibian economy

Section 2 of the questionnaire asked respondents about the importance of the informal businesses to the Namibian economy. Their respondents were analysed and presented in the section below:

4.3.1. Business Types and Jobs Created

Business Type	Total number of business	Total number of jobs created
Food and beverages industry	9	10
Beauty industry	8	9
Tailoring industry	6	6
Artisan industry	8	10
Retail industry	9	10
Total	40	45

Table 4.1. Types of Informal Businesses and the numbers of jobs created

Table 4.1 shows the types of businesses in the informal sector that the researcher managed to have contact with and the number of jobs that had been created by these businesses. The table shows that among the businesses contacted in the study, there are 9 food and beverages industry businesses and collectively they employed 5. In the Beauty Industry, of the 8 surveyed, a total of 9 people were employed, followed by the 6 Tailoring Industry businesses which employed 6 people. The 8 Artisan Industry and 9 Retail Industry businesses employed a total number of 10 people each. In summary, the food and beverage, artisan and retail industry employed the most people with 10 people employed in each of the sectors. The Beauty and Tailoring Industry businesses appear to have the least number of employees, but conversely, they are also among the least number of entities surveyed.

4.3.2. Secondary beneficiaries of business income

The respondents of this study were asked about how they used their incomes, more specifically on how many people benefited from the income from their businesses. Their responses were analysed and presented as shown in Figure 4.7 below.

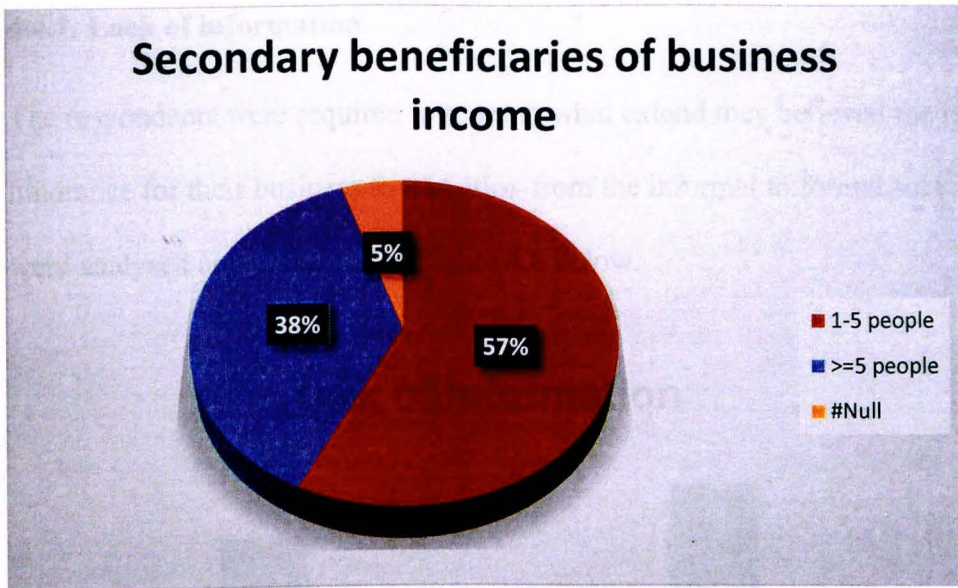


Figure 4.7. Secondary beneficiaries of business income

Figure 4.7 indicates the percentages of people who are secondary dependents on the income generated by these informal businesses. Among the different informal sectors engaged in the research, 57% had between 1 to 5 secondary beneficiaries, 38% had more than 5 people and lastly 5% of respondents failed to respond to the question. Therefore, the bulk of the informal businesses have a dependency range of 1-5 people who are financially dependent on the income generated by these businesses.

4.4. Section 3: Barriers to formalization of informal sector

According to Tesiorna (2016), there are many factors hindering the formalization of informal businesses such as lack of information, advancements in technology and the cost of paying taxes and SSC among other barriers. The respondents in this study were asked about the barriers they met in formalizing their businesses. Their responses were analyzed and presented in the section below.

4.4.1. Lack of information

The respondents were required to score to what extent they believed the lack of information a hindrance for their business to transition from the informal to formal sector. Their responses were analysed and presented in Figure 4.8 below.

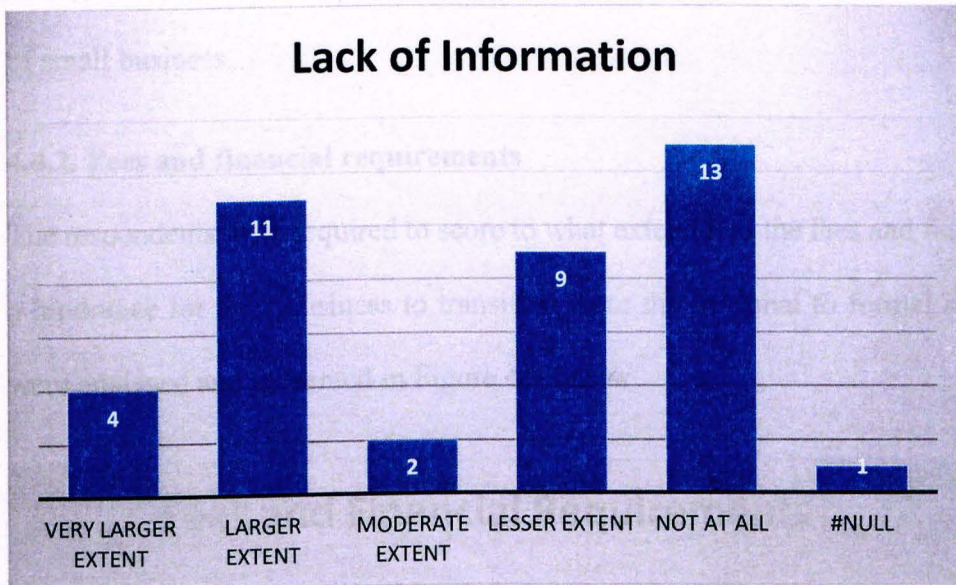


Figure 4.8. Lack of information

Figure 4.8 gauges to what level lack of information hinders businesses in the informal sector to advance into formal businesses. Four respondents noted that absence of information of how to operate businesses is to a very large extent and this represents 10% of the population. A total of 11 respondents, 27,5%, have pointed out that the lack of information hinders them, to a larger extent, from formalizing their business. The other 5% of the population, 2 participants, noted a moderate extent level. Another 9 respondents (22.5%) see the lack of information as an issue to a lesser extent. A further 32.5 % which is 13 participants, have noted that lack of information is not a hindrance at all. The response from one person was spoiled as they did not address the question.

According to Khamis (2020), formal entrepreneurship is the creation of new businesses that are legally registered in a given country. In order for SMEs to register legally, they need to have information on registration. Findings from the study go hand in hand with findings by Khamis (2020) whose study found that a portion of SMEs do not have enough information on registration of businesses. This study concludes that the lack to information is a barrier to the formalization of small business.

4.4.2. Fees and financial requirements

The respondents were required to score to what extend was the fees and financial requirement was a hindrance for their business to transition from the informal to formal sector. Their responses were analysed and presented in Figure 4.9 below

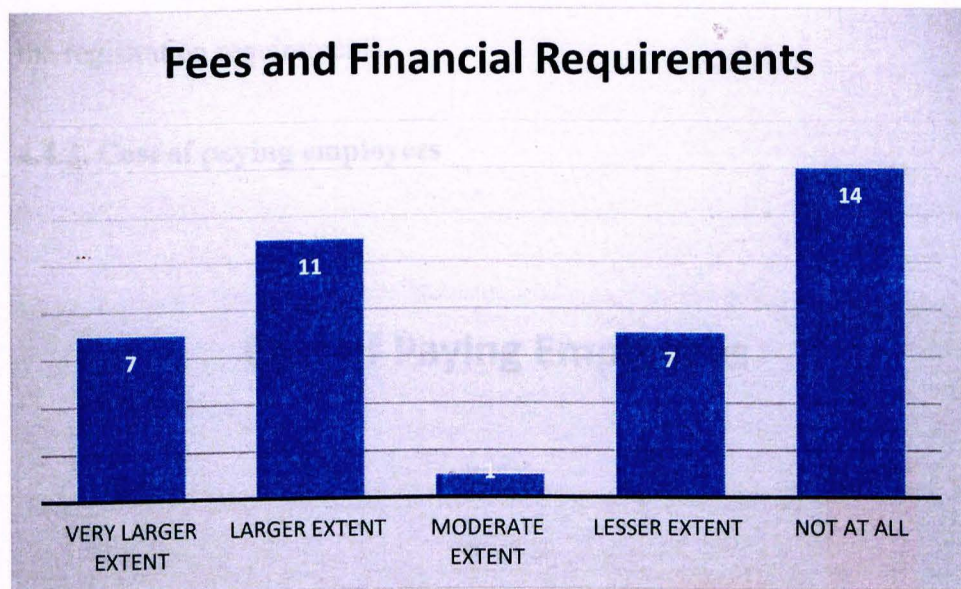


Figure 4.9. Fees and financial requirements

Figure 4.9 shows the respondents on views on the fees and financial requirements as another potential factor that is hindering the growth of informal businesses to the formal business sector.

It shows that 17,5% of the population (7 respondents) have noted that it is to a very large extent that fees and financial requirements are hindering them from registering their businesses. 11 participants, which represent 27,5% of the population, said to a larger extent fees and financial requirements are too much, only 1 person (2.5%) is of moderate view. Another 17,5% of the entire population (7 participants) revealed that fees and financial requirements are an issue to a lesser extent. The remaining 35% (14 participants) said that the fees and financial requirements for the transition from informal to formal sector is fair and not an issue at all. Findings from the study concur with findings by Perry et al (2007) whose study found that a firm's decision to become formal or not depends on the costs and benefits of formality. Perry et al (2007) add that there are two views of informality called exclusion and exit. The exclusion view focuses on the costs of registering and the reduction of registration fees encourages small businesses to register by reducing the registration requirements,

4.4.3. Cost of paying employees

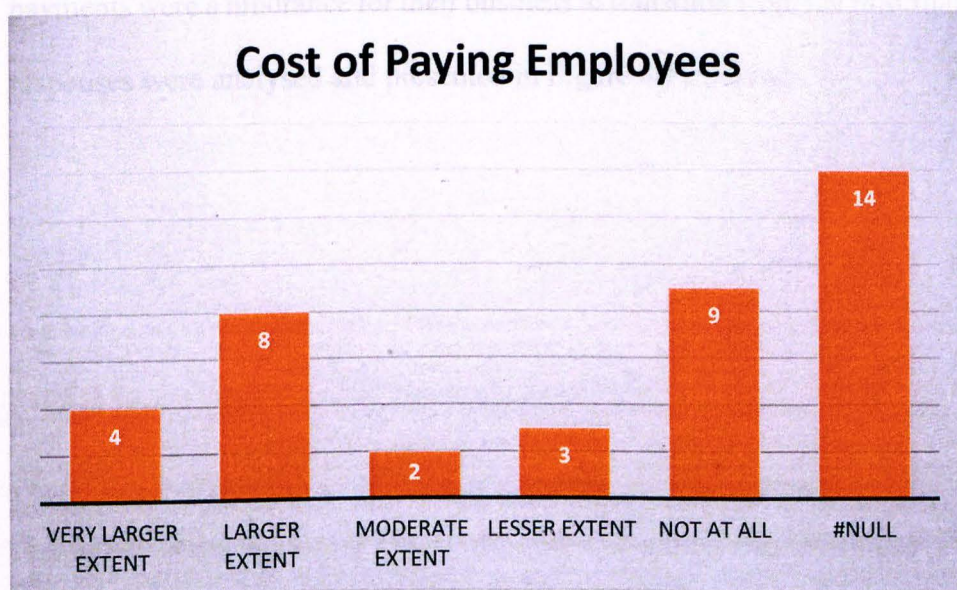


Figure 4.10. Cost of paying employees

Graph 4.10 represents the respondent's views on the cost of paying employees as another factor hindering informal businesses from transforming to the formal sector. From the findings, 10% (4 respondents) considered the cost of paying employees a hindrance to a very large extent. Another 20% (8 participants) indicated it to a large extent the cost of paying employees prevents them from registering their businesses. 5% of the population revealed that cost of paying employees affected the decision of whether to register or not moderately. 7.5% (3 participants) were of the opinion that it is a hindrance to a lesser extent, 9 participants (22.5%) however indicated the cost of paying employees not a hindrance at all, and lastly. 14 participants represent 35% of the population spoiled the question. The high spoilage rate might be indicative of the sensitivity of salary matters in general as most respondents did not want to address this question. In summary, those respondents that indicated that it is not painful to pay the informal sector employees indicated thus since the employees are few, the wages low and legal requirements few.

4.4.4. Paying taxes and SSC

The respondents were required to score to what extend was the issue of taxes and social security payments were a hindrance for their business to transition from the informal to formal sector. Their responses were analysed and presented in Figure 4.11 below:

4.4.5. Monitoring and controlling MoT and SSC

The respondents were required to score to what extend was the issue of monitoring and controlling by MoT and SSC a hindrance for their business to transition from the informal to formal sector. Their responses were analysed and presented in Figure 4.12 below:

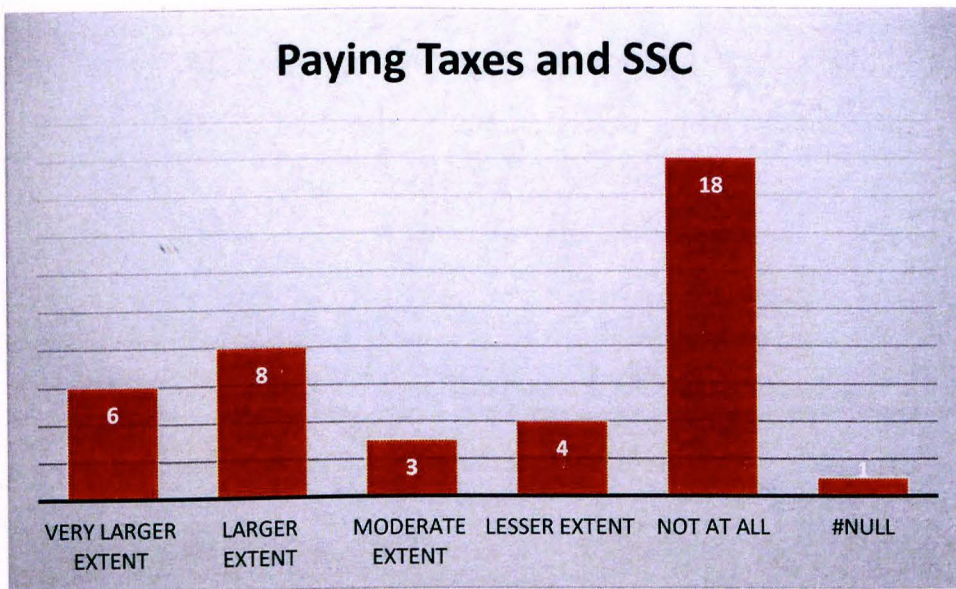


Figure 4.11. Paying taxes and SSC

Figure 4.11 above shows the respondent's views on whether the paying of taxes and Social Security Contributions (SSC) was another barrier that affects the informal sectors to develop into formal sectors. The graph indicates that 6 participants (15%) are in agreement with this factor to a very large extent, 8 participants (20%) are in agreement to a large extent, and 3 are in agreement to a moderate extent. However, the graph also revealed that other participants are of a different opinion as 4 of them indicated agreement to a lesser extent, 18 participants (45%) revealed being not at all in agreement and, lastly, 1 spoiled the question. Therefore, the overall result from the graph above indicates that the taxes and SSC have no or very little impact on the transition of the informal businesses to formal ones, as indicated by 22 (lesser extent and not at all). However 42.5% (17) of respondents have some level of concern.

4.4.5. Monitoring and controlling MoTMoFSSC

The respondents were required to score to what extent was the issue of monitoring and controlling by MoTMoFSSC a hindrance for their business to transition from the informal to formal sector. Their responses were analysed and presented in Figure 4.12 below:

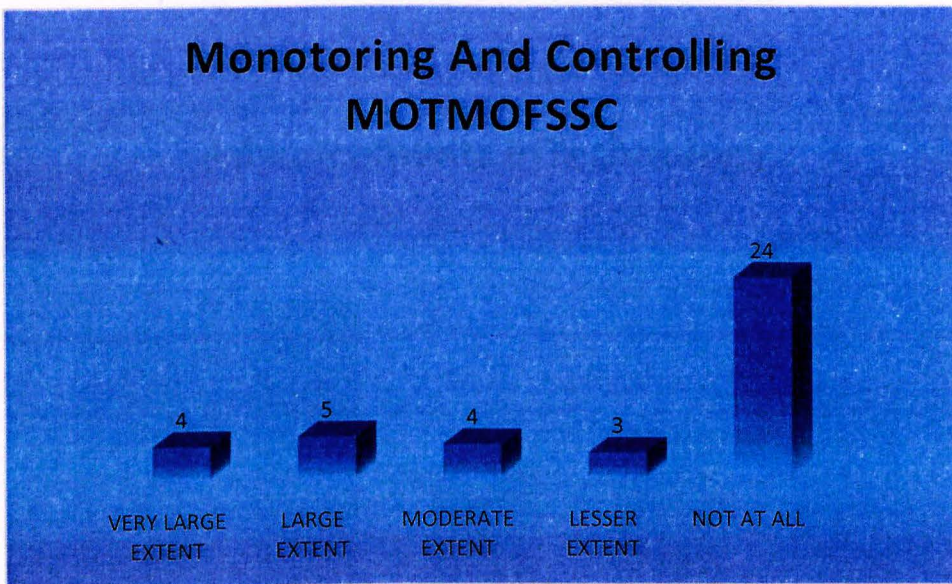


Figure 4.12. Monitoring and controlling MoT MoFSSC

Figure 4.12 above shows the participants's responses on the issue of the monitoring and controlling by the Ministry of Trade, Ministry of Finance and Social Security Commission, as another factor likely to hinder the development of informal businesses. The graph shows that 4 participants (10%) view this factor as affecting the development to a very large extent, 12.5% of the population (5 participants) see it to a large extent. 4 are of a moderate extent view. On the other hand, 3 participants (7.5%) are of the view that it is significant to a lesser extent and 60% (24) argue that this factor is of no influence on the decision of formalization of their businesses. This factor was therefore discarded as irrelevant by 27 participants, who indicated that it has very limited influence on the transition from the informal to formal business sectors.

4.4.6. Advancements in technology

The respondents were required to score to what extent was the advancement in technology a hindrance for their business to transition from the informal to formal sector. Their responses were analysed and presented in Figure 4.13 below:

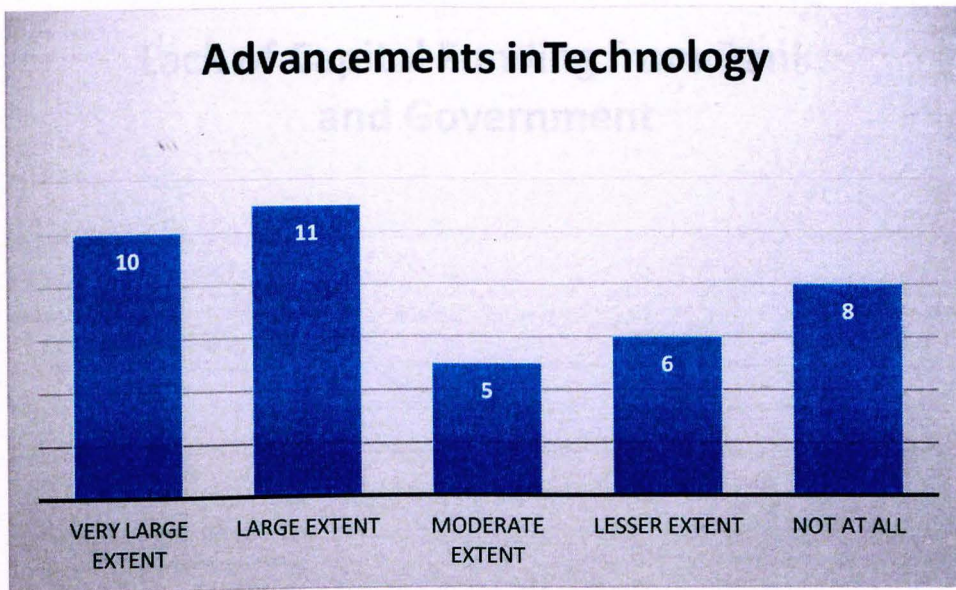


Figure 4.13. Advancements in technology

Figure 4.13 above shows the respondent's opinions of the participants on technology advancement as a possible challenge to informal businesses transition from informal to formal. In the findings, 10 participants (25%) indicated that it is a factor to a very large extent, 11 participants (27.5%) showed it to be a challenge to a large extent and 12.5% (5 participants) opined it to be of moderate extent. On the other hand, 6 participants (15%) are of the view that it is a challenge to a lesser extent and 8 argued that it is not at all a factor. Overall, this factor was acknowledged as one of the factors affecting the transition process as 26 (65%) participants agreed to its impact.

4.4.7. Lack of capital funding from banks and government

The respondents were required to score to what extent was the lack of capital funding from banks and government a hindrance for their business to transition from the informal to formal sector. Their responses were analysed and presented in Figure 4.14 below

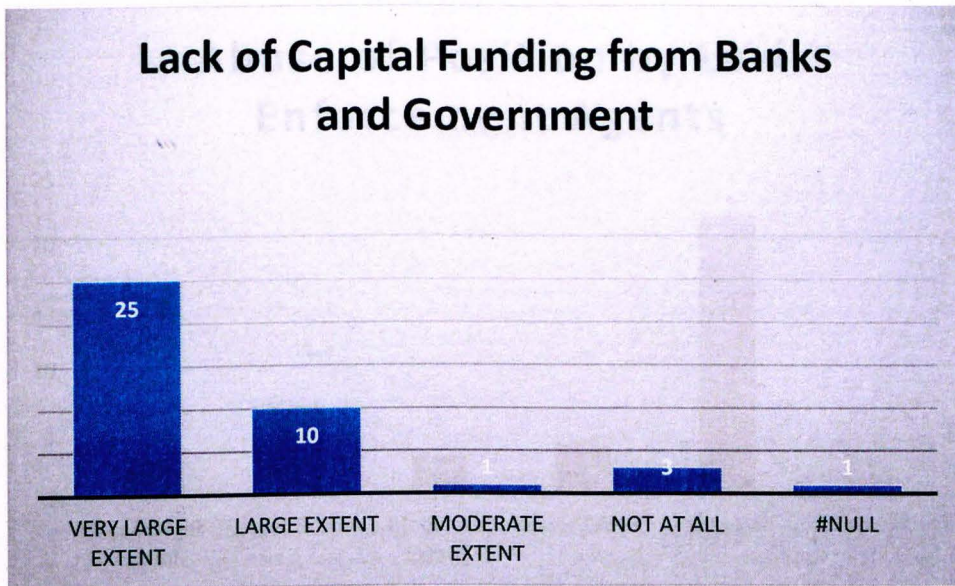


Figure 4.14. Lack of capital funding from banks and government

Figure 4.14 shows the respondents' views on the issue of lack of capital funding from banks and government towards informal businesses as another factor likely to hinder the transition of informal businesses to formal businesses. The graph shows that 25 participants (62.5%) are of the opinion that it is a factor to a large extent, 25% was of the view that it is to a very large extent and 1 participant is of the moderate extent view. On the other side, 3 participants (7.5%) indicated that it is not a factor at all and 1 spoiled the question. Clearly, this factor was considered to have an impact on the transition by 36 participants.

4.4.8. Abuse of position by law enforcement agents

The respondents were required to score to what extent was the abuse of positions by law enforcement agents a hindrance for their business to transition from the informal to formal sector.

Their responses were analysed and presented in Figure 4.15 below:

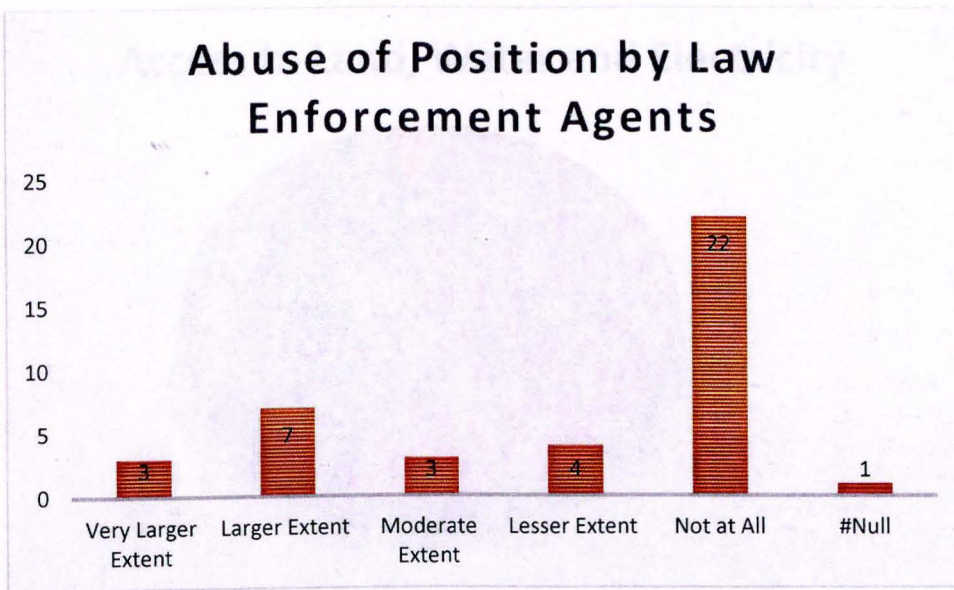


Figure 4.15. Abuse of position by law enforcement agents

The factor expressed in Figure 4.15 is based on the abuse of position (linked to corruption, bribery) by the law enforcement agents (municipal and labor inspectors, tax collectors, etc.). The results show that 3 participants (7.5%) argued that abuse is prevalent to a very large extent, 17.5% of the population (7 participants) indicated that it is present to a large extent and 3 are of a moderate extent view. However, 4 participants indicated it to be a factor to a lesser extent. 22 participants (55%) disagreed by indicating it is not a factor at all and 1 spoiled the question. Evidently, abuse by law enforcement agents does not appear to be a big problem hindering transition by a majority of the respondents, 26 or 65%.

4.4.9. Access to land, water and electricity

The respondents were required to score to what extent was the access to land, water and electricity a hindrance for their business to transition from the informal to formal sector. Their responses were analysed and presented in Figure 4.16 below:

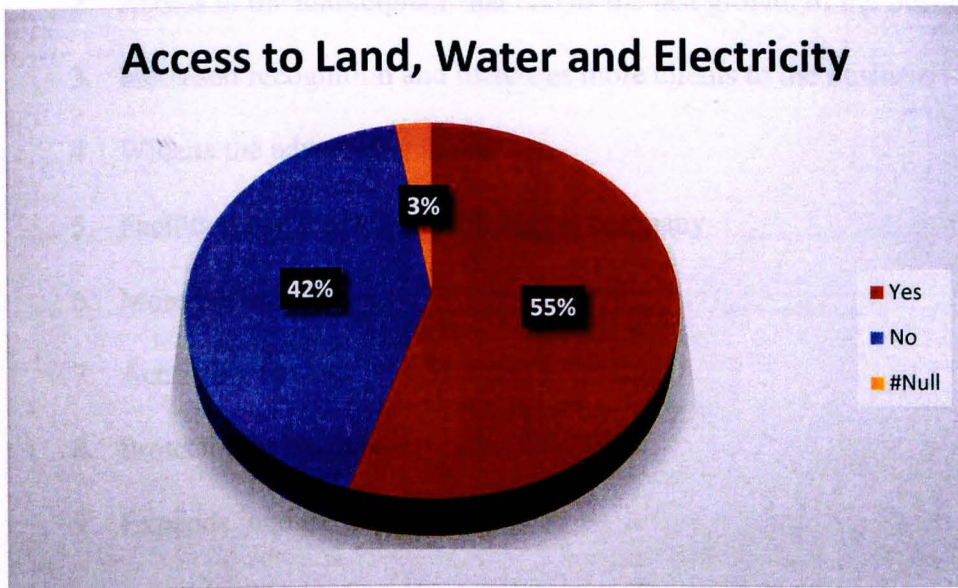


Figure 4. 16. Access to land, water and electricity

Figure 4.16 reflects the respondents' opinions on whether factor of having access to land, water, and electricity by the informal businesses. According to the results, 55% of the businesses have access to these resources without problems, 42% are not accessing these resources and 3% of participants spoiled the question. All in all, a greater part of the informal businesses are accessing these resources as indicated by the results on the figure above and hence do not consider it a roadblock to formalization.

4.5. Advantages of registered businesses

The results from all 40 participants engaged in this study indicated that there is an advantage to every registered business. The data below reviews the summary of the advantages indicated by the participants, if their businesses are registered.

Advantages of registered business

1. Access to funding and loans from government and other financial institutions
2. Access to the marketplace that boosts the fast growth of the business
3. Increased recognition and increases more clients to the business
4. Widens the advertising space
5. Facilitate collaborations with bigger company
6. More job creation
7. Accessing tenders
8. Protected by the law
9. Expands income generation

The information above indicates the kinds of assistance respondents said need to be provided by the responsible authorities and stakeholders to upgrade their businesses to formal businesses. All the participants provided their own opinions on this issue. The data below summarizes the opinions provided by the participants from the open-ended questions in the research process.

4.6. Kind of assistance needed to upgrade to formal business

Respondents were asked about the kind of assistance they would need so that they could upgrade their businesses to formal. SME owners responded that they would require financial assistance and assistance to get land and equipment. This would help their business to grow and they would get more income and ease registration. Some responded that in order for them to consider registering, they would need assistance by reducing the taxes of small businesses and make sure the registration process is shorter and less expensive. Some business owners felt that they did not have enough information about the registration of businesses and so they would like more information on the registration process. Respondents also revealed that the government could provide a platform for

small businesses to advertise and market their businesses and products. One respondent said that the government could also award tenders to informal business owners.

4.7. Interpretation and discussion of the findings

The interpretation and discussion of the findings are arranged in sections according to the way the researcher designed the questionnaire to answer the research questions of the study.

4.7.1. Section 1: Demographic information

According to the demographic information found from the study, it reflects that the gender issue in the informal businesses which were engaged were at equilibrium point between men and women. The Figure 4.1 reflected that there is equal distribution of both men and women in this sector. With these results, though it cannot generally be concluded for Windhoek at large, it means that any conclusion that will be made at this level is not supposed to be gender related as the findings indicate that there is an equal distribution between men and women in informal businesses in Windhoek.

The study found that a majority (35%) of the entrepreneurs in the informal sector were aged between 20 to 29 years followed by those aged 30-39 and 40-49 years with about 30% each. In short, the informal sector is dominated by entrepreneurs between the ages of 20 to 49 years. In addition, the study found that only about 5% of the entrepreneurs were aged 50 years and above (Figure 4.2). It can be assumed that it is due to the main effort (both physical and mental) needed to be applied in these informal sectors to operate that might not be conducive for older people (person aged 50 and above). Another factor might be the flooding of this sector by the unemployed youths as noted on Figure 4.3 that a majority of the business owners/operators have Secondary school qualification.

The study found that most people who are operating in the informal sector are educated up to the secondary level (50%). Those who reached diploma and degree levels were noted to be 25% and 18% respectively. Looking into these findings, it is clear that most people who are participating in the informal sector attained a higher level of education that can enable them to run successful businesses as they are able to read and write. Although, there are few (2%) participants who indicated that they are not educated, the percentage cannot dilute the aforementioned findings that more people in the informal sector are literate. It is clear from the findings that many informal businesses are not registered, as indicated by Figure 4.4. The findings indicated that 95% of the informal businesses are not registered. These findings are in relation with the definition by AllAfrica (2018), which affirmed the fact that the informal sector is made up largely of non-recorded businesses. The current informal business entrepreneurs' monthly earnings were also noted in these findings, as reflected by the Figure 4.1. The monthly income earned by most participants in the informal sector was between N\$500-1000 with 14 participants who revealed this fact and followed by 10 participants who earned an income of N\$2001-3000 per month. The least people in informal sector earned less than N\$500 per month, who are represented by 1 entrepreneur. Although there are others who earn more than N\$3000 (10 respondents), the highest percentage ranges between N\$500 and N\$3000. The bulk of the participants appears to earn within the poverty line earnings of US\$1.9 per day as set by The World Bank. This finding is in line with findings by Ledritz and Stiftung (2015) who mention that most small businesses have the main aim of income generation. This is why most of the interviewed businesses have low income.

Reading from the findings, Figure 4.5 reveals that there is a shared opinion on the perceived contribution of the informal sector businesses to the nation's economy. Half of the participants indicated that these businesses are contributing to the economy of Namibia while the other

disagreed with this sentiment. These findings reflect two opposing opinions, as other scholars argue that the informal sector is the foundation and backbone of the economy to many countries, be it developed or developing (LEAP, 2015). On the other hand, Fourie (2018) indicated these businesses estimated to contribute about a mere 6% to GDP.

4.7.2. Section 2: The importance of informal businesses to the Namibian economy

There are different types of informal businesses in Namibia, namely: Food and Beverages, Tailoring, Beauty services, Artisan and Retail Trade. Table 4.1 shows 5 types of informal businesses that have been engaged in the research. Among these 5 business types, only the Artisan industry, Food and Beverages and Retail seem to have employed more employees (about 10 each). This reflects that these informal businesses are not expanding to the extent of creating more jobs to contribute to the economy of the nation and thereby reducing unemployment. The study found that the engaged businesses are able to generate income from which dependents of the business owners and their employees are benefiting. The results show that 57% of the businesses benefitted at least 1-5 people and 38% of them benefitted more than 5 people. This reveals that these businesses are beneficial to the owners, employees and their dependents. According Ogbokor and Ngeendepi (2012), there many SMEs registered in Namibia and they contribute to the Namibian economy in ways such as employment creation and generations, adding value to the gross domestic product of the country. Findings of this study agree with findings by Ogbokor and Ngeendepi (2012).

4.7.3. Section 3: Barriers to formalization of informal sector

According to the findings from the study, it is clear that there are a number of factors that can affect the formalization of the informal businesses, though these factors vary from business to

business. The first significant factor which was engaged in the research was lack of information among the business owners. The findings revealed that many participants are not considering this as a hindrance to the formalization of the informal sectors (22 participants), while 17 participants agreed to this sentiment. One can surmise that although a majority of the businesses (55%) do not consider this a hindrance, the remaining respondents who do are also not an insignificant number. In other words, information on business is not being accessed equally with all informal businesses.

The study also found that fees and other financial requirements for registration are also somewhat of a hindrance to the formalization of informal businesses as the results were basically mixed, i.e. 53% to 47%. The findings revealed an unclear view due to the fact that 21 participants considered it a non-issue while 19 participants agreed to the fact that fees and financial requirements are limiting informal businesses in transitioning to formal businesses. Though these findings are mixed, it is clear that fees and financial requirements burden some informal businesses in formalizing their businesses. The finding supports findings by Koroma et al, (2017) who note that the formalization of enterprises in many developing countries is cumbersome mainly due to heavy regulations, which generally bring longer delays. Tassin (2014) also reports that the quest for registration is, however, hindered by long queues endured by business applicants during the process of formalization; resulting from a lack of adequate and relevant information on the process of formalization. In addition, the registration process is very long and hectic because it comprises impractical requirement.

The participants were also asked whether they considered the cost of paying employees as another factor which affects the formalization of businesses. Graph 4.3 shows 14 participants who spoiled the question by not attempting to answer it. Though 14 participants considered this factor to have an influence on the process of the formalization of their businesses, 11 participants disagreed. With

these results, it is clear that participants who did not answer the question are also being affected by paying employees. This point was settled considering the findings on Table 4.1, which reflected a very low employment rate in these businesses.

The payment of taxes and Social Security contributions (SSC) by informal businesses was also put to the participants. Figure 4.4 shows that this factor has insignificant influence on the transition of the informal businesses to formal businesses for a majority of the respondents. The same graph indicates also other businesses that are being affected by these taxes and SSC to transform their businesses to the formal sector. This latter result, although in the minority, is in conjunction with what Slonimczyk (2014) noted that the increasing burden of taxation and social security payments are major hindering factors for informal businesses to formalize. The fifth factor which was also engaged in the research was the monitoring and controlling by the Ministry of Trade, the Ministry of Finance and the Social Security Commission. However, the findings reflected that this factor has no effect at all on the formalization of informal businesses.

Advancements in technology and lack of capital funding from banks and government were also considered as factors that affect small businesses to transform to the formal sector. The advancements in technology factor was firmly considered by respondents as one of the major factors that affects the formalization of informal businesses with 65% of respondents indicating as such. Although few respondents disagreed with this statement, the fact remains that technology has an influence on this process. Likewise, the lack of capital funding from banks and government was vehemently considered by the informal businesses as also a big contributing factor which hinders the process of growing from the informal to the formal sectors. It can therefore be conclusively said that these two factors, advancement in technological challenges and lack of

capital funding from banks and government, have a greater impact on this transition process as reflected by the findings.

Abuse of position by law enforcement agents was another factor that was engaged with the participants. The results revealed that most participants did not consider this factor to be a major barrier to the transition process of informal businesses. It is also important to consider other participants who considered it as a threat, though it is to a lesser extent.

With regards to the issue of accessing land, water and electricity, 55% of the participants indicated that they have access to these three resources, which means this is not a problem at hand for the participants on the business transition process.

4.7.4. Advantages of registered businesses

According to the research, there are at least 9 advantages that have been advanced by the respondents, which a registered business can enjoy. These are: accessing funding and loans from government and other financial institutions, access to the marketplace that boosts the fast growth of the business, recognition and increases in clients to the business, widening the advertising space, facilitating collaborations with bigger companies, more job creation, accessing tenders, protection by the law, and expanded income generation.

4.7.5. Kind of assistance needed to upgrade to formal business

The findings from the study reveal that the possible help which needs to be provided by the relevant authorities to the informal businesses in order to assist these businesses to transition to the formal sector include: resources assistance e.g. finance, land, products, equipment, access to technology

developments. Other respondents felt that they needed assistance such as provision of training, provision of information on the business registration process, reduction of taxes, reduction of the registration process period, providing tenders to informal businesses, and provision of advertisement platform for small businesses.

4.8 Conclusion

This chapter presented and discussed the data collected in the study. The presentation and analyses of findings was centered on the research objectives of the study. The next chapter will present the summary of the study as well as the conclusions and recommendations.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction

The preceding chapter discussed the interpretation and discussion of the findings of the study. This chapter provides the summary, conclusions and recommendations derived from the results of this study.

5.2. Summary of the study

The research examined the barriers in transitioning from the informal to the formal business sector in Windhoek. The main objectives of the study were:

- i) To determine factors influencing entrepreneurs to operate their businesses in the informal sector in Windhoek.
- ii) To identify barriers to the transition of businesses from the informal to the formal sectors of the economy and
- iii) To establish strategies for transitioning the informal economy to formalization.

The study was premised under the pragmatic paradigm. The mixed research design was employed to draw upon the beliefs, views and experiences of the informal entrepreneurs on the barriers in transitioning from the informal to the formal business sectors in Windhoek. The convenience sampling technique was employed to select 40 participants to whom the questionnaires, which were designed with both close-ended and open-ended questions, were administered. Quantitative data collected from the close ended section of the questionnaire was analyzed through descriptive

analysis and frequency graphs, charts and tables were used to present the data. Qualitative data which was collected from the open ended section of the questionnaire was analysed thematically.

The findings of this study revealed that current informal businesses are not contributing much to the country's economy, especially in creating jobs for the unemployed citizens. Most of the informal businesses which participated in this study are not employing more than two people or even growing to the extent of creating further employment opportunities. It has been found that these businesses are managing to at least assist people to start their own businesses, but still these offspring businesses are hand-to-mouth businesses which are not growing in any aspect.

This study also found that though lack of information, fees and financial requirements, cost of paying employees, payment of taxes and SSC, monitoring and controlling by MoTMoFSSC, abuse of position by law enforcement agents and the access of land, water and electricity, were considered by a minority of participants as being barriers to the transformation process, advancements in technology and lack of funding from banks and government were considered to be major barriers by a large number of respondents. It was found that technology advancement in informal businesses is a big challenge in Windhoek which significantly hinders informal businesses to transform to formal businesses. A lack of internet access to accessing the online business registration platform is given as an example. In addition to that the study found that lack of capital funding from banks and government led these businesses to remain stagnant or die at their tender stage, thus failing to advance from informal to formal sector. An obsession with collateral by banks which many informal businesses lack is cited.

The study equally revealed that there are advantages that can be enjoyed by any business which is registered. The advantages which were found in the study include: accessing funding and loans from government and other financial institutions, access to the marketplace that boosts the fast growth of the business, recognition and an increase of clients to the business, widening the advertising spaces, facilitating collaborations with bigger companies, more job creation, accessing tenders, protection by the law, and expanded income generation.

The findings revealed the possible assistance which needs to be provided by the relevant authorities to the informal businesses so as to boost these businesses and provide them room to develop to the formal sector. Among these factors are; resources assistance e.g. financial, land, products, equipment, access to technological developments, provision of training, provision of information on the business registration process, reduction of taxes, reduction in the registration process period, government to provide tenders to informal businesses, and the provision of an advertisement platform for small businesses.

5.3. Conclusions

The primary objective of the study was to examine the barriers impeding the transitioning of SMEs from the informal to the formal business sector in Windhoek. Findings of the study revealed a number of factors that discourage SMEs from registering their businesses and these include limited information, fees and financial requirements for registering as well as limited funding from the government among other factors. Based on the findings, the study concludes that advancements in

technology and lack of capital funding from banks and government are the major barriers for the transitioning of the informal businesses into formal businesses.

One of the secondary objectives was to determine factors influencing entrepreneurs to operate their businesses in the informal sector in Windhoek. From the findings of the study, it revealed that factors that cause SMEs to operate informally and these include the need to generate income, school dropouts and retrenchments of uneducated workers, the cost of business. Ledritz and Stiftung (2015) that limited opportunities in the formal economy together with the absence of other means of livelihood, unemployment, and inadequate social protection are among factors contributing to informal businesses argued it. The study therefore concludes that small business owners sometimes become informal in an attempt to make a living.

The study also had the objective of finding strategies that can be put in place to assist the transition of informal business to formalization in Windhoek. Results of the study indicate that SMEs need more information on registration, access to training, reduction of taxes that they pay and the provision of a platform for advertising for small businesses. Based on the findings, the study therefore concludes that for small businesses to be registered there is need for government to put measures that will make it easier for the small businesses to register their businesses. The study also concludes that there are many informal businesses that are eager to formalize as can be deduced from the advantages in the findings. Also it may be concluded that greater attention needs to be placed on helping informal businesses in Namibia navigate the transition process.

5.4 Recommendations

The following recommendations were made based on the findings of this study:

Policy recommendations to the government

- On the part of the government, there is need to consider the informal sector as the foundation of its economy and come up with some solutions to integrate it into the main national economic programmes, so as to boost its contribution to the country's gross domestic product (GDP). This study recommends that the government should increase support to small business. The government needs to either provide funds to the informal sector by coming up with a special treasury for this sector or to open up networks for these businesses to donors, so as to quicken their transition into the formal sector.
- The study also recommends that current online business registration process run by BIPA needs to be regionalized, and localized and registration fees should be abolished for small businesses. Abolishing the fees currently charged by BIPA will make it easy for the small informal businesses will find it easier to register and probably transition to being formal businesses.
- This study also recommends that the government needs to also open up the marketing platforms for the informal businesses, so that they can market their businesses, products and services. The availability of marketing platforms for products and services from the informal business will most likely lead to an increase in the incomes which their businesses earn. This may increase the businesses capacity to transition to more formalized businesses. By so doing, information about business operational needs and best business practices will be equally transmitted into informal sectors regardless of size. This will increase the opportunities for business and thereby consequently boost the national economy. This study recommends that the government needs to limit the tax burden on the informal

businesses by lowering the taxation threshold, so as to boost the enrolling of new businesses into the formal business sector.

- This study finally recommends that there is need for training of the upcoming entrepreneurs who are struggling to start and grow in their businesses needs to be considered. Also, support in machinery needs to be provided to the informal sectors, so that they can meet the current technological developments in the businesses environment. Such support might be instrumental for the transition of business from the informal to the formal sector.

5.5 Directions for further research

This study examined the barriers which stand in the way of small informal businesses from transitioning to the formal sector. This study acknowledges that there have been efforts to help businesses to transition to the formal sector. This study recommends future researchers to focus on the effectiveness of such matters. This is because all the efforts on formalization policies need to be better known in terms of their effectiveness for future policy making. This study mainly focused on the informal businesses in Windhoek in Namibia, there is need for future researchers to do comparative studies on how different businesses in different countries fare when it comes to the process of transitioning from the informal to the formal sector.

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Appendix B: Consent Letter

INSTITUTIONAL REVIEW BOARD

CONFIDENTIAL INDIVIDUAL RESEARCH

TITLE

AN EXAMINATION OF BARRIERS TO THE EMPLOYMENT OF INDIVIDUALS WITH
FORMAL BUSINESS DEGREE IN INDUSTRY

Researcher: J. Smith

Dear Participant

I am J. Smith, a graduate student at the University of North Carolina,
holding a Master's degree in Business Administration. I am conducting a research project
in the field above. The study will be conducted under the supervision of Prof. H. Zander.

Through your participation we might find information which will be valuable in decision-making as
it pertains to the above title. You will be asked to participate in an interview in which you will be
required to respond to questions on demographic, general knowledge and experiences. You will
be handed a questionnaire to complete in the presence of the researcher. The researcher will take
notes of your responses. This process will be done on the premises and only take about 30 minutes of your
time.

Appendix B: Consent Letter

NAMIBIA BUSINESS SCHOOL

CONSENT TO PARTICIPATE IN RESEARCH

TITLE:

AN EXAMINATION OF BARRIERS IN TRANSITIONING FROM INFORMAL TO THE FORMAL BUSINESS SECTOR IN WINDHOEK

Researcher: J Jeomba

Dear Participant

I am JEFTA JEOMBA registered with the Namibia Business School of the University of Namibia, doing a Master's degree in Administration (Finance). I'm planning to conduct a research as set out in the title above. The study will be conducted by myself under the supervision of Prof E Ziramba.

Through your participation we might gain information that will be valuable to decision makers as it pertain to the above title. The format will take the shape of an interview in which you will be required to respond to questions on demographic, general knowledge and experiences. You will be handed a questionnaire to complete in the presence of the researcher. The researcher will take notes of your responses. This process will on the maximum only take about 30 minutes of your time.

The study is wholly voluntary and you have the right to refuse further participation at any point. You will be expected to answer all questions and the researcher is at your disposal to ask any questions you may not understand. Your responses will be kept strictly confidential and will not be linked to your identity neither will it be published without your consent. This will be ensured through the use of coding. Only the researcher and the supervisor will have access to any of the information you may provide and the data will thereafter be securely stored.

Your selection for the study was random from a population of informal traders issued with trading licences by the City of Windhoek.

Kindly sign for consent to participate in the study if you agree having understood the purpose and manner of the study.

Should you have any questions or need any further information on the study please contact myself Mr Jefta Jeomba at 0812231690 or email jeombaj@gmail.com. Alternatively you may contact the Supervisor of the study, Proff E. Ziramba, cell 0818539479 or email eziramba@unam.na

Appendix C: Consent Form of Respondents

UNIVERSITY OF NAMIBIA
CONSENT FORM TO PARTICIPATE IN RESEARCH

I Israel Houwangah

Hereby voluntarily agree to participate in this research project.

Signed at Windhoek

Israel Houwangah

Participants Signature

18.01.2020

Date

Appendix D: Data Collection Tool

RESEARCH QUESTIONNAIRE

TITLE: AN EXAMINATION OF BARRIERS IN TRANSITIONING FROM INFORMAL TO THE FORMAL BUSINESS SECTOR IN WINDHOEK

PREPARED BY: JEFTA JEOMBA

STUDENT NUMBER: 9604405

COURSE: MASTER OF BUSINESS ADMINISTRATION (FINANCE)

INSTITUTION: NAMIBIA BUSINESS SCHOOL, UNIVERSITY OF NAMIBIA

SUPERVISOR: PROF. E, ZIRAMBA

Dear Respondent, I am a student at the University of Namibia doing a research project on the topic 'An examination of the barriers in transforming from informal to the formal business sector in Windhoek'. Your kind and objective response will significantly highlight these challenges from your perspective and contribute to finding practical solutions to this problem. This is purely academic exercise and any information given would not be disclosed.

Answer all the questions either by ticking the box or filling the blank spaces provided bellow and

I thank you in advance.

Jefta Jeomba

Please note :

Formalisation of a business in this questionnaire means registering the business with Ministry of Trade and Industry , the Ministry of Finance and the Social Security Commission.

Section One: Respondent's bio data

Type of small business	
Registered with MTI/MoF/SSC, etc ?	Yes <input type="checkbox"/> No <input type="checkbox"/>
Business Age	
Business Income p/m	<N\$500 <input type="checkbox"/> N\$500-1000 <input type="checkbox"/> N\$1001-2000 <input type="checkbox"/> N\$2001-3000 <input type="checkbox"/> N3001-4200 <input type="checkbox"/> > N\$42001 <input type="checkbox"/>
Gender	Male <input type="checkbox"/> Female <input type="checkbox"/>
Your name and address (optional)	
Age (tick applicable box)	20-29yrs <input type="checkbox"/> 30-39yrs, <input type="checkbox"/> 40-49yrs <input type="checkbox"/> 50 and above, <input type="checkbox"/>

Education	No education <input type="checkbox"/> Primary <input type="checkbox"/> Secondary <input type="checkbox"/> Diploma <input type="checkbox"/> University <input type="checkbox"/>
Date of Assessment:	

Section Two

The importance of informal businesses to the Namibian economy

1. Does your enterprise show significant contribution to the economic activities in Namibia, in terms of job creation?

YES NO

If yes, how many jobs have your enterprise created?

2. How many people are directly depended on the income generated by your enterprise?

.....

Section Three: Barriers to formalization of informal sector

Please indicate the extent to which the lack of the following factors influences growth of your business from the informal to the formal business sector.

Use the key below and tick as appropriate.

Key: 1- Not at all; 2- To a less extent; 3- Moderate extent; 4- Large extent 5- Very large extent

No	Impact	1	2	3	4	5
1	Lack of information and awareness on business registration/ formalization.					
2	Fees and financial requirements for formalization					
3	The cost of paying employees market related (high) salary.					
4	Paying taxes and social security contributions, .					
5	Monitoring and controlling of activities by the Ministry of Trade , Ministry of Finance and Social Security Commision are too high.					
6	Advancements in technology is a challenge to small businesses					
7	Lack of capital funding from banks and government					
8	Abuse of position (linked to corruption , bribery) by the law enforcement agents (municipal and labor inspectors , tax auditors , etc.).					

9. Does your business have access to land , water and electricity?.....

10. What do you thing are the advantages (if any) of having your business registered/ formalized/ licensed
.....

.....

.....

.....

.....

.....

.....

.....

11. What can be done to assist your business to upgrade to a formal business?

.....

.....

.....

Appendix E: Declaration of Language Editing

J. Brandt
P O Box 30844
Pioniers Park
Windhoek
Namibia

email: joanne57ri@gmail.com
Mobile number: +264 (0)812061241

19 October 2021

To whom it may concern

I, the undersigned, hereby acknowledge that I have edited and proofread the following Master's dissertation for language correctness:

An examination of barriers in transitioning from informal to the formal business sector in Windhoek

By
Jefta Jeomba

I have indicated the areas in the dissertation to which attention should be paid. All textual changes made to this dissertation after the date above are not covered by the language editing and proofreading.

I trust that my advice has been accepted and that these corrections and changes have been executed as suggested.

Yours faithfully



Signature

Ms J. Brandt

Qualifications

Master of Philosophy (MPhil) (Second Language Studies) - University of Stellenbosch - March 2010

Higher Education Diploma (Post-Graduate) - University of South Africa - April 1987

Degree of Bachelor of Arts - University of Cape Town - June 1981

Tertiary Lecturing Experience

The International University of Management - Department of Languages and Communication (2016 – 2021)

Namibia University of Science and Technology - Communication, and Education and Languages Departments (2007-2013)

University of Namibia - Language Centre (2014) (part-time)