

FRAMEWORK FOR THE CONTRIBUTIONS AND CONSTRAINTS OF THE INFORMAL ECONOMY ON DOMESTIC ECONOMIC GROWTH IN SOUTH AFRICA

<https://doi.org/10.47743/jopafl-2022-24-15>

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Abstract: *The informal economy is very crucial when managing local economic growth but its effectivity seems to be reluctant in South Africa despite efforts from the locals. This study seeks to design a framework for the contributions and constraints of the informal economy on domestic economic growth in the Thembisile Hani local municipality in South Africa. The current study follows a quantitative approach to investigate on the research variables that impact the expansion of the domestic economic growth. It uses a Likert scale type of questionnaire for data assemblage. The SPSS version 22 was used for the statistical analysis of research data. The reliability and validity of the research variables and the used instrument were confirmed with a Cronbach's Alpha coefficient of .979. Research findings revealed that 96.1% of the domestic economic growth is explained by the behaviour of the employment opportunities, government support, convenient regulations and infrastructures, conducive local municipality and poverty solution. The correlation and the regression analysis showed that relationship between the domestic economic development and its variables was positive and significant with a P-value of .000 at the significance level of 1%. The study proposed an informal sector management framework that include constraints of the informal economy, the imperfectly defined guiding framework in addition to the indifferent state approach towards informal economy. Findings showed that constraints of the informal economy include the limited access to funding, trading infrastructure, skills development as well as the lack of state recognition besides the extension of shopping malls to the townships and villages. The revised framework comprises an additional section for the positive implications such as the employment creation, poverty reduction, investment prospects and a vibrant local economic development once the restrictions of the informal economy are relieved by the local municipality and the government. The revised framework therefore constitutes a legitimately defined tool for the effective implementation of the informal economy as foundation for a sustainable local economic development in the South African municipalities.*

Keywords: *Framework, Contributions, Constraints, Informal Economy, Domestic Economic Growth, Thembisile Hani Local Municipality, South Africa*

Introduction and Background

Introduction

The concept of the informal economy originated in the early 1970s, emerged as a means of conceptualising the illicit activities of the marginal poor in the third world and it became identified as common characteristics of the contemporary economy.

Todaro & Smith, (2015) argued that the informal economy continues to play a significant role in emerging nations regardless of years of benign disregard and even outright antagonism. In numerous emerging nations, about half of the city's employed inhabitants work in the informal economy. Informal economy is described as economic operations that are not subject to the government's regulations and taxations but assist the unprivileged people in the community (Weng, 2015). Benjamin and Mbaye (2014) advocated that informality is better described as a continuum defined by the arrangement of the available criteria. Furthermore, Benjamin and Mbaye (2014) contended that irrespective of the criteria used, it is complicated to define the informal economy in a dichotomised manner.

Background

Literature on the informal economy provide for self-employment as a widespread phenomenon in the urban employment program and that it is comparative to wage employment in the global South. Self-employment is mainly leading in sub-Saharan Africa and that the contemporary certainty is that furthestmost non-agrarian employments in the global South are today informal. Furthestmost of individuals are in self-employment (Chen et al., 2014). Charoensukmongkol (2016) likewise noticed that regime backing in various ways is crucial for the global success of the informal economy small businesses. Though, Peck, Jackson and Mulvey (2017) pointed that poorly distinct guideline result in antagonistic effects on the advancement and expansion of the informal economy small businesses.

Literature Review

The analysis of the existing literature predominantly centres on the informal economy and domestic economic growth aspects in relation to the contributions and constraints of the informal economy in domestic economic progress. This will further elaborate on the issues related to the employment creation and poverty reduction. The informal economy refers to all the firms in respect of size and business records while the informal employment includes the employees of the informal economy with unpaid workers, workers with precarious standing in formal enterprises and unpaid domestic workers. It is also useful to differentiate between the informal enterprise and the informal economic activity, since workers are also employed informally by formal firms (Benjamin, Beegle, Recanatini & Santini, 2014).

Limitations of the Informal Economy

Hobson (2011) reflected that regardless of its significance, the informal economy faces many limitations affecting its capability to contribute to economic success. Limitations occur, in factor of economic performance including infrastructure, governing hurdles, management and marketing skills, access to finance and human skills. Access to

capital is rated as the most vital limitation to the casual economy avoiding its participants from expanding their production and productivity. Numerous people have no substitute but to enter the casual economy due to inability to find formal work. Finding start-up capital through loans or savings is specifically difficult for the deprived (Madichie & Nkamnebe, 2010:307). Companion (2010:176) argued that distrust among informal economy participants is a factor that threaten their ability to work as a collective. Sociocultural limitations are inexplicably faced by women who experienced gender hurdles to casual trading (Akharuzzaman & Deguchi (2010).

Domestic economic growth

Local economic development is viewed as a partnership centred on the strategic planning that focuses on the domestic demand to expedite job expansion, poverty reduction and enriched living settings through enhanced economic situations (Koma, 2014:40-61). Furthermore, domestic economic progress is viewed as a vehicle through which stakeholders converge to distribute wealth, develop skills and reduce poverty (Yatta, 2015). Blakely and Leigh (2013) regarded domestic economic expansion as completed when a community living standard can be conserved and increased through a process of human and physical progress based on principles of equity and sustainability.

Linkages of the Informal and Formal Economies Igudia, Ackrill, Coleman and Dobson (2016) pointed that the initial thoughtful of the unregulated economy is clarified inside the confines of dualism. Dualism theory defines two dissimilar economies in which comparative benefits occur in one over the other. Narula (2018:587) observed viewed that emerging nations tend to have a dual structure including both the formal and informal economy. The informal economy is meticulously linked with the formal urban segment. Todaro and Smith (2015:350) argued that the formal economy benefits from the cheaper workforce that the casual economy offers while the informal economy depends on a developed formal economy to improve its conditions and revenues. Chen (2012) contented that the linkages occur through sub-divisions whereby numerous informal businesses or individual account operative manufactures and interchanges products and services with formal businesses known as sub-segments and through the value chains whereby some casual businesses and individual account operatives and by clarification.

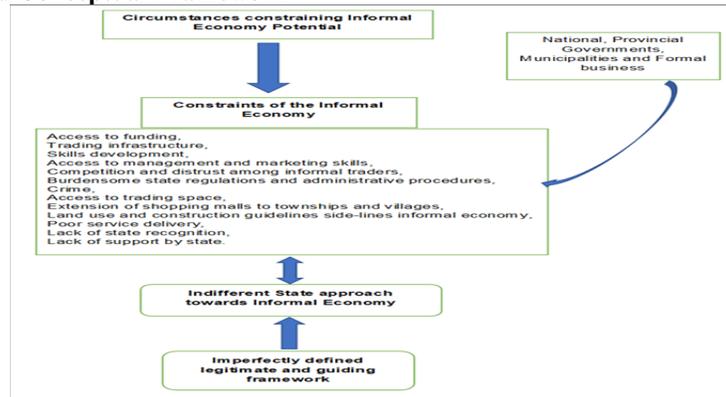
Constraints of the informal economy

Although informal economy contributes to the expansion of the national economy, the environment is completely jeopardised. Although informal economy contributes to the expansion of the national economy, the environment is completely jeopardised. Although informal economy contributes to the expansion of the national economy, the environment is completely jeopardised. Informal economy traders have limited access to funding and capitals to increase their productivity (Peck, Jackson and Mulvey, 2017). Evidence shows that informal economy players do not have management and marketing skills to efficiency run their businesses. The government equally fails to provide them with the skills development to increase their competitive advantage. Furthermore, the lack of access to trading infrastructure restraint any potential growth in the sector.

Imperfectly defined legitimate and guiding framework

Peck, Jackson and Mulvey’s (2017) observed that poorly distinct guidelines result in antagonistic effects on the advancement and expansion of the informal economy’ small businesses. The informal economy participants under these conditions will choose to remain informal due to government not intervening to make the conditions favourable. The choice of the informal economy participants in these instances will be voluntary as they are free to choose other alternatives (Peck., Jackson & Mulvey’s, 2017). Matsongoni and Mutambara (2018) indicated the importance of the informal economy participants as one of the means that can drive employment formation, economic development and expansion. Figure 1 below displays constraints of the informal economy and the imperfectly defined legitimate and guiding.

Figure1: Proposed Conceptual Framework



Source: Own compilation

The importance of a conceptual framework in the study

The conceptual framework is the process of effectively manage informal economy and increase domestic growth. The conceptual framework defines the connection amongst the core notions of the research that is organised in a rational structure to support and afford a depiction of how concepts in a research recount to one another (Grant & Osanloo, 2014). The framework makes it easier for the researcher to simply postulate and outline the notions within the problem of the research (Luse, Menneke & Townsend, 2012). The conceptual framework proposes numerous benefits to a study as it supports the researcher in classifying and creating a worldview on the phenomenon explored (Grant & Osanloo, 2014). It is a modest method through which a researcher distinctively presents stated solutions to the problem (Chen, 2012).

Contribution of the study

The primary objective for this study is to develop a framework related to the contributions and constraints of the informal economy to the domestic economic growth in the Thembisile Hani Local Municipality. The research measures the effects of the contributions of the informal economy on the one hand while on the other hand it measures its constraints on the local economic development. The proposed conceptual framework will guide the informal economy players, the local economic development stakeholders and the related policymakers in their mission of improving the South African economic sector.

Methods and Material of the Study

Research design

In this study, the quantitative research method is employed since it uses exact measurement to apply comparative analysis among variables (Bless, Higson-Smith & Sithole, 2016:58). It is a method that is methodical and unbiased considering the use of numerical data collected and later generalise the results of the phenomenon under study (Maree & Pietersen, 2012: 145). This will assist to understand the contributions and constraints of the informal economy on domestic economic growth using descriptive and inferential statistics (Salkind, 2014: 230 and 247). This study adopted the survey method as the research design because it is an adequate tool used to provide quantitative description of respondents' opinions, attitudes and trends of populations on the research problem. As for this study, the target population is 358 informal businesses of the Thembisile Hani Local Municipality and located at the three intersections of the R573 main road.

Data collection

This study uses the Likert scale questionnaire structure where participants had a choice of five options in a five-point rating. Three hundred (300) copies of questionnaires were distributed, 286 respondents were targeted but only 199 completed questionnaires were received back. There are three main shopping malls situated at KwaMhlanga, Phola and Kwaggafontein that attract owners of small businesses. Data collection instrument for this study was a questionnaire alienated into four units namely A, B, C and D.

Data Analysis

Data of the study was captured and coded using SPSS version 22 for organisation and analysis by executing a series of tests. Subsequent to data gathering, data was prepared and analysed using descriptive statistics. The Cronbach's alpha was deployed to identify the internal reliability of the items of the questionnaire. For the purpose of this study, a bivariate correlation was performed to establish relationships between variables. The analysis of variance (ANOVA) was deployed in this study to determine the overall degree of significance of the research variables. Regression analysis was deployed in this study for the purpose of identifying and evaluating the degree of significance between dependent and independent variables.

Model Specification

Table 1 displays the independent and dependent variables used in this study.

Table 1: Research Variables

Independent Variables		Dependent Variables	
Code	Description	Code	Description
IEEO	Employment opportunities	DEG	Domestic economic Growth
IEGS	Government Support		
IECRI	Convenient regulations & infrastructures		
IECLM	Conducive local municipalities		
IEPS	Poverty solution		

Source: Own Compilation

The following linear equation is defined according to the economic variables considered in this study:

$$DEG = \beta_0 + \beta_1 IEEO + \beta_2 IEGS + \beta_3 IECRI + \beta_4 IECLM + \beta_5 IEPS + \text{£} \quad (1)$$

Where £ represents the error term; $\beta_1, \beta_2, \beta_3, \beta_4$ the estimation parameters and β_0 the constant term. The coefficient of each variables will be provided during regression analysis.

Data analysis and Results

Data Analysis Reliability and Validity

Table 2 shows that research variables are valid and reliable since the Cronbach's Alpha coefficient equals .979 which is more than .70 the minimum requirement.

Table 2: Reliability Statistics

Reliability Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.979	.980	6

Source: Own Compilation

Descriptive statistics

Table 3 displays the descriptive statistics of the research variables namely IEEO, IEGS, IECRI, IECLM, IEPS and DEG. Their average is respectively 3.31, 3.13, 2.51, 2.97, 2.45 and 2.45. The standard deviation indicates how close the sample mean is to the population. Table 3 displays that standard deviation of IEEO, IEGS, IECRI, IECLM, IEPS and DEG are respectively 1.319, 1.197, 1.184, 1.357, 1.380 and 1.11541.

Table 3: Descriptive statistics

	Descriptive Statistics								
	N	Range	Minimum	Maximum	Sum	Mean	Std. Deviation	Variance	
Employment opportunities	199	4	1	5	658	3.31	1.319	1.739	
Government Support	199	4	1	5	622	3.13	1.197	1.434	
Convenient regulations & Infrastructures	199	3	1	4	499	2.51	1.184	1.403	
Conducive local municipalities	199	4	1	5	592	2.97	1.357	1.843	
Poverty solution	199	3	1	4	488	2.45	1.380	1.906	
Domestic economic Growth	199	4.00	1.00	5.00	620.00	3.1156	1.11541	1.244	
Valid N (listwise)	199								

Source: Own Compilation

Correlation Analysis

Table 4 below indicates that there is a positive and strong relationship between the DEG and the independent variables such as IEEO, IEGS, IECRI, IECLM, IEPS that respectively have a correlation coefficient of .961, .923, .861, .876 and .855 at a significance level of 1%.

Table 4: Correlation Analysis

		Correlations					
		Employment opportunities	Government Support	Convenient regulations & infrastructures	Conducive local municipalities	Poverty solution	Domestic economic Growth
Employment opportunities	Pearson Correlation	1	.887**	.912**	.938**	.886**	.961**
	Sig. (2-tailed)		.000	.000	.000	.000	.000
Government Support	N	199	199	199	199	199	199
	Pearson Correlation	.887**	1	.834**	.832**	.787**	.923**
Government Support	Sig. (2-tailed)	.000		.000	.000	.000	.000
	N	199	199	199	199	199	199
Convenient regulations & infrastructures	Pearson Correlation	.912**	.834**	1	.932**	.928**	.861**
	Sig. (2-tailed)	.000	.000		.000	.000	.000
Convenient regulations & infrastructures	N	199	199	199	199	199	199
	Pearson Correlation	.938**	.832**	.932**	1	.933**	.876**
Conducive local municipalities	Sig. (2-tailed)	.000	.000	.000		.000	.000
	N	199	199	199	199	199	199
Conducive local municipalities	Pearson Correlation	.886**	.787**	.928**	.933**	1	.855**
	Sig. (2-tailed)	.000	.000	.000	.000		.000
Poverty solution	N	199	199	199	199	199	199
	Pearson Correlation	.961**	.923**	.861**	.876**	.855**	1
Domestic economic Growth	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	199	199	199	199	199	199

** Correlation is significant at the 0.01 level (2-tailed).

Source: Own Compilation

Regression Analysis

Table 5 shows that the R square equals .961. This means that 96.1% of the domestic economic growth is explained by the behaviour of employment opportunities, government support, convenient regulations and infrastructures, conducive local municipality and poverty solution.

Table 5: Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.980 ^a	.961	.960	.22352
a. Predictors: (Constant), Poverty solution, Government Support, Employment opportunities, Convenient regulations & infrastructures, Conducive local municipalities				

Source: Own Compilation

The below ANOVA table indicates that the relationship between research is not only positive and strong but it is strongly significant with a P-value of .000.

Table 6: ANOVA

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	236.699	5	47.340	947.505	.000 ^b
	Residual	9.643	193	.050		
	Total	246.342	198			
a. Dependent Variable: Domestic economic Growth						
b. Predictors: (Constant), Poverty solution, Government Support, Employment opportunities, Convenient regulations & infrastructures, Conducive local municipalities						

Source: Own Compilation

Regression model

Table 7 below indicates that the coefficient and the P-value of each research variable. The P-value appears to be significant with a value equals to .000 for each variable such as IEEO, IEGS, IECRI, IECLM, IEPS. This implies that the domestic economic

growth is significantly impacted by the dimensions of the informal economy namely Employment opportunities, Government Support, Convenient regulations & infrastructures, Conducive local municipalities and Poverty solution in the Thembisile local municipality.

Table 7: Regression coefficients

Model		Coefficients ^a				
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.317	.048		6.663	.000
	Employment opportunities	.752	.043	.889	17.670	.000
	Government Support	.326	.029	.350	11.179	.000
	Convenient regulations & infrastructures	-.179	.044	-.190	-4.080	.000
	Conducive local municipalities	-.268	.045	-.326	-5.956	.000
	Poverty solution	.220	.036	.272	6.109	.000

a. Dependent Variable: Domestic economic Growth

Source: Own Compilation

Based on the above regression coefficients, the regression model appears as follow:
 $DEG = \beta_0 + \beta_1 IEEO + \beta_2 IEGS + \beta_3 IECRI + \beta_4 IECLM + \beta_5 IEPS + \epsilon$ (1)

The regression equation becomes as follow:
 $DEG = 0.317 + 0.752IEEO + 0.326IOGS - 0.179 IECRI - 0.268 IECLM + 0.220IEPS + \epsilon$ (2)

Research Findings

Based on the statistical analysis and the findings from the literature review, figure 2 depicts the informal economy elements that contribute to the expansion of domestic economic growth.

Figure 2: Informal economy elements



Source: Own Compilation

Employment opportunities

A more topical literature illustrates the informal economy as an opening of prospects for numerous workers and firms that find in the informality an opportunity to generate revenues and get employment that should be not easy to obtain in a highly regulated economic environment. Furthermore, the informal economy gives a thoughtful platform to people and businesses to spur entrepreneurial beliefs by creating wealth. This platform is not any longer restricted to vulnerable activities but is ample to house firms in

fabrication processes (Adams et al., 2013). In South Africa, informal economy affords a security net for several families that should then be in calamitous insufficiency circumstances without occupation or an alternate basis of revenue (Herrington, Kew & Kew, 2010; Lings, 2014).

Government Support

Notwithstanding the suggestion that recognises the several enterprises and workers are connected to formal economy through value chains, numerous informal enterprises and workers are affected by the state decisions and laws. This is true, due to the actions of the state such as when it decides to upsurge labour laws and enact punitive laws (Chen, 2014). The discourse regarding the economic importance and growth of the informal economy is that popular opinion views it as a survival solution. Many of the operators select steady employment since they do not possess the abilities and assets to operate an effective formal business (Turok et al., 2017: 35). However, there is a further optimistic outlook that proposes that the informal economy can serve vital niche markets and enhance significance to other events with the government support (Turok et al., 2017: 35).

Convenient regulations & infrastructures

Majority of participants agreed that the informal economy is indeed believed to be constrained by elements such as lack of infrastructure, capital, relevant skills, unsuitable regulations and security apprehensions. State procedure, laws and practices apply an enormous effect on the development opportunities of informal firms (Hartnack & Liedeman, 2017). The informal economy is still defined by poor infrastructure suggesting that it is been poorly reflected in the improvement of policies (Mafunzwaini, 2013:5). Mahadea (2018) posited that empirical studies in several countries have acknowledged frequent growths preventing the above-cited factors for an informal economy. Indeed, players in the unofficial economy are subject to informal occupation measures and are in general unprotected and defenceless (ILO, 2014).

Poverty solution

Most of the respondents approved that many of South African poor people rely on the unofficial economy for survival and livings. Mahadea (2018) observed that deprived and short-skilled people see the informal economy as the only alternative for safeguarding their livings. The worldview of the dualists' theory regarding informal economy is that it is composed of marginalised economic activities dominated by the underprivileged as revenue source and safety net in the time of economic distresses. Majority of participants agreed that self-employment in the informal economy activities is increasingly becoming a recognised solution to the rising unemployment and poverty in Thembisile Hani Local Municipality. The majority of the unemployed people in SA resides in the townships that emerged in the last 2 decades as the discrimination consequences occurred during the racial segregation epoch forming an unfortunate class between 1958 and 1994 (Mahajan, 2014). The Statistics South Africa (2017) published that 88.70% of the 62 million of unemployed people in the country are Africans and 65% of them are black people who lives under the poverty line since 2015 as depicted by the poverty trend analysis in SA. Unemployment is both a cause and a result of isolation and poverty situation happening to people and

rendering them weak and vulnerable. Unemployment is both a specific and societal standing attribution (Blakely & Leigh, 2016).

Conducive local municipality

A conducive local municipality enables conditions that improve the management of informal economy. Municipalities suppress the informal economy by regulating the quantity and localities for informal sellers by creating trading procedures, delineating trading bays and implementing by-laws (van Eeden, 2011). Confining informal trading to some parts is obviously sincere for some motives. They could culminate in ill-managed spaces deprived of the fundamental arrangement that aggravates the complications of criminality and filth. Practical and pre-emptive controls of the informal economy would be superior to the current standing (SERI, 2015). SALGA (2012) contended that there is a change in philosophy that is inspiring municipalities to look at the informal economy as significant service delivery roles. It is at the local level where precise limitations touching explicit actions of the informal economy better expressed and commendably addressed (Ndabeni, 2014:2).

4.2.6 Local economic development

Majority of participants confirm the statement that the economic development planning has excluded the informal economy in economic development policies leading to the need for a more inclusive economic development approach. South Africa continues to encounter key developmental obstacles related to unemployment, poverty and inequality. There is a need to explore alternative approaches to economic development that can bring inclusive economic expansion although informal economy is often overlooked in economic policy analysis (Ndabeni, 2014:1). Equal numbers of participants contrasted each other regarding the statement that substitute economic development methods are to be explored to attain an improved life for all South Africans. Local governments are progressively accomplishing an important role in confronting economic and social challenges and successfully managing processes of economic transformation.

The informal economy is specifically imperative to the local economic development due to employment and revenue occasions that it offers to the poor and unwaged. Advancement of measures that identify the informal economy as a critical role player in domestic economic expansion will help to obligate local administrations to back and expedite a supportive setting in which the informal economy players can earn a livelihood (Ndabeni, 2014:2).

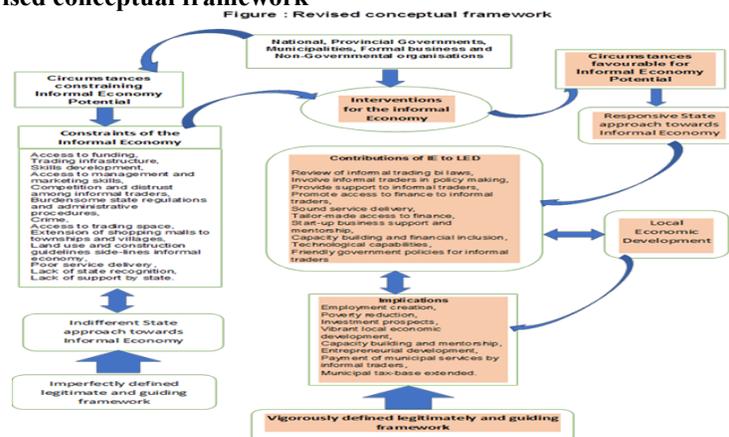
Revised conceptual framework

The revised conceptual framework intends to ensure a transformation in the lives of the unregulated economy participants with regards to improving their daily experiences in their work of ensuring that they make reasonable livelihoods. Municipalities in the main are nearest government for the people of this country therefore it is imperative for municipalities in their endeavour to delivery services to its people. States holds the obligation to intervene and remedy policy partialities that have preferred the formal parts of the economy to the disadvantage of the informal economy. The state should safeguard that current financial and non-financial support programmes inclusively attend to the informal economy businesses development constraints. The revised framework was to

ensure that the informal economy achieves its full potential on the basis that the informal economy participants will have admission to the benefits of reviewed informal trading by laws and are involved in informal traders' policy and decision making. Therefore, the revised framework provides contributions to national outputs while offering an impulse to the development of human resources at low cost. A favourable procedure and lawful atmosphere sustain entrepreneurship by decreasing the expense of starting and managing an enterprise. The revised conceptual framework calls for the formal economy to ensure that the unregulated economy is provided with opportunities to realise its potential. Self-employment is encouraged by the study as part of employment creation and contribution to local economic development in the Thembisile Hani Local Municipality. The revised conceptual framework indicates benefits such as employment creation, poverty reduction, conducive municipalities, income generation, local economic development, convenient regulations and infrastructures. Additionally, capacity building and mentorship, entrepreneurial development, expansion of municipal tax base, wealth creation, small business creation are further benefit dimensions that rise concomitantly. Intervention by government and municipalities for the informal economy should benefit mostly women because they are the majority players in the informal economy and are the breadwinners of their households.

Figure 3 below depicts the revised conceptual framework. This framework will constitute a legitimately defined tool for the effective implementation of the informal economy as foundation of the local economic development.

Figure 3: The revised conceptual framework



Source: Own compilation

Recommendations and Conclusion

Recommendations

Considering the study results, the ensuing recommendations are offered for the deliberation of effective management of the informal economy in the Thembisile Hani Local Municipality. Investigate an inclusive study of policies that affect informal economic action transversely national, provincial and local municipalities, and subsequently examine the spatial and demographic scopes of the informal economic management to measure how detailed guidelines and interpositions affect various collections and societies. Formulate a

complete thoughtful of several connections prevailing among formal and informal economic action by plotting out stream and value chains and put energetic public assignation with informal traders at the centre of all informal economy management energies to advance comprehensiveness, acceptability, approval and efficiency of policies. Afford a benign and protected atmosphere for informal traders over offering of a suitable trading setup, enough public lights and patrolling in addition to providing capacity building for the expansion of the unregulated economy. Help the players in informal economy to passage from the subsistence means to workable commercial undertakings. Drives to sustain informally self-employed require to be rooted in a decisively sectoral grounded method and attentive on the value chains in which informal businesses are situated.

Conclusion

In the ultimate deduction and breakdown of this research, the general results indicate that the informal economy contributes and influences domestic economic growth. The importance of the informal economy towards economic growth, employment creation and poverty solution were significantly highlighted. The revised conceptual framework indicates informal economy benefits such as the employment creation, poverty reduction, conducive municipalities, income generation, convenient regulations and infrastructures in addition to the capacity building and mentorship, entrepreneurial development, expansion of municipal tax base and domestic economic growth. This framework will guide the informal economy players, the local economic development stakeholders and the related policymakers in their mission of improving the South African economic sector.

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