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Formalizing The Informal Sector in South Africa: Towards Developing a Formalization Framework

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Abstract

The informal sector constitutes a vital component of South Africa's economy, employing 30% of the national workforce, with Durban alone contributing 26%. This research critically examines the socio-economic impact of formalising the informal economy in the Durban CBD, exploring the experiences of informal traders operating outside formal regulatory frameworks, as well as the perspectives of government officials responsible for overseeing the sector. A qualitative, descriptive approach was employed, drawing on primary data collected through semi-structured interviews with fifteen informal traders, five government informants, and 3 focus groups. Thematic analysis of this data revealed key challenges, including regulatory constraints, limited access to finance, and inadequate infrastructure. Despite these obstacles, informal traders expressed strong interest in formalisation, provided it is inclusive and supportive. The findings suggest that formalisation has the potential to reduce poverty, lower unemployment, and foster innovation and economic resilience, particularly for marginalised communities. The study proposes a context-driven formalisation framework, informed by stakeholder input and municipal processes, to guide policymakers and development partners in creating a more inclusive and sustainable economic environment in the Durban CBD.

Keywords: Street Trading; Informal Sector; Socio-Economic Impact; Formalization; South Africa