

# **Unemployment and poverty in South Africa: The importance of taking the informal sector seriously and enabling it**

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**OPTENTIA Unemployment Symposium**

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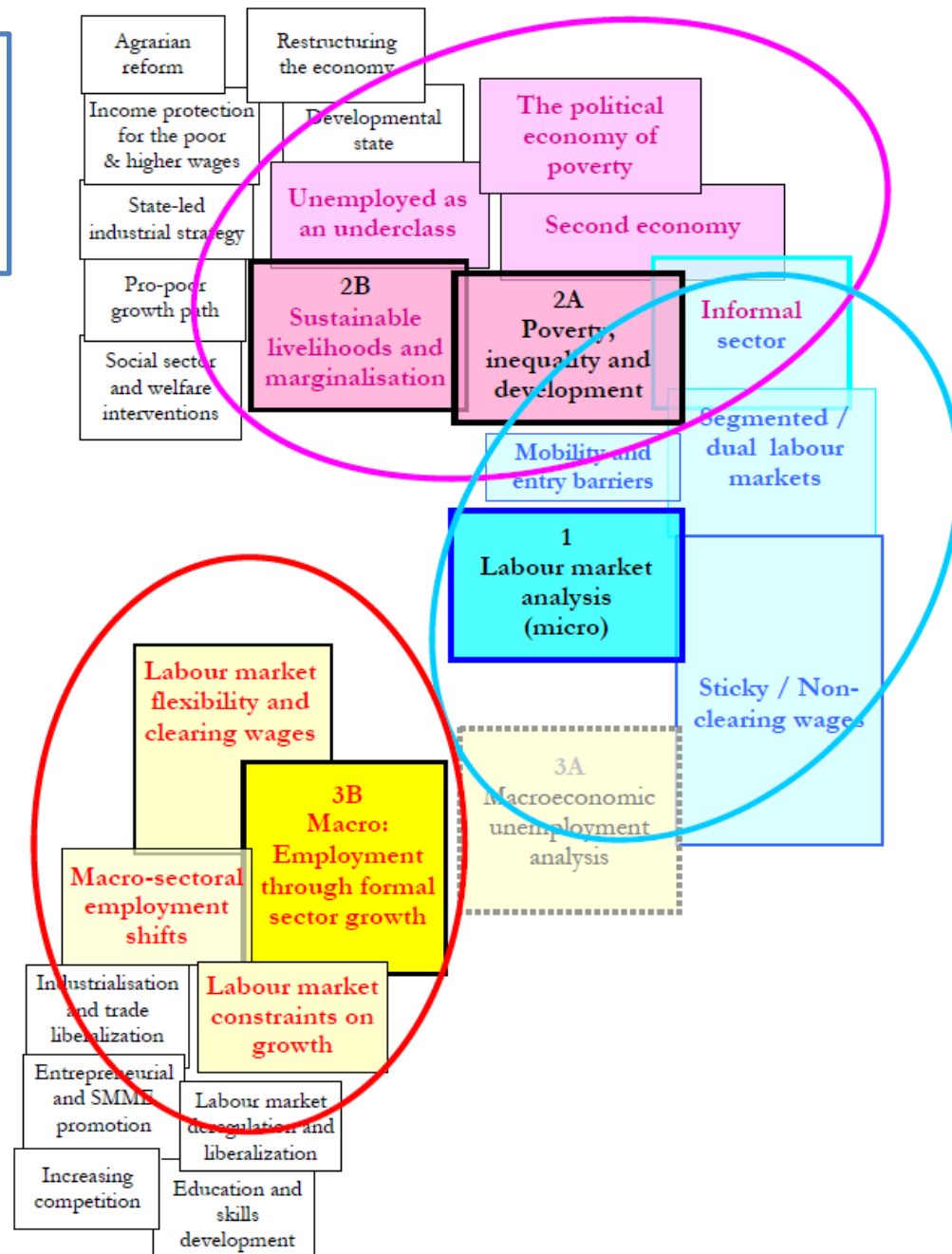


***Three REDI focus areas: Employment/Unemployment  
Income Distribution  
Inclusive Growth***

**First focus area: WHY?**

- Unemployment rate extremely high: 25% / 37%
- Limited SA economic research on employment and unemployment
- Unemployment debate seems to be split into silos

**The SA unemployment discourse landscape:  
Three worlds, three discourses (or more...)**



**Within REDI3x3...**

## ***Informal Sector Employment Project (ISEP)***

**[Multidisciplinary, multi-university, multi-method]**

### **WHY?**

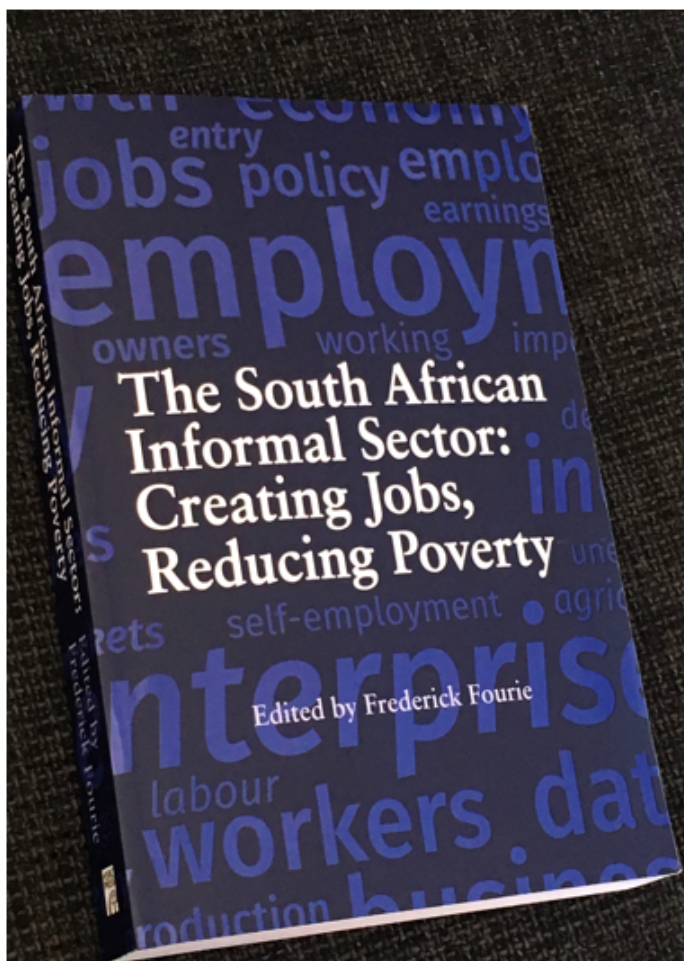
- Lack of labour-market income is a major factor in poverty and inequality**
- Informal sector identified as a gap in unemployment research**
- Largely ignored in NDP and economic policy (until recently...)**

**AND...**

## Uncomfortable realities

- **SA growth is not inclusive** – low UNDP inclusivity index – low rate of participation of the poor in economic growth processes
- GDP growth in SA is **not very employment intensive** – low rate of labour absorption
  - Employment coefficient = approximately 0.5
  - Growth within the formal sector alone is unlikely to absorb sufficient numbers of people to reduce unemployment significantly
- Declining employment intensity is a fundamental reality for South Africa
- **Must develop a vibrant informal micro-enterprise sector, as part of a two-pronged, formal-plus-informal policy approach**

## Outcome of the informal-sector project:



A REDI3x3 book

### ***The South African informal sector: Creating Jobs, Reducing Poverty***

Editor: Frederick Fourie

Consulting editor: Caroline Skinner

With a foreword by Ravi Kanbur

Published by HSRC Press

ISBN 978-0-7969-2534-3

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[exclusivebooks.co.za](http://exclusivebooks.co.za)

*A prerequisite for good policy-making for this part of the economy is good analysis. ... This volume embodies analytical excellence. I look forward to its impact on policy-making in South Africa and the world.*

**Ravi Kanbur** (Cornell University)

## Some key messages (to researchers and policy-makers)

- If South Africa is serious about tackling high unemployment, poverty and inequality, it needs to take the informal sector seriously
- New research highlights the important role of informal enterprises in providing paid employment and reducing poverty
- An enabled, well-supported, more dynamic informal-sector can be a potent instrument in more inclusive growth
- This will require effective enabling policies, including ‘smart’ formalisation

*... otherwise it will simply remain the forgotten sector – and so will the people working in it.*

# The nature of the informal sector?

Many researchers and policy analysts see the informal sector as  
... mostly made up of street traders and waste pickers  
... mostly 'own-account workers' (single-person enterprises)  
... perhaps with a few unpaid family members helping out  
... with few skills and without entrepreneurial ambitions  
... and without potential unless/until they graduate to the formal sector.

**This picture is not correct. But...**

As a result of that view, for many decades the sector has remained forgotten or in the margins of economic analysis and policy consciousness.

[Or as a rural development issue, or a social welfare/protection issue]



## **Basic definitions**

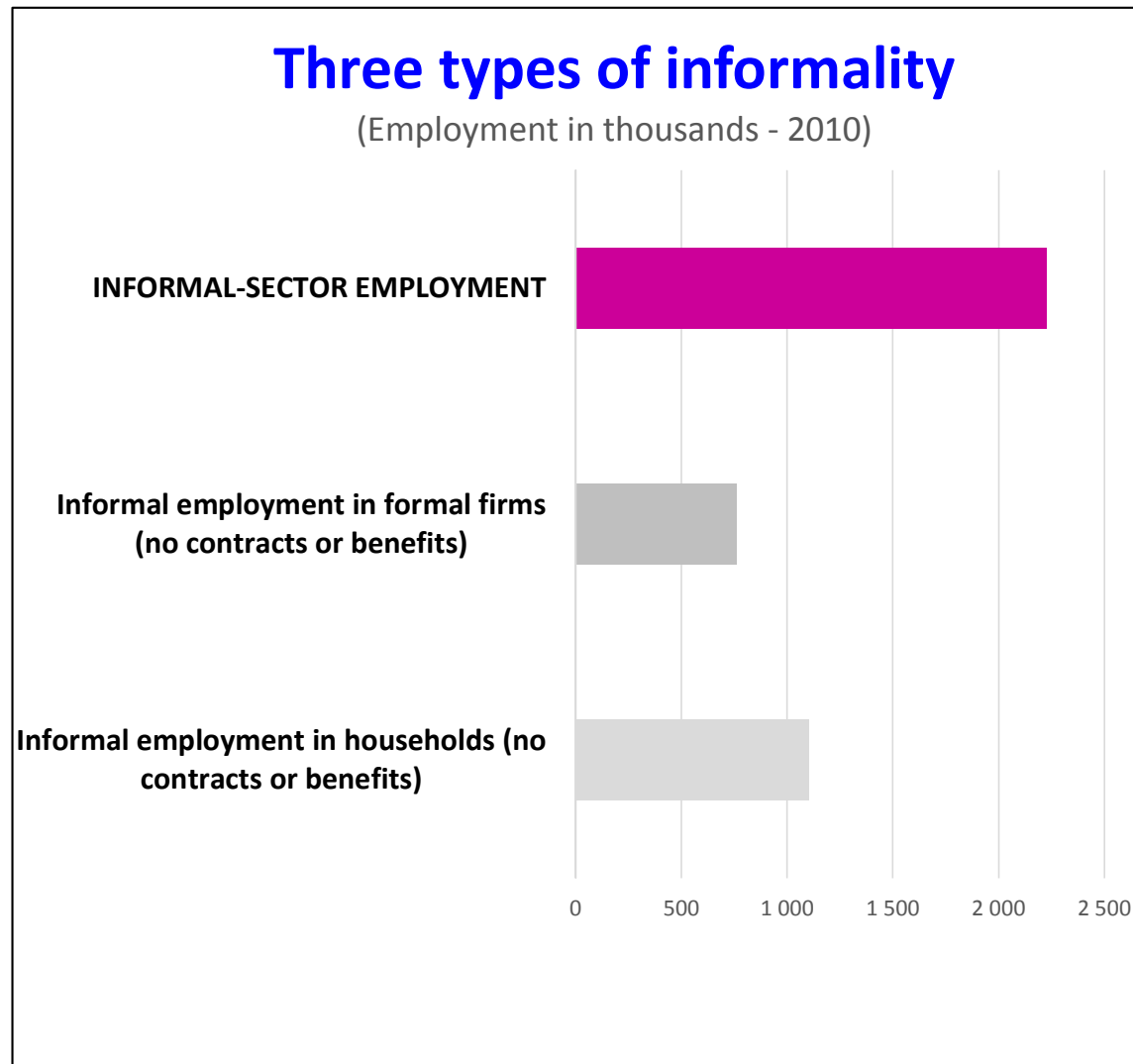
**Informal enterprises:** Enterprises, both with and without employees, that are not incorporated and not registered for taxation

- **It is the enterprise as institution that is informal** (and all its internal and external relations)
- **Can be seen as ‘seedling’ / ‘embryonic’ enterprises**

**Informal sector:** All such informal enterprises, their owner-operators/employers and all employees, paid and unpaid, in all economic sectors (manufacturing, retail, construction, etc., including agriculture\*)

- It excludes domestic workers and also subsistence agriculture, which is defined as not producing for the market but rather for own use

## ESSENTIAL CONTEXT:



## NOTES:

- Although all three carry the adjective 'informal', they are **very different phenomena with different policy considerations**
- Often a **source of confusion**, e.g. when all three all thrown into one policy pot with negative connotations
- **One must always carefully distinguish the three types**
- **Our interest is the first of these: employment in the informal sector**

**How many informal-sector enterprises?**

**How many people work in enterprises in the informal sector?**

(thousands, rounded)	SESE 2013
<b>Number of owners:</b>	<b>1450</b>
One-person firms	1150
Multiperson firms	300
<b>Number of employees</b>	<b>760</b>
Number of paid employees	550
<b>Total working in informal sector</b>	<b>2200</b>

**Approximately 17% of total employment**

**1 in every 6 who work, work in the informal sector**

**Significance of employing (multiperson) firms**

[\* Total employment, formal + informal sectors + agri + househ = 15 million (2013)]

Our research shows unambiguously that **the informal sector is an important source of employment (and of *paid* employment)** . . . with a growing propensity to employ.

In 2018 it provides livelihoods, work and income for more than 2.9 million workers and owner-operators.

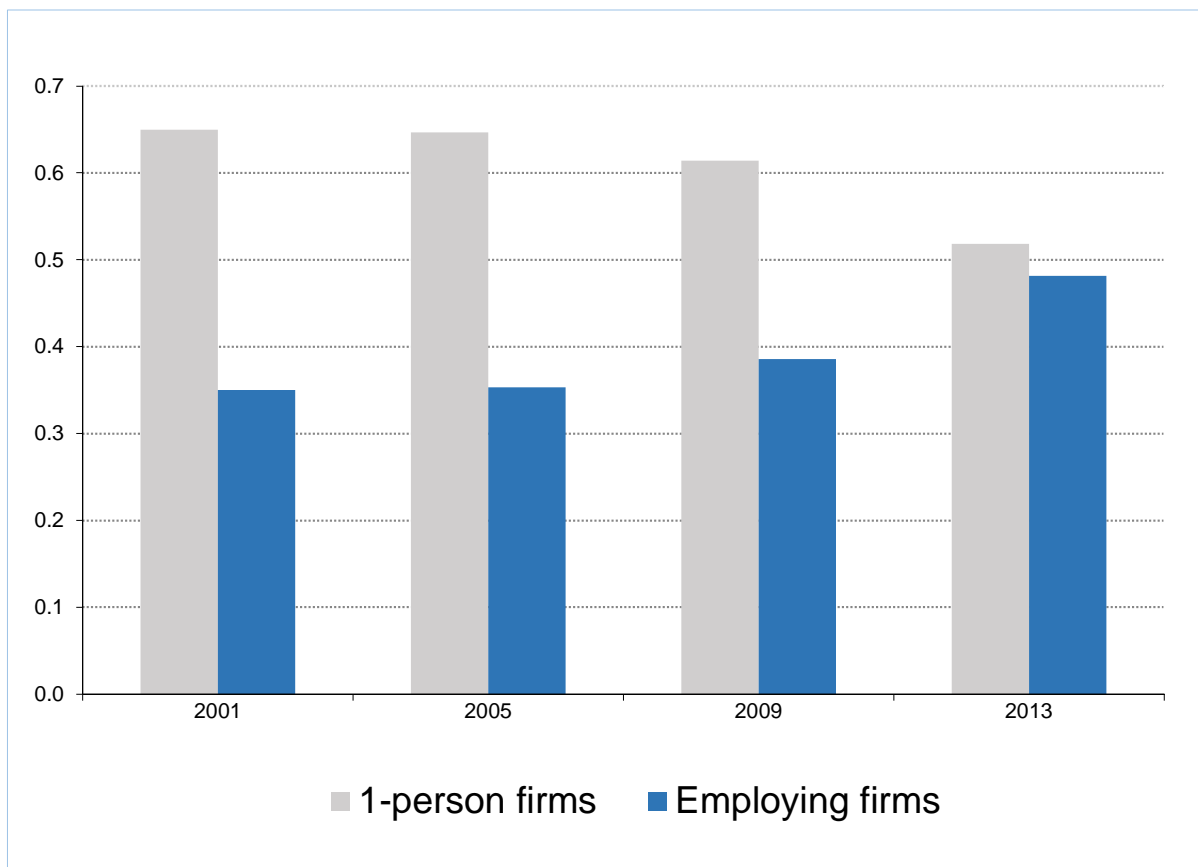
**Both one-person and multi-person enterprises are important**

- 80:20 . . . though proportion of employing firms growing steadily

**\*\*\* Almost half (48%) of those working in the informal sector work in multi-person enterprises:**

- These enterprises provide about 850 000 *paid jobs* (2013).
- This is almost twice the direct employment in the formal mining sector
- Upward trend since 2001

**Figure 1: Share of persons working in one-person and multi-person informal enterprises 2001–2013**



**The informal sector is as diverse as the formal sector and comprises all industries – almost a ‘normal’ economy profile.**

**Thus the informal sector comprises much more than street traders and waste pickers.**

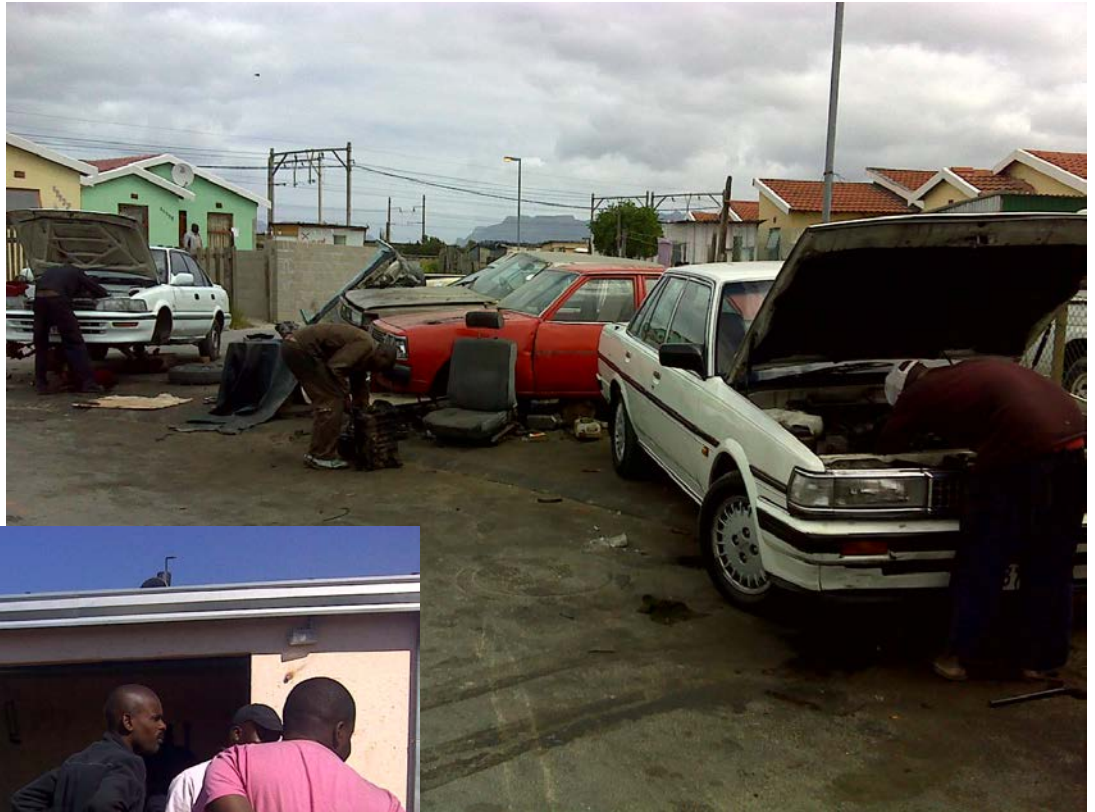
- The share of retail and street trading, previously very dominant, has been shrinking (70% in 2001 to 57% in 2013).

**Analysts must adopt an inclusive approach**

**Most of the employing enterprises are in construction, retail trade and services, but also in manufacturing and communication.**

- The informal construction industry has a high propensity to employ.

## Care and tyre repair





# Computer sales & repairs

## Educare centre







Steelwork  
enterprises

Glass &  
aluminium







Plant nursery



Furniture manufacturing

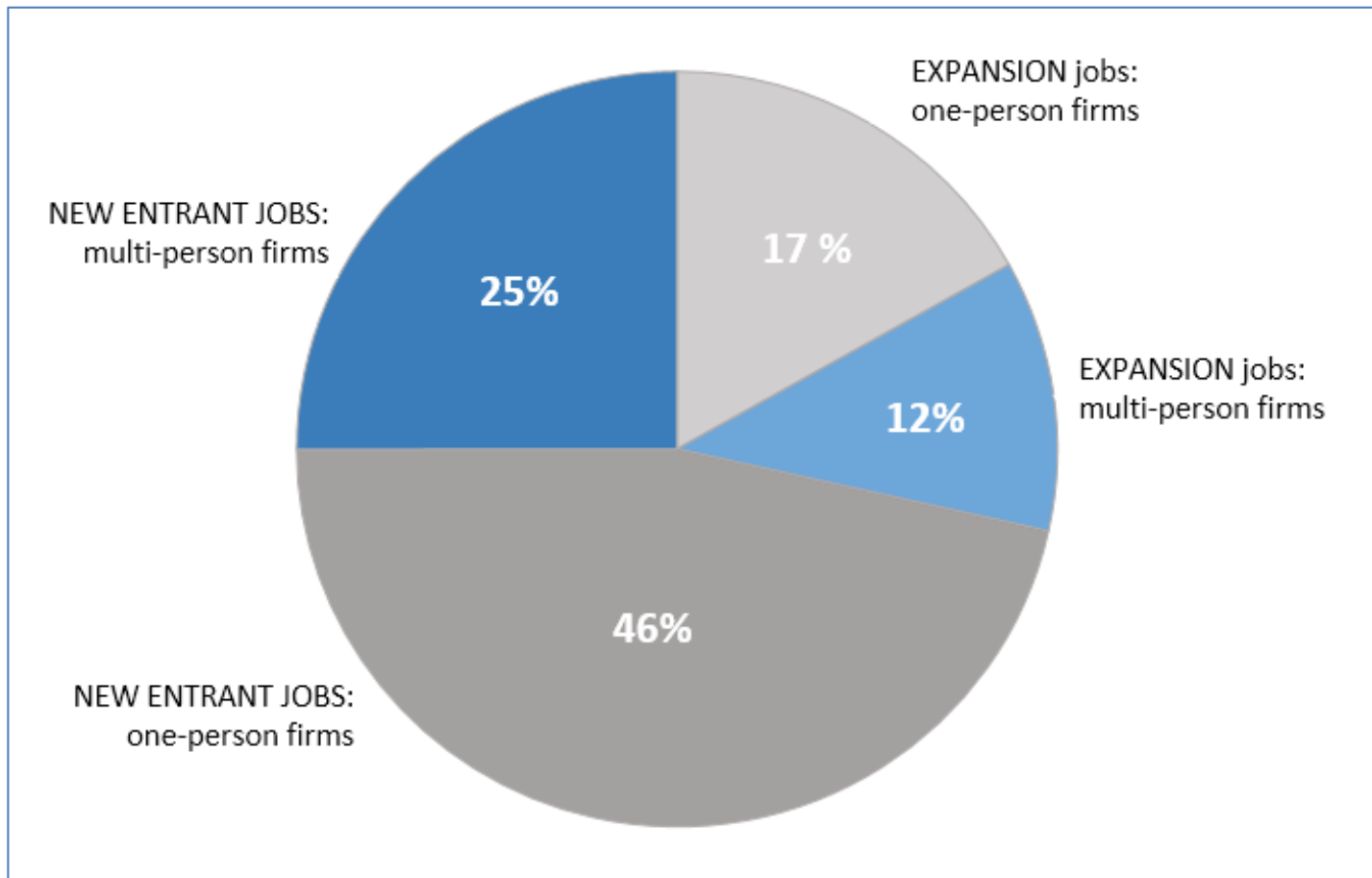


Building enterprise

**The informal sector is not static.** More than half a million new jobs were created in a one-year period (2013 data).

- **About 150 000 jobs came from employment expansion in both initial one-person and multi-person enterprises.** (About 60 000 jobs were lost due to employment cutbacks.)
- **The annual entry of new enterprises is quite high: about 380 000 new jobs were created due to about 300 000 businesses starting up – both one-person and multi-person.**
  - **However, about 40% of start-ups may close down within six months, reflecting early-stage vulnerability in particular.**

**Figure 2: Sources of informal-sector job creation 2012–2013**



## The informal sector and poverty reduction

**The poverty-reducing effect of informal-sector employment is remarkable (Cichello & Rogan)**

**The loss of 100 informal-sector jobs has about the same poverty-increasing impact as losing 60 to 80 formal-sector jobs.**

**Thus policy-makers should not be cavalier about losing or destroying informal-sector jobs.**

## The informal sector and inclusive growth

A proper inclusive growth strategy needs to get the poor to actively *participate*, via employment, in growing economic processes, in producing output and earning decent incomes.

Inclusive growth cannot be attained only by sharing the ‘fruits of growth’ with poor people (through, for example, social grants and housing, education and health services).

The informal sector is and should be an important element of achieving this.



**Statistically-identifiable obstacles and constraints lead to informal enterprise failure and a loss of jobs.** These include:

- a lack of suitable and secure premises in good locations
- limited or no bookkeeping skills
- a lack of finance, credit and insurance ... and
- being the target not only of crime, but also harassment by local government, and
- Suffering disproportionately in sharp cyclical downturns.

**Several constraints are structural and intrinsic to the concentrated nature of the economy.**

These **hinder informal enterprise owners in reaching beyond local markets, graduating to upper tiers of the sector**, or stepping up to higher-value markets and formal-sector value chains.

## Rural areas and rural land reform

New quantitative analysis (Ben Cousins) shows that there may be **up to half-a-million informal farmers** who sell their products in markets (i.e. they are not subsistence farmers).

- This number is on top of the approximately 2.5 million in the non-agricultural informal sector

**Their markets – often in small rural towns – are very different from supermarket-led value chains**, illustrating the need for distinctive policy support to make such informal farmers more viable.





**Farmer's markets in  
a rural KZN town**



## The current informal-sector policy environment: benign neglect, ambiguity, or active repression?

- NDP? Chapter on 'economy and employment' has no analysis of the informal sector at all (!)
- NIBUS (2014; Dept of Small Business Development): first national policy for the informal sector, but implementation slow and dependent on provincial and local government buy-in
- Provincial government: some quite active, e.g. Gauteng, under rubric of 'township economy'
- Local government: some metros very active; policy measures often dominated by harassment of street traders

*See policy chapters in book*

## Towards 'smart' enabling policies

The informal sector should be supported with a developmental policy approach in which enterprises are *enabled* to become self-standing institutions

(which means, inter alia, that they become organisationally and financially separate from the household).

- For example, a good place to start is basic bookkeeping skills and suitable premises – factors associated with employment growth.

Such policies could make a significant difference to the job opportunities, earnings and working conditions of the poor.

## What role for formalisation and the ILO's *Resolution 204*?

Idea of 'formalising the informal sector' has been propounded internationally by the International Labour Organisation (ILO)

– Also being introduced in South African policy circles

Unfortunately, it is often narrowly conceived in terms of enforcing tax registration and business licensing – two blunt instruments that can be destructive.

Moreover, a tendency to blur or confuse the analytical distinction between two very different types of informality:

1. Informal-sector employment and
2. Informal employment in formal enterprises.

(See slide above on 'types of informality')

They require very different policy treatment:

**\*\*\* *Seedling enterprises (as in 1) need nurturing, not suppression.***

**‘Smart’ policy and ‘smart formalisation’ would be developmental and recognise a spectrum of informal enterprises**

- from embryonic to mature
- whether one- or multi-person
- at various stages of entry, survival, development, profitability, capital strength and sophistication, and
- with different aspirations, growth-orientation and entrepreneurial aptitudes.

**‘Smart formalisation’ would offer a *menu* of elements of formality which enterprises can access as required, in step-wise fashion, as they become more mature and formalised.**

## Policies and regulations thus need to be guided and differentiated by factors such as:

- **reasons for operating** the business and strategic vision
- **start-up resources** and capacity / early vulnerability
- **growth and employment orientation** of owner
- **prior work experience** of owner
- **being non-employer or employer** (one-person or multi-person enterprise)
- the **gender dimension**, notably the position of vulnerable women
- **industry/sector** (e.g. tradeable/non-tradeable; employment intensity; linking the corresponding formal-sector component)
- **consumption patterns** in townships (amidst grants)

- **location and spatial issues** (urban/rural; residential/non-residential; zoning categories);
- **premises** (separate, suitable and secure);
- **property rights** and title deeds;
- **utility services, facilities and infrastructure;**
- **structural barriers** to accessing informal or formal (often higher-value) markets;
- **financial services and exclusion** (re start-up vulnerability as well as employment expansion);
- **legal and other measures to manage risk and liability;**
- **scaling up to policy-level interventions.**

*\* This list points to a **stimulating agenda for further research on informal-sector policy...***



## Other topics for ‘further research’:

- **International experience (mistakes and successes)** with practical measures to enable informal enterprises/owner-operators
- **Critical review of policy implementation** at all levels of government, particularly local government (including role of NGOs, SALGA, etc.)
- **How to coordinate informal-sector policies** and support programmes across the three spheres of government
- **Assessing government capacity** in all three spheres with regard to informal-sector policy analysis, design and implementation
- **Training and capacitating local government** officials in informal-sector policy analysis, design and implementation
- **Challenges and pitfalls in implementing ILO Resolution 204**
- **Regulation for the informal sector:** assessing regulation avoidance versus the need for supporting and protective regulation



## More research topics: How to ...

- assist enterprises to **enter successfully, to survive and grow** employment
- assist small, **vulnerable enterprises**, often run by **women**, to be more viable and sustainable
- assist and mentor enterprises who wish to **transition** from being survivalist-oriented to becoming growth-oriented
- assist established enterprises to **access higher-value markets** (and overcome structural barriers), including possible franchising.
- **guide informal-sector owner-operators in:**
  - keeping separate accounts;
  - managing employees, employment benefits & minimum wages;
  - managerial and competitive awareness; accessing new markets;
  - utilising government support programmes.

*Distinguish assisting individuals and assisting enterprises*

## How to ...

- **integrate/link the informal and formal sectors within an industry or sector, e.g. in construction, steelwork, carpentry, services and wholesale/retail supply chains –**
  - partnerships or ‘cooperative engagements’ between informal-sector builders and formal-sector builders
  - pilot projects to establish and assess integrated arrangements in a few industries in a few cities/towns.
- **assist informal-sector agriculture (usually excluded from informal-sector policies), also in traditional areas.**
- **assist and develop the non-farm rural economy (rural towns) in its diversity of sectors and actors.**

*[Note: Many of the items on this list also apply to formal micro-enterprises]*

**Interested in more?**

**Consult the book extracts published on:**

***Econ3x3.org***

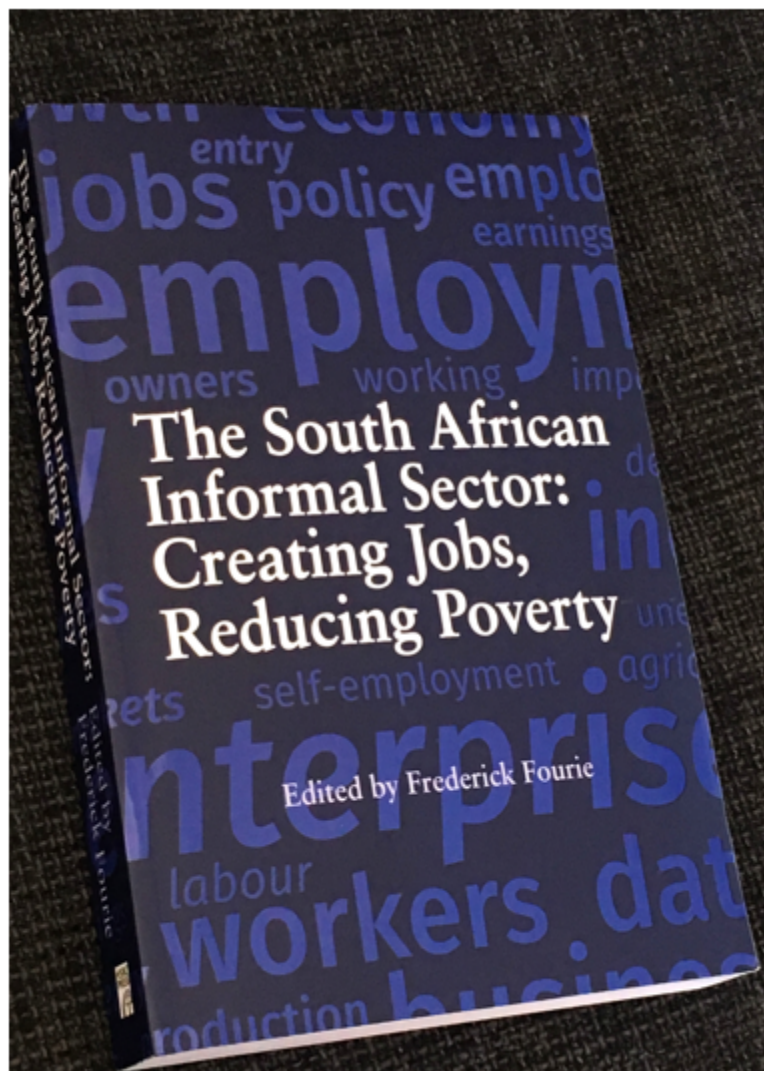
***And read the book ...***

## The Book

Being the first book on the informal sector since 1991, with lots of quantitative and qualitative data, this can be seen as the **‘state of the art’ of informal-sector research**

It is a ‘must-read’ for academic and professional economists, social scientists, policy analysts, economic development practitioners, urban planners, government officials and politicians, etc. as well as post-graduate students in various fields . . .

. . . who are engaging with issues in **inclusive growth, unemployment, poverty and inequality.**



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