

**Creating jobs, reducing poverty:**

**The importance of informal/pre-formal enterprises  
and the township economy**

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**OR:**

***How can we even think about 'boosting township economies' if we continue to disregard the informal sector?***

## President Cyril Ramaphosa's economic stimulus package (Sept 2018)

- “The central element of the economic stimulus and recovery plan is the reprioritisation of spending towards activities that have the greatest impact on economic growth, domestic demand and job creation, **with a particular emphasis on township and rural economies**, women and youth.
- Reprioritised funding will also be re-directed towards **igniting economic activity in townships and rural areas**.
- We have prioritised the revitalisation of three regional and 26 **township industrial parks** as catalysts for broader economic and industrial development in townships and rural areas.
- A **township and rural entrepreneurship fund** is being established to provide finance to either scale up existing projects or provide start-up capital for new projects.”

**\*\*\* *The item on township economies did not get much media attention. . .***

## President Cyril Ramaphosa at the Opening of the Presidential Jobs Summit:

- The stimulus and recovery plan will see the reprioritisation of around R50 billion of public funding towards activities that will stimulate job creation in township economies and rural areas, and in agriculture.
- Government has also prioritised the **revitalisation of industrial parks, primarily in townships**, which will create job opportunities in areas where many of our people live.
- This commitment, to take jobs to the people, also informs our **plan to establish a township and rural entrepreneurship fund to support South Africans with businesses in townships** and rural areas.

**\*\*\* *Without involving and integrating the informal sector?***

The current state (2016) of some industrial parks:

## INDUSTRIAL PARK REVITALIZATION PROGRAMME





*Cutting ribbons*

**The launch of a R20-million revitalisation programme for the Vulindlela Industrial Park in Mthatha, Eastern Cape, by the Department of Trade and Industry (dti), in May 2017.**





Steven Friedman Columnist

OPINION / COLUMNISTS

RECESSION

# STEVEN FRIEDMAN: Why the insider debate on the economy is pie in the sky

BL PREMIUM

12 SEPTEMBER 2018 - 05:08 by STEVEN FRIEDMAN

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Background on the  
research project  
2012—2017:



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

## **WHY?**

- Unemployment rate extremely high: 25% / 37%
- Limited SA economic research on employment and unemployment
- Unemployment debate seems to be split into silos  
... or debilitated by ideological biases and blind spots



## 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 (despite many policy efforts to counter it)

# *Informal Sector Employment Project (ISEP)*

[Multidisciplinary, multi-university, multi-method]

## WHY?

- Lack of labour-market income is a major factor in poverty and inequality
- Millions work and pursue livelihoods in the informal sector in townships and elsewhere

[Informal sector identified as a **gap** in (un)employment analysis]

Largely ignored in NDP and economic policy

**\*\* *Not mentioned* in Stimulus Package and Jobs Summit of October 2018, despite a stated focus on the township economy**

*Why ignored?*

*'No ribbon to cut, no seat at NEDLAC'*

*... and other reasons*



Dube TradePort in KZN being designated an Industrial Development Zone (2014)

## What to do?

Develop and support a vibrant informal micro-enterprise sector, as part of a two-pronged, formal-plus-informal policy approach

## 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 – in **townships** and elsewhere – 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
- ... as 'survivalist', 'without entrepreneurial ambitions'
- ... and not much potential unless/until they graduate to the formal sector.

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

**As a result, 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

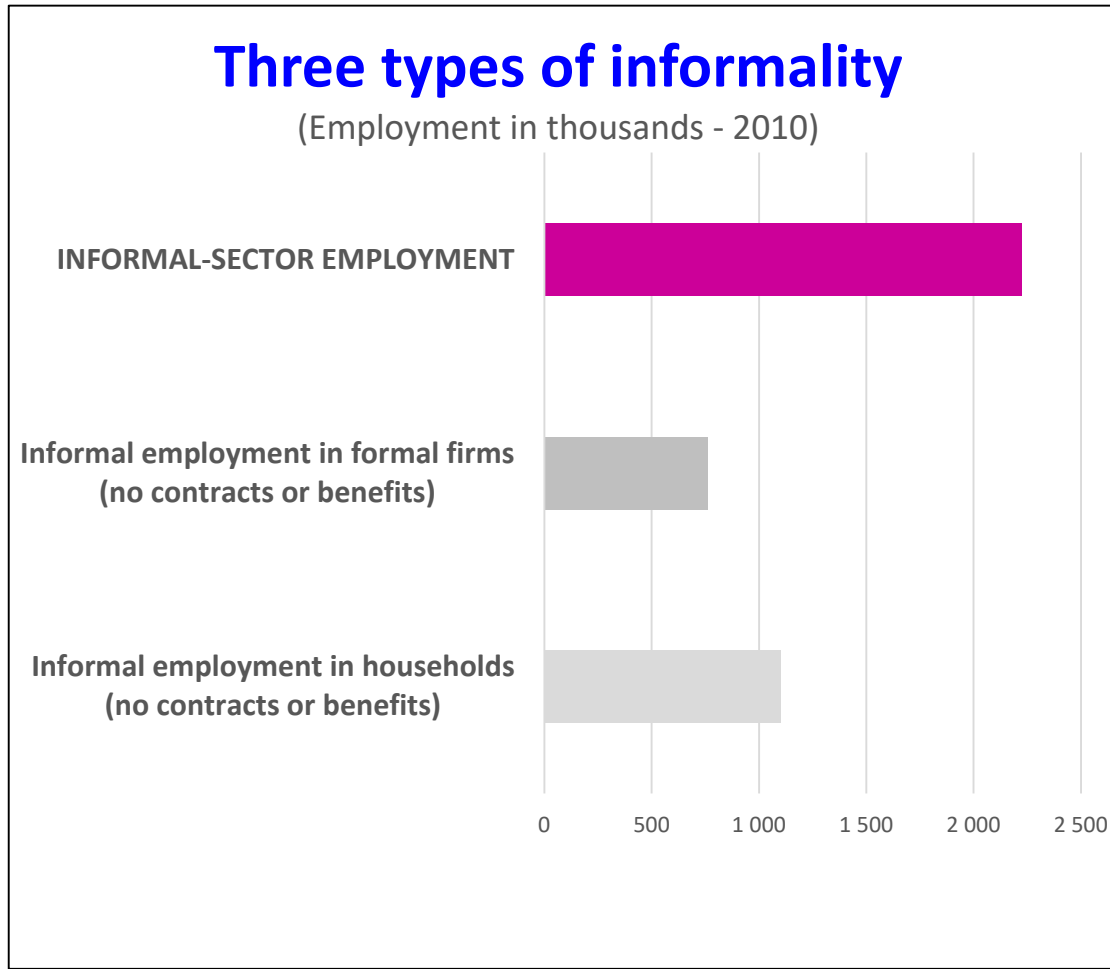
**Informal enterprises:** Enterprises, both with and without employees, that are not incorporated and not registered for taxation

- It is the enterprise as institution that is informal (as are all its internal and external relations)
- ‘Seedling’ / ‘embryonic’ enterprises

**Informal sector:** All informal enterprises, their owner-operators/employers and all employees, paid and unpaid, in all economic sectors (manufacturing, retail, 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:



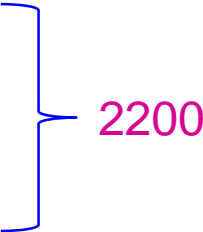
## NOTES:

- 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/enterprises:</b>           | <b>1450</b> |
| One-person enterprises                         | 1150        |
| Multiperson enterprises                        | 300         |
| <b>Number of employees</b>                     | <b>760</b>  |
| of which paid employees                        | 550         |
| <b>Total working in informal sector (2013)</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.**

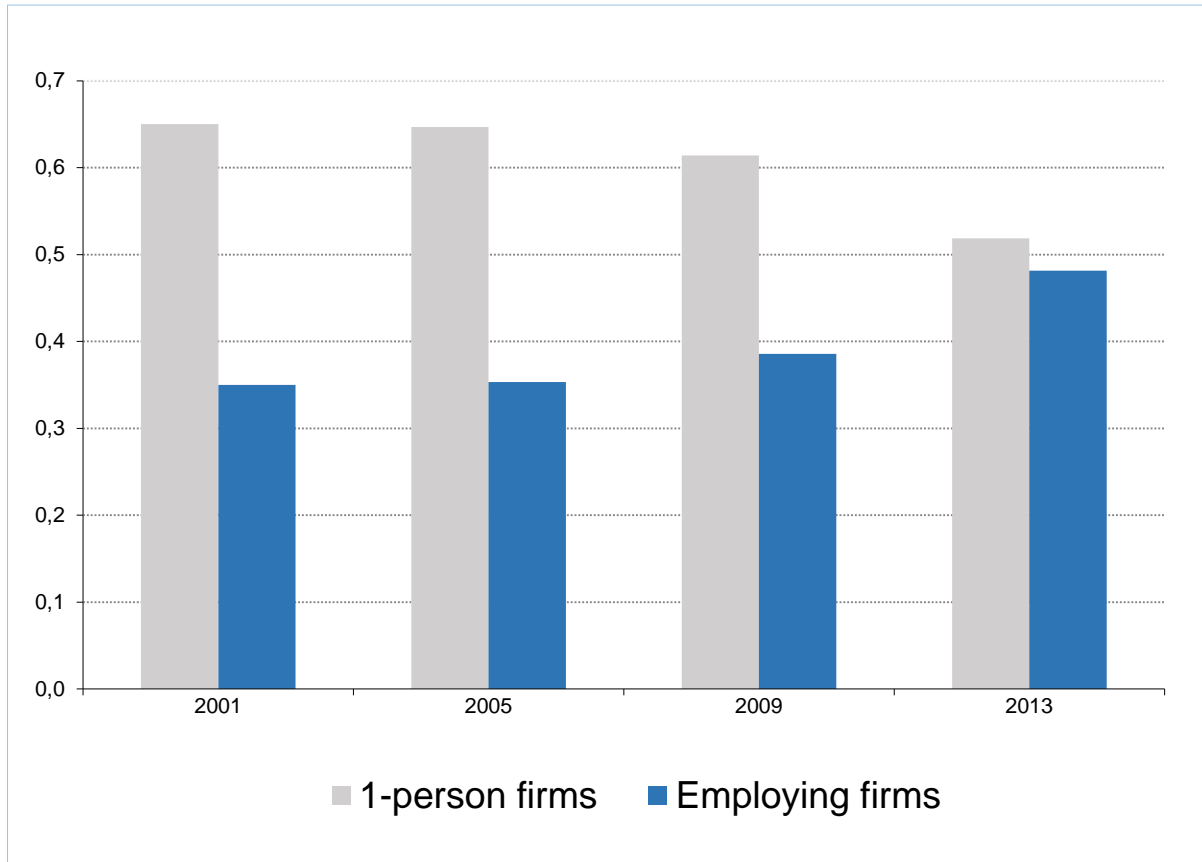
**Both one-person and multi-person enterprises are important**

- **80:20 . . .** though the proportion of employing firms is 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***

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



*Growing proportion working in multi-person enterprises . . .*

**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.**

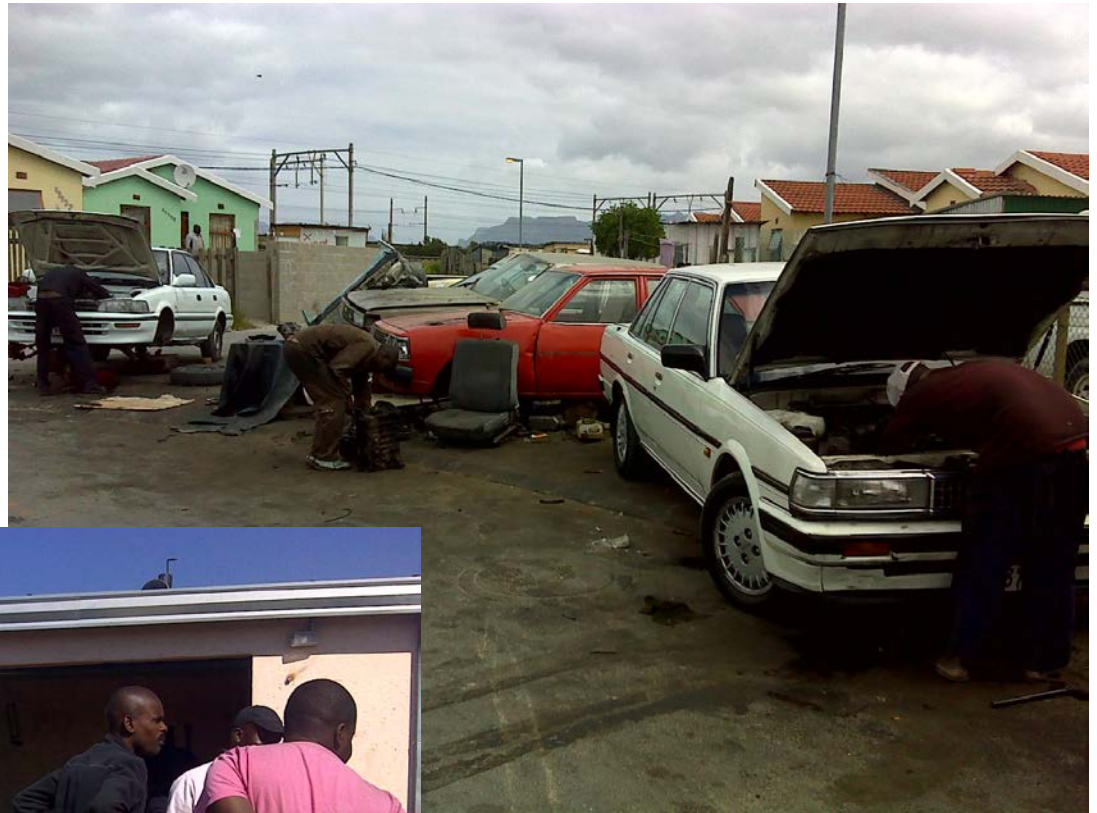
- The share of retail and street trading, previously very dominant, has been shrinking (70% in 2001 to 57% in 2013).

**Analysts must adopt a broad, inclusive approach to the sector.**

**Most of the employing enterprises are in construction, retail trade and services, but also in manufacturing and communication. (The informal construction industry has a very high propensity to employ.)**



# Care and tyre repair



# Computer sales & repairs

## Educare centre







## Steelwork enterprises



## Glass & aluminium





**Plant nursery**



**Furniture manufacturing**



**Building enterprises**

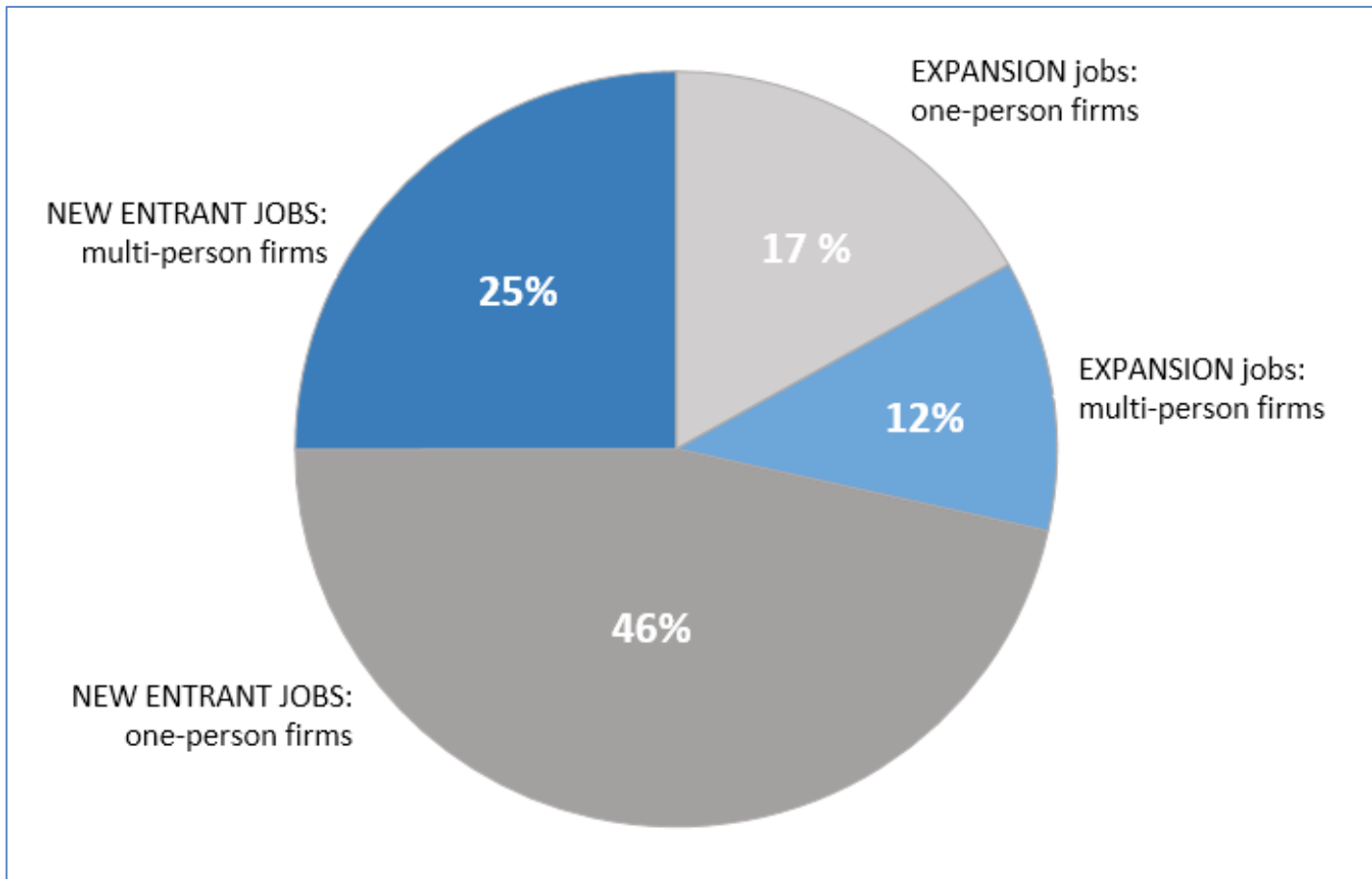
**The informal sector is not static. More than half a million new jobs were created in a one-year period (2013 data).**

- **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.**

**\*\* Compare the Jobs Summit goal of creating (only?)  
275 000 jobs per annum**

**\*\* How can we just ignore the potential contribution of the informal sector to job creation?**

**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 (e.g. of industrial park firms).**

## 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, dti & Dept of Small Business Development):** first national policy for the informal sector, but implementation slow, also dependent on provincial and local government buy-in.
  - \*\*\* Underperformed by R53m (of R95m) in 2016/17.
  - \*\*\* *NIBUS not mentioned in 2018 Job Summit Framework document.*
- **Provincial government:** some with good policy documents, e.g. Gauteng, under rubric of 'township economy'
- **Local government:** some metros very active; but policy support measures often overshadowed by harassment of street traders

*See policy chapters in book (e.g. Skinner)*

## 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 (income and costs) 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 in townships and elsewhere.

## 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 distinction between**

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

**They require very different policy treatment:**

***\*\*\* 'Seedling enterprises' (as in 1) need nurturing, not suppression (they are 'pre-formal').***



**‘Smart’ policy and ‘smart formalisation’ would be developmental and recognise a spectrum of informal/pre-formal 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.**

## Some implications for policy: Igniting economic activity in townships?

- **Must overcome the policy discomfort, even denialism, surrounding informal enterprises. (Unwillingness to call them by name?)**

*\*\*\* NIBUS not even mentioned in 2018 Job Summit Framework document.*

- **They cannot simply be subsumed under SMMEs – they have unique disempowerments, constraints, challenges, etc.**

*. . . and may continue to be forgotten in political forums and by business organisations ('no seat at NEDLAC'...)*

*\*\*\* Jobs Summit input document on small business only on formal SMMEs?*

- **We cannot hope to boost township economies if we do not tackle the issue of informal enterprises head-on (even if there are no ribbons to cut...)**

# What about industrial parks in or close to townships?



No silver bullet. But can be a good idea if . . .

## Industrial parks in, or close to, townships?

- **Must be designed to be labour intensive, but . . . should not be ‘jobs islands’ in the midst of ‘dormitories’**
- **Should be integrated with the surrounding township economy**
  - **Informal and formal micro-enterprises struggle to gain entry into supply chains of formal enterprises, e.g. in industrial parks**
  - **Many barriers, e.g. requirements of quality, sophistication/formality in business transacting – and asymmetrical power relations**
- **Selection of firms for these industrial parks should explicitly include the condition of engaging a network of township micro-enterprise suppliers and service providers (more likely to be formal)**
- **Through the multiplier effects of subcontracted (formal) micro-enterprises, a broader stimulus effect on informal enterprises in townships can be ignited**
- **In such a township development process, informal enterprises may eventually also get opportunities to access supply chains – if and when properly enabled by suitable ‘smart’ formalisation.**

**Interested in more?**

**Read the book extracts published on:**

***Econ3x3.org***

**OR**

***READ THE BOOK***



## The Book

This is the first book on the informal sector since 1991, with lots of quantitative and qualitative data, it 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, urban planners, economic development practitioners, 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 . . .**

and **the township economy.**

