



The Informal Sector: Creating Jobs

'[Joblessness] diminishes the human ability to eradicate poverty, and to tackle inequality and the working poor. It has a devastating effect on families and communities. It erodes dignity. They [the unemployed] have their dignity destroyed and eroded. It contributes to social problems like poor health, poor educational outcomes and criminality'¹.

President Cyril Ramaphosa

1. Introduction

South Africa's unemployment rate is at 27.2 %, which equates to an unemployed population of 9.6 million. Of these, 6.1 million are aged between 15 and 34, meaning that the unemployment rate for youth is 38.2%.¹

To arrest the unemployment slide, government has implemented various strategies since the advent of democracy – amongst them the National Development Plan (NDP) which was devised in 2012 as a blueprint for South Africa's socio-economic development. In its latest report,² the National Planning Commission concedes that the NDP's original unemployment target of 6% by 2030 is an impossible goal, and argues that the best South Africa could do is to achieve a jobless rate of 14% by 2030 – that means halving the current rate in just over a decade. To achieve this would require many strategies, some of which were discussed at the recent Jobs Summit held to thrash out a way forward towards creating employment. But while many interventions were put forward at the summit, according to Professor Frederick Fourie, who spoke at a recent CPLO roundtable discussion, there was a glaring omission around what the informal sector can contribute in creating jobs and alleviating poverty.

This briefing paper is largely based on what emanated from the discussion at the roundtable and on the book, *The South African Informal Sector: Creating Jobs, Reducing Poverty*³, edited by Prof Fourie, and produced in association with the Research Project on Income Distribution and

Inclusive Growth (REDI3x3) based at the University of Cape Town.

2. Defining informality

In the world of unemployment research and analysis, informal enterprises are usually treated as a distant family member – the family member that is often mentioned in passing but never invited to the family gatherings. This despite the fact that in 2018 the informal sector provided livelihoods, employment and income to 2.9 million workers and owner-operators.⁴ The 'distant-family-member' treatment by policy analysts could be due to the fact that the informal sector is often described, dismissively, as consisting mostly of 'street traders and waste pickers', and because most informal enterprises are run by family members who are often not formally paid employees.

The NDP refers to the informal sector quite often, but does not offer a clear definition of what it means by 'informal sector'. This could be the reason why the NDP offers no specific plans or proposals for the sector, despite the fact that it projects that it will generate almost 2 million new jobs by 2030 (in the NDP document domestic work is included as part of this sector).

Prof Fourie and his colleagues argue that to see the true potential of the informal sector, it needs to be conceptualised and defined properly. Thus, in the book, 'informal enterprises' are defined as 'enterprises, both with and without employees,

that are not incorporated and not registered for taxation'. The informal sector, according to Fourie *et al*, comprises all informal enterprises, their owner-operator/employers, and all employees, paid and unpaid, in all economic sectors (manufacturing, retail, agriculture, etc.). However, domestic workers are excluded from the informal sector definition⁵.

The authors also make a clear distinction between 'informal-sector employment' and 'informal employment'. This analytical distinction is important since these concepts are often treated as if they are synonymous, which may lead (and has led) to the wrong policy interventions. 'Informal sector employment' is an enterprise-based concept which includes all those working in the informal sector, paid and unpaid, as either owner-operators/employers or employees. 'Informal employment' is employee-based – it includes all workers that do not have formal contracts (including benefits) in both the informal and formal sectors. Anecdotal evidence suggests that in South Africa politicians and legislators often mean 'informal employment' when they speak about 'informality'. The focus of policy is therefore often about formalising this type of employment when developing policy interventions, rather than about expanding informal sector employment itself.

3. Unpacking the South African Informal Sector

South Africa's informal sector is relatively smaller than in other similar sized economies, but it is quite diverse, comprising all the industries in the 'formal economy'. It is more than just waste pickers and street traders; it includes, amongst other, informal enterprises in construction; retail trade and services; manufacturing; transport; agriculture and communication.

In 2013, the informal sector comprised 1.45 million enterprises/owners, and provided employment for approximately 2.2 million people. Of these enterprises, just more than a million were owned by one person, while approximately 300 000 had more than one owner. The multi-person enterprises provided 850 000 paid jobs, which is almost twice the amount of direct employment in the formal mining sector⁶.

The sector is also characterised by its fluid nature – jobs are lost and created rapidly, in a way that echoes the expansion and contraction of the enterprises. For example, in 2013 more than half a

million new jobs were created, yet at the same time, the sector lost approximately 60 000 jobs due to employment cutbacks. New enterprises are started on a regular basis, and these account for most of the new jobs created. However about 40% of new enterprises close down within the first 6 months. So, while the sector has great potential to create jobs, early-stage vulnerabilities may hamper an informal enterprise's growth or sustainability. Both multi-person and single-person enterprises create jobs, which indicates – especially with regard to single-person enterprises – that such enterprises are not merely 'survivalist' enterprises, but are owned by individuals with entrepreneurial ambitions.

Prof Fourie also argued that government has not fully exploited the job creation (and thus poverty alleviation) potential of the informal sector. The NDP places far more prominence on small and medium enterprises in its analysis of employment growth, and thus gears its interventions to assisting that sector. Fourie *et al* argue that perhaps the National Planning Commission was more comfortable to talk about the challenges facing formal sector 'small and medium' enterprises than to tackle the challenging world of informal enterprises.

This 'distant-family' treatment of the informal sector was also evident from the few mentions it received in the documentation and resolutions of the Jobs Summit that was held in October this year. In terms of the Jobs Summit Agreement,⁷ a model should be agreed upon to "incorporate [the] informal sector into waste management services"; support should be given to "township enterprises", which would include access to infrastructure and market services – presumably this means that informal or 'township' enterprises will be provided with better-serviced sites. The Jobs Summit Agreement also speaks of offering basic business skills support for "young people in peri-urban and rural communities who own retail micro businesses". While these interventions can be applauded, they do not go far enough to unlock the job creation potential of the informal sector.

Prof Fourie notes that informal sector policy initiatives do exist, despite the fact that they were not mentioned in the Jobs Summit documentation. In 2014 the Department of Trade and Industry published the National Informal Business Upliftment Strategy (NIBUS). In 2016 the DTI developed an implementation plan for NIBUS, called the 'Strategic Implementation Roadmap', but the Roadmap is still awaiting implementation.

According to Fourie *et al*, NIBUS (and the Roadmap, which seems to be a more developed version of NIBUS) represented “a significant step forward” because it was the first time a national government strategy specifically focused on the informal sector in and of itself, rather than lumping it with SMMEs. NIBUS aims to assist informal enterprises in such a way that they “realise the benefits of transitioning to higher levels and eventually become formal SMMEs...” It identifies five strategic intervention pillars to achieve the formalisation of informal enterprises:

- An enabling legal and regulatory environment
- Intergovernmental co-ordination (in delivery and implementation)
- Enterprise development and promotion, which would include both financial and non-financial support
- Stakeholder management and partnership development
- Knowledge management and capacity building

These pillars would be further supported by harmonising policies between government departments on all levels. It was for this reason that the provincial governments of both the Western Cape and Gauteng developed their own versions of NIBUS.

Both the NIBUS and the Roadmap identify key constraints for the informal sector, as well as key interventions. For example, the documents do not concentrate too much on formalisation and compliance of the informal sector – instead, they point out that issues such as the capacity deficit; the need for financial services and business-related infrastructure; and the reduction of red-tape, need to be addressed urgently.

4. The Road Ahead

Strategies already exist (such as NIBUS) to take the South African informal sector forward and these should be implemented as a matter of urgency. These policies, Prof Fourie argues, should support the informal sector with a developmental approach that would enable informal enterprises

to become self-standing institutions. Simply put, this means that the informal enterprise should become financially independent from the household.

The fact that neither NIBUS nor the Roadmap have the formalisation of the informal enterprise as a core strategy is encouraging, since formalisation is often narrowly conceived in terms of tax registration and business licensing. According to Prof Fourie, these two blunt instruments often prevent informal enterprises from getting off the ground. What is needed, instead, is to do ‘smart formalisation’ by recognising that not all informal enterprises are equal. Informal/pre-informal enterprises can be in the embryonic or mature stage; can be either single or multi-person owned; and can have different aspirations, growth-orientation and entrepreneurial aptitudes. A ‘smart formalisation’ policy would have a menu of interventions to suit the particular types of informal enterprises.

Informal enterprises should also be an integral part of industrial parks, and this necessitates that industrial parks should form part of, and be integrated with, the surrounding township economies. These parks should also be designed to be labour intensive and to engage with township micro-enterprise suppliers and service providers, which in turn will broaden the stimulating effect on informal enterprises in townships.

5. Conclusion

The work of Prof Fourie and his colleagues has provided the empirical evidence to understand the informal sector much better than before. The informal sector should thus no longer be treated as a distant family member – it should become a real part of the family because it holds a crucial key to unlocking employment creation. The job creation potential of the informal sector has been recognised in the NDP and other policy documents and a strategy has been developed that has the potential to bring the informal sector into the fold; all that remains is to implement it.

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¹ Lameez Omrajee (2018): *SA's unemployment crisis in numbers*. Available online at <https://tinyurl.com/yd72eejm>

² National Planning Commission: *The Crossroads: Accelerating progress towards the NDP's vision 2030*

³ The book is published by the HSRC Press and is available for order online at takealot.com, vanchaik.com, exclusivebooks.co.za, or clarkesbooks.co.za

⁴ Frederick Fourie (2018): *CPLO roundtable discussion, 11 October 2018*

⁵ Domestic workers and subsistence agriculture are excluded from the definitions because they do not 'produce' for a market but rather for their own use.

⁶ Frederick Fourie (ed) (2018): *The South African Informal Sector: Creating Jobs, Reducing Poverty*.

⁷ Presidential Jobs Summit Framework Agreement, 4 October 2018

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