

**Reducing poverty and inequality by
growing jobs in the informal sector:
*How can public-sector economists help?***

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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 (see numbers below)

– Largely ignored in NDP and economic policy

**** *Not mentioned in Stimulus Package and Jobs Summit of Sept-October 2018, or policy pronouncements in 2019 – despite a stated focus on the township economy.***

Rather a focus on the revitalisation of industrial parks in or close to townships

The current state (2016) of some industrial parks:

INDUSTRIAL PARK REVITALIZATION PROGRAMME



Cutting ribbons – but what is the sustainable impact?

Township seen only as labour pool?

Or is there a township economy?



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.

Uncomfortable realities

- **SA growth is not inclusive** – low rate of participation of the poor in economic growth processes
- **GDP growth in SA not very employment intensive** – low rate of labour absorption
- **Declining employment intensity** is a fundamental reality for South Africa (despite many policy efforts to counter it)

Why is the informal sector ignored?

'No ribbon to cut, no seat at NEDLAC' . . . and other reasons



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

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 message:

Develop and support a vibrant informal micro-enterprise sector, as part of a . . .

. . . two-pronged, formal-plus-informal policy approach

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.

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
OR ... undesirable tax evaders]

How many informal-sector enterprises?

Two million in 2019

How many people work in enterprises in the informal sector?

Three million in 2019

18% of total employment: 1 in every 6 who work, work in the informal sector.

Enterprise and employment numbers: 2013 & 2019*

... showing the importance of multiperson (employing) firms

	2013	2019*
Number of owners/enterprises:	1.45m	1.98m
One-person enterprises (& owners)	1.15m	1.57m
Multiperson enterprises (& owners)	300 000	410 000
Number of employees	760 000	1.05m
of which paid employees	550 000	750 000
Total working in informal sector	2.2m	3.03m
<i>Formal employment in mining sector</i>	<i>420 000</i>	<i>380 000</i>

1.16m paid workers (2019)*

Total employment, formal + informal sectors + agri + househ = 15 million (2013) ; 16.3 million (2019)

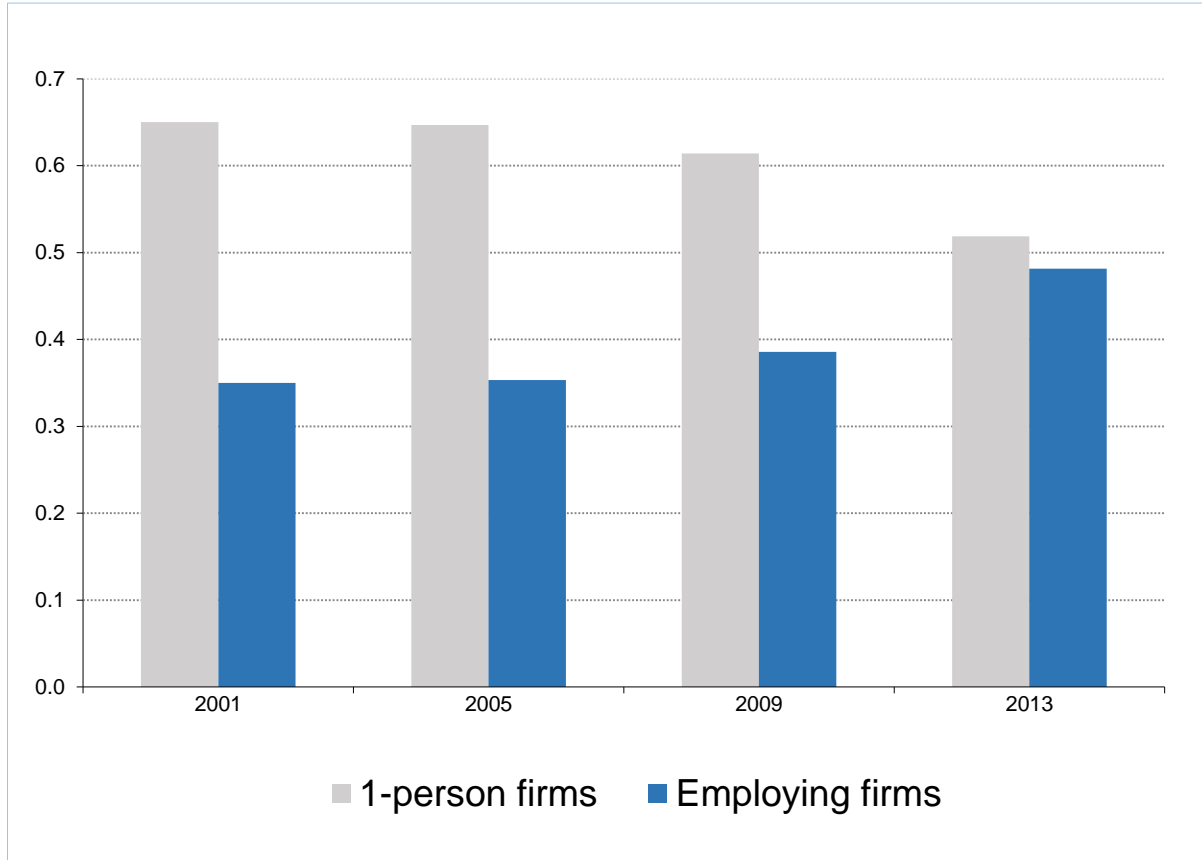
Our research shows unambiguously that **the informal sector is an important source of employment (and of *paid* employment) . . . with a growing propensity to employ.**

Both one-person and multi-person enterprises are important

- **Ratio = 80:20 . . . though the proportion of employing firms is growing steadily**
- **The 20% comprises about 400 000 multi-person firms that provide **paid employment** to 1.1 million workers (2019 estimate)**

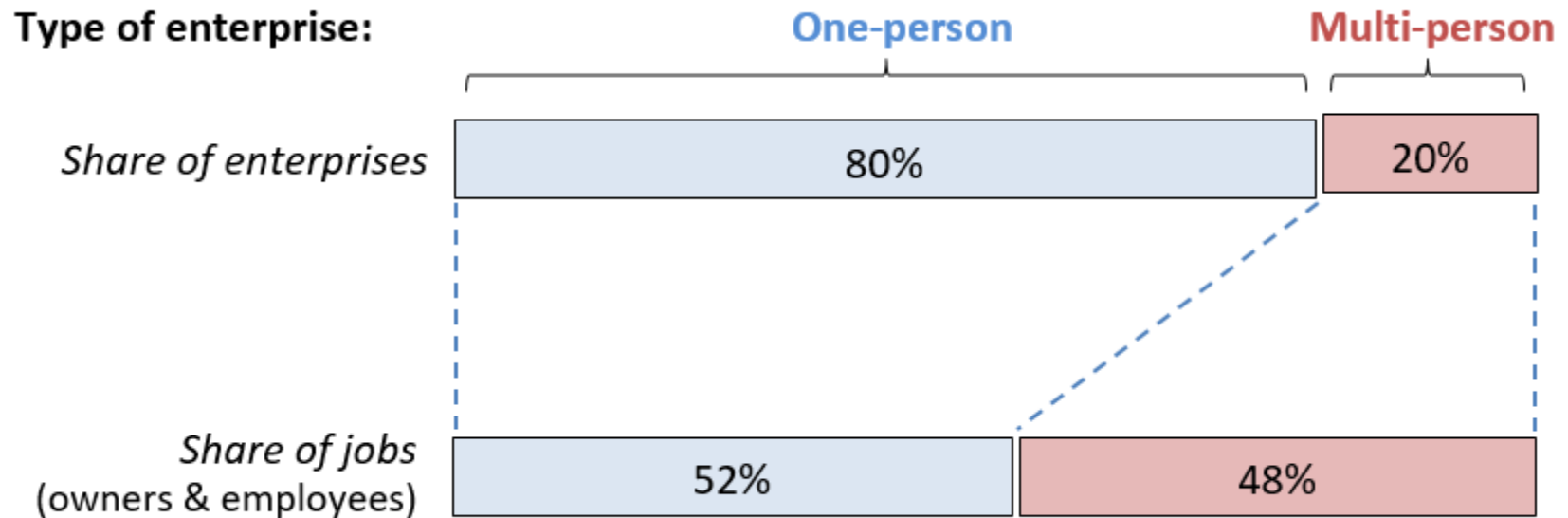
Almost half (48%) of those working in the informal sector work in multi-person enterprises (i.e. those with employees)

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



*Growing proportion working in multi-person enterprises . . .
Owners with better levels of schooling (matric and post-matric)*

20% of enterprises create half of all the employment in the informal sector



These 20% multi-person enterprises provided about 850 000 paid jobs in 2013 (and 1.16m in 2019*)

- *This is almost twice the direct employment in the formal mining sector in 2013 (or 3x in 2019?)*

A 'normal' economy profile:

The informal sector is as diverse as the formal sector and includes all industries.

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

- The share of retail and street trading is shrinking (70% in 2001 to below 50% in 2019).

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

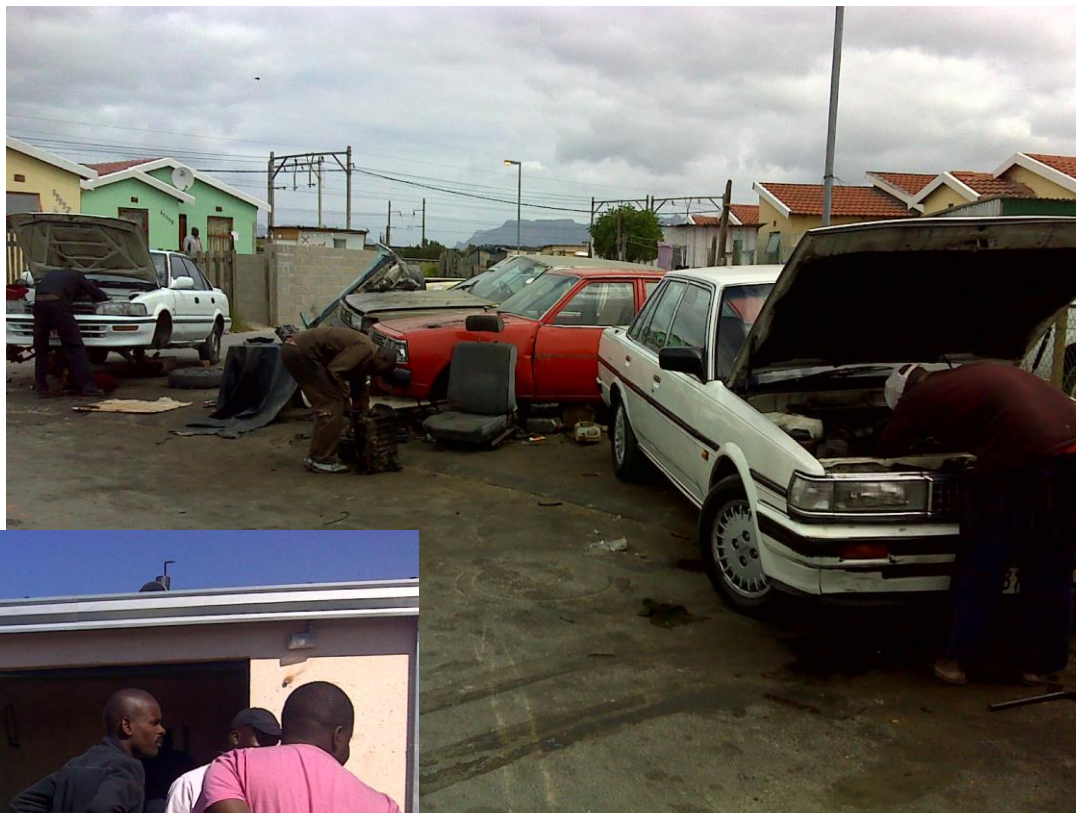
*** The informal construction industry has a very high propensity to employ.**

A quick tour of the **diversity of the informal sector**

(apart from street food traders and waste pickers)

Mostly a case of no premises, or unsuitable premises.

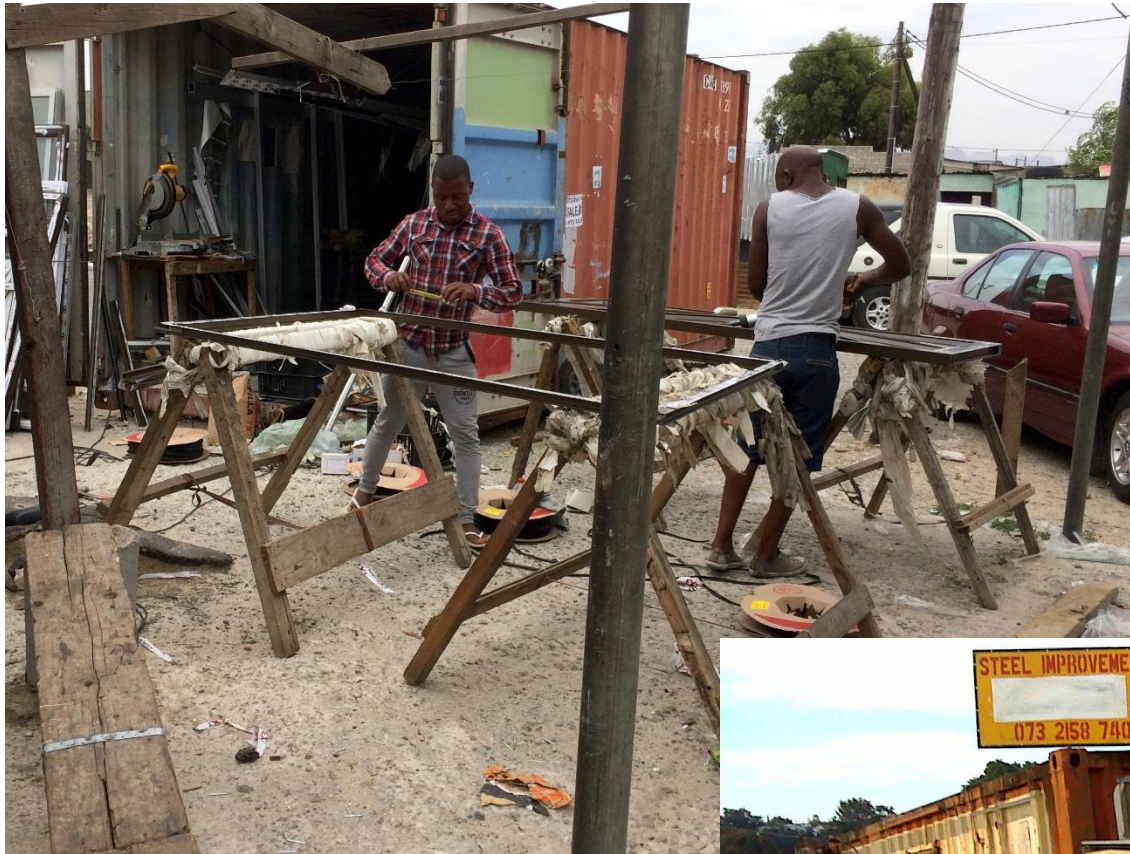
Care and tyre repair



Computer sales & repairs

Educare centre





Steelwork enterprises



Glass & aluminium



Plant nursery



Furniture manufacturing



Building enterprises

New jobs: enterprise entry and expansion

More than half a million new jobs were created in a one-year period (2013 national data).

- **Employment expansion: About 150 000 in both initial one-person and multi-person enterprises.**
(About 60 000 jobs were lost due to employment cutbacks.)
- **Entry of new enterprises: About 380 000 new jobs due to about 300 000 businesses starting – 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 2018 Jobs Summit goal of creating (only?) 275 000 jobs.**

The informal sector needs to be supported to sustain its job creation.

HOW?

Start with the main obstacles and constraints that 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 to get a 'picture' of how the business is doing (separate from the household's finances);
- a lack of finance and credit ... and
- being the target not only of crime, but also harassment by local government.

These undermine informal enterprise viability and growth and also 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).

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 – *and has a development orientation*. But implementation is slow, also dependent on provincial and local government buy-in.
*** Underperformed by R53m (of R95m) in 2016/17.
- Provincial government: Some with good policy documents, e.g. Gauteng, under rubric of ‘township economy’
- Local government: some metros very active, e.g. Cape Town & Durban; but policy support often overshadowed by harassment of street traders, or illegal trading (stolen or fake goods).
- *Constrained by urban planners and Spatial Development Plans?*

Available NIBUS programmes for local implementation

At Dept of Small Business Development

- **SEIF (Shared Economic Infrastructure Facility):** Up to R2 million per project, requires 50/50 matching funds from municipality or province. Funds appears to be limited, though.
- **IMEDP (Informal and Micro-Enterprise Development Package):** Sector-specific upliftment for skills development, compliance support, equipment & machinery, infrastructure and technological support. (Partnering with informal business organisations and municipalities, with “the private sector as enterprise development and facilitation partners”)
*** May have been discontinued?

Summary – The Overall Agenda for government and private sector: Find a way 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**
- **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.
- assist established enterprises to **access higher-value markets (and overcome structural barriers)**, including possible franchising.

And to ...

- **Integrate/link/partner the informal and formal sectors within an industry or sector**, e.g. in construction, steelwork, carpentry, services and wholesale/retail supply chains –
 - e.g. 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), where applicable – including urban and peri-urban agri.
- **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]

Other issues: how to...

- **Coordinate informal-sector policies** and support programmes across the three spheres of government
- **Train and capacitate local government** officials in informal-sector policy analysis, design and implementation – **and how to access funds like SEIF.**
- **Develop partnerships with municipal planners and LED officials** towards an appropriate shared understanding of planning, zoning and bylaws in the townships.
- **Optimally regulate the informal sector:** to attain a balance between (a) its need for supportive and protective regulation and (b) the interests of formal enterprises in industrial/commercial areas and the broader public interest

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

Idea of 'formalising the informal sector' has been propounded by the ILO.

- Alive in South African policy circles, often as the main objective of (or condition for) policy support
- Often narrowly conceived in terms of enforcing business licensing, standard regulations and tax registration – blunt instruments that can be destructive. *Must convince municipalities to avoid such an approach.*

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’ policy would help enterprises to become self-standing and self-reliant, viable institutions

A good place to start is **basic bookkeeping skills** (income and costs) **and suitable premises** – factors associated with employment growth.

. . . which means, inter alia, that the enterprise can grow into being organisationally and financially separate from the household.

‘Smart formalisation’? Offer a menu of elements of formality which enterprises can access as required, in step-wise (or concentric) fashion, as they become more mature, stronger and more formalised.

- **The menu can comprise both government policy elements (infrastructure, premises, facilities, water, electricity, internet, registration, licences, appropriate zoning and land use, property ownership, supportive regulation, financing, training, etc.) and**
- **Private sector elements (banking, loans, rental space, mentorship, financial administration, supply chain facilitation, transport & delivery, etc.)**
- **These elements often interact or are sequentially linked**

Such a menu approach can address the contestation and tension around (forced) formalisation, whilst benefiting from the sensibly-timed and constructive utilisation of formalisation and formalisation policy.

Some complications

- **Policymakers must overcome the policy discomfort, even denialism, surrounding informal enterprises. (Unwillingness to call them by name?)**
- **Informal enterprises cannot simply be subsumed under SMMEs – they have unique disempowerments, constraints, challenges, etc.**
- **Core elements of NIBUS require provincial and local government buy-in, matching funds, and implementation capacity and skills. This may be a major weakness of the policy.**

The picture show:

Developmental pathways for informal enterprises

From...











to...





KHUMANI MINE PROJECT



Kuruman SMME Village

IN COLLABORATION WITH:
Ga-Segonyana Local Municipality



Successful construction of 57 shops where local informal traders can operate their business from.

STALL 24

STALL









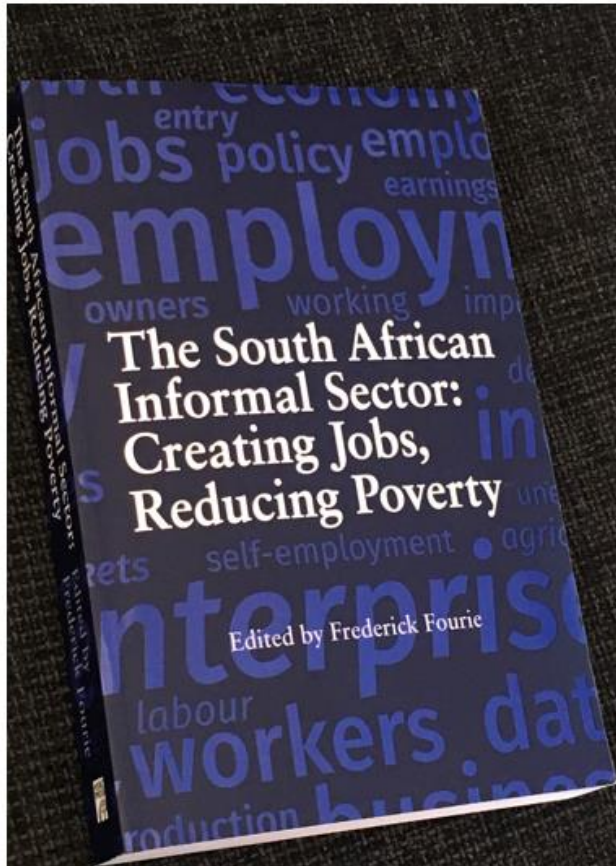
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**Read the book extracts published in
August 2018 on:**

Econ3x3.org

OR

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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

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*A prerequisite for good policy-making for
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I look forward to its impact on policy-making
in South Africa and the world.*

Ravi Kanbur (Cornell University)

Free download: <https://www.hsrcpress.ac.za/books/the-south-african-informal-sector-providing-jobs-reducing-poverty>

Topics for 'further research':

How policies and regulations are to be guided and differentiated by factors such as:

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

- **premises** (separate, suitable and secure);
- **location and spatial issues** (urban/rural; residential/non-residential; zoning categories);
- **regulations** (health, safety, fire, product, building)
- **utility services, facilities and infrastructure**
- **property rights** and title deeds;
- **regulatory constraints, inconsistencies, vicious cycles and dead ends**
- **banking and other financial services** (re start-up vulnerability as well as employment expansion);
- **legal and other measures to manage risk and liability;**
- **structural barriers** to accessing informal or formal (often higher-value) markets;
- **scaling up the level of policy interventions.**

More 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