



Understanding the Informal Economy of South Africa

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P.O. Box 62098, Marshalltown 2107 TEL: + 27 11 833 1190/1 FAX: +27 11 833 1160 info@esset.org.za

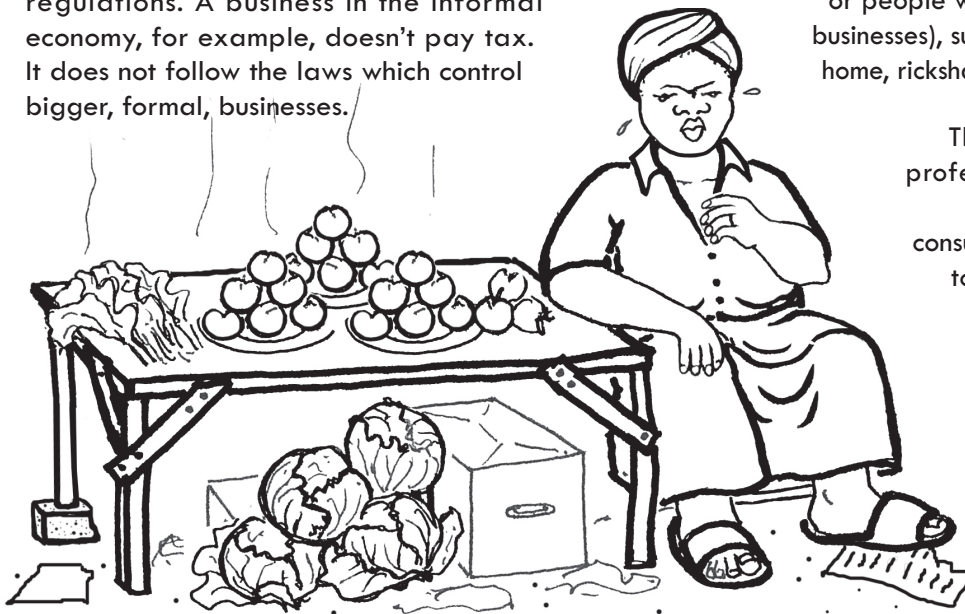
SECTION 1: WHAT IS THE INFORMAL ECONOMY?

First of all, what do we mean by those words? ECONOMICS is the science (some say it is the religion) of money. The ECONOMY is how that money is managed, where it is, who owns it, who makes it, who keeps it, how it moves around, and why.

An economy can be as small as the money that you earn working for one day, and what you do with that money; it can be all the money that your family collects in one month and how you spend it; it can be as big as all the money that is made in a country in one year (the Gross Domestic Product – GDP), and what happens to it. *Economy* can even refer to the money system of the whole world, in other words the **global** economy.

INFORMAL means something relaxed, casual, flexible, without rules and regulations.

If we talk about an INFORMAL ECONOMY, then we refer to an economy which does not have rules and regulations. A business in the informal economy, for example, doesn't pay tax. It does not follow the laws which control bigger, formal, businesses.



Some words are explained in the text. The words that are written in **bold letters** are explained in the Glossary on Page 8 at the back

1. ARE YOU PART OF THE INFORMAL ECONOMY?

The INFORMAL ECONOMY is made up of people in both rural areas and towns or cities (in South Africa and in most other countries) who are:

1. **NON-REGULAR WAGE EARNERS.** These people work without minimum wages, most do not even have contracts, or benefits like medical aid and pensions. They include casual or seasonal labourers such as farmworkers who only get work at harvest-time; domestic workers, security guards, taxi drivers, etc.
2. Nearly all people who **WORK FOR THEMSELVES** (also called self-employed or **OWN-ACCOUNT WORKERS**) such as street traders or vendors, or people with micro-enterprises (very small businesses), such as people who sew clothes at home, rickshawpullers, shoeshiners, and so on.

This category does not include: professionals (for example lawyers, accountants, artists, musicians), consultants (experts who give advice to companies and organisations), or technicians (for example plumbers or electricians), who work for themselves.

The main characteristic of the informal economy is that **WORK IS NOT REGULAR OR SECURE.** Workers in the informal economy are *not protected by the law.*

There are approximately 750,000 informal businesses in South Africa

2. THEY SAID SECTOR, WE SAY ECONOMY

Some people still talk about the informal sector, a name which was first used in the 1970s in Africa, when economists (people who study and/or manage the economy) first started discussing the “informality” of economic activities and the “informalization” of labour. This means that there are less and less FORMAL (proper) jobs for workers, and more informal, casual work.

Nowadays we talk about the informal economy because:

- informality is not limited to one economic sector or section only;
- it emphasises the links between the informal and the formal parts of the economy (proper jobs with contracts and benefits according to the law);
- it highlights the fact that *more and more jobs and enterprises are informal*. Formal jobs are being informalised, plus more new jobs are being created in the informal economy at the same time.

Globalisation has caused a decrease in formal employment everywhere in the world, but **people cannot wait for governments to create jobs**. They are creating jobs for themselves.

3. WHAT IS THE DOMINANT VIEW? WHAT IS THE ALTERNATIVE VIEW?

Many people have outdated views about the informal economy. This is partly why economists and others such as municipalities which make **policy** decisions often have a negative attitude towards it. This charts shows some of the differences between mainstream ideas and alternative ideas about the informal economy.

DOMINANT, CONSERVATIVE VIEWS

ALTERNATIVE, PROGRESSIVE VIEWS

The informal sector is the traditional economy which will disappear with modern industrial growth

1. The informal economy is actually increasing with modern industrial growth. It makes up 80% of new jobs in Africa, and 56% of jobs in South Africa

It cannot escape from poverty and it produces very little

2. It works and survives very well. It creates new jobs, and provides the majority of goods and services for poor people. It makes an important contribution to the GDP of South Africa

It is separate from the “formal economy”

3. It is linked to the formal economy. It produces and distributes for, trades with, and provides services to, the formal economy

People in the informal sector are extra workers just waiting to be employed by the “formal economy”

4. **Globalisation** has caused a decrease in formal employment everywhere in the world, but people cannot wait for governments to create jobs. They are creating jobs for themselves, hence the informal economy is growing quickly

Most people in the informal sector run illegal and unregistered businesses which deliberately aim to avoid regulations and taxes

5. This is not the same as the criminal or illegal economy. It is made up of non-standard wage workers such as casual day labourers, as well as entrepreneurs (people who create new businesses) and own-account workers who produce legal goods and services, even though the way that they do so is not regulated. Most entrepreneurs and workers in the informal economy would be glad if it was easier and cheaper to register. They can see the benefits of being registered

Work in the informal sector is made up mostly of survival activities, and economic policy is therefore not relevant to it

6. Informal economy enterprises include not only survival activities but also stable (steady) enterprises and dynamic growing businesses. All informal enterprises are affected by government economic policies

It is comprised mostly of street traders who are to blame for crime in the inner cities

7. It is made up of informal enterprises and informal jobs. Criminals are a threat to both informal and formal enterprises

WHAT IS YOUR VIEW?

4. WHAT DOES THE GOVERNMENT SAY?

Since 2003, ANC government policy at all levels is based on the idea of South Africa having two economies, the “first economy” (formal) and the “second economy” (informal). The government’s Accelerated and Shared Growth Initiative for South Africa (ASGISA) plan to build our economy says that the way to wipe out poverty is to destroy the “second economy”.

What this means is that the government believes that if everybody who is part of the “second economy” (the informal economy) gets a job in the “first economy” (the formal economy), there will be no more “second economy” and therefore there will be no more poverty. How is that possible?

The idea of the “second economy” is based on two important and problematic issues:

Problem Number 1: The government definition includes some labour market categories which are used by **Statistics South Africa** – such as domestic work, **subsistence** farming, and people who are unemployed – not just those who are active in the informal economy.

Problem Number 2: The ANC government sees the “second economy” as “structurally disconnected” from the “first economy”, in other words, that they are *separate structures* with no connections between them. We will look at this idea again later.

5. WHAT DOES IT MEAN TO SUPPORT THE IDEA OF SEPARATE “FIRST” AND “SECOND” ECONOMIES?

The government argues that it has been successful in:

- stabilising South Africa’s overall economy (the **macro-economy**) since 1994;
- promoting black economic empowerment (BEE); and
- spending more money on some social objectives such as housing and electricity.

But even the government itself admits that it has failed to deal with unemployment and the high levels of poverty in some parts of the population.

By focusing on the idea of two different economies, at least the government has drawn attention to unemployed people and those in the informal economy. However, at present, the Department of Trade and Industry (DTI) and the Department of Public Enterprise decide on policy for the “first economy”, but the Deputy-President develops separate policy for the “second economy”. Why are the “first” and the “second” economies treated differently?

If the formal and informal economies are treated separately, there is the danger that unemployment and poverty can be reclassified as “welfare” issues, not as an important part of the government’s macro-economic policy.

What little policy there is for dealing with unemployed and informally employed people is in bits and pieces, and will not make any difference to poverty unless it becomes a central part of South Africa’s macro-economic policy. If not, the government can conveniently avoid making the necessary changes to the basic structure of South Africa’s economy. In other words, *government policies continue to favour the minority big business and rich people, rather than the majority.*

The biggest problem is not just the design of the policy, but *the very idea itself that there are two separate economies!* The table on Page 2 shows that we have only *one integrated economy*, and that the informal economy is actually *an important and growing part of that economy*. Below are some more facts and figures.



6. SOME FACTS AND FIGURES

A. WHAT ROLE DOES THE INFORMAL ECONOMY PLAY IN SOUTH AFRICA?

1. According to Stats SA 2007, the majority of South Africans - 56 percent! - are in the categories which the government includes in the “second economy”.

2. There are approximately **750 000 informal businesses** in South Africa. They employ more than 1,6 million people, and support nearly 5 million people.

3. Even though most people in the informal economy earn very little (in 2007, 69% earned less than R1000 per month), it was estimated that in 2004, R48,5 billion of **total household expenditure** was spent through informal business outlets. This means that between 8 – 10% of South Africa’s GDP comes from the informal economy.

These figures show that it is not true that the “second economy” contributes little to South Africa’s growth.

B. WHAT ABOUT THE IDEA THAT THERE ARE TWO DIFFERENT, SEPARATE ECONOMIES IN SOUTH AFRICA?

LOOK AT THESE EXAMPLES:

B.1 The majority of informal workers sell basic goods such as fruit and vegetables. Most fruit and vegetables come from municipal markets, in other words from the formal economy.

Not only do informal clothing manufacturers get most of their materials from wholesalers in the formal economy, but the clothes that they make often end up being sold in formal retail shops.

B.3 The taxi industry, which is mostly unregulated, has close links with the formal vehicle, petrol, and **insurance** industries.

B.4 The multi-million rand paper company Mondi owns 117 waste recycling centres in South Africa. These centres are supplied by more than 3000 waste collectors, who are some of the most **marginal** informal workers.

B.5 Approximately 74% of liquor retailers (taverns and shebeens) do not have licenses. They buy and sell a large proportion of the products of the South African Breweries, the local (South African) division of the second biggest beer group in the world!



We can clearly see that many of South Africa's biggest companies rely on informal workers to supply or sell their goods. This shows that rather than being separate, the "first" and "second" economies are very closely connected and *cannot exist without each other*. Imagine, for example, if nobody sold fruit and vegetables on the street - where would poor people buy their food? How would they survive?

If the government really wants to solve the problem of poverty, it must deal with reality and create policies which **support the people on the bottom** rung of the economic ladder.

SECTION 2: THE INFORMAL ECONOMY OF JOZI

1. HOW DOES GOVERNMENT POLICY REGARDING THE INFORMAL ECONOMY AFFECT JOHANNESBURG STREET TRADERS?

In August 2007, the City of Johannesburg (COJ) finalised a policy for managing informal trading in the Johannesburg Central Business District (CBD) areas. COJ claims that the policy is a product of "extensive consultation with all relevant stakeholders", but representatives of Johannesburg's informal traders strongly disagree.

These representatives say that instead of including informal traders in a genuinely participatory process, the "consultative process" was just a series of "information-sharing sessions" which simply looked for support for the COJ's (already decided) position.

And furthermore, because of the non-transparent (secret) way they were chosen, those traders who attended such sessions *did not have democratic mandates, and did not report back* to the people they are supposed to represent.

2. MORE PROBLEMS WITH THE CITY OF JOHANNESBURG'S POLICY

2.1 The policy is mainly about fixing the limits of the trading rights of street traders or vendors in order to ban informal trading in the CBD. This could result in street traders being evicted from suburban and town areas. Why? So that Johannesburg can look like a wealthy, clean, and tidy "world-class city" for the 2010 Soccer World Cup?



It seems that a proposal for banning street trading in 51 areas was put forward during the policy "consultations", *but informal traders were not allowed to question it*. What kind of democratic participation is that?

2.2 COJ's policy gives the Metro Trading Company (MTC) the **unilateral** right to "withdraw or detain any trader's smart card or close the trader's stall" if:

- the trader's goods have been **impounded** by the Johannesburg Metro Police;
- the Department of Economic Development of Gauteng or "any council department has issued the trader a prohibition (stop trading) notice".

This goes against our Constitution, and undermines the rights and security of tenure (having proper and secure permission to trade at a certain place) of informal traders who already have their own separate lease agreements with the MTC.

2.3 The policy says that the MTC "shall become a one-stop shop" for the purpose of managing traders. This implies that the MTC can make its own decisions about trading rights, trading spaces, and who to evict or not, *without consulting anyone else*. It shows that COJ is not genuinely committed to developing the informal economy and supporting informal traders in the city.

3. WHAT DO STREET TRADERS SAY ABOUT THAT?

Representatives of informal traders are challenging the structure of the COJ's new policy. They argue that it **entrenches** the oppressive parts of the old policy, such as the ban on street trading in suburban areas (based on the Business Act of 1991!), and other harsh rules which punish street traders, eg impounding and/or **confiscating** their goods.

Even more frustrating is that the new policy does not refer to the fact that the COJ *does* have the capacity to support street trader management and development. It also does not include any reference to other policies which also affect informal traders, such as the right to better working conditions.

Representatives of informal traders demand that instead of a "one-stop shop", the COJ must develop a **holistic** and detailed STREET TRADER MANAGEMENT PLAN as a matter of priority, to govern street traders' rights in the CBD.

WHAT DO YOU THINK?



4. WHAT IMPORTANT ELEMENTS MUST BE PART OF A POSITIVE PROCESS FOR DEVELOPING POLICY ON THE INFORMAL ECONOMY?

4.1 Street traders are unhappy about the COJ policy and will resist it because they were not given a genuine opportunity to speak for themselves about their needs and what they are willing to do. The important issue is not to choose between regulating or deregulating the informal economy. It is more important that all roleplayers, especially informal workers and as many different interest groups as possible must be included and consulted in a **PARTICIPATORY PROCESS**.

4.2 **POLICIES AND PROGRAMMES** regarding the informal economy, such as providing education and training, micro-finance (very small loans), etcetera, must bring **marginalised** workers into the mainstream (what most people accept is normal), so they are also protected by an **institutional framework** and by the law.

4.3 **GENDER ISSUES** must be considered throughout all policy development. Women and girls:

- are the poorest workers;
- have the least social protection;
- are least likely to be entrepreneurs, ie they are more often employed as wage workers for someone else, instead of working for themselves;
- are often prevented from speaking for themselves by men - including other traders, male family members, and even some community leaders;
- are more vulnerable to crime;
 - have to balance the triple responsibilities of bread-winning; domestic chores; and taking care of children, the sick, and the elderly;
 - are discriminated against in terms of access to education and training, to social protection, and to credit.

4.4 **IMMIGRANTS AND REFUGEES** from other parts of Africa often bring valuable trading skills, information, and knowledge to share with South Africans. They must be protected from **xenophobia**, and must also be allowed to fully participate in the process of policy decision-making.

4.5 Many economists believe that the informal economy consists of poor people just trying to survive, or even criminals trying to evade (avoid) the law. Those economists believe that survival activities (for example doing any work just to buy food) are about social issues, not economic issues, and that mainstream economic policies cannot and do not reach the informal economy. We have already seen that this is simply not true.

Policy makers must therefore consider both the SOCIAL and the ECONOMIC FACTORS that affect informal wage workers, for example:

- the price of capital (loans, microfinance, etcetera);
- inputs (what you put into your business, such as labour, material) and outputs (what goods or services you produce);
- some aspects of international trade policies (subsidies, tax breaks, tariffs, etcetera);
- skills' development (useful, relevant skills' training such as buying and selling, keeping accounts and records, marketing and pricing); and
- social policies (unemployment insurance such as a Basic Income Grant, pension funds, access to basic services, including health facilities, clean water, electricity, etcetera)

These are all aspects of economic policy that affect both the formal and informal economy.

4.6 It is important to see the difference between ILLEGAL activities that produce illegal goods and services, such as drugs or pirated goods, and INFORMAL activities that produce legal goods and services. Some informal entrepreneurs do try to avoid paying taxes, for example, but most informal entrepreneurs either are not aware of the regulations, or they cannot afford to comply with them. Also, it is the informal employer who does not comply with the law, *not the wage worker*.

4.7 We clearly need better STATISTICS on the informal economy regarding the changes in employment, in South Africa and globally, and what the informal economy contributes to the GDP, and therefore the economic growth, of South Africa.

5. WHAT ELSE MUST BE CONSIDERED?

5.1 LABOUR LEGISLATION (laws which govern working conditions such as a minimum wage, hours of work, health and safety at work, etcetera). These laws must SPECIFICALLY FOCUS ON WAGE WORKERS AND OWN-ACCOUNT WORKERS so that their particular circumstances are represented in and protected by the law.

A. WAGE WORKERS

In June 2006, the South African government actively supported an International Labour Organisation (ILO) recommendation about employment relationships. This recommendation provides guidelines to protect workers in situations of :

A.1 DISGUISED EMPLOYMENT. This is where the relationship between the employer and the worker is misrepresented on purpose, in order to deny workers rights and benefits which are guaranteed by existing labour laws. An example of this is casualisation (when a formal job becomes a casual job) where contracts are signed for a fixed period of time or a specific task between employers and employees, but the same contracts are then renewed again and again, with or without a break in between.

Because the official period of employment is contract by contract, these workers are not eligible for benefits, which saves the employer a lot of money. If workers object to that, it is easy for the employer not to renew the contract next time.

It is important to see the difference between **illegal** activities and **informal** activities

A.2 AMBIGUOUS EMPLOYMENT. This applies in the case of self-employed people where their employment relationships with those to whom they provide their services are not clear. For example, plumbers, electricians, and others are paid by the client or customer for doing their job, but they are not actually employed by that client.

A.3 TRIANGULAR EMPLOYMENT RELATIONSHIPS This refers to workers employed by an enterprise or person ("the provider") who does work for a third party ("the user") to whom their employer provides labour or services. For example, a plumber's assistant, employment agencies, etcetera.

Since many informal workers are in situations like these, South African labour law should include more laws and policy reforms based on the ILO recommen-

B. OWN-ACCOUNT WORKERS

This category is difficult to make laws about, because these people work for themselves, not for an employer. They were officially recognised as a category of worker by the ILO only in 2002. There are a few laws in South Africa which try to address own-account workers, but a lot more careful research needs to be done to create laws which properly protect their rights.

5.2 SOCIAL PROTECTION

The government-appointed Taylor Committee made recommendations about social assistance for all those who do not have access to:

- the existing social grant system, for example
- disability grants, pensions, child grants;
- social services such as health, education,
- childcare, etcetera; and
- law and order (protection from crime, and being able to work without being disrupted).

The Taylor Committee also recommended the development of policies to enable people who are not part of the “formal economy” to help themselves through national savings and pension schemes (plans).

These policies could also be developed to offer people security for their businesses. For example, the owner of a micro-enterprise would be able to have access to insurance to protect her business in case somebody steals all her goods and equipment, or perhaps there is a fire at the place where her goods are stored and everything is burnt. The insurance policy will replace what she loses.

Discussions on social protection in the informal economy must start by looking again at what the Taylor Committee recommended. Most importantly, **organisations representing informal workers must be consulted** about what their most urgent needs are, and how as a nation we can develop policies which address those needs.

5.3 OTHER LAWS AND POLICIES FOR DECENT WORK IN THE INFORMAL ECONOMY

Policy-makers are debating whether to restrict or to promote street traders or street vendors, who make up a high percentage of workers in urban areas. These traders want:

- the right to be able to trade without being harassed by officials;
- regular selling spaces where there are lots of customers;
- safe storage facilities;
- basic infrastructure such as water, shelter, and toilets.

6. WE SUGGEST SOME CONCRETE OUTCOMES

6.1 There should be a SIMPLE, ONE-STOP REGISTRATION SYSTEM FOR INFORMAL WORKERS TO REGISTER AND GET ID CARDS

Identity cards would:

- protect them from harassment and from **extortion**;
- identify them as street vendors, market vendors, waste collectors, minibus taxi conductors, and others, for the purpose of the administration of benefits such as social security schemes, social insurance schemes, etcetera.

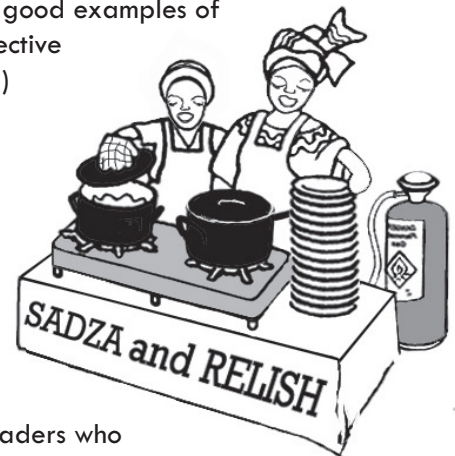
Informal workers would be more willing to comply with regulations if they had access to such schemes.

6.2 There should be a PROGRESSIVE TAXATION SYSTEM which:

- lowers taxes on the goods and services on which street traders spend most of their income,
- is suitable for the particular conditions of wage workers and own-account workers in the informal economy.

Employers and **intermediaries** in the informal economy would also need to be taxed according to their circumstances. Some market places in West Africa provide good examples of simple and effective (they work well)

methods of collecting taxes in the informal economy.



6.3 Informal traders who cross into other countries such as Zimbabwe, Botswana, or Mozambique face UNNECESSARY OBSTACLES IN TRADE POLICIES.

Removing some of these obstacles would:

- increase informal traders' access to foreign markets;
- enable them to be less dependent on intermediaries for work and for access to products.

Many intermediaries trade in huge amounts of certain products, which distorts some sections of our economy. The trade in second-hand clothing which has been donated by foreign organisations, for example, is one of the factors which badly affects our own indigenous clothing industry. It can contribute to factories shutting down and many workers employed in the formal economy losing their jobs.

6.4 OTHER TRADE POLICY CHANGES should include:

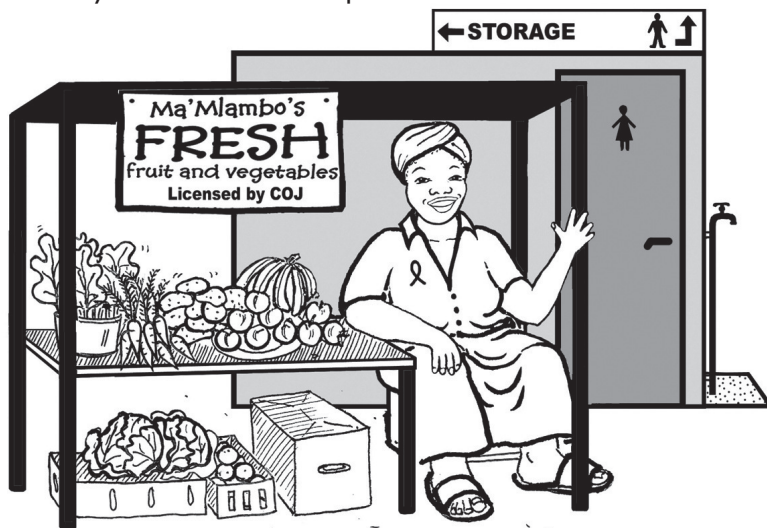
- access to small loans of less than R 10,000 via new partners with the Department of Trade and Industry who are known to be reliable in delivering credit facilities to the informal economy;
- business support services which cater for the specific needs of informal workers, for example:
 1. access to very small loans,
 2. information about markets, etcetera.These services may include mobile units that can reach distant rural areas as well;
- business infrastructure: the DTI should establish a fund to build and manage the facilities such as storage space, shelters, and toilets that informal traders are asking for. The requirements of those even in the same activity are often very different. For example ...

... traders selling clothes have different needs from traders selling food. But traders selling fresh fruit, or pre-packed food such as biscuits, might have different needs from traders selling cooked food like maize which they prepare on the street.

- 6.5 There should be a NATIONAL REVIEW OF MUNICIPAL BYLAWS which directly affect the work and livelihoods of workers in the informal economy, and LEGAL GUIDELINES should be introduced so that such bylaws comply with the ILO's 2002 Conclusions and South Africa's own Decent Work Programme.

The Department of Trade and Industry must carefully analyse all aspects of **what traders want**

- 6.6 FINANCIAL AND NON-FINANCIAL BUSINESS SUPPORT MEASURES must be provided, including: legal services, for example guidance in applying for a lease or license; and skills' training based on careful research into the specific training needs of informal workers in different economic sectors. (see 4.4 on Page 5)



7. CONCLUSION

Developing the right policy is never easy. It will only succeed if policy-makers pay proper attention to the informal economy, and if organisations representing workers and employers in the informal economy are actively involved in the process.

GLOSSARY (in alphabetical order)

confiscate: to take something away in order to punish its owner

entrenches: makes it difficult or almost impossible to change

extortion: to get something by threatening its owner

global: the Earth is a globe; *global* means the whole world

globalisation: the process by which different countries and cultures on Earth became integrated into one global village. Many people challenge the dominant kind of globalisation

holistic: the whole, including all parts

institutional framework: a structure (EG a traders' committee) connected to an institution (EG the COJ)

impound: to legally take something, then its owner has to pay to get it back

insurance: a contract which guarantees compensation in case of loss

intermediaries are people in the middle, such as those between the supplier and the employer who import wholesale goods from other cities or countries, and then sell them to informal traders

micro-: very small, the opposite of

macro-: very big

macro-economy: overall economy

marginal: on the margin, or edge, of society

policy: a plan of action based on a particular set of ideas

Statistics South Africa (Stats-SA):

statistics are a collection of information given in numbers and percentages. Do you know that about 60% of people in the world are women?

subsistence farmers: farmers who keep a few animals and grow just enough food to survive. In Africa,

70% of these farmers are women

total household expenditure: the total amount of money that all households (people/families) spend

unilateral: one-sided

xenophobia: hating and fearing strangers and people who come from other countries, just because they are a little bit different

GET INVOLVED, SPEAK UP ABOUT WHAT YOU NEED, MAKE A DIFFERENCE!

based on research by Ibrahim Steyn