

# Reflections on the Margins: A Framework for Growth, Work and Market Linkages in the Informal Sector

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Over two million South Africans, at different times and in different sectors and contexts, participate in the informal sector (in a wide array of activities), with just under half of these being informal traders in 1.4 million enterprises, which collectively employ 800 000 people (StatsSA, 2017; Skinner, 2018; Dooms, 2020). In South Africa (SA), policy recognises (through the Informal Business Framework of 2014) a wide array of activities from spaza retail through to construction and artisanal work, alongside services like hairdressing and child care. As Phillip (2010) observes, due to a wide array of reasons, SA informal enterprises are largely in retail, “often in a dependent relationship to the core economy”. More recently, technological and structural shifts in the formal economy have spilled over into the informal sector and influenced the work content and form of many roles in the informal sector (as we shall discuss below). Key challenges remain, however, in realising the potential of the informal sector to contribute to employment creation efforts.

The theoretical framework on the role of the informal sector in developing and post-transitional economies sees it as a “buffer” in periods of widespread frictional unemployment. In most nations, informal sector activities straddle the “criminal” and what one might call the “extra-legal”. In SA, these enterprises have been unambiguously criminalised. Moreover, there is clearly no “mop-up role” played by the informal sector (as is suggested in the literature) in business cycles (Burger and Fourie, 2018). Rogan and Skinner (2017) using Quarterly Labour Force Survey (QLFS) data suggest that there were significant and disproportionate job losses in the informal sector following the 2008/2009 financial crisis. This suggests that rather than just being a buffer during the tough times, the sector might require extra policy support during recessionary period.

Activities in this sector are seen as “marginal” to the “observable” and computable experiences of the

formal economy. Yet in the context of SA, with high unemployment numbers, deindustrialisation and inequality, activities in the informal sector remain (although marginal) a crucial livelihood source. The National Development Plan (NDP), in its formulation of an inclusive economy, promotes an approach that includes “informality” within the ambit of what is seen as “legitimate economic policy and practice” (Dooms, 2020).

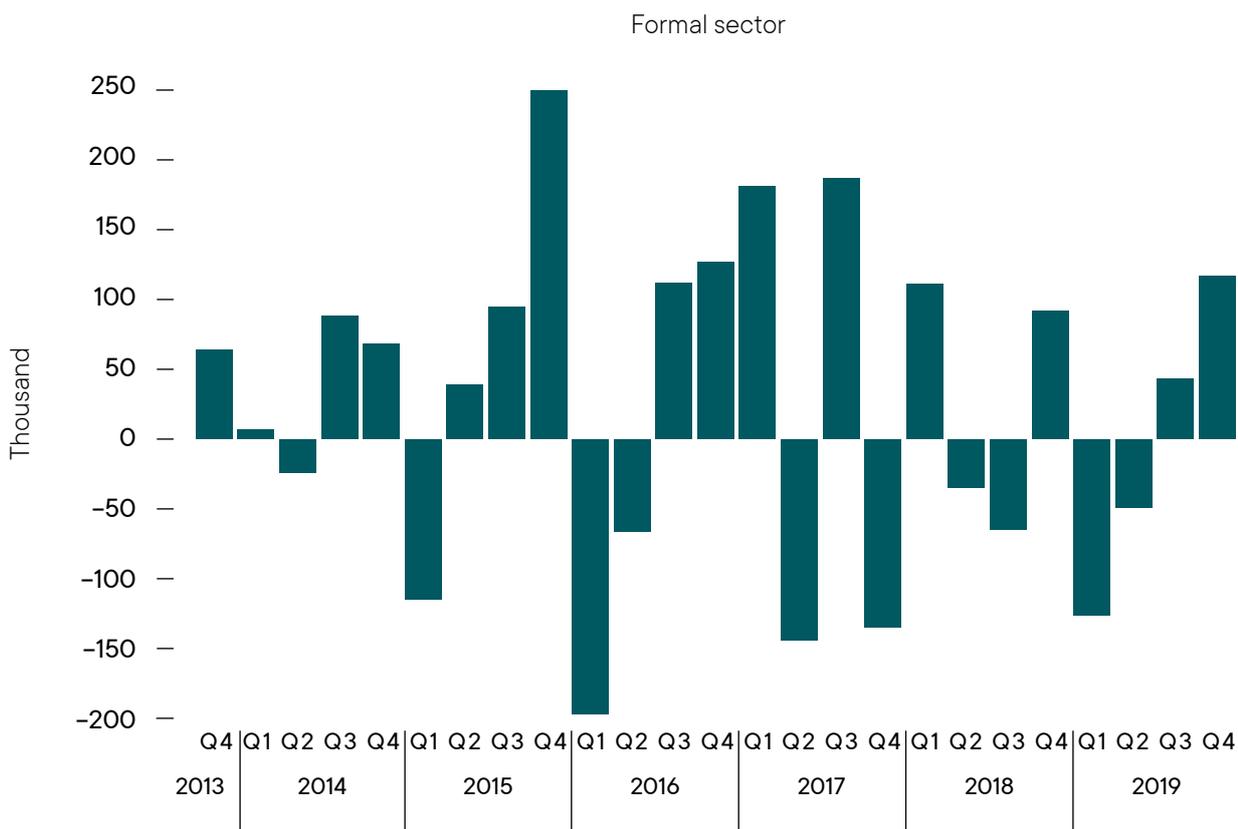
The size of the informal sector, as a percentage of the non-agricultural workforce, has remained relatively unchanged between 2008 and 2014, hovering around 16% and 18% over the period (Rogan and Skinner, 2017). **This pales in comparison to other informal sectors across other economies in sub-Saharan Africa.**

## Where are the employment promoting opportunities in the sector(s)?

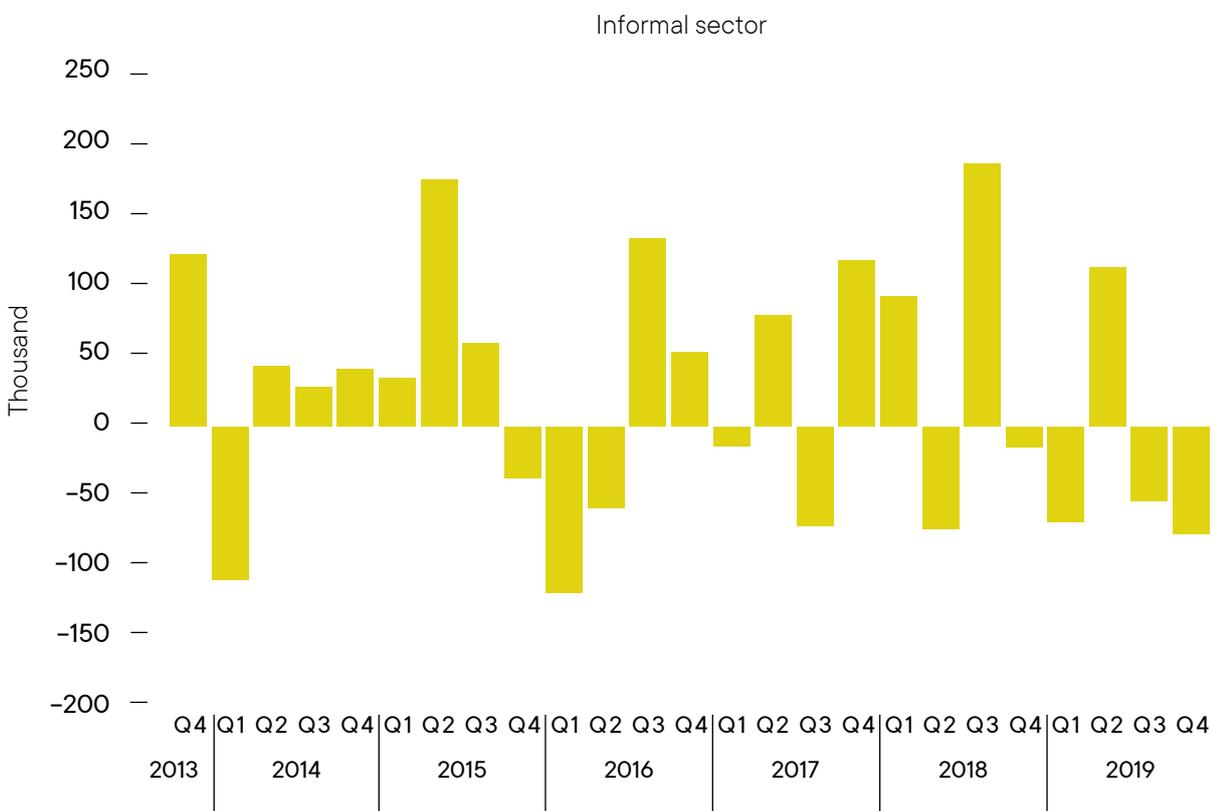
Recent declines in informal sector employment have largely been in community, social and public services (CSP), retail and construction. Retail remains the highest employer in the informal sector. Two other sectors have also been growing in employment - transportation (most notably the minibus taxi and e-hailing sectors) and financial/business services. The informal sector is not homogenous, but a diverse sector with multi-sectoral enterprises of different sizes and productive capability.

Cultural movements or technological developments, such as alternative communication systems, have resulted in a modern informal sector led by creative professionals such as architects, designers, musicians and software developers.

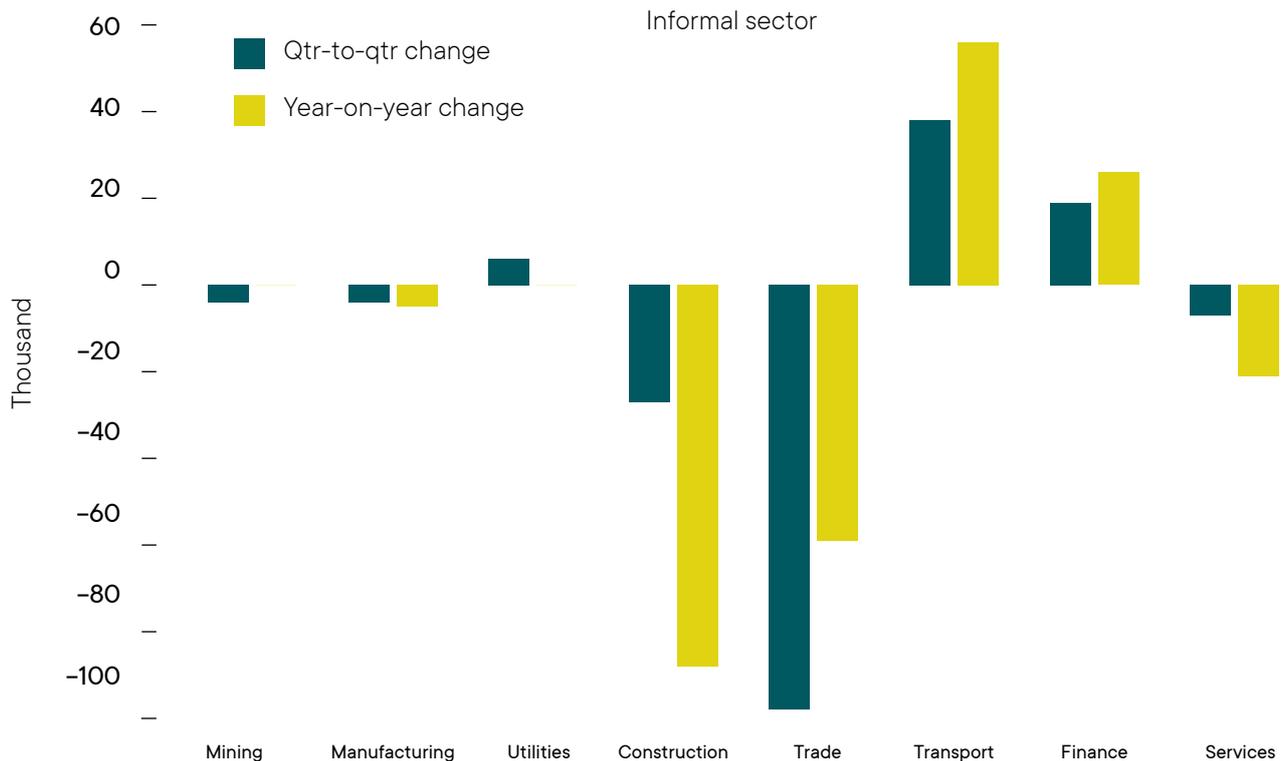
**Figure 1 (a): Quarter-to-quarter employment changes in the formal sector, Q4: 2013 to Q4: 2019**



**Figure 1 (b): Quarter-to-quarter employment changes in the informal sector, Q4: 2013 to Q4: 2019**



Source: StatsSA (Quarterly Labour Force Survey, Q4 2019)

**Figure 2: Quarter-to-quarter and year-on-year changes in the informal sector by industry**

Source: StatsSA (Quarterly Labour Force Survey, Q4 2019)

## Overview of current constraints that impede employment growth in the sector(s)

### Barriers to entry into the informal sector

Burger and Fourie (2019) suggest that following an increase in the unemployment rate, the ability of both the formal and the informal sector to reabsorb the unemployed is very limited. The barriers occur on multiple levels. The sector might be informal, yet its activities are governed by a raft of written and unwritten rules (as is the case in the minibus taxi industry and in many hawkers associations) that govern market entry, division of markets and space and the distribution of “rents”. These “barriers” influence both enterprise creation and destruction and by extension the capacity to employ. Moreover, whilst recent attempts to “unify” the taxi industry through co-operatives and corporatisation may bring greater regularity and uniformity to the industry, they may have implications for workers and other value chain actors.

### The allure of formalisation

Policy interventions for numerous, primarily fiscal, reasons see “formalisation” or “corporatisation” as the teleological ambition of policy measures to support the informal sector. Cronin (2005) presents the challenge of “formalisation” or “modernisation” of the minibus taxi industry as a debate between the role of the industry in the expansion of the national “forces of production” and the tensions brought about by its accumulation path as a “brake” to technological innovation and productivity. Moreover, the “dualism” of the South African economy and its historic development path, provides the social and economic *raison d’être* for its existence. The sector now transports 15 million commuters per day, about 68% of all commutes.

The profitability of the sector continues to be possible due to the spatial and economic divisions of old. Attempts to formalise the sector, through the “taxi recapitalisation” programme have often sought to undermine existing employment multiplier effects within the sector. For instance, early plans of recapitalisation envisaged “maintenance contracts” for the repair of the new fleet, that would be carried out by “franchised formal sector dealerships”

(Cronin, 2005). This, had it been undertaken, would have decimated the jobs of cleaners, backyard repair mechanics and many others in the value chain, whilst also having an impact on the margins of many individual and collective operators (due to repairs now having to be undertaken during normal peak hours, rather than the practice of doing these on weekends or at night).

What has occurred though, is the use of taxi scrapping allowances of currently between R91 100 to R124 000 per vehicle to incentivise investment in new vehicles that comply with required regulatory design features that protect consumers, without the expectation of a full-scale formalisation of the industry. Such a process has also been rolled out alongside a data-gathering exercise aimed at developing a national database of taxi operators nationwide, working alongside the taxi associations (Nzimande, 2019). This is an example of regulation that protects end-users and other stakeholders, whilst allowing for the organic albeit “informal” development of the industry.

## Locational challenges

Much of the informal sector is currently located in the township areas’ marginal to main economic centres, which has given rise to the notion of the “township economy” whose support, by extension, would also improve the conditions of those whose productive activities are characterised by informality. 40% of SA’s urban population live in the townships, yet due to restrictive local laws, low incomes, high transportation costs, low investment levels and marginal enterprise activity, the potential of this market for informal enterprises remains untapped.

Externally, for retail-focused informal activity (which is the bulk of informal activity), the entry of large national retailers in local markets with centralised procurement channels has foreclosed the possibility for any supply chain integration (Rakabe, 2016). Regulatory changes (through broad-based black economic empowerment (B-BBEE) scorecard incentives) have incentivised a few retail chains to localise procurement, however, on the supply side there exist numerous challenges for informal enterprises to “modernise” enough to benefit from the surge of interest in townships and peri-urban settlements by real estate investment trusts (REITs) and their anchor tenants - large national retailers. As Rakabe (2016) notes, “the presence of larger formal firms provides no viable prospects for linkages with the township informal enterprise”.

## Weak distinction in policy support between TIS and MIS

The presence of formal firms in close proximity to informal enterprise is an opportunity, but absent of a consideration of the nature and growth potential of these firms, policy faces some of the challenges mentioned above. Distinctions between “traditional informal enterprises” (TIS) and “modernising informal enterprises” (MIS) are important (Ranis and Steward, 1999; Moreno-Monroy et al., 2012 quoted in Rakabe, 2016). TIS are typically small in size, engaged in low capital/productivity work undertaken by family labour, often operating from household premises. MIS are relatively larger, using dynamic technology and relatively skilled labour.

These firms with better labour productivity tend to not only employ more workers, but pay them relatively better. Conversely, the work of TIS in last mile retailing of goods with processed meats from the formal sector meant that they bore the brunt of the recent listeriosis crisis (with adverse employment impacts). The challenge might have emerged in the formal processing sector, but its impact was far-reaching in the informal trade sector. This suggests that policy ought to also consider the “spill-over impact” of formal sector developments and policy on informal sector value chains of both traditional and modern informal enterprises.

The narrow product mix, customer base and weak regulatory compliance of the non-retail informal sector reduces the scope for downstream and upstream linkages with formal firms. A lost opportunity. Not only for greater accumulation and productivity, but also for improved employment outcomes.

## Recommendations on innovative policy interventions or programmes to unlock barriers

There are a few “principles” to consider in how we think about how policy can encourage greater employment in the informal sector. The questions (nor the answers) are neither neat nor simple. Firstly, policy ought to rethink enterprise support beyond the notion of a business as a legal entity, but rather consider these activities as human endeavours worth support (Dooms, 2020). For example, an opportunity exists to support informal hawkers with locational advantages (shelters close to taxi ranks and areas

with high footfall) on favourable terms in exchange for compliance with health and safety regulations. Policy, as suggested above, in our context must aim to protect end-users and primarily consumers, without pre-emptively constraining the activities of these enterprises.

Secondly, and in line with the MIS and TIS approach discussed above, policy support should be focused on the accumulation of capabilities (knowledge, governance, economic and social) that improve an entrepreneur's chance of benefitting from existing economic opportunities - both formal and informal (Dooms, 2020).

Lastly, there are strong opportunities (notwithstanding current demand conditions) in three areas of informal productive activities where the greatest "modernisation" opportunities exist:

- Transport – the minibus taxi industry (production, value chain issues and subsidisation) considering the Competition Commission report on the matter and growing informalisation of the e-hailing and food delivery sectors.
- Retail – the largest segment of the informal sector, with great scope (due to linkages in intermediate inputs and primary production) for formal business-business linkages and the benefits of formalisation in line with the decent work agenda. Opportunities in this sector, as Philip (2018) observed, are in sectors with niche production opportunities, with differentiated products; not already mass-produced in the formal sector.
- New industries – emerging areas of work have also featured strongly in the contemporary informal sector, these include micro-work (temporary, task-related work often secured through the internet; software development, platform economy work (in transport, domestic work and other sectors).

## Who should drive the recommended interventions?

These interventions need to be driven at multiple levels of regulatory and policy action (national, provincial and local) in areas of licensing, locational support, by-law enforcement and infrastructure provision. An opportunity also exists for private sector support through enterprise and supplier development support that assists in not only modernisation efforts, but also data gathering and market intelligence. There

is also a role for the organisations that represent informal sector players (hawkers associations, taxi associations inter alia) to interface with existing public work programmes (in cross-cutting areas like food production, care work, transport and clothing production and sale), as a way to ensure the expansion of the markets of modernising informal enterprises.

As the scope for market-based employment and labour demand is narrowing, societies need to look at ways to address the need for economic inclusion through participation in work (Phillip, 2018). Such participation in work (for social reasons beyond just earning an income) where it occurs in the informal sector, must be encouraged. For this to happen, policy needs to enable the growth of those informal sector enterprises with the greatest potential for scale and accumulation, and pursue "positive" regulation for those in traditional, albeit less productive, but crucial sectors.

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