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THE INFORMAL SECTOR AND THE CHALLENGES OF DEVELOPMENT IN SOUTH AFRICA

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INTRODUCTION

- After nearly two decades since the ending of apartheid colonialism, poverty, unemployment, inequality, and environmental degradation remain persistent problems
- In seeking to improve the quality of life for all its inhabitants, South Africa must also reduce poverty, create employment, and redress widening inequalities
- Both at national and provincial levels, policy development aims to enhance inclusive development

DISTRIBUTION OF POPULATION BY PROVINCE

• Province	%
– Western Cape	11,3
– Eastern Cape	12,7
– Northern Cape	2,2
– Free State	5,3
– KwaZulu-Natal	19,8
– North West	6,8
– Gauteng Province	23,7
– Mpumalanga	7,8
– Limpopo	10,4

AVERAGE ANNUAL HOUSEHOLD INCOME

Province	Average Household Income
– Gauteng	156 243
– Western Cape	143 460
– Northern Cape	86 175
– KwaZulu-Natal	83 053
– Mpumalanga	77 609
– Free State	75 312
– North West	69 955
– Eastern Cape	64 539
– Limpopo	56 844

UNEMPLOYMENT RATE BY PROVINCE IN 2011

Province	Unemployment
– Western Cape	21,6
– Gauteng Province	26,3
– Northern Cape	27,4
– North West	31,5
– Mpumalanga	31,6
– Free State	32,6
– KwaZulu-Natal	33,0
– Eastern Cape	37,4
– Limpopo	38,9
Republic of South Africa/ National	29,8

% OF POPULATION LIVING IN POVERTY 2007 and 2010

• Province	%
– KwaZulu-Natal	59.6
– Gauteng	45.1
– Eastern Cape	62.5
– Limpopo	62.9
– Mpumalanga	63.2
– Western Cape	37.1
– North West	58.6
– Free State	52.2
– Northern Cape	50.3

HISTORICAL CONTEXT

- 1950s and 1960s, modernisation theory made people to believe that traditional forms of work and production would disappear as a result of economic progress in developing countries
- Initially viewed as a site of simple and adapted technologies
- These technologies were viewed as responsible for the static nature of the informal sector
- Viewed as marginal in terms of place and contribution to the economy
- These observations do not apply uniformly in the informal sector

EMPIRICAL EVIDENCE

- The informal sector is linked to the formal economy
- Produces, distributes, and provides services to the formal economy
- The taxi industry which is mostly unregulated has close linkages with the formal vehicle companies, petrol and insurance industries
- The paper company Mondi owns 117 waste recycling centres in South Africa
- These centres are supplied by more than 300 waste collectors who are some of the most marginal workers in the informal economy



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INCREASED FOCUS ON INFORMAL SECTOR

- Neither the public sector nor the private sector is able to provide enough jobs for the expanding labour force
- Informal sector is increasingly recognised as an alternative option to the growing unemployment, particularly among the youth and the poor
- Efforts to improve the performance of the sector should be seen in light of the potential contribution of informal sector to increasing the overall performance of the economy including its provincial and local productive economic capabilities

INCREASED FOCUS ON INFORMAL SECTOR

- Our emphasis is on the relative importance of the sector in the economy of South Africa
- Our contribution is on the policy logic and implications for evidence-base policy development and innovation
- Policy development and innovation can lead to improved performance of the informal sector particularly in the context of increasing need to reduce poverty and increase employment opportunities in South Africa

GEOGRAPHY AND CONTEXT

- Initially, studies of informal sector tended to be decontextualised
- Increased attention has been towards understanding the informal sector within its historical, geographical, political, and social context
- In the developed world, informal sector is often seen as a product and driver of advanced capitalism
- By contrast, in the developing world the largest part of informal sector tends to occur in the form of self-employment

THE SIZE OF INFORMAL SECTOR

- The size of informal sector is estimated to be around R157bn (1US\$=R7)
 - 2,5 times the entire size of the agricultural sector
 - 70% of the mining sector
- Trade sector is the largest sub-sector with over 1 million people engaged in this activity
- Another 300 000 are engaged in community and social services
- Trade, social and community services constitute around 60% of all employment in the informal economy

GROWTH IN THE INFORMAL SECTOR

- Growth in the informal sector tends to be influenced by a number of factors including;
 - Increased urbanisation of blacks
 - Slow pace of economic growth
 - Incidence of jobless growth
 - Decreased incidence of formal employment
 - Promotion of SMMEs
 - Informalisation of formal businesses
 - Costs and regulatory barriers of entry into the formal economy
 - Limited education and training opportunities
 - Increasing demand for low cost goods and services
 - Migration motivated by economic hardships and poverty

ISSUES OF GENDER

- Women tend to form the majority of workers
- Women and girls tend to form the poorest group of workers in the sector
- They tend to lack opportunities to accumulate start-up capital
- They tend to lack assets that can be used as collateral
- The situation prevents their meaningful participation in the economy

HUMAN RESOURCES

- Low levels of education
- Our emphasis is on the role of training in creating more productive employment, strengthen skills base of informal sector entrepreneurs
- Skills development among participants can help participants move away from subsistence activities and gradually progress towards value add activities
- Other policy instruments are equally important
 - Finance, expanded markets and marketing, BDS

LOCAL ECONOMIC DEVELOPMENT

- In South Africa, new thinking about informal sector and its contribution to local economic development
- New thinking encourages local municipalities to view informal sector as a key service delivery function
- Municipalities need to balance their regulatory function of the informal sector with the need to support livelihoods and employment that reflects the developmental agenda of the State

CONCLUSIONS

- Informal sector is demand driven
- Skills are directly linked to the activities that are undertaken
- The most marginalised and vulnerable groups are often driven by necessity rather opportunity motives to become informal entrepreneurs
- Particular significance in the labour market
- No single policy prescription can be applied in the entire sector

CONCLUSIONS

- Policy instruments can include the development of skills and training, and provision of credit
- The overall aim of these improvements is to transform what are often marginal and survivalist activities into decent forms of work
- Policy proposals have often been geared towards the formalisation of informal jobs
- These policy proposals often fail to recognise that many survivalist economic activities will never become more than what they are and should be recognised for the role that they play in reducing vulnerability of the poor

CONCLUSIONS

- Our knowledge of informal sector still needs to be improved particularly the paucity of empirical studies to enhance evidence base policy development and innovation
- Not enough policy guidance on how local municipalities can create an enabling environment for the development and promotion of informal sector
- Empirical studies can also assist in determining the effects of economic policy instruments on informal sector development and innovation



Thank You

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