



# Labour Markets and Social Policy

## A Review of Labour Markets in South Africa: Low-waged and Informal Employment in South Africa

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# **LOW-WAGED AND INFORMAL EMPLOYMENT IN SOUTH AFRICA**

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## **Review of Labour Markets in South Africa**



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## 1. Introduction

This paper forms one component of a larger project of the Human Sciences Research Council (HSRC) to assess the state of knowledge of the labour market in South Africa, and to identify research gaps. Our paper has two primary objectives: to outline the extent and incidence of low-waged employment in South Africa and to review the literature on informal employment, one important component of low-waged employment. We begin by providing a statistical overview of low-waged employment using the Labour Force Survey of March 2000 and March 2004. Based on these data, we summarise the trends in low-waged employment. In Part two, we focus on informal employment in South Africa, and discuss some of the conceptual and statistical literature and apply it to the South African context. Part three provides trends on informal employment. Part four, using a unique panel drawn from the Labour Force Survey, provides analysis of some of the linkages between informal employment and other labour market statuses, including unemployment. Finally, in Part five, based both on our analysis of low-waged employment and on the review of the informal economy, we offer some suggestions for a research agenda.

The issues of low-waged employment and informal employment are both important considerations for labour market policy in South Africa. One of the key debates about employment in South Africa is the relationship between wages and employment, with the argument often made that the high levels of unemployment in South Africa are a result of rapid increases in wages, particularly of unskilled Black workers (see Fallon and Lucas, 1998; Lewis, 2002). In the last comprehensive overview study of the labour market in South Africa, Standing *et al* (1996) reject this argument and point to the extreme inequalities in wage income and to the high levels of low-waged income in South Africa. Whatever the merits of these arguments may be, it is imperative that any assessment of labour market policy in South Africa takes cognisance of the high levels of low-waged income in labour market.

The South African labour market has not been shielded from rapid growth in informal employment across the globe (see Standing, 1999; Charmes, 2002). As we show below, a large proportion of the workforce is employed in the informal economy. Understanding trends and patterns of informal employment is critical for broader labour market policy for a number of reasons. First, and related to low wages, the increasing informalisation of work has resulted in a segment of the workforce being unable to access the formal institutions that govern the labour market and they do not have access to retirement provisions and medical insurance, which form part of the remuneration package for employees in formal employment. As President Mbeki remarked recently, “casualisation has produced the phenomenon of the working poor... (who) have little say over their wages ... (and) their employers are not required to provide them with medical and retirement benefits (Business Report, 25 July 2005). Second, an understanding of informal economy employment is important for contextualising policy discussions about employment and unemployment. What, for example, is the potential for the unemployed to enter informal employment and then to progress to better paying, more secure formal employment? Or, is the growth in informal employment largely the result of the ‘hollowing out’ of the lower segments of formal employment as firms restructure in response to a more open international trade environment? Is the distinction between formal and informal employment really appropriate for South Africa?



## 2. Part one: Low-waged employment in the South African labour market

We employ two simple benchmarks to assess low-waged employment in South Africa – earnings below R2 500 per month and earning below R1 000 per month. Table 1 below shows the distribution of low-waged workers in South Africa. On this basis, a large proportion of workers employed in South Africa earn low incomes. On the basis of the 2000 LFS, 77.8% of the workers fall under the low-waged category when a R2 500 cut-off point is used. A R1 000 cut off point results in 53% of workers being classified as low-waged. In 2004 there is a slightly more than 10 percentage point decrease in the proportion of low-waged workers for both cut off points. Adopting a more stringent cut off point of earnings of R500 per month to classify low-waged employment still results in a high proportion of workers being classified in the low-waged sector: 38% and 19% for 2000 and 2004 respectively.

**Table 1: Distribution of low-waged workers in South Africa**

	LFS 2000				LFS 2004			
	<=2 500		<=1 000		<=2 500		<=1 000	
	No.	%	No.	%	No.	%	No.	%
Low-waged	8 697 262	77.8	5 958 388	53.3	7 379 357	65.0	4 423 904	39.0
Non-low waged	2 477 033	22.2	5 215 907	46.7	3 978 483	35.0	6 933 936	61.0
Total employed reporting wages	11 174 295	100.0	11 174 295	100.0	11 357 840	100.0	11 357 840	100.0

[Source: Authors' calculations from Stats SA (2001) and Stats SA (2004)]

The data presented in Table 1 may be criticized for not adjusting wages for inflation effects – that the supposed reduction in low-waged employment between 2000 and 2004 is simply an inflation effect. Unfortunately, the LFS data for wages is collected in income bands which are not easily adjusted to allow for comparisons in real wages. Thus, the data for 2000 and 2004 should not be compared – we simply present an indication of the extent of low-waged employment using two benchmarks (earning below R1000 and R2500 per month) and two points in time (2000 and 2004).

However, in order to provide some indication of changes in low-waged employment over the period 2000 and 2004, Table 2 below allows for some admittedly inexact comparisons. The benchmarks, R1 000 and R2 500 per month for 2000, have been adjusted to the closest possible inflation adjusted incomes benchmarks for 2004, respectively R1 500 and R3 500. These data show that between 2000 and 2004 there has been some reduction in low-waged employment in South Africa. It should be stressed, however, that these data are inexact and are shown for illustrative purposes only.

**Table 2: Distribution of low-waged workers in South Africa - adjusted for real incomes**

	LFS 2000				LFS 2004			
	<=2 500		<=1 000		<=3 500		<=1 500	
	No.	%	No.	%	No.	%	No.	%
Low-waged	8 697 262	77.8	5 958 388	53.3	8 218 534	73.4	5 583 331	49.9
Non-low-waged	2 477 033	22.2	5 215 907	46.7	2 972 781	26.6	5 607 984	50.1
Total employed reporting wages	11 174 295	100.0	11 174 295	100.0	11 191 315	100.0	11 191 315	

[Source: Authors' calculations from Stats SA (2001) and Stats SA (2004)]

Using the March 2004 LFS only, Table 3 shows the distribution of wages in the employed workforce. We see a concentration of the workforce in the lower income bands, with 58% of the workforce earning between R200 and R2 500.

**Table 3: Distribution of wages of the employed, LFS March 2004**

		Frequency	Percent	Valid Percent	Cumulative Percent
Income	None	276 543	2.3	2.5	2.5
	R1-200	535 212	4.5	4.8	7.3
	R201-500	1 304 487	10.9	11.7	18.9
	R501-1 000	2 195 499	18.3	19.6	38.5
	R1 001-1 500	1 271 590	10.6	11.4	49.9
	R1 501-2 500	1 661 159	13.9	14.8	64.7
	R2 501-3 500	974 044	8.1	8.7	73.4
	R3 501-4 500	653 423	5.5	5.8	79.3
	R4 501-6 000	747 599	6.2	6.7	86.0
	R6 001-8 000	567 995	4.7	5.1	91.0
	R8 001-11 000	438 614	3.7	3.9	95.0
	R11 001-16 000	291 266	2.4	2.6	97.6
	R16 001-30 000	204 089	1.7	1.8	99.4
	R30 000+	69 795	.6	.6	100.0
	Total	11 191 315	93.4	100.0	
Missing	Don't know	257 788	2.2		
	Refuse	520 514	4.3		
	Unspec.	14 878	.1		
	Total	793 181	6.6		
Total		11 984 496	100.0		

[Source: Authors' calculations from Stats SA (2001) and Stats SA (2004)]





**Table 4: Racial composition of low waged workers**

	LFS 2000				LFS 2004			
	<=2 500		<=1 000		<=2 500		<=1 000	
	No.	%	No.	%	No.	%	No.	%
Black	7 125 579	81.9	5 238 434	87.9	6 150 520	83.3	3 889 645	87.9
Coloured	918 892	10.6	519 487	8.7	880 245	11.9	442 140	10.0
Indian	195 177	2.2	68 493	1.1	111 359	1.5	22 024	.5
White	450 621	5.2	128 153	2.2	234 191	3.2	70 096	1.6
Other	6 992	.1	3 821	.1	2 711	.0		
Unspecified					331	.0		
Total	8 697 261	100.0	5 958 388	100.0	7 379 357	100.0	4 423 905	100.0

[Source: Authors' calculations from Stats SA (2001) and Stats SA (2004)]

Table 4 shows the racial composition of low-waged workforce in the South African labour market. Using a cut off point of R2 500, that data for 2000 shows the racial composition of the low-waged workforce: 82% are Black, 11% are Coloured, 2% are Indian and 5% are White. A lower cut off point of R1 000 results in an increase in the proportion of low-waged workers classified as Blacks and a corresponding decrease for other race groups. For the year 2004, a similar scenario obtains except that the numbers of workers classified as low-waged decreases.

**Table 5: Distribution of low-waged workers within racial groups**

	LFS 2000				LFS 2004			
	<=2 500		<=1 000		<=2 500		<=1 000	
	No.	%	No.	%	No.	%	No.	%
African	7 125 579	89.4	5 238 434	65.8	6 150 520	74.4	3 889 645	47.0
Coloured	918 892	77.2	519 487	43.7	880 245	59.9	442 140	30.1
Indian	195 177	57.1	68 493	20.0	111 359	26.2	22 024	5.2
White	450 621	27.0	128 153	7.7	234 191	11.9	70 096	3.6
Other	6 992	87.9	3 821	48.0	2 711			
Unspecified					331			
Total	8 697 262		5 958 388		7 379 357		4 423 904	

[Source: Authors' calculations from Stats SA (2001) and Stats SA (2004)]

Table 5 tabulates the distribution of low-waged workers within population groups. The highly skewed racial pattern of waged-income is most evident in this table. Based on the 2004 LFS almost half (47%) of Black workers earn an income below R1 000 per month. At the higher cut-off – R2 500 – almost three quarters (74%) of African workers are classified as low-waged workers.

**Table 6: Gender distribution of low-waged workers**

	LFS 2000				LFS 2004			
	<=2 500		<=1 000		<=2 500		<=1 000	
	No.	%	No.	%	No.	%	No.	%
Male	4 345 248	50.0	2 541 130	42.6	3 933 888	53.3	1 975 772	44.7
Female	4 352 014	50.0	3 417 258	57.4	3 445 442	46.7	2 448 133	55.3
Total	8 697 262	100.0	5 958 388	100.0	7 379 330	100.0	4 423 904	100.0

[Source: Authors' calculations from Stats SA (2001) and Stats SA (2004)]

Table 6 shows the gender distribution within low-waged employment. The year 2000 had an equal proportion of males and females earning at most R2 500. At the lower cut-off of R1 000, the proportion of women workers increases, as it does in the more recent period. This trend would be consistent with evidence that women earn lower incomes than men.

**Table 7: Age distribution of low-waged workers**

	LFS 2000				LFS 2004			
	<=2 500		<=1 000		<=2 500		<=1 000	
	No.	%	No.	%	No.	%	No.	%
15-24	1 428 733	16.4	1 099 728	18.5	903 628	12.2	615 430	13.9
25-34	2 545 065	29.3	1 680 254	28.2	2 300 809	31.2	1 308 407	29.6
35-44	2 220 697	25.5	1 395 638	23.4	2 153 221	29.2	1 203 287	27.2
45-54	1 312 093	15.1	862 499	14.5	1 350 461	18.3	821 260	18.6
55-64	730 695	8.4	547 548	9.2	518 801	7.0	352 372	8.0
65+	459 978	5.3	372 722	6.3	152 438	2.1	123 148	2.8
Total	8 697 261	100.0	5 958 389	100.0	7 379 358	100.0	4 423 904	100.0

[Source: Authors' calculations from Stats SA (2001) and Stats SA (2004)]

Table 7 shows the age distribution of low-waged workers. In both periods the majority of low-waged workers are aged between 25 and 34 years, irrespective of the income bracket used. On average, 70% of low-waged workers are below 44 years for both income brackets and years.



**Table 8: Marital status of low-waged workers**

	LFS 2000				LFS 2004			
	<=2 500		<=1 000		<=2 500		<=1 000	
	No.	%	No.	%	No.	%	No.	%
Never married	3 387 857	39.0	2 454 639	41.2	3 030 026	41.1	1 922 587	43.5
Married/live together	4 382 428	50.4	2 778 857	46.6	3 635 359	49.3	1 987 180	44.9
Widow/er	523 859	6.0	437 111	7.3	392 919	5.3	299 647	6.8
Divorced/sep	402 006	4.6	286 670	4.8	319 883	4.3	214 490	4.8
Unspecified	1 111	.0	1 111	.0	1 170	.0		
Total	8 697 261	100.0	5 958 388	100.0	7 379 357	100.0	4 423 904	100.0

[Source: Authors' calculations from Stats SA (2001) and Stats SA (2004)]

Table 8 shows the marital status of low-waged workers. For both years and both cut-off points there is a high proportion of low-waged workers who are either classified as married or living together. The proportion of households with such a marital status ranges from 45% to 51%.

**Table 9: Education levels of low-waged workers**

	LFS 2000				LFS 2004			
	<=2 500		<=1 000		<=2 500		<=1 000	
	No.	%	No.	%	No.	%	No.	%
No education	1 106 919	12.9	973 378	16.5	714 330	9.7	585 368	13.3
Pre matric	5 870 286	68.2	4 212 984	71.4	4 995 424	68.0	3 150 108	71.5
Matric	1 226 067	14.2	579 044	9.8	1 375 982	18.7	573 026	13.0
Tertiary	409 711	4.8	137 012	2.3	255 983	3.5	96 723	2.2
Total	8 612 983	100.0	5 902 418	100.0	7 341 719	100.0	4 405 225	100.0

[Source: Authors' calculations from Stats SA (2001) and Stats SA (2004)]

Table 9 shows the education levels of low-waged workers. Education plays an important role in access to high paid work. Over three-quarters of low-waged workers do not have a matric school-leaving certificate.

**Table 10: Training in skills that can be used for work**

	LFS 2000				LFS 2004			
	<=2 500		<=1 000		<=2 500		<=1 000	
	No.	%	No.	%	No.	%	No.	%
Yes	1 231 626	14.3	595 052	10.1	722 794	9.9	293 857	6.7
No	7 397 973	85.7	5 320 152	89.9	6 612 219	90.1	4 105 150	93.3
Total	8 629 599	100.0	5 915 203	100.0	7 335 013	100.0	4 399 007	100.0

[Source: Authors' calculations from Stats SA (2001) and Stats SA (2004)]

Table 10 shows the number of low-waged worker that have received training in some form of skill that can be used for work. In the year 2000, just 14% of low-waged workers were trained in skills that can be used for work (using the R2 500 cut off point). Though the number of trained workers decreased in 2004, the apparent trend

is that the lower the cut of mark, the fewer the number of people that are trained in work-related skills. Somewhat surprising, as shown in Table 11, the majority of workers in low-waged employment that have received some amount of training have received training over a period of at least six months. This suggests that the training provided is more than just basic skills training.

**Table 11: Length of training in skills**

	LFS 2000				LFS 2004			
	<=2 500		<=1 000		<=2 500		<=1 000	
	No.	%	No.	%	No.	%	No.	%
Less than week	22 761	1.9	9 831	1.7	7 092	1.0	4 457	1.5
1 week	37 100	3.1	17 645	3.1	24 959	3.5	12 906	4.5
>1 week-< 2 weeks	41 991	3.5	26 737	4.6	37 378	5.3	12 323	4.3
2 week-< 1 month	105 033	8.7	59 423	10.3	99 415	14.0	40 120	13.9
1 month-< 2 months	80 431	6.7	41 638	7.2	70 335	9.9	25 701	8.9
2 months-< 6 months	160 174	13.3	89 104	15.5	134 046	18.9	54 793	18.9
6 months +	753 945	62.8	330 890	57.5	336 225	47.4	139 289	48.1
Total	1 201 435	100.0	575 268	100.0	709 450	100.0	289 589	100.0

[Source: Authors' calculations from Stats SA (2001) and Stats SA (2004)]

**Table 12: Ability to read within low-waged workers**

	LFS 2000				LFS 2004			
	<=2 500		<=1 000		<=2 500		<=1 000	
	No.	%	No.	No.	%	%	No.	%
Yes	7 548 179	86.8	4 922 921	82.6	6 426 315	87.1	3 647 713	82.5
No	1 149 082	13.2	1 035 467	17.4	951 412	12.9	776 191	17.5
Total	8 697 261	100.0	5 958 388	100.0	7 377 727	100.0	4 423 904	100.0

[Source: Authors' calculations from Stats SA (2001) and Stats SA (2004)]

Table 12 and Table 13 show the ability to read and write among low-waged workers. Although the percentages are relatively low, up to 17% of workers in low-waged employment do not have basic reading and writing skills.

**Table 13: Ability to write within low-waged workers**

	<=2 500		LFS 2000 <=1 000		<=2 500		LFS 2004 <=1 000	
	No.	%	No.	No.	%	%	No.	%
Yes	7 511 942	86.4	4 898 731	82.2	6 420 414	87.0	3 644 499	82.4
No	1 185 320	13.6	1 059 658	17.8	957 008	13.0	779 405	17.6
Total	8 697 262	100.0	5 958 389	100.0	7 377 422	100.0	4 423 904	100.0

[Source: Authors' calculations from Stats SA (2001) and Stats SA (2004)]

**Table 14: Type of employment, low-waged workers**

	<=2500		LFS 2000 <=1000		<=2500		LFS 2004 <=1000	
	No.	%	No.	%	No.	%	No.	%
Formal	3 626 128	41.7	1 337 982	22.5	3 478 445	47.2	1 143 480	25.9
Comm agric	687 934	7.9	616 826	10.4	849 678	11.5	729 621	16.5
Subsist agric	1 693 863	19.5	1 674 877	28.1	386 195	5.2	376 482	8.5
Informal	1 624 125	18.7	1 341 055	22.5	1 627 103	22.0	1 276 781	28.9
Domestic	962 556	11.1	911 257	15.3	1 003 738	13.6	881 178	19.9
Unspec	72 264	.8	49 887	.8	29 486	0.4	1 1982	0.3
Not ec active	30 392	.3	26 505	.4	4 711	.1	4380	.1
Total	8 697 262	100.0	5 958 389	100.0	7 379 356	100.0	4 423 904	100.0

[Source: Authors' calculations from Stats SA (2001) and Stats SA (2004)]

Table 14 shows how low-waged employment is distributed in the economy. In 2004, based on a cut-off of R1 000 per month, most low-waged workers are in the informal sector, but large numbers of workers in the formal economy also earn below R1 000 per month. 2004. Using the higher cut-off point of R2 500 increases the number of workers in formal employment that may be classified as low-waged. The dominance of formal employment in the South African labour market distorts the concentration of low-waged employment to some extent. Table 15 below shows how low-waged employment is distributed in the main forms of employment in South Africa. Whereas Table 14 shows how the total number of low-waged workers are distributed in the economy (i.e. total low-waged employment = 100%), Table 15 shows the concentration of low-waged employment in each of the main forms of employment (i.e. total formal employment = 100% and 14.6% of formal workers earned below R1000 per month in 2004). We see that low-waged employment is particularly concentrated in subsistence agriculture, domestic work, commercial agriculture and the informal economy. Using a cut-off of R1 000, 14.6% of workers in the formal economy may be classified as low waged in 2004. However, 44.4% of formal workers earn incomes below R2 500 per month.

**Table 15: Low waged employment by type of employment, proportions**

	LFS 2000				LFS 2004			
	No. of workers in economy	<=2500 No. in LW	No. of workers in economy	<=1000 No. in LW	No. of workers in economy	<=2500 No. in LW	No. of workers in economy	<=1000 No. in LW
Formal	6 677 923	3626 128 54.3%	6 677 923	1 337 982 20.0%	7 827 251	3 478 445 44.4%	7 827 251	1 143 480 14.6%
Comm agric	756 984	687 934 90.9%	756 984	616 826 81.5%	929 759	849 678 91.4%	929 759	729 621 78.5%
Subsist agric	1 508 264	1 478 098 98%	1 508 264	1 417 768 94%	337 136	330 393 98.0%	337 136	320 279 95.6%
Informal	1 820 350	1 624 125 89.2%	1 820 350	1 341 055 73.7%	1 833 612	1 627 103 88.7%	1 833 612	1 276 781 69.6%
Domestic	1 001 108	962 556 96.2%	1 001 108	911 257 91.0%	1 013 150	1 003 738 99.1%	1 013 150	881 178 87%
Unspec	115 106	72 264 62.8%	115 106	49 887 43.3%	43 588	29 486 68%	43 588	11 982 27.5%
Unemp	4 333 104		4 333 104		4 611 101		4 611 101	
NEA	10 241 611	303 92 0.3%	10 241 611	26 505 0.3%	13 833 483	4 711 0.03%	13 833 483	4 380 0.03%
Total	26 454 450	8 697 262	26 454 450	5 958 388	30 429 080	7 323 554	30 429 080	4 367 701

[Source: Authors' calculations from Stats SA (2001) and Stats SA (2004)]

Table 16 below shows how low-waged employment is distributed among economic sectors. Using the cut-off of R1000 per month we see that although there is a fairly high degree of low-waged employment in all sectors of the economy low-waged employment is most evident in households (domestic work), agriculture, construction and retailing.

**Table 16: Low-waged employment by economic sector**

Economic Sector	LFS 2000						LFS 2004			
	Total in sector	Less 2 500		Less 1 000		Total in sector	Less 2 500		Less 1 000	
		Number	%	Number	%		Number	%	Number	%
Agriculture	2 536 397	2 309 139	91.0	2 399 233	94.6	1 339 863	1 110 548	82.9	1 240 814	92.6
Mining	475 692	83 862	17.6	342 515	72.0	589 904	22 609	3.8	326 097	55.3
Manufacturing	1 503 791	412 443	27.4	992 883	66.0	1 684 519	379 165	22.5	936 706	55.6
Electricity, gas, water	91 527	16 324	17.8	42 520	46.5	11 0970	7 260	6.5	25 499	23.0
Construction	604 222	256 061	42.4	436 132	72.2	678 909	264 671	39.0	509 938	75.1
Wholesale/retail	2 505 730	1 190 696	47.5	1 820 749	72.7	2 489 676	1 089 509	43.8	1 785 756	71.7
Transport	550 741	126 677	23.0	303 522	55.1	604 542	85 936	14.2	257 407	42.6
Financial	853 537	118 858	13.9	352 600	41.3	1 115 713	125 246	11.2	431 582	38.7
Community ser.	1 946 478	328 971	16.9	804 257	41.3	2 297 676	289 371	12.6	673 165	29.3
Private households	1 221 102	1 082 390	88.6	1 152 845	94.4	1 210 346	1 052 261	86.9	1 188 378	98.2
Ext org/foreign	4 545			1 818	40	5 980	582	9.7	2 892	48.4

[Source: Authors' calculations from Stats SA (2001) and Stats SA (2004)]



Table 17 shows the distribution of low-waged employment by occupations. As it to be expected, low-waged employment is a feature of particular occupations – mainly domestic work, farm work and elementary occupations.

**Table 17: Low-waged employment by occupations**

Occupation	LFS 2000					LFS 2004				
	Total in occ.	Less 1 000		Less 2 500		Total in occ.	Less 1 000		Less 2 500	
		Number	%	Number	%		Number	%	Number	%
Management	652 883	68 284	10.5	163 674	25.1	854 060	47 903	5.6	114 552	13.4
Professionals	451 142	15 202	3.4	53 833	11.9	549 197	11 350	2.1	31 086	5.7
Technical	1 075 211	120 323	11.2	359 897	33.5	1 196 526	102 407	8.6	248 360	20.8
Clerks	1 061 895	156 713	14.8	485 743	45.7	1 243 450	149 212	12.0	435 002	35.0
Service and shop workers	1 381 317	583 834	42.3	946 610	68.5	1 423 499	456 659	32.1	922 919	64.8
Skilled agriculture/fishery	1 898 871	1 755 337	92.4	1 819 068	95.8	366 828	301 575	82.2	321 889	87.7
Craft & related occupations	1 461 991	550 798	37.7	1 049 901	71.8	1 478 906	439 230	29.7	964 732	65.2
Plant & machine operators	1 160 261	345 653	29.8	904 711	78.0	1 228 550	284 614	23.2	852 278	69.4
Elementary Occupations	2 161 677	1 422 302	65.8	1 912 929	88.5	2 774 158	1 754 959	63.3	2 484 982	89.6
Domestic workers	1 022 240	911 257	89.1	962 556	94.2	1 022 174	881 537	86.2	1 004 097	98.2
Total	12 327 488	5 929 703		8 658 922		12 137 348	4 429 446		7 379 897	

[Source: Authors' calculations from Stats SA (2001) and Stats SA (2004)]

Table 18 below shows the form of employment for low-waged workers. Using R1 000 as the cut-off to classify low-waged work, the data shows that although most low-waged workers have permanent employment relationships, a significant number are employed in temporary and casual.

**Table 18: Low-waged workers, type of employment**

	LFS 2000				LFS 2004			
	<=2 500		<=1 000		<=2 500		<=1 000	
	No.	%	No.	%	No.	%	No.	%
Permanent	4 074 358	70.8	1 969 765	60.1	3 711 559	63.3	1 622 406	50.7
Fixed period contract	1835 82	3.2	105 107	3.2	265 108	4.5	114 480	3.6
Temporary	898 901	15.6	712 834	21.7	1 175 409	20.0	913 790	28.6
Casual	512 978	8.9	408 762	12.5	609 799	10.4	459 479	14.4
Seasonal	87 298	1.5	85 130	2.69	105 031	1.8	90 071	2.8
Total	5 757 117	100.0	3 281 598	100.0	5 866 906	100.0	3 200 226	100.0

[Source: Authors' calculations from Stats SA (2001) and Stats SA (2004)]

**Table 19: Low-waged workers, membership of trade unions**

	LFS 2000				LFS 2004			
	<=2 500		<=1 000		<=2 500		<=1 000	
	No.	%	No.	%	No.	%	No.	%
Yes	1 525 097	27.5	410 168	12.7	1 104 547	18.9	219 205	6.8
No	4 013 528	72.5	2 824 973	87.3	4 733 027	81.1	2 982 893	93.2
Total	5 538 625	100.0	3 235 141	100.0	5 837 574	100.0	3 202 098	100.0

[Source: Authors' calculations from Stats SA (2001) and Stats SA (2004)]

Table 19 above shows trade union membership among the low-waged. Only a small proportion of those earning below R1 000 per month have trade union membership, and access to trade union services. At the higher level of R2 500, just under one-fifth of workers belong to trade unions. Table 20 elaborates on this, showing more detailed data on income and trade union membership. Trade union membership is associated with higher income brackets for both periods. There is less than 10% of workers earning R500 or less who are members of a trade union. The implication is that the higher the income, the higher the likelihood that a worker is a trade union member.

**Table 20: Trade union membership, by income**

Income category	LFS 2000			LFS 2004		
	Yes	No	Total	Yes	No	Total
None	0 .0%	3 211 .1%	3 211 .1%	0 .0%	11 507 .2%	11 507 .2%
R1-R200	38 602 2.5%	568 121 14.2%	606 723 11.0%	8 765 .8%	276 834 5.8%	285 599 4.9%
R201-R500	77 300 5.1%	1 148 279 28.6%	1 225 579 22.1%	41 801 3.8%	952 009 20.1%	993 810 17.0%
R501-R1 000	294 265 19.3%	1 105 361 27.5%	1 399 626 25.3%	168 639 15.3%	1 742 542 36.8%	1 911 181 32.7%
R1 001-R1 500	467 530 30.7%	596 826 14.9%	1 064 356 19.2%	234 477 21.2%	907 219 19.2%	1 141 696 19.6%
R1 501-R2 500	647 399 42.4%	591 729 14.7%	1 239 128 22.4%	650 865 58.9%	842 915 17.8%	1 493 780 25.6%
Total	1 525 096 100.0%	4 013 527 100.0%	5 538 623 100.0%	1 104 547 100.0%	4 733 026 100.0%	5 837 573 100.0%

[Source: Authors' calculations from Stats SA (2001) and Stats SA (2004)]

Table 21 below shows low-waged work by the type of employer. The data shows that low-waged work occurs primarily in the private sector. Very small numbers of workers in the government and NGO sector are paid low wages.



**Table 21: Type of businesses employing low-waged workers**

	LFS 2000				LFS 2004			
	<=2 500		<=1 000		<=2 500		<=1 000	
	No.	%	No.	%	No.	%	No.	%
Central govt	6 0281	1.0	11 990	0.4	39 277	0.7	8 459	0.2
Prov govt	373 201	6.5	93 293	2.8	200 156	3.3	55 400	1.3
Loc govt	158 751	2.7	53 988	1.6	115 468	1.9	42 187	1.0
Govt enterprise	155 190	2.7	40 129	1.2	65 105	1.1	16 459	0.4
Non-profit org	85 925	1.5	48 505	1.5	61 056	1.0	35 182	0.8
Co-op/self-help							28 358	0.6
Priv bus/self-emp	4 940 069	85.6	3 078 787	92.5	5 514 158	92.0	3 165 114	71.6
Self-empol					1 320 191		1 071 379	24.2
Total	5 773 417	100.0	3 326 692	100.0	7 376 746	100.0	4 422 538	100.0

[Source: Authors' calculations from Stats SA (2001) and Stats SA (2004)]

Our statistical overview, presented over Tables 1-20, suggests that low-waged employment is extensive. Using a conservative cut-off point at R1 000 per month, some 39% of the workforce may be classified as low waged. Given the history of industrial development in South Africa, and the high levels of inequality in the society, this incidence of low waged work is hardly surprising. As is to be expected, low waged employment occurs mainly among African workers, and it occurs mainly in specific sections of the economy: in domestic work, in farm work and in the informal economy. Low waged workers tend to be less skilled, have more precarious employment and do not, by and large, belong to trade unions.

### **3. Part two: The informal economy: conceptual issues and definitions**

Although the notion of the informal economy has only recently been conceptualised and seriously studied in South Africa, informal and flexible forms of labour are a historical feature of the South African labour market. A key characteristic of the apartheid system and the racial pattern of South Africa's industrialisation, was the flexible system of contract labour and migrant labour (see, among others, Hindson, 1987; Legassick, 1974; Wolpe, 1972). Related to the flexibility were high levels of unrecorded informal economy activities, particularly in African areas. Indeed, several micro-level studies conducted in the early 1980s suggested that extremely high levels of informal economy activity were taking place (see, for example, Cross & Preston-Whyte, 1983; Webster, 1984 on informal activity in Soweto; Wellings & Sutcliffe, 1984 on informal activity in Durban).

Whilst the apartheid system forced many black South Africans to earn their livelihoods in the informal economy by restricting their access to the formal economy, the apartheid state also actively constrained millions of South Africans in their attempts to make a productive living through informal economy activities. Standing, Sender and Weeks (1996: 86-87) list all the apartheid legislation that restricted the economic activities of African, coloured and Indian South Africans. The Black Urban Areas Consolidation Act (Act 25 of 1945) and the Group Areas Act (Act 36 of 1966) restricted the right of these black entrepreneurs to establish and operate businesses. Apartheid legalisation limited the range of goods that could be sold, blocked the formation of companies by blacks, and set up an array of bureaucratic processes that discouraged the registration of small-scale economic activity. The impact of repressive legislation on the development of black informal economy activities cannot be underestimated. For example, Davies (1987) conducted extensive surveys to investigate the major obstacles confronting black entrepreneurs in Port Elizabeth. He found that bureaucratic and political controls were 'without doubt, ... the single most important factor that has limited black entrepreneurial growth and development' (Davies 1987: 40). The findings were reiterated in similar studies of black microenterprises undertaken during the 1980s in Soweto, Port Elizabeth and Durban (Rogerson 1996: 20). The restrictive environment in which these businesses had to operate forced to be largely of a survivalist nature. Although the legislation was relaxed in the late 1980s and early 1990s, apartheid history has impacted on the nature of informal activity taking place today. Within the retail sector Lund (1998) points out how many commentators have noted the lack of diversity in South Africa trading in comparison to other African countries. Particularly striking in a comparative African context is the extent to which informal manufacturing activities in South Africa are underdeveloped. In their study of home-based work conducted in the early 1990s, Manning and Mashigo (1994: 31) note that where manufacturing did occur, discrimination against blacks resulted in African-owned microenterprises being located in those segments of the manufacturing sectors that were of lowest value, poorest in quality and least lucrative.

With the heightened political activity of the 1980s and the onset of reform, there was renewed interest in the informal sector, with much of the popular writing celebrating the energy of the informal sector (the emergence of the minibus industry, for example), and the emergence of new black entrepreneurship and economic

opportunity. Preston-Whyte and Rogerson's (1991) volume on the informal economy marked the first sober assessment of the emerging informal sector, with rich case studies documenting informal activity in a range of industries, and raising some of the important policy issues at the time.

The onset of the political transition and the necessity to develop industrial and labour market policy for post apartheid South Africa led to some analyses of the possibilities to expand employment in the informal economy. This issue was taken up by the Industrial Strategy Project (Joffe, *et al*, 1995 and Manning & Mashigo, 1994). Much of this later focus was linked to policy on small business development and was quite influential in the Department of Trade and Industry's White Paper on Small Business Development. The government White Paper (WP) on the SMME sector distinguishes four categories of SMMEs; medium enterprises (assets of about R5-million), small enterprises (employ between five and 50), micro-enterprises (involving owner, some family members and one or two employees) and survivalist enterprises, which comprises the bulk of the informal economy in South Africa. The WP recommends that different support strategies are required for each category of the SMME sector. Yet, whilst outlining concrete proposals for the small, medium and micro categories, the WP is mute on support strategies for the survivalist category, which is really our area of interest. Budlender *et al* (2004) argue that whilst the government's WP on small business recognises that the survivalist sector has the largest concentration of women and lists as one of its key objectives to 'support the advancement of women in all business sectors', the DTI offers very little, if any, support to those operating in the survivalist segment of the informal economy. Lund (1998: 11) argues that 'it would seem that the SMME policy...has little relevance for the survivalist sector – in particular for women street traders and home-based workers. What is seen by policy-makers as a micro-enterprise is not micro enough. And though the government espouses policy support for the development of micro-enterprise, little in the way of material support has been allocated so far'.

As in other contexts, the literature in South Africa has been concerned with issues of definition. Despite Peattie's (1987) critique of the term 'informal sector' as an 'utterly fuzzy' concept and her suggestion that those interested in policy and analysis of this phenomenon should start by abandoning the concept, the concept continues to be used, in all countries including South Africa. Since Keith Hart (1973) first coined the phrase 'informal sector' in the early 1970s to describe the range of subsistence activities of the urban poor, there has been considerable debate about what exactly the term refers to. The most quoted definition is that contained in the International Labour Organisations Kenya Report (1972: 6) in which informal activities are defined as 'a way of doing things', characterised by 'ease of entry; reliance of indigenous resources; family ownership of enterprises; small scale of operation; labour intensive and adapted technology; skill acquired outside of the formal school system and unregulated and competitive markets'.

For our purposes, two important points are worth noting. First the term informal sector disguises a significant degree of heterogeneity. Informal activities encompass different types of economic activity (trading, collecting, providing a service and manufacturing), different employment relations (the self employed, paid and unpaid workers and disguised wage workers) and activities with different economic potential (survivalist activities and successful small enterprises). A second and related problem is the distinction between the formal and informal 'sectors' as if there was a clear line dividing the two. Closer analysis of this phenomenon demonstrates that they are integrally linked. With the exception of illegal activities there are few examples of informal operators who are not linked (either through supply or customer networks)

into the formal economy. As Peattie (1987: 858) points out, 'if we think about the world in terms of a formal and informal sector we will be glossing over the linkages which are critical for a working policy and which constitute the most difficult elements politically in policy development.'

Using the term informal 'economy' rather than informal 'sector' partially addresses such concerns. The term economy implies a greater range of activities than sector. If both formal and informal activities are seen as part of the economy we are better able to see the linkages between the two. Implied in the notion 'in'formal is that there is a formal, a norm, against which these other activities can be compared. As with any norm this will be time and context specific. With respect to labour market Eapen (2001:2390) points out how some analysts (e.g. Papola, 1980; Banerjee 1985) defined informality in terms of the absence of characteristics that belong to 'formal' activities like security/regularity of work, better earnings, existence of non wage and long term benefits, protective legislation and union protection. She goes on to point out that in a situation in which a number of activities within the formal sector are getting 'informalised' and private, small scale processing / manufacturing enterprises are growing 'the borderline becomes blurred'. Considering this issue from another angle, Bromley (1995: 146) asks 'if an enterprise is required to have six official permits, for example, but only has five, should it be considered informal even when the sixth derives from a moribund regulation that most entrepreneurs ignore?' She goes on to conclude 'formality and informality are really the opposite poles of a continuum with many intermediate and mixed cases' (Bromley, 1995: 146).

For statistical purposes, the accepted international standard for defining the informal sector was agreed in a resolution at the 15<sup>th</sup> International Conference for Labour Statistics (ICLS). An important criterion of the ICLS definition is that employment in the informal economy is based on the characteristics of the *enterprise* in which the person is employed instead of the characteristics of the worker employed. The ICLS definition recommends that informal sector enterprises be defined in terms of one or more of the following criteria:

- Non-registration of the enterprise in terms of national legislation such as taxation or other commercial legislation.
- Non-registration of employees of the enterprise in terms of labour legislation.
- Small size of the enterprise in terms of the numbers of people employed

Statistics South Africa uses this employment based definition in order to derive estimates of informal employment in South Africa. The ILO (2002) and the 17<sup>th</sup> ICLS have recently proposed a definition of the informal economy which is based on the employment characteristics of the worker. The 2002 International Labour Conference proposes the following definition: The informal economy comprises informal employment (without secure contracts, worker benefits or social protection) of two kinds. The first is informal employment in informal enterprises (small unregistered or unincorporated enterprises) including employers, employees, own account operators and unpaid family workers in informal enterprises. The second is informal employment outside informal enterprises (for formal enterprises, for households or with no fixed employer), including: domestic workers, casual or day labourers, temporary or part-time workers, industrial outworkers (including home based workers) and unregistered or undeclared workers.



The difference between these definitions is captured in Table 22 below. The enterprise based definition, currently used by SSA is made up of cells 3 and 4 with the enterprise being the unit of analysis. In contrast, the new employment based definition, now recommended by both the ILO and the International Conference of Labour Statistics, examines the nature of the work being performed and defines the informal economy as being made up of cells 2 and 4 – i.e. that informal employment includes workers employed in the formal enterprises but not having the traditional employment benefits that are attached to formal jobs (cell 2), and it excludes workers employed in informal enterprises who do enjoy such benefits (cell 3). An issue that arises and which we seek to address in this section is whether the employment based definition would be more appropriate to capture the informal economy in South Africa. Devey et al (2005) have argued that the employment based definition would be more appropriate for South Africa.

**Table 22: Formal and informal employment – definitional differences**

Production units	Types of jobs	
	Formal employment	Informal employment
Formal enterprises	1	2
Informal enterprises	3	4

*Key: Formal employment=1; Enterprise based definition of the informal sector= 3+4;*

*Informal employment i.e. employment based definition= 2+4*

An important policy issue in the South African context that has received the attention of scholars is the size of the informal economy.

## 4. Part three: Trends in the informal economy in South Africa

Internationally, there is a growth in the numbers of people working in the informal economy, either self employed in unregistered enterprises or as wage workers in unprotected jobs. A recent collation of international statistics on the informal economy states: 'Informal employment comprises one half to three quarters of non agricultural employment in developing countries' (ILO, 2002 :7). Table 23 below lists the percentages in regions.

**Table 23: Informal employment as a proportion of non-agricultural employment**

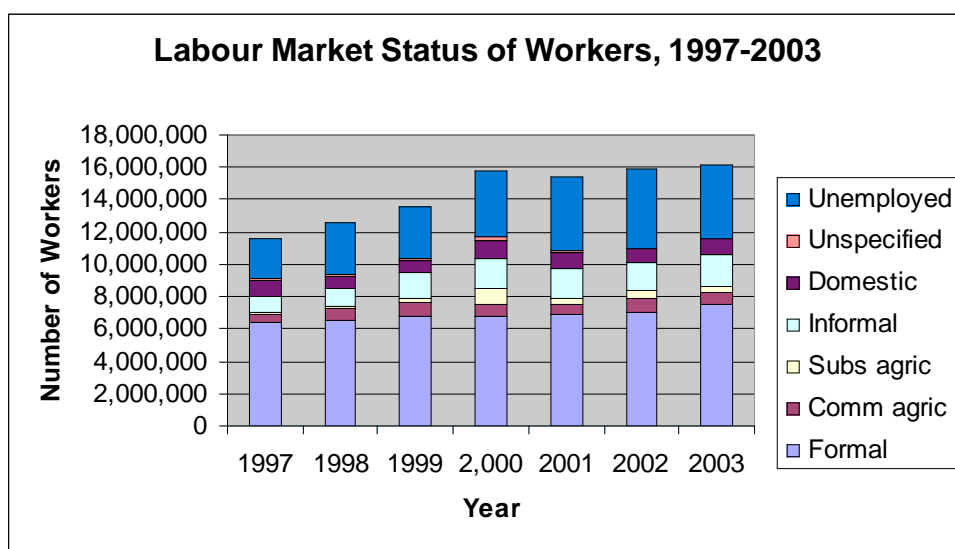
Region	Percentage
North Africa	48
Sub-Saharan Africa	72
Latin America	51
Asia	65

[Source: Adapted from ILO, 2002: 7]

It is thus clear that in many parts of the world informal employment is the norm. Further Chen (2001: 72) cites that 83% and 93% of new jobs were created in the informal economy in Latin America and Africa respectively. This indicates that the trend of informalisation is unlikely to be reversed. Informal employment however is not only a developing country phenomenon. The ILO (2002: 7) states that three categories of non standard or atypical work – self employment, part time work and temporary work – comprising 30% of overall employment in 15 European countries and 25% of total employment in the United States.

Figure 1 below shows broad trends in the labour market in South Africa over the period 1997 to 2003. As Altman (2005) shows that formal sector employment has been growing consistently since 1997, albeit at relatively low rates of growth. We see a sustained growth in unemployment. One segment of the economy which seems to have generated employment is the informal economy<sup>1</sup>. In this sector, employment increased from 965 000 in October 1997 to 1.9-million in September 2003, more than doubling over a period of 6 years. For a number of reasons, this trend must, however, be treated with some caution. First, we are using data from the October Household Survey for the period 1997-1999 and the Labour Force Survey for the period 2000-2003, two separate surveys which are not directly comparable. Second, Devey et al (2004) point to two serious problems with these estimates of informal employment. They highlight the fact that there are several inconsistencies in the data on informal employment. More importantly, they show that Statistics South Africa has improved its capturing of informal employment so that at least part of the increasing trend in informal employment is simply better capture of the phenomenon. Notwithstanding these difficulties it is now widely accepted that informal employment has grown since the political transition and that, as the data shows, this growth has declined in recent years.

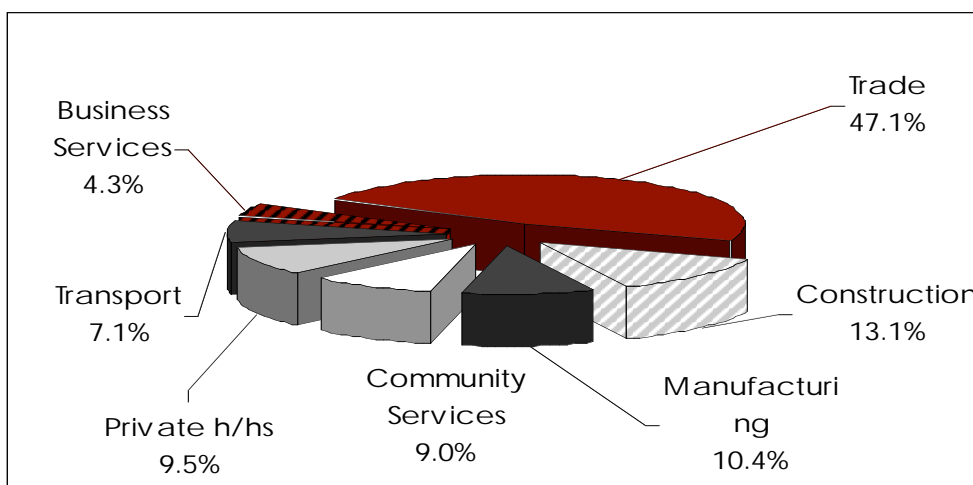
Figure 1: Labour market status of workers in South Africa, 1997-2003



[Source: Own calculations from October Household Survey and Labour Force Surveys]

Drawing on the latest available figures – March 2004 LFS – Figure 2 shows the distribution of informal workers by industrial sector. From this it is clear that informal employment in South Africa is concentrated in trade, with just under half of all informal workers located in this sector. Further, there are significant numbers of people working in construction, manufacturing and services. In comparison to other developing contexts South Africa’s informal economy is disproportionately dominated by trade (see for example Charmes 2000 figures for other African countries).

Figure 2: Informal economy by sector, March 2004

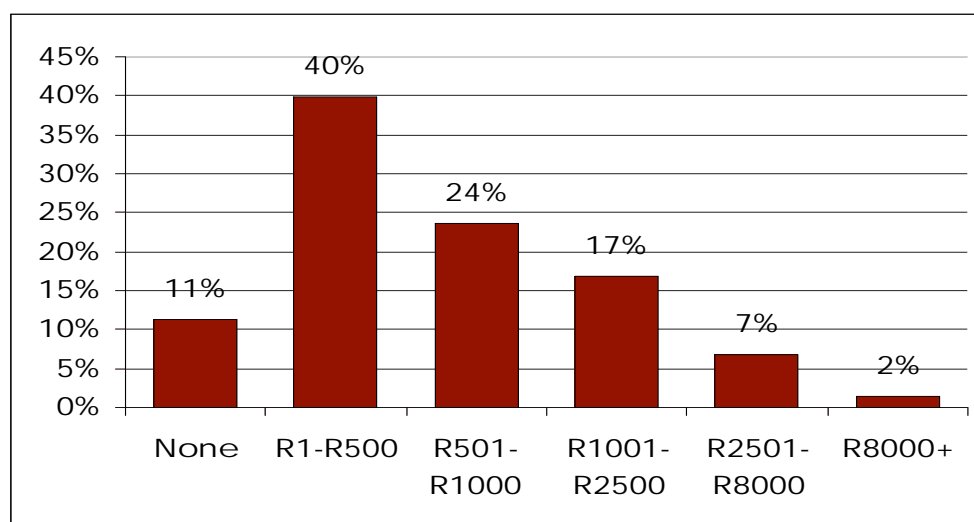


[Source: Own calculation from LFS (March 2004)]

Figure 3 below is a graphical representation of the monthly incomes in the informal economy. It is clear from the figure that 51% of those working in the informal economy earn R500 or less (with a significant number of people reporting earning nothing) and that 92% earn less than R2 501. This suggests a correlation between

being poor and working in the informal economy. This relationship is confirmed in previous analyses using LFS data (see, for example, Meth, 2002).

**Figure 3: Incomes in the informal economy, March 2004**



[Source: own calculation from LFS (March 2004)]

Table 24 below contains summary statistics about the sex and race of those working in the formal sector, the informal sector and domestic work. As is the case internationally<sup>iii</sup>, there is a gender dimension to the informal economy in South Africa. It is clear from the table that although more men than women work in the informal economy, the difference is less than is the case for the formal economy. It is also clear that the overwhelming majority of domestic workers are women. Within the informal economy smaller scale surveys and qualitative research indicates that women tend to be over represented in the less lucrative tasks (see, for example, Lund, 1998 gendered re-analysis and synthesis of research on street trading). Finally, with respect to race, the majority of those working in the informal economy are black.

**Table 24: Formal, informal economies and domestic work by sex and race**

	Formal sector	Informal sector	Domestic	% of total population
Male	61.9%	57.9%	3.8%	52.3%
Female	38.1%	42.1%	96.2%	47.6%
Black	60.1%	89.3%	89.7%	79.7%
Coloured	14.3%	4.8%	10.2%	8.9%
Indian	4.6%	1.2%	0.0%	2.4%
White	20.9%	4.7%	0.0%	8.9%

[Source: own calculation from LFS (March 2004)]

It is thus clear that a large number of South Africans work in the informal economy and that this component of employment is increasing. The South African informal economy is disproportionately dominated by the retail and wholesale trade. Further



there is a close correlation between being poor and working in the informal economy. Finally there is a gender and race dimension to informal work.

One interesting issue that has received some attention in the literature is why, in contrast to other developing country examples, has South Africa's informal economy remained so small, in spite of the extremely high levels of unemployment. Kingdon and Knight (2001) show that the unemployed are significantly worse off than those operating in the informal economy and argue that the informal economy in South Africa has high barriers to entry – some related to the historical racial impediments to Blacks entering the informal economy but, Kingdon and Knight argue, labour market legislation and access to credit may be significant barriers to growth in informal employment. A more plausible argument, however, may be that given large firms dominance of the South African economy, smaller economic agents, including informal workers, lack access to markets. There is some evidence to support this contention. Altman's (1988) study of the clothing industry shows that the market is dominated by large firms who are unwilling to subcontracted production, and that smaller firms are unable to supply to required quality standards. Similar evidence, in other manufacturing industries, is provided in the report of the Industrial Strategy Project (Joffe *et al*, 1995). Furthermore, where informal workers are able to easily enter markets, such as in street trading, these activities tend to be highly overtraded and incomes are exceptionally low (see Skinner, 1999 and Skinner, 2005).

Lund (1998) provides an excellent overview of South African research on street trading, by far the most prominent and extensive form of informal activity. She shows that there has been a large number of repetitious studies, almost all based on small samples, exploring the extent of street vending, and reporting on the lives of these workers. From this, she argues, we get a "limited sense of the dynamics of peoples lives" (1998:40). Building on this overview, Francie Lund and Caroline Skinner explore two central issues of relevance to street trading. First, in Lund and Skinner (1999) they explore the vexed issue of representation of informal economy workers. They show that a number of organisations that claim to represent the interests of informal workers lack adequate records of membership and offer very little services to informal workers. More often than not, these organisations emerge as some contentious issue boils over and then, as the issue dissipates, the organisations quickly disappear. Skinner (1999) explores the issue of local government regulations and policy toward the informal trading. In a five city study, she shows that South African cities differ fundamentally in their approach to local policy for the informal economy.

## 5. Part four: Linkages between the formal and informal economy

A critical consideration for policy purposes is the contribution that the informal economy makes to national output. An argument that the Presidency and the ANC make, in their recent documents about the ‘Second Economy’ is that it contributes ‘little to GDP’. In fact, the informal economy contributes a somewhere between seven and twelve percent of GDP. In its estimates of GDP in South Africa, the South African Reserve Bank uses expenditure surveys of households to estimate the contribution of the informal economy which it captures via its estimates of private consumption expenditure of households. On this basis, the informal economy contributes some 7% of GDP. Using an alternative methodology, Budlender, Buwembo, Chobokoane, and Shabalala (2001) estimate that the informal economy contributes between 8% to 12% of gross domestic product.

A particular problem in policy terms for those working in the informal economy, is the idea of the second economy being ‘structurally disconnected from the first’. Case material evidence indicates that there are multiple forward and backward linkages between formal and informal activities. Consider, for example, Ince’s (2003) work on informal clothing manufacturing in a residential area in Durban. Not only do manufacturers source their inputs in the formal economy, but the garments often end up in formal retail stores. Witt’s (2000) work on informal fruit and vegetable distribution demonstrates multiple linkages. It is these linkages which, in policy terms, are often the most interesting places to be concentrating on. Finally, the idea of the ‘second economy’ homogenises a heterogeneous set of activities.

The panel component of the Labour Force Survey allows us to explore dynamics in the labour market. The sampling design of the LFS, which is conducted in bi-annually in March and September allows for 80% of the sampling in each wave to remain in the sample. Thus, households remain in the sample over 5 waves of the LFS. In another paper, we (Devey *et al*, 2005) we explore these dynamics beginning in September 2001 for five waves of the LFS ending in March 2004. Matching the individuals in these households over the period, we’re able to get some indication of the extent to which workers move between employment and unemployment, and when employed between different segments of the economy, such as formal and informal<sup>iii</sup>. In total, we’re able to match 5 587 individuals over the period.

Table 25 gives a broad overview of how the status of these workers changed over the period. The data shows that there is a surprising level of churning within the labour market, with more than half of the workers status having changed at least once over the period September 2001 to March 2004. As is to be expected, for those workers whose status remained unchanged, most tended to be employed in the formal sector, or remained economically inactive. Only 1.3% of the 5 587 workers that remained in the panel continued to work in the informal economy over the period under consideration.



**Table 25: Labour market status, Sept. 2001 to March 2004, n=5 587**

Type of Worker	Frequency	Percent
Remained in the formal economy	1 175	21.0
Remained economic inactive	1 077	19.3
Remained in commercial agric.	99	1.8
Remained as a domestic worker	89	1.6
Remained unemployed	74	1.3
Remained as informal worker	71	1.3
Worker status changed	3 002	53.7
	5 587	100.0

(Source: Authors' calculations from various LFSs)

In Table 26 below we remove from the panel all workers who did not engage in informal economy activities over the period i.e. we retain only workers who have been engaged in informal economy activities for at least one period. This reduces the number of workers from 5 587 to 1 009. Again, we see a surprising level of churning, with only 7% of workers remaining as informal workers over the entire period.

**Table 26: Labour market status of informal economy workers, Sept. 2001 to March 2004, n=1 009**

Type of Worker	Frequency	Percent
Informal for 5 periods	71	7.0
Informal for 4 periods	88	8.7
Informal for 3 period	106	10.5
Informal for 2 periods	202	20.0
Informal for 1 period	542	53.7
	1 009	100.0

(Source: Authors' calculations from various LFSs)

Table 27 shows the movement of workers employed in the informal economy in any one period over the panel. As expected, a large number of workers moved between the informal economy and being unemployed or economically inactive. A significant proportion of workers (18.3%) moved between formal and informal employment.

**Table 27: Shifts between informal work and other labour market status**

Type of change	Frequency	Percent
Informal and unemployed and not economically active	191	18.9
Informal and not economically active	190	18.8
Informal and formal	185	18.3
Informal, formal and unemployed	77	7.6
Informal, formal and not economically active	73	7.2
Remained in informal	71	7.0
Informal and unemployed	60	5.9
Informal, formal, unemployed and not economically active	44	4.4
Other	118	11.7
	1 009	100.0

[Source: Authors' calculations from various LFSs]

If we reduce the period under consideration to just active six months, from September 2004 to March 2004, i.e. over a six-month period, we still find fairly high levels of churning in the labour market. Of individuals recorded as informal workers in September 2003, in March 2004, 44.5% reported working in informal economy, 17.3% reported working in formal economy, 11.4% reported being unemployed and 23.7% reported being not economically. Of individuals recorded as formal workers in September 2003, in March 2004, 3.4% reported working in the informal economy.

These linkages between employment in the formal and informal economy are corroborated by other studies. Devey et al (2004) show that many workers classified as formal workers have employment characteristics that are consistent with informal work. There is also significant evidence, from micro-level studies which highlight the growing informalisation of previously formal work. Kenny (2000: 3) in her analysis of the retail sector, not only demonstrates that casual and subcontracted labour constitutes up to 65% of total employment, but highlights how core tasks like shelf packing are increasingly now done by employees of labour brokers, contracted by suppliers. Skinner and Valodia (2001) analysis of the Confederation of Employers South Africa (COFESA), a labour consultancy that assists companies to restructure their workforces, to change employees to contractors and to outsource production to them. COFESA firms no longer have to adhere to collective agreements on minimum wages or contribute to any of the benefit or training schemes. In the work place, other than changes in labour conditions, everything else remains the same. Skinner and Valodia demonstrate how by the end of 2000 they estimated that this had resulted in the establishment of over 700 000 independent contractors.

COFESA members are involved in many different sectors: food, farming, transport, construction, engineering and particularly in footwear and clothing manufacturing. The legislative loophole in the Labour Relations Act that COFESA was using has recently been changed. It is unclear whether the processes COFESA set in place have been reversed. Theron and Godfrey's (2000) more qualitative study in which interviews were conducted with key informants in retail, mining, manufacturing (food, clothing, metal and engineering) catering and accommodation, construction and transport. Almost all informants reported an increase in the use of labour brokers and employment agencies (2000: 27). There are also signs of an increase in the use of labour brokers in agriculture (see for example Du Toit & Ally, 2001, on Western Cape horticulture.)

Another way to think about linkages between formal and informal work is to examine how workers from the same household engage in work in the formal and informal economy. Using the March 2004 LFS, Devey *et al*, 2005 explore this issue. In the survey, only 2% of households (about ¼ million) contained ONE formal and ONE informal worker. When the formal worker was a manager (n=9 776), 30% of the cohabiting informal workers were professionals and 39% were in technical occupations. When the formal worker reported an elementary occupation (n=66 446), of the cohabiting informal workers, 44% elementary occupations; 14% craft workers; 11% service; 11% clerks; < 6% technical; and 2.5 managers. These trends are not surprising, given the class structure of households in South Africa, but the data do indicate that there are in fact close linkages between work in the formal economy and work in the informal economy.

Another important aspect of the informal economy with respect to labour is the role of foreigners, particularly from other African countries. There are no reliable statistics on the number of foreigners living and working in South Africa. It is likely, however,

that since the political transition numbers have substantially increased. In the street trading sector this has become an increasing controversial issue (see Skinner and Hunter, 2001). Research on international migrants in South Africa demonstrates that they are very active in the informal economy. Studies have been conducted on specific groups of immigrants (see Gema, 2001; Geyevu, 1997 and Sabet-Shargi, 1999) on the economic activities of Ethiopian, Ghanaian and Congolese refugees respectively). Vawda (1999) reflects on the survival strategies of different groups of migrants living in the Durban area. Peberdy and Crush (1998) highlight the contribution of cross border traders to the craft industry. Rogerson (1997) and Peberdy and Rogerson (2001) demonstrate the important role foreigners play in the creation of small businesses. A key theme that emerges in this literature is that, although foreign migrants are entering the informal economy in large numbers they tend to remain marginalized and unable to access state resources to enable progression and growth in their enterprises.

Since the mid-1980s there has been a global trend of decentralisation, with local and regional authorities having increasing decision-making power. Although this was initially a response from the international institutions to address corruption, it has now taken on a momentum of its own. Further, Portes and Castells (1989: 304) argue that local government is often more effective in responding to the informal economy because it is not embroiled in the types of policy debates which often paralyse national level initiatives. Portes and Castells make reference to Emilia Romagna in Italy, Miami and Hong Kong in demonstrating the role of local level initiatives in supporting segments of the informal economy with growth potential.

In South Africa, since the political transition, local government has been given significantly more autonomy. Not only is local government constitutionally committed to promoting economic development but, because of the gap in national government policies identified in section 3.2, increasingly local government is finding itself having to take responsibility for managing and supporting the informal economy. The experience in South Africa is mixed. Certain cities are embarking on a privatisation drive. This often has negative consequences for those in the informal economy (see, for example, Skinner, 2000, on the consequences of privatising street trader management in Johannesburg). There are a number of more innovative responses that warrant mention. First, in 2001 the Durban Unicity adopted an informal economy policy that outlines a series of support measures for all informal economy workers. According to the policy document (Durban Unicity, 2001) organisations representing the informal economy will be strengthened with a view to establishing a strong stable negotiating relationship between local government and informal economy workers. This builds on the experience of a particularly innovative urban regeneration project in the main transport hub in the inner city – the Warwick Junction. Second, the Johannesburg city council's establishment of a fashion district in the inner city has significantly assisted small clothing manufacturers operating there. The project not only offers skills training, but links manufacturers to markets and fashion designers.

Skinner's (2005) survey of informal enterprises in the Durban is one of the few studies available that has a large enough set of data for understanding the business operations of informal enterprises. Her study shows that there is in fact extensive entry into and exit from the informal economy, with most enterprises being established in recently. She shows that most enterprises, particularly those of informal traders, operate in heavily overtraded markets where margins are very low.

## **6. Part five: Research agendas**

This paper has concentrated on one important aspect of low-waged employment in South Africa – the informal economy. As highlighted in the earlier discussion, two other sectors of the economy, domestic work and agriculture, have a high incidence of low-waged employment. We have not reviewed developments in these sectors. This is an obvious gap that requires attention, particularly since the protective ambit of labour legislation, including minimum wages, has been extended to farmworkers and domestic workers. There is an urgent need for analysis of developments in farm labour and domestic work.

An important issue that emerges in our review of the literature on the informal economy in South Africa, and in particular in relation to government support measures for the informal economy, is the merging of two different categories of business enterprises – small business and informal enterprises. The lack of conceptual clarity on these enterprises means that often the same policy is designed for enterprises employing 100 workers (the top end of small business) and a street vendor selling basic products with a turnover of less than R100 per day. There is an urgent need to unpack the analytical categories used for small business and informal enterprises.

The reliability of national survey data on informal employment, and more broadly on the lower segments of the labour market has dogged the debate on employment for a number of years. The President's recent questioning of the reliability of the national estimates of unemployment has again brought this issue to the fore. There is some anecdotal evidence that large sections of the unemployed are engaged in low-level and low-income economic activities in the informal economy, and that the estimates of informal employment should therefore be somewhat higher than what they presently are (and consequently that unemployment should be lower). This is clearly a critical issue, and one that should receive the attention of the research community. Detailed field level studies to explore the economic activities of the unemployed would go some way to resolving this issue.

South Africa is one of the few developing countries that have a time use survey. Regrettably, the research community in South Africa has not sufficiently exploited these data. The data are potentially useful to understanding the dynamics between work and work activities, and is therefore particularly relevant for understanding informal employment, where the distinction between work and non-work activities is often blurred. Furthermore, a recent innovation in macroeconomic modelling, in particularly computable general equilibrium models, has been the incorporation of the informal economy (see, for example, Fontana and Wood, 2000). These CGE models rely on time use data. Further research in this area in South Africa would not only clarify linkages between the formal and informal economy, but also bring the issues of the informal economy to the fore in macroeconomic simulations of policy options and the likely impacts of policy changes.

From a labour market perspective there is clearly a need for research aimed at better understanding the impacts of labour legislation on the low-waged sector and on the informal economy. This should focus not only on the possible negative impacts of labour legislation on employment, but also on better understanding the reach of the legislation and on the possibility of extending the protective ambit of the legislation to

informal workers, whose employment is particularly vulnerable. What, for example, are the possibilities for extending some social protection, such as unemployment insurance, to the informal economy?

Skinner's (1999) research has highlighted the importance of local government policy for the informal economy. Her 5 city (and town) study has shown that local government authorities are taking very different approaches – from facilitative at the one extreme to restricting at the other – toward regulating informal economy activities. There is a need for more research to both understand the outcomes of these approaches and, for policy purposes, to developing more uniform approaches to informal trade activities.

Much of the research on the informal economy has concentrated on explaining the growth of the informal economy and on the data issues. From an employment policy perspective there is an urgent need for research aimed at identifying areas for growth in informal employment and the policies needed to realise this potential. For example, what are the possibilities for growth in informal employment in services? Relatedly, most of the detailed case studies conducted have concentrated on street vendors. Further research is required on other activities in the informal economy. For example, there is certainly anecdotal evidence of extensive informal provision of construction services such as plumbing, painting, etc., yet we have no studies on these activities.

Devey et al (2005) represents the first foray at researching the employment linkages that may exist between the formal labour market and the informal economy. Further research aimed at illuminating these linkages is critical for a comprehensive understanding of employment and unemployment in South Africa.



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## Endnotes

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- <sup>i</sup> The other sector showing rapid growth (and then rapid decline) is subsistence agriculture. See Aliber (2003) for an analysis of the trend in subsistence agriculture.
- <sup>ii</sup> See Sethuraman (1998) for an international gendered analysis of informal sector statistics. Having gone through substantial country specific data he concludes: ‘The evidence reviewed suggests that not only are women’s incomes lower than that of men (in the informal sector but that)... a greater proportion of women are in lower income categories than men.... This finding holds good across all countries in Asia, Africa and Latin America from which evidence is drawn.’
- <sup>iii</sup> Note that the panel component of the LFS allows us to track *households* not individuals over the five waves of the survey. We have examined the sex and age profiles of workers in these households to confirm that the individuals remain in the panel. We have thus removed from the panel all households where the individuals inside the household may have changed (through, for example, migration).

