

# Self-employment in South Africa's informal sector: Prevalence, prospects and policy

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## **<sup>1</sup>INTRODUCTION: THE INFORMAL SECTOR IN SOUTH AFRICA**

This text describes research undertaken to investigate small-scale self-employment at the margins of the South African economy. Despite high levels of poverty and unemployment South Africa's informal sector is, by developing country standards, comparatively small. As economic informality is crucial to the livelihoods of many impoverished households, this is not only an issue of theoretical interest but of public policy significance. The research described in what follows drew on an integrated qualitative and quantitative inquiry in order to understand the contribution of informal self-employment to the livelihoods of impoverished households. The study sought to examine the factors that both enable and constrain informal self-employment, as well as state policies and programmes concerned with economic informality. The chapter concludes by discussing a number of policy recommendations intended to enhance the ability of policymakers to appropriately support the livelihoods of the poor.

Since being coined almost four decades ago, the nomenclature of the 'informal sector' has been used to describe marginal and low-productivity economic activities, often outside the realm of state regulation and taxation (Hart, 1972). More recently enterprise-based definitions of economic informality have been eclipsed by employment-based conceptions, and refer to those who labour outside networks of employment contracts, protections and benefits (Jutting et al. 2007). However, in much the same way as the controversial concept of a 'second economy' (African National Congress, 2004), the moniker of the informal sector potentially invokes an overstated dualism. It overlooks the manner in which formal and informal are intertwined, and the manner in which the precarious employment conditions associated with informality are increasingly to be found at the heart of 'formal' enterprises and economies. These are increasingly manifest in practices such as outsourcing, casualisation and contractualisation. Although the concept of the informal sector enjoys much continued usage it is a contested and imprecise concept that potentially obscures as much as it reveals.

Drawing on Stats SA's, Quarterly Labour Force Survey (QLFS), Yu (2010) draws on the diverse prevailing definitions of informal employment, to produce estimates of the informally employed as constituting a proportion ranging from 18.4 per cent to 66.9 per cent of all employment. NIDS data, and computations comparable to those used by QLFS, points to approximately equivalent numbers of those that are unemployed as are employed (and self-employed) in the informal sector. The sector is marked by disadvantage; ninety per cent of those in it are African, and are disproportionately female with low average incomes (Rogerson, 2007). Elsewhere in the world the informal section is the default option for those unable to secure formal employment, and in many developing countries it rivals, or greatly exceeds, the size of the formal sector. However, in relation to the South African context an enduring question remains as to why more people do not engage in informal employment (Devey, Valodia & Skinner, 2005)? This is a key question which references much larger empirical and policy controversies, such as the extent to which conventional survey methods

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### **<sup>1</sup> Acknowledgement**

Acknowledgement: This document has been produced with the financial assistance (grant PSPPD/PE2/CFPI/2009/02) of the Programme to Support Pro-Poor Policy Development (PSPPD), a partnership programme of the Presidency, Republic of South Africa and the European Union. The contents of this publication are the sole responsibility of the authors and can in no way be taken to reflect the views of the Presidency (RSA) and/or the European Union.

accurately capture self-employment (Adato, Lund & Mhlongo, 2007), and even the veracity of official unemployment statistics (cf. Lehohla, 2011).

The most common explanation advanced for the comparatively small size of its informal sector is that South Africa combines developing country conditions with a strong, concentrated, vertically integrated and even monopolistic, formal economy. This creates an environment with few opportunities to start or grow an enterprise. Not only does the legacy of apartheid (which actively prohibited African entrepreneurship) endure, it is combined with present day factors such as low and erratic income streams, credit constraints, prohibitively expensive infrastructural costs and inadequate access to training (Chandra and Rajaratnam, 2001; Chandra et al, 2001, Skinner, 2006). Chichello (2005) also advances that fear of crime, which exists alongside 'jealousy' (envy) and pervasive redistributive claims within impoverished communities has an effect (Du Toit & Neves, 2007). Understanding informal self-employment demands attention to these constraints, and carefully empirical examination of how informal self-employment takes place in practice.

## **RESEARCH QUESTIONS AND METHODS**

Having identified several of the key conceptual and definitional issues relating to economic informality in South Africa, the research described in this chapter focuses on small scale, own account enterprise operators, within the informal sector (viz. the informally self-employed). The lucratively self-employed (or those working in the formal sector) were not within the scope of the study. In seeking to understand informal self-employment four subsidiary questions were posed:

- How does informal self-employment contribute to the livelihoods of the poor?
- What factors and dynamics constrain informal self-employment?
- What factors and dynamics enable informal self-employment?
- How can state policy better respond to the needs of the informally self-employed?

Informal self-employment was examined by drawing on a research methodology which combined qualitative and quantitative inquiry (viz. 'Q<sup>2</sup>') (Howe & McKay, 2004). This saw the careful integration and sequencing of qualitative and quantitative inquiry, which went well beyond simply using preliminary qualitative inquiry in an exploratory manner. Quantitative statistical analysis of survey data was combined with in-depth qualitative inquiry amongst the informally self-employed. This process was undertaken in parallel with inquiry conducted among service providers and state officials professionally concerned with the informal sector. The research activities were undertaken in the sequence expanded on in what follows.

At the outset, preliminary quantitative analysis was conducted of the NIDS (National Income Dynamic Study) dataset in order to identify correlations and patterns for qualitative investigation.

Following which qualitative fieldwork (predominantly interviews and observational research) was conducted at three research sites (rural Limpopo and Eastern Cape Provinces and urban Western Cape Province). Detailed in-depth qualitative inquiry was used in order to develop a total of 30 diverse (by size, sector, and enterprise operator demographics) case studies, of enterprises and their corresponding households. The objective was to understand enterprise dynamics, and the relationship between enterprises and their corresponding households. Several of these case studies had been included in previous research (Du Toit and Neves, 2007) which contributed a useful longitudinal dimension to the research. The inquiry was

methodologically noteworthy for its focus on both the enterprise and households, entities that are typically the objects of divergent disciplines, theories and research methods.

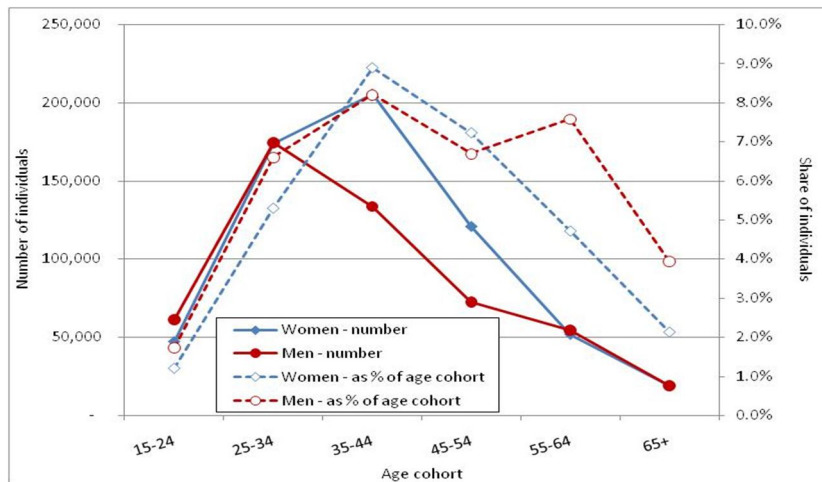
The qualitative inquiry not only examined how informal economic activity contributed to the livelihoods of impoverished households, it also sought to examine the synergies and often hidden transfers between these two domains. Furthermore, factors such as the larger structural context and value chains, local social networks and practices of livelihood making, along with patterns of skills acquisition and human capital development, were all examined in detail. These dimensions were examined in relation to the influence of the broader policy and regulatory environment, including state-led efforts to support the informal sector and SMMEs (small, medium and micro-enterprises).

In an iterative process, qualitative-derived insights were complemented by further quantitative inquiry. Selected NIDS survey modules were administered to the 30 enterprise-household units, thereby enabling them to be 'located' relative to the larger quantitative dataset. This integrated analysis enabled the characteristics of the informally self-employed to be explicated along with the factors and dynamics that serve to influence prospects and returns to the informally self-employed.

The research findings are discussed in the section that follows. Firstly, the characteristics of informal self-employment are examined, followed by a discussion of the factors that influence informal self-employment and finally the influence of the broader policy context are considered.

## **CHARACTERISTICS OF INFORMAL SELF-EMPLOYMENT**

The research documents how involvement in informal self-employment is strongly differentiated by a number of key factors including locality, age and gender. Informal self-employment is most prevalent in urban formal areas (where 47% of the working age adults are concentrated). Informal self-employment does not see the rapid decline in employed past the age of 44 years that is evident in formal employment. Finally, in contradistinction to the male dominated formal sector, women predominate in the informal sector. This is evident in Table 1, and suggests the interpretation that women focus on informal self-employment to compensate for their exclusion from formal sector wage employment.



(Table 1 Informal self-employment by age cohort and gender, absolute numbers and shares)

Analysis reveals that the time devoted to informal self-employment activities has a firmly bimodal quality in that it is split between the 40% of those who worked full time, and those that worked under 16 hours per week. Although this may intuitively suggest the varied prominence of informal self-employment in various informants' livelihood strategies, this measure was uncorrelated with enterprise longevity of income. Some poorly remunerative activities demand substantial investments of time (such as petty trading). With regards to occupations, 'elementary' and relatively poorly remunerative activities, such as retail, predominate. Capital and skills are salient barriers to both entry and potentially more lucrative activities. Finally possessing capital, skills and productive equipment (products often associated with a history of male formal sector employment) confers discernible positional advantages.

The detailed qualitative inquiry reveals that the informally self-employed are orientated to a diversity of objectives, beyond the objective of maximizing profit. Even the relatively small sample of case studies delineates how the informally self-employed can be concerned with, various combinations of making profit, bolstering food security and their livelihoods or seeking to diversify activities and mitigate risk. Some of this complexity is illustrated by a brief case study vignette.

*Mildred was an elderly domestic worker who retired from urban employ to a rural Eastern Cape village. Suffering from poor physical mobility, Mildred persisted in vending a single case of carbonated cool drink each month, for several years. The resultant diminutive profit amounting to less than five per cent of her state social pension, and seemed to barely warrant the effort of procuring the cool drink. However, careful analysis of Mildred's case revealed her lack of immediate kin, and potential social precariousness in the village. The trickle of visitors Mildred's vending drew, not only kept her socially engaged, it served to diffuse suspicion, gossip and jealousy she might otherwise elicit (in a context where devastating claims of witchcraft were not unknown). These social outcomes, privileged by Mildred over generating a profit and benefited her substantially.*

The brief vignette above suggests how informal self-employment, even at its lowest levels is often crucial to those who engage in it. Furthermore, many engage in informal self-employment as one activity in a larger portfolio of livelihood-enabling activities. These are bound up in complex and synergistic ways with the corresponding households, and the

considerable demands of sustaining social reciprocity. Two additional points ought to be stressed.

Firstly, the capacity to engage in informal self-employment is not evenly distributed across all impoverished households, instead it is an extension of a household's efforts to maximize returns to the existing assets and labour capacity. Hence the statistical analysis reveals higher informal economic earnings to be correlated with both formal sector employment and a marital relationship. Therefore, it is households that are better endowed with resources which see the greater returns to their informal economic activity.

Secondly, the research revealed the boundaries between the domestic and enterprise economies to frequently be blurred and even permeable. Extensive arbitrage between these domains (through the use of unpaid kin labour, residential spaces for work, and high levels of 'off-take') is commonplace. An exasperated fieldworker noted he could not tell whether spaza shop operator informants were 'eating their stock or selling their groceries'. Informal economic activity, furthermore, has complex interactions with household demography; households engaged in both wage and informal self-employments tend to be larger. This may suggest larger households have more need and labour capacity to diversify into informal self-employment. The qualitative analysis noted the enabling role played by surplus labour capacity within households, particularly as the care, burdens and demands of social reproduction can otherwise be considerable in resource poor contexts. Finally, successful informal self-employment may attract additional household members (a dynamic some discern in relation to state social pension receipt (Klasen & Wooldard, 2009).

An important finding suggested by the literature and underscored by the research, concerns the place of social networks and the manner in which economic activity is shaped by local social mores and imperatives (Granovetter, 1985). For example, within the focal research sites, strong normative codes of community solidarity served to discourage price competition. Instead, traders' relied on alternative strategies of procuring from cheaper sources, treating suppliers with proprietorial secrecy, extending credit to customers and offering superior customer service. Tensions around pricing and competition were an important factor in the disapprobation towards foreign national traders that became violently manifest in the 2008 xenophobic attacks (KLS / CCT, 2009). In this way informal economic activity is profoundly socially 'embedded'.

Economic informality relies on the forging and deployment of social relationships and 'social capital' (Fukuyama, 1995), yet social capital can also exact costs in the form of claims and entitlements. The desire of the informally self-employed to evade or contain entitlements and redistributive claims, (from kin, from customers, in the form of crime, etc.), is a key dynamic for many. In statistical terms, informal self-employment was found to have no discernible relationship on survey-based measures of 'trust', yet it was correlated with forms of associational life and membership (operationalised using the NIDS data from a set of 18 questions about membership of local associations such as 'stokvels', burial associations, church, sport groups, etc.). This correlation was evident for women, but significantly not for men. Table 2 below, shows the proportion of respondents who belong to one or more local associations, distinguishing between men and women, informally self-employed and others. Briefly: women are more likely to be members of associations than men; informally self-employed women are more likely to be members than those who are not informally self-employed; and informally self-employed men are modestly more likely to be members than men that are not (but this finding was not statistically robust).

(Table 2: Proportion of people belonging to local community-based associations, by gender and informal self-employment status)

Finally, this correlation between membership and informal self-employment was strengthened where the female respondent had a history of migration, thereby suggesting both the adeptness of women at organising themselves socially, and the scale of the considerable disadvantages they often face.

## **FACTORS INFLUENCING INFORMAL SELF-EMPLOYMENT**

### **Structure of the formal economy**

The structure of the formal economy fundamentally influences the informal sector. Much informal self-employment is bound up with the formal sector through linkages (of production inputs, capital, skills and employment) (Devey, Skinner & Valodia, 2005). Unsurprisingly many of the informally self-employed relied on the resources conferred by formal sector employment. Amongst the smallest of survivalist microenterprise operators, the use of state social grants as capital has been noted (Neves et al, 2009). As there are few prospects for an autarkic or subsistence production in contemporary South Africa, much of the informal sector has extensive (often on relatively unfavourable terms) backward linkages to South Africa's well developed core economy. Much of the disadvantage that marks the informal sector is correspondingly evident in the asymmetry of its relative lack of forward linkages to the formal economy. The research noted how local markets are often 'thin', spatially isolated and characterised by various resource, credit and informational deficits. The fine gradations of value that the self-employed seek to access are evident in the case study vignette of Ramenag.

*Ramenag was a moderately successful Limpopo cattle farmer, informal butcher and 'eating house' proprietor. His cattle production, abattoir, butchery and 'eating house' were integrated, as he reared, slaughtered and retailed beef (all in the absence of environmental or animal health inspections). Yet the picture of this vertically integrated enterprise was more complex than this tidy value chain suggests. Many of the cattle he slaughtered in the abattoir were purchased externally either from locals (i.e. African smallholders) or commercial auctions (largely white commercial farmers). Conversely, Raphulu's better quality cattle were sold on auction, back into the formal food chain. This elaborate exchange (selling his own cattle; buying in others) was due to the highly price sensitive local market, which required 'lower quality' meat. Ramenag explained, "You see the people from here are not able to see the difference. They think meat is meat". Ramenag had successfully calibrated his production to the demands of his resource poor consumers and the wider market.*

Although Ramenag was comparatively adept at accessing forward linkages to the formal economy, it is worth noting that he was both exception and his enterprise was precarious.

### **Trajectories of human capital formation**

The research reveals the importance of skills, education and individual histories of human capital formation (including varieties of informal apprenticeship and induction). Statistical analysis of the data shows that, in terms of their educational attainment, the informally self-employed occupy an intermediate place between the unemployed and formally employed. Moreover while earnings rise steeply, particularly with higher levels of post-matric educational attainment, they are also strongly differentiated by gender (women trail behind an equivalently educated group of men).

### **Economic governance, infrastructure and credit and savings**

The research considered a number of important dimensions which crucially shape informal self-employment, including various dynamics surrounding economic governance, infrastructural provision and credit and savings. Practices of informal (viz. non-state) economic governance (e.g. taxi associations, traditional authorities) are not only highly influential in the informal sector, they frequently have a dynamic, hybrid and ‘nested’ quality in relation to formal, state-led governance. Moreover, violence, or the threat of violence, can be key dynamic underpinning regimes of informal economic governance.

The provision of infrastructure, such as subsidized housing, is typically a positive development and strongly desired by beneficiaries. Yet the research suggests that infrastructure provision can easily disrupt the narrow livelihood niches and social networks within which small scale economic activity takes place. This points to the need for processes of sensitive infrastructure provision, in order to minimise possible disruption to the informally self-employed.

Finally the research report identifies the central role of credit, savings and the work of managing redistributive claims. The strategies used to manage redistributive claims varied between strengthening entitlements (by strengthening social mutuality) or alternatively centred on resisting and disavowing entitlements. The granting of credit, a key demand in many a resource poor context, recapitulates this dichotomy of acceptance or resistance. The informally self-employed varied between either strengthening their capacity to collect debt (through vetting, social surveillance, deepening sociality), or alternatively resisted granting credit altogether. With regards to the converse accessing of credit, the research suggests that the issue of supplier credit and microfinance is a complex one and one that ostensive credit constraints may inflect more fundamental problems of low profitability. Finally there was evidence of the use of savings instruments, yet few risk management mechanisms (including insurance). Some savings were invested in formal financial products, but informal instruments such as rotating credit societies (‘stokvels’) were far more commonplace.

## **POLICY RESPONSES TO ECONOMIC INFORMALITY**

Surveying the policy terrain, the research identifies a variety of policies targeting the informally self-employed and SMMEs at national, provincial and local government level. Despite often ambitious policies and an elaborate institutional architecture, implementation on the ground appears highly variable. Not only is co-ordination between the three spheres of national, provincial and local government a vexed issue, so too are local economic development (LED) and enterprise support services for SMMEs somewhat uneven. The weaknesses in LED and gaps in enterprise support services are greatly compounded within under-capacitated rural municipalities. Finally, while existing interventions target small and medium SMMES, the issue of whether smaller scale, survivalist microenterprises are appropriate recipients of enterprise support services was unclear. They receive little support currently, but they may benefit from particular varieties of intervention.

Although the quality of services was highly variable, the research suggests that even a relatively resourced and functional metropolitan municipality has scope to improve their response to those engaged in the informal sector. Discrete groups of officials often appeared rooted in their specialism, relatively constrained by their line departments and struggled to co-ordinate actions with other colleagues. Deep seated ambivalences between the imperative to support those in the informal sector and impulses to regulate them, were discernible amongst several officials, but were especially pronounced in the under-resourced rural



municipalities. In both urban and rural settings informal traders complained of being relatively unheard and subject to little more than perfunctory consultation, if any at all.

With regards to enterprise support services, delivered by a combination of state and non-state actors, specific areas of difficulty included financial support and training. Many found the division between financial and non-financial support counter-intuitive and difficult to negotiate. Those accessing the training interventions offered under the banner of enterprise support reportedly frequently received training in generic business skills, rather than the technical and practical competencies they desired. Training was often of short duration, leading both beneficiaries and enterprise support practitioners to readily identify the need for longer term mentorships. Finally, the research noted the rising policy appeal of co-operatives but notes the considerable challenges they face, and their modest success to date.

## **THEORETICAL INSIGHTS AND POLICY RECOMMENDATIONS**

The analysis of informal self-employment and the policy context, described earlier, lead to a number of theoretical insights and key policy recommendations.

At the outset it is necessary to acknowledge that the ‘informal sector/economy’ concept is imprecise and contested. For this reason a narrow focus on economic informality can obscure key dynamics, such as the interpenetration of the formal and informal sector employment, as well as the constraints imposed by the larger structural and economic context. It is therefore necessary to maintain an expansive focus on the larger structural context. Ultimately, accurate diagnosis of the challenges facing the informal sector is required to enable policy makers to appropriately respond to it.

There is a need to understand that those in the informal sector are orientated to a diversity of important objectives, irreducible to a simple profit motive. In addition, many small scale survivalists have little scope for growth, up-scaling or employment creation. A sharper policy distinction ought therefore to be formulated between small scale survivalist microenterprise operators and small and medium sized entrepreneurs with more robust capacity for growth. This needs to be done in order to ensure that each group can be targeted by appropriate interventions.

The complexity of informal self-employment and the manifold factors that enable and constrain it, means that policies targeted at those in the informal sector ought to be conceptualised at multiple scales. These scales of intervention include: the larger macro structural context; followed by the intermediate realm of enterprises and institutions; and finally the micro level of individuals and households. Policy responses that neglect one or more of these levels are likely to be of diminished effectiveness. In addition, support for the informal sector can, following Manning (1993), helpfully be thought of in relation to three key domains, namely:

- Interventions intended to enhance output and productivity.
- Interventions intended to enhance the institutional environment.
- Interventions intended to improve human welfare and development (particularly for small scale survivalists).

These multiple scales of possible intervention are elaborated on in what follows.

### **Output and productivity enhancing interventions**

South Africa has a well-developed business environment where formalisation and registration carry benefits (such as VAT refunds, bureaucratic ‘legibility’ to suppliers and access to the financial system), and evasion potentially high costs (e.g. through enforcement and an efficient tax system). Strong inducements therefore exist for growing enterprises to become formalised (Gelb, Mengistae, Ramachandran & Shah, 2009). While discouraging the evasion of registration and regulation by enterprises that are able to comply is necessary, there is scope for productivity and output enhancing policies to support emergent enterprises that demonstrate a capacity for growth. Taking as their starting point an acknowledgment of the structural constraints on the informal sector, policy making efforts need to focus on three activities. The first is to avoid policy reproducing the structural conditions that give rise to capital intensive and labour un-intensive economic growth, the second, to strengthen policies to support accumulation and asset building, and the third is to leverage formal sector linkages.

#### *Re-examine policy support for capital intensive and labour un-intensive growth*

Policy responses in support of the informal sector require attention to the larger structural and economic context. Many aspects of the state’s trade, industrial and monetary policy reinforces capital intensive, labour un-intensive growth, and ultimately constrains the prospects for informal self-employment. Much industrial policy supports capital intensive growth and industries (such as aluminium smelters or automotive assembly), often through indirect state subsidy (i.e. cheap electricity, subsidized infrastructure and import rebates) (Black, 2007). Yet these industries generate comparatively low levels of employment and few opportunities for small scale producers or the unskilled to enter the value chain (as industrial outworkers, subcontractors, etc.). Conversely parts of the manufacturing sector that have traditionally offered high levels of low skill employment have steadily waned, arguably without particularly high levels of state support (such as the garment industry). In this way trade and industrial policies contribute to a general trajectory of capital intensive, job-shedding economic growth.

These dynamics are further deepened by a state monetary policy which has not managed to temper a volatile, and arguably overvalued, South Africa currency (Altman, 2008). The net effect of these policies is that they constrain the ability of the economy to either absorb labour or create opportunities for employment growth. These policy choices contribute to expanding the pool of the unemployed who are thrown back on survivalist self-employment in overtraded niches. In this way state policy creates an economy more starkly dualistic between formal and informal than it might otherwise be.

Policy makers therefore need to be aware of the limits of responding to informal SMMEs by simply focusing on enterprises or individuals in the informal sector. To do so risks losing sight of the larger macro-structural context that shapes economic opportunity and activity.

#### *Strengthen policies to support accumulation and asset building*

Policy ought to build on existing efforts to enhance the capacity of the informally self-employed to up-scale their activities and engage in the accumulation and acquisition of assets (Altman, 2008). Many of these can be applied even in the absence of formalisation and business registration, and are the staples of enterprise support such as: credit and microfinance, risk pooling and management mechanisms, training and systems of contract enforcement. While none are a panacea for the informal sector, each can potentially contribute to supporting it.

### *Leverage formal sector linkages*

Efforts to support the informally self-employed need to be embedded in a firmly sectoral based approach and focused on the value chains in which informal enterprises are located (Gereffi, 2005). They need to carefully consider the linkages between the formal and informal sector which offer up significant potential points of policy leverage. The first are the existing, extensive linkages from the informal sector backwards into the formal sector; the second the elusive potential forward linkages from informal to formal sector.

Firstly, existing formal sector suppliers ought to be encouraged to extend the support they already provide to informal enterprises (currently mostly marketing, merchandising, and limited credit). Although this is sometimes cast in the register of corporate opportunity (e.g. Prahalad's (2010), "The fortune at the base of the pyramid"), there is ample scope for incentives and judicious state regulation. An example of the latter would be the requirement to cross-subsidise services in historically underserved areas as a licensing condition (i.e. in the allocation of cellular telephony bandwidth).

Secondly, forward linkages ought to be forged between the informal sector and formal sector markets. A prime market for many goods and services is the state, hence state procurement ought to be mandated, and appropriately managed, to source from SMME producers and service providers where practicable. In addition, brokers and inter-mediators are potentially influential figures in facilitating access to the formal sector. Policy ought to therefore focus on remedying market failures in the provision of broker and intermediation services. Efficiencies and profitability could be improved by supporting the agglomeration of brokerage services, and policy ought to concern itself with mechanisms to check exploitative and opportunistic behaviour within these intermediary relationships.

Finally, policy efforts to support these forward linkages ought to focus on differentiated but plausible markets. It should either focus on lucrative, higher value (typically distal) markets for specialist products (craft, specialist agro-processing, etc.), or alternatively target the higher volume, local markets for basic products and services (such as basic food and household essentials) (Philip, 2010).

### **Enterprise support and the institutional environment**

This section of policy recommendations is concerned with creating appropriate institutional environments in order to support informal self-employment. Its recommendations include: maintaining a strategic focus on the informal sector; facilitating the capacity of those in the informally sector to organize and represent themselves; understanding and harnessing informal economic governance; and strengthening existing enterprise-support services.

#### *Maintain a strategic focus on the informal sector*

In a rapidly changing place there is scope to grow and improve the capacity of the state to support informal self-employment and SMMEs by proactively identifying strategic opportunities and threats, particularly in relation to market changes, emerging technologies and novel products (for instance the contemporary convergence of payment systems and cellular telephony). This high level, strategic market intelligence (likely to best fit with the mandate of the Department of Trade and Industry) needs to engage in proactive assessment of the market and regulatory terrain in order to discern both threats and opportunities to the SMME sector.

### *Build the capacity for the informal sector to organize and represent itself*

The informal sector, and the state officials who engage with it, are likely to benefit from greater coherence and comprehensiveness in the entities that represent the sector. Although state based actors may not be optimally placed to engage with this task, there is ample scope to consider how to facilitate the formation of organisations representing the needs, interests and perspectives of the informally self-employed.

### *Addressing informal economic governance*

There is a need for policy makers to understand the place and influence of local systems of informal (viz. non-state) economic governance which prevail within the informal sector, and crucially shape the terrain on which economic activity occurs. Where appropriate, these forms of governance ought to be contained or harnessed in order to improve the environment in which informal self-employment is undertaken. In this process caution needs to be exercised to ensure that systems of local governance are not 'captured' by narrow elite interests. Furthermore, it needs to be tempered by careful assessment of the regressive forms of power and authority (such as patriarchy), and violence, that can underpin these forms of authority.

### *Strengthening enterprise support services*

Enterprise support services have much potential to improve the extent of returns to those in SMMEs and informal self-employment; hence there is scope to consider how these services can be improved. Four potential areas of improvement in relation to enterprise support services namely: addressing capacity problems, addressing mismatches and gaps, addressing the need for support at local level, and critically re-examining new modalities of enterprise support.

The first entails addressing the considerable capacity problems (resources, staffing, etc.) enterprise support services face in many locales. The second involves addressing mismatches, gaps and even duplication between services. There is scope to re-examine mismatches between national and provincial efforts to provide enterprise services. In addition there is a need to reconsider how to bridge the conventional divide between business support and financing (credit, microcredit, etc.) and bring them into closer alignment, even if these functions are provided by different entities. Thirdly, as local government is the optimal scale for much SMME support, and LED interventions, there is scope to consider how interventions at local municipality level could be used to support those in the informal sector.

Fourthly, there is a need to carefully consider the pros and cons of re-emergent modalities of support for the small scale self-employed, specifically co-operatives. While co-operatives are a modality that currently enjoys policy traction for organizing and supporting those in the informal sector, the use of this institutional form ought to be tempered by recognition of its potential limitations. Co-operatives not only exact costs and considerable demands for management sophistication, in resource poor context they face substantial pressures for immediate and often unsustainable gain (income, employment, etc.), and experience enduring difficulties in relation to accessing markets.

### **Human development and welfare interventions**

Policy needs to recognise the limits of conventional enterprise support services, particularly for the small-scale survivalist self-employed who have limited prospects or capacity for growth. These groups, (within which women predominate), are likely to benefit from basic

human development and welfare enhancing interventions that support consumption, investments in human capital (such as health and education) and serve to mitigate their risk and vulnerability. These dimensions are discussed in terms of: social security, employment protections and entitlements, and finally, the broader context of state serviced provision such as infrastructure and public safety.

### *Social security*

Although social security and employment are typically conceptualized in dichotomous terms, there is evidence that direct state cash transfers (viz. social grants) frequently enable informal self-employment (Lund, 2002; Neves et al, 2009). Hence there is need to recognize the crucial role of social grants in practices of economic informality, and the strength of South Africa's current system of unconditional cash transfers. This has implications not only for policymakers tasked with economic development, but also those concerned with social security. Proposals for conditional cash transfers, vouchers, enforced savings, etc. need to be tempered by an awareness of how they may erode the scope for the grant recipients and their broader households to leverage their grant income in flexible and livelihood-supporting ways, including through informal self-employment.

### *Employment protections*

Those who work in the informal sector are often linked to the formal sector through production linkages and patterns of churning employment (Devey, Skinner & Valodia, 2005). For this reason workplace protections, and socialised work entitlements (such as unemployment benefits and death, disability and maternity cover) ought to be extended to those in SMMEs as far as practically possible, in order to better cover those who move between formal and informal sector employment (Altman, 2008).

### *State service provision*

Policy efforts to support the informally self-employed ought to be viewed in relation to other ancillary aspects of state service provision. While the poor benefit from the contribution of social wage (water, electricity, schooling, and healthcare) to their livelihoods, the economic fortunes of the informally self-employed are also tightly intertwined with specific domains of state service provision. These include infrastructure provision (housing, built environment), along with safety and security. There is evidence that appropriate urban infrastructure, planned and delivered with the input and needs of the informally self-employed firmly in mind, will not only temper the disruption of its production but maximize its potential benefits. (Dobson & Skinner, 2009). Secondly, as the informally self-employed can be particularly vulnerable to crime, safety and security ought to be supported through efforts to build social cohesion, effective policing and appropriate physical environments (such as secure storage facilities, lighting, and passive surveillance).

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