Setting the Scene: The South African Informal Sector

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Outline:

- International Statistics
- South African Context
  - Labour Market
  - Policy Context
- Size and Shape of the Informal Sector – latest statistics
- Conclusion

South African Context: Labour Market

- Relative to other developing countries, the SA informal sector is small (and unemployment levels are high).
- Many commentators have noted that our informal sector is comparatively lacklustre.
- Apartheid legislation imposed harsh restrictions on small business activities by black South Africans.
- 4.6% of the SA population are foreign migrants (just under 2.4 million people)*. Due to high barriers to entry in other segments of the labour market, foreigners often have no choice but to operate in the informal economy.

*Source: United Nations, *Trends in International Migrant Stock: The 2013 Revision.*

South African Context: Policy

- Those working in the informal sector in South Africa generally operate under hostile conditions.
- In many cases this is particularly so for foreigners.
- Anti-foreign sentiment is rife among local and national government officials and politicians and many informal sector operators.

Cape Town 9 February 2014

South African Context: Policy

- 2013 Draft Licensing of Businesses Bill all businesses no matter how small must register and states only foreigners who have a ***business permit*** will be granted licenses. Business permits are only granted if the person applying can guarantee that they have R2.5 million to invest in South Africa. The Bill is currently under review.
- Analysis and assessment of the contribution of foreigners to the South African informal sector has been a glaring gap – all the more pressing in the context of the Bill and worrying xenophobic trends.

South African Informal Sector: 2008-2013

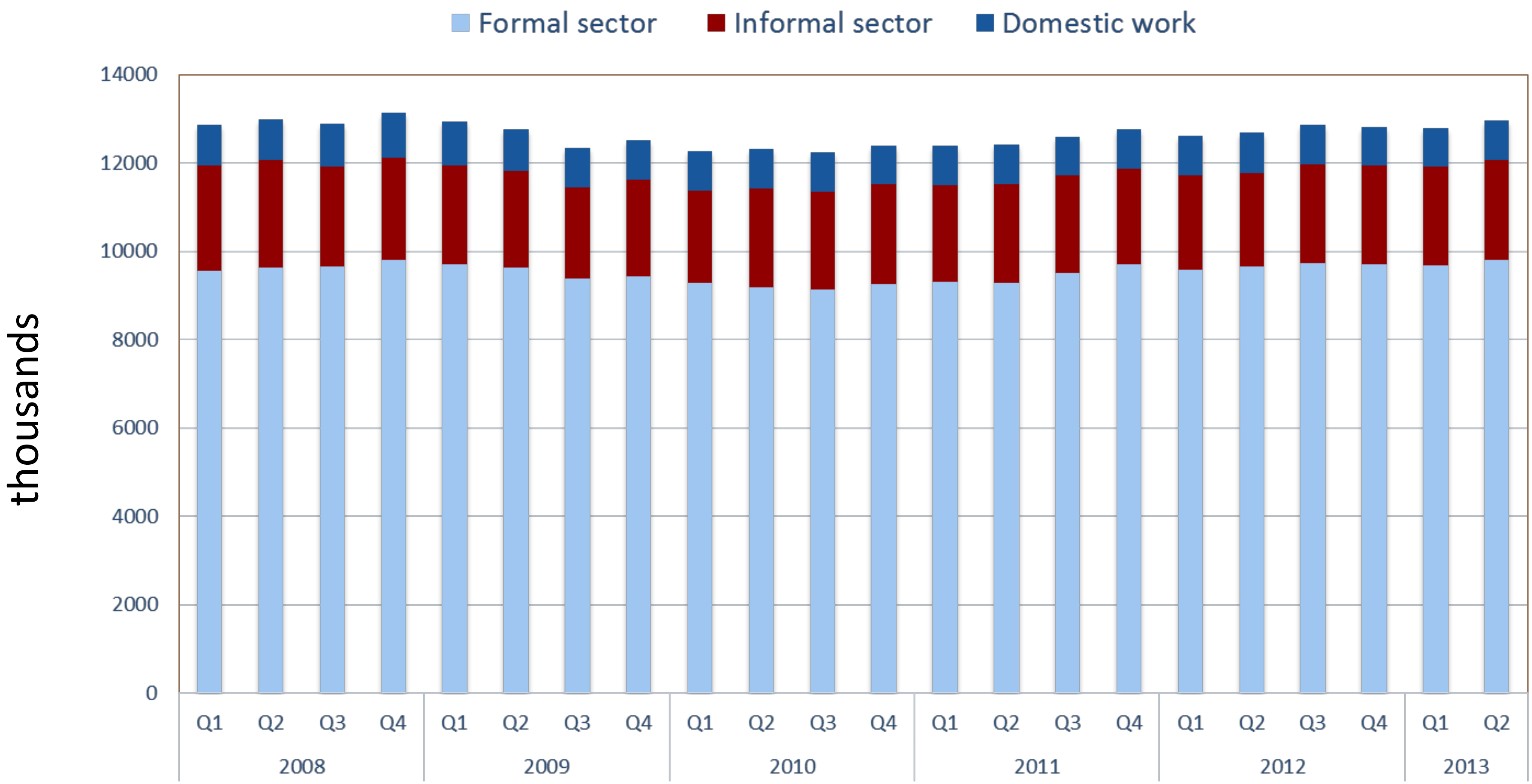
Methods

- Data work done with Simon Goemans.
- Using Quarterly Labour Force Survey statistics from Q1 2008 – Q2 2013.
- 30 000 household survey, representative, no questions asked about nationality - are foreigners under-represented?
- Used the Stats SA definition of the **informal sector**:

    i) Employees working in establishments that employ less than five employees, who do not deduct income tax from their salaries/wages; and

    ii) Employers, own-account workers and persons helping unpaid in their household business who are not registered for either income tax or value-added tax.
- Figures reflect non-agricultural work.

Total Non-agricultural Employment: 2008-2013



Recession – Job Losses

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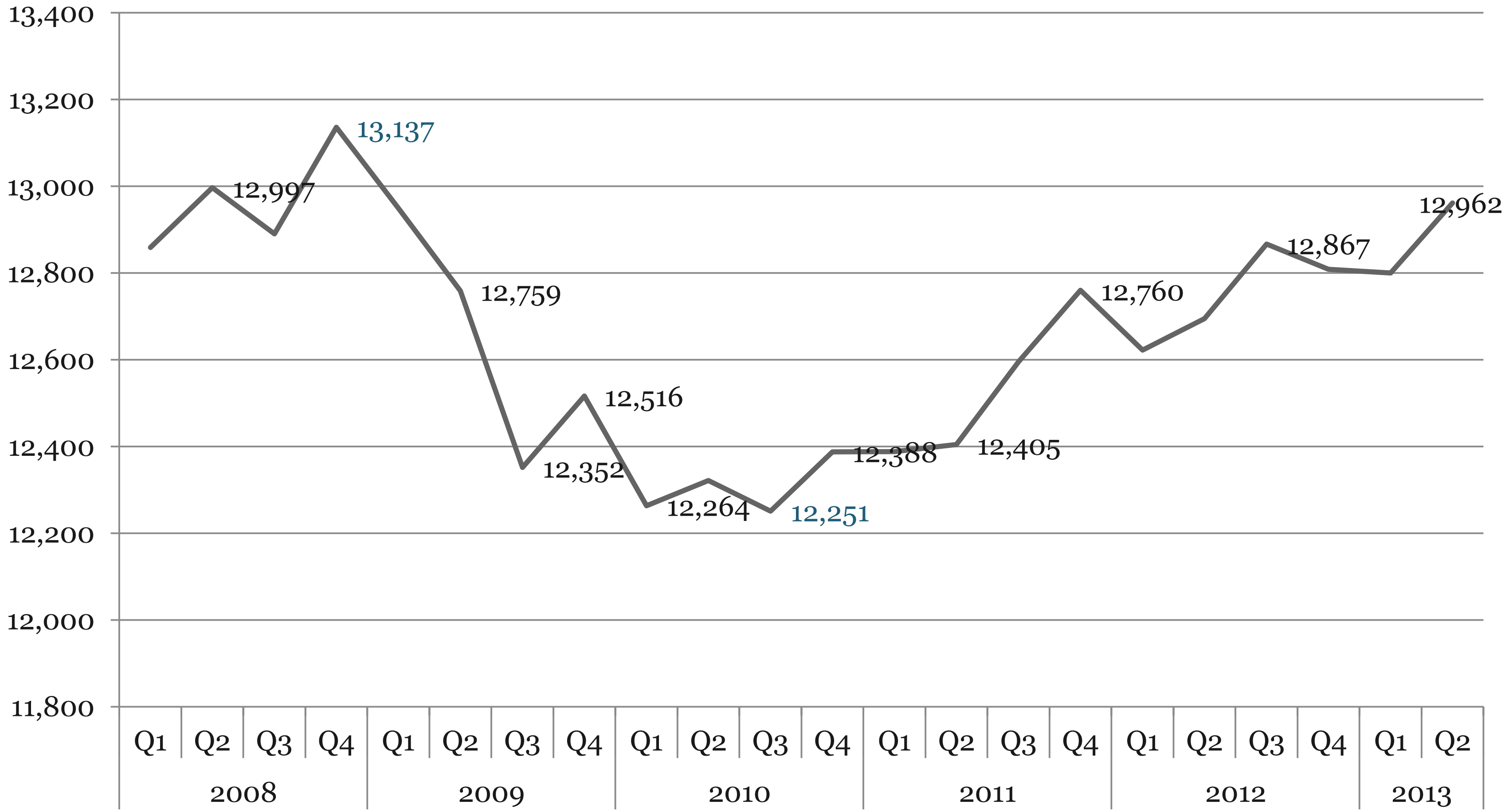
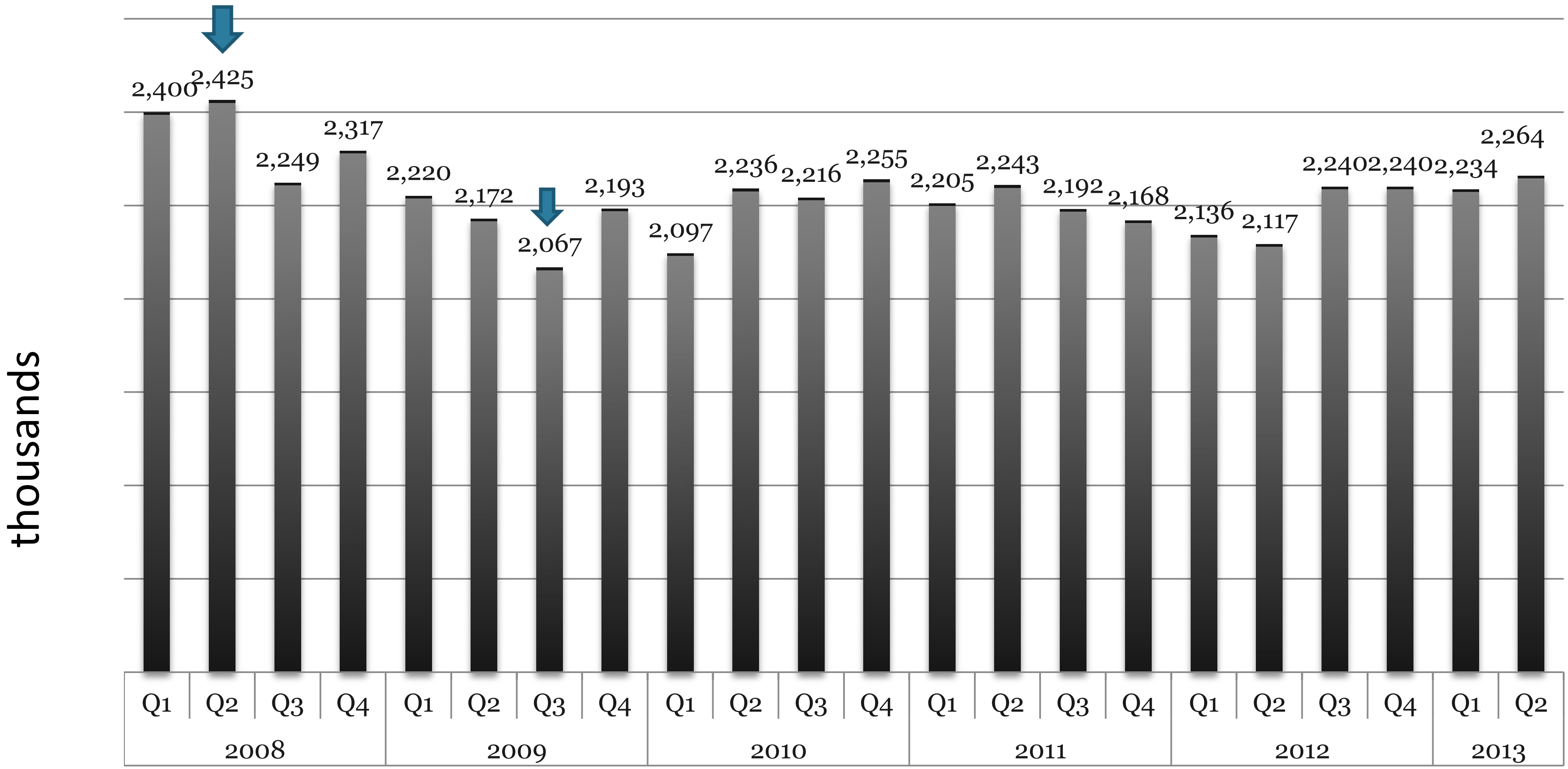
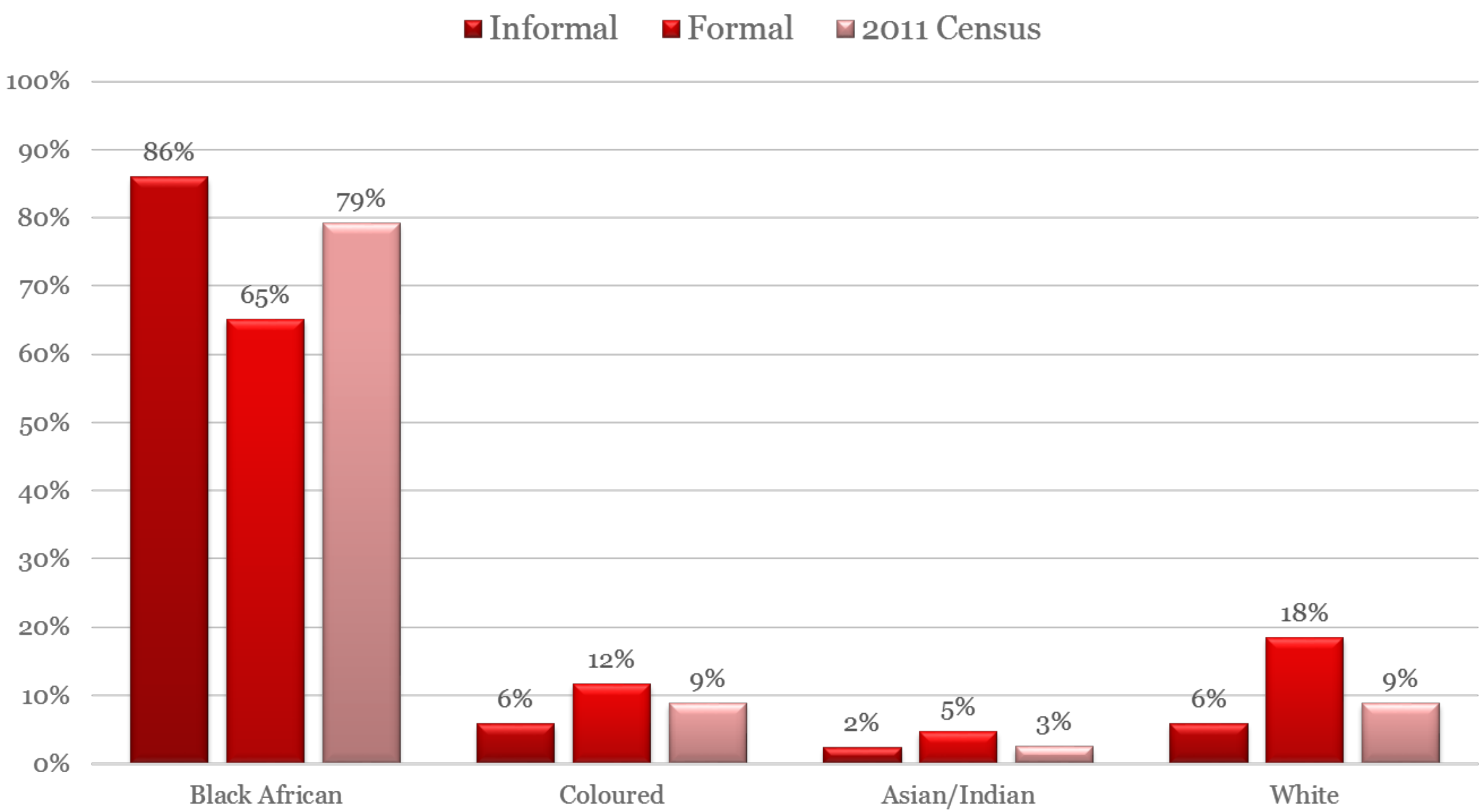


Size – Informal Sector

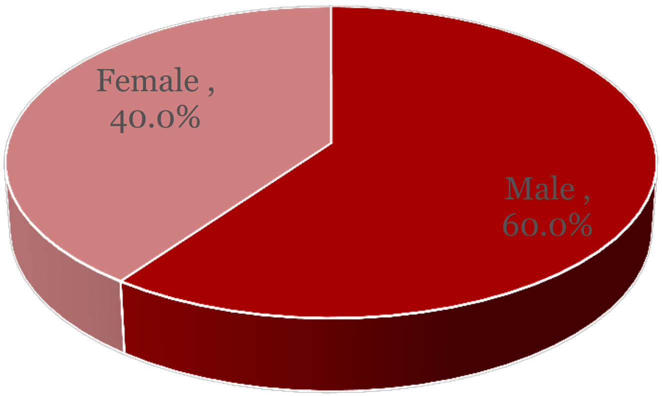


Race: Predominance of Black Africans

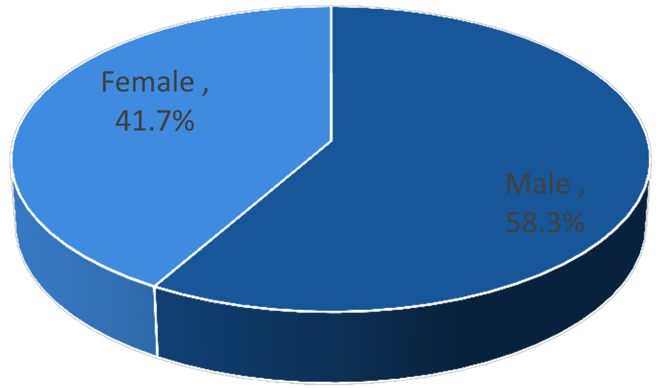


Sex: Predominately Male

Sex: Informal Sector



Sex: Formal Sector



Source: QLFS, Q2 2013

Sex: Increasing Male Dominance

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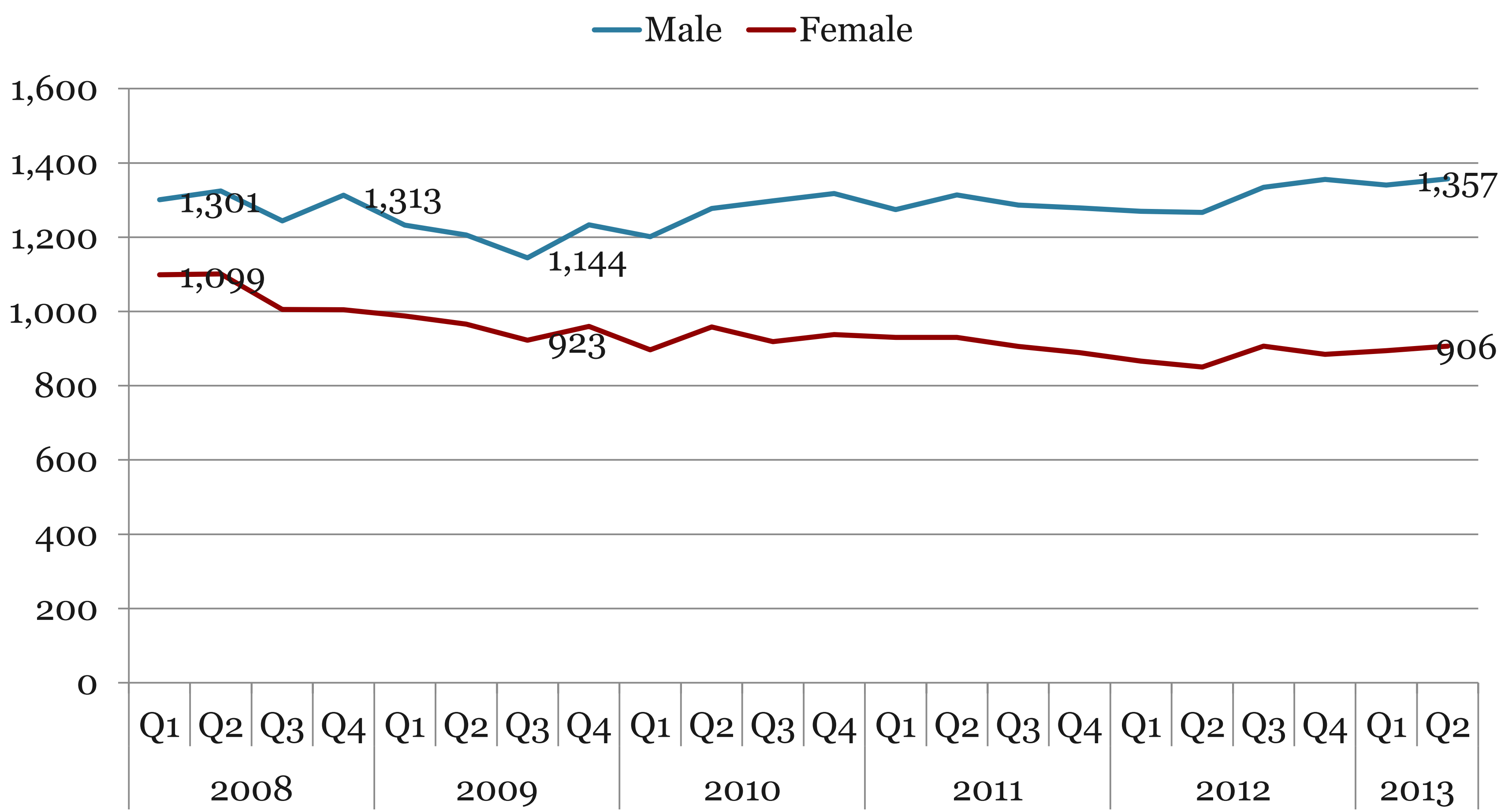
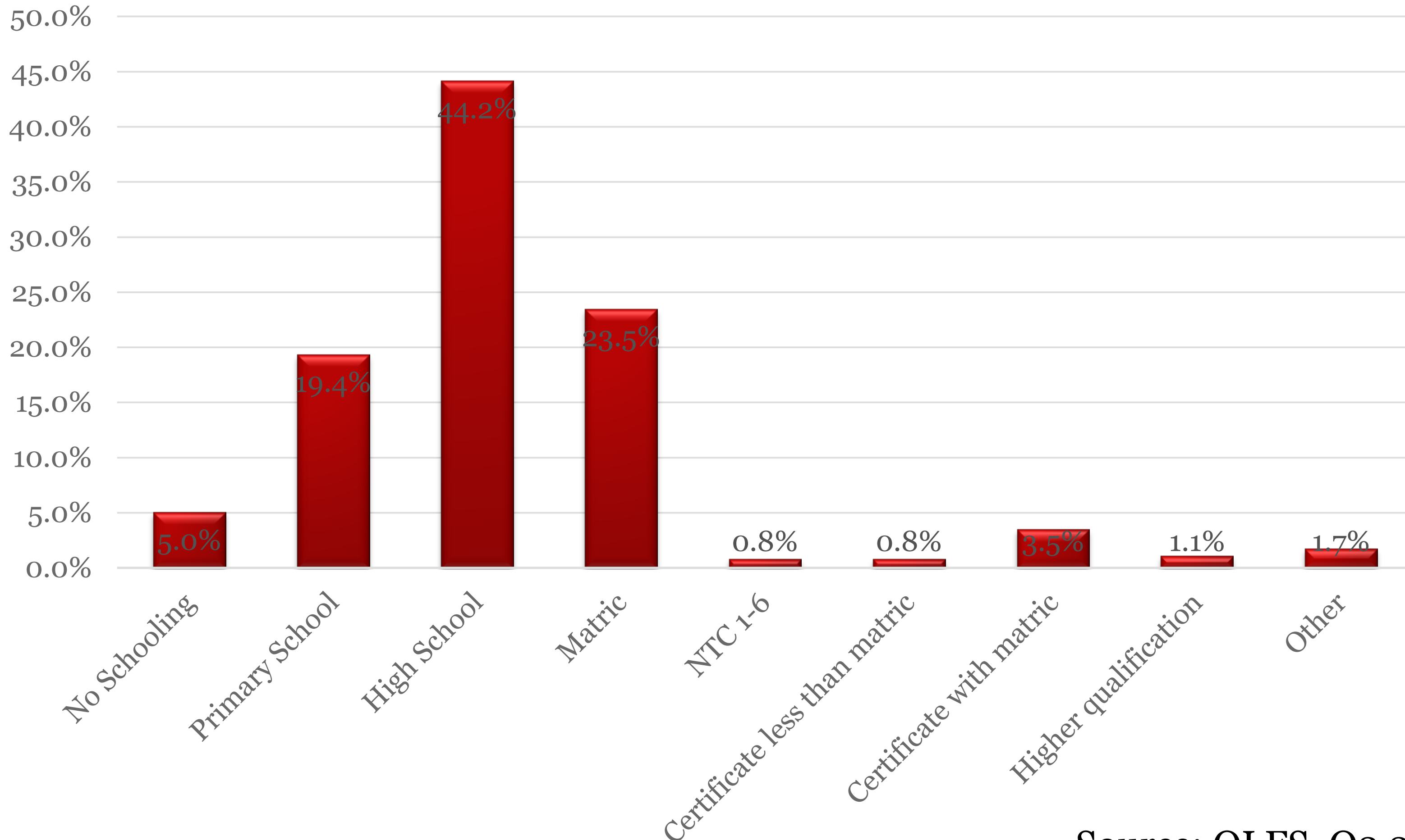


Informal Sector: Education



Source: QLFS, Q2 2013

Informal Sector – Industry Breakdown

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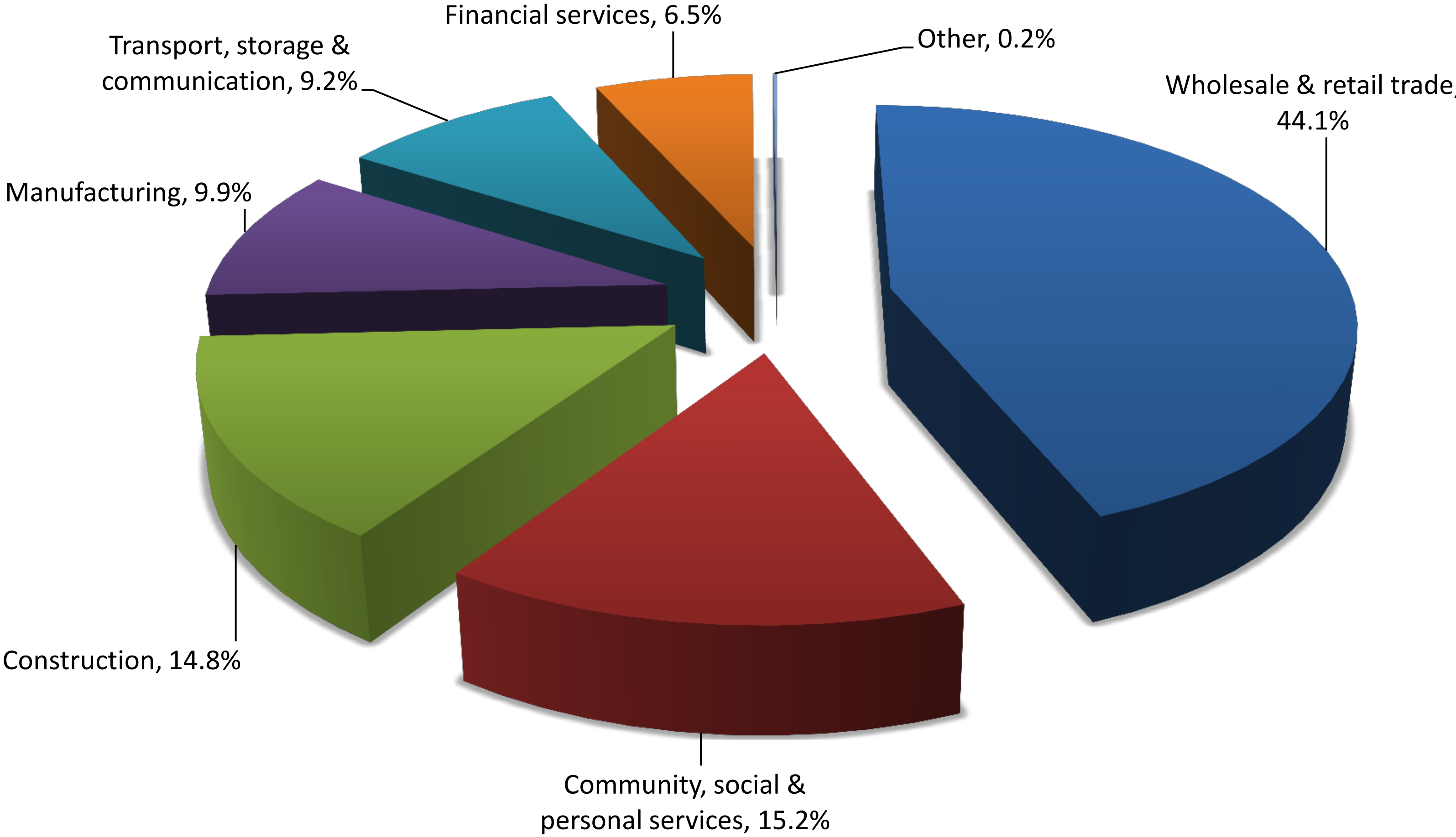
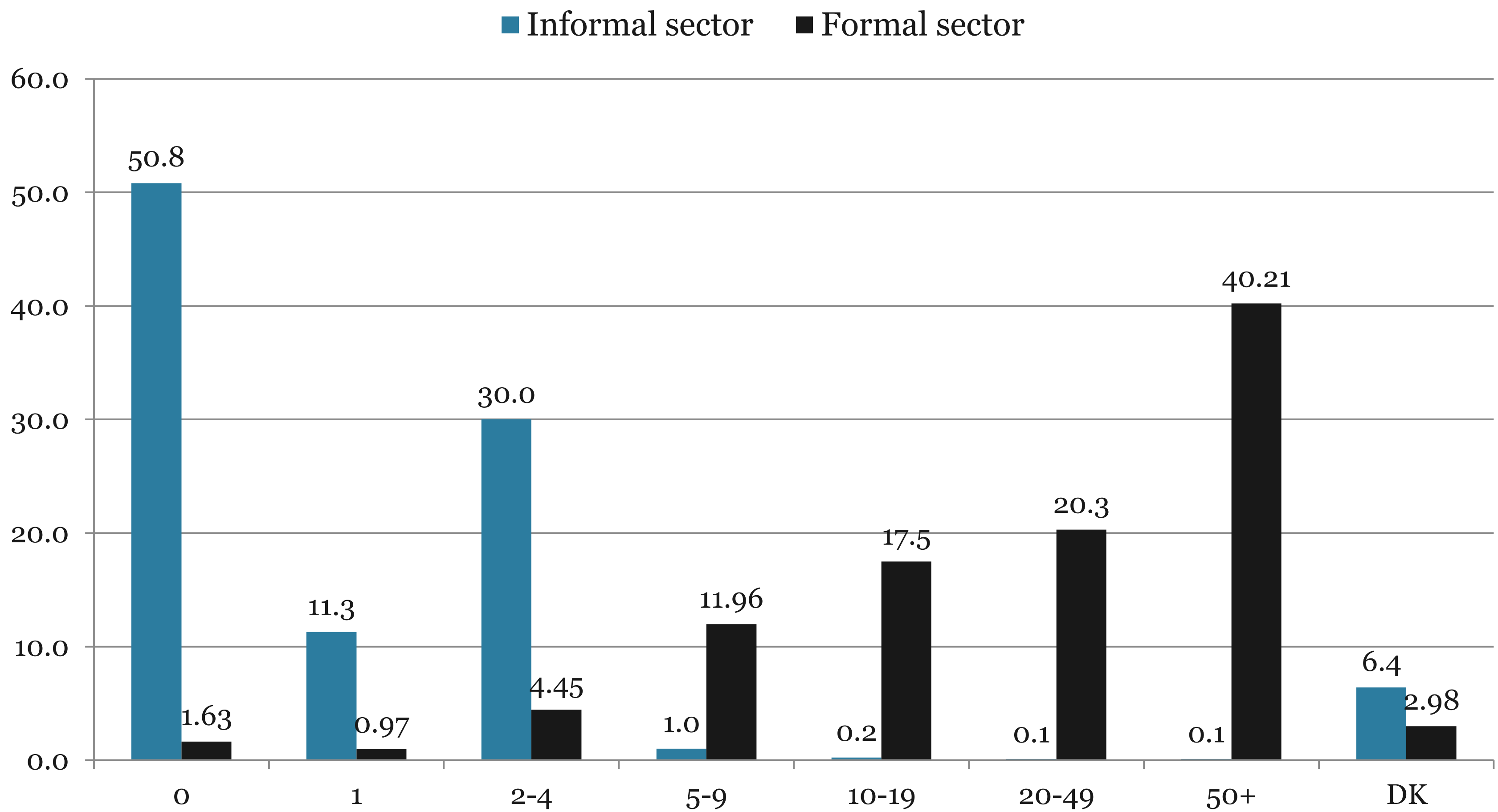


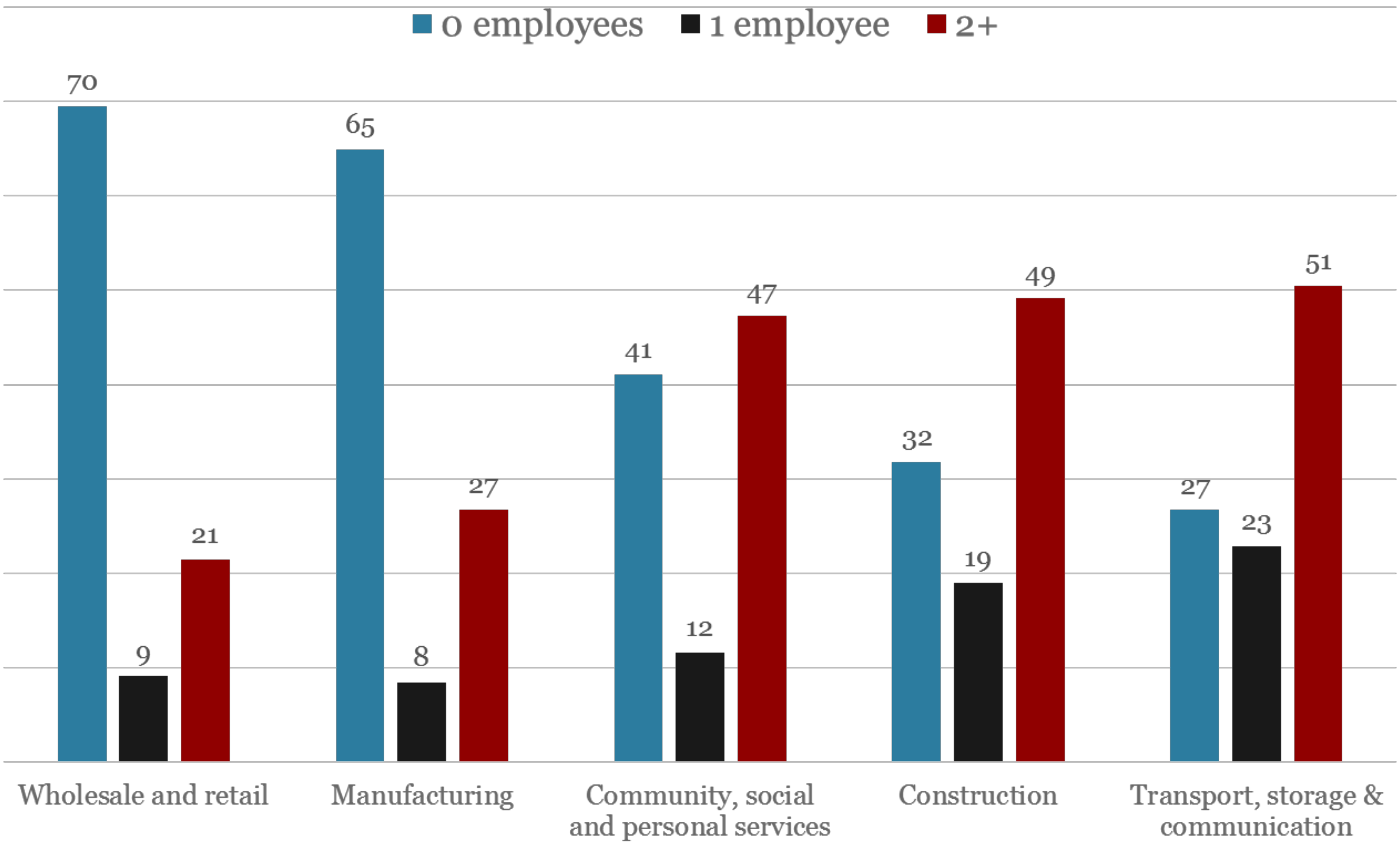
Source: QLFS, Q2 2013

Number of Employees: %

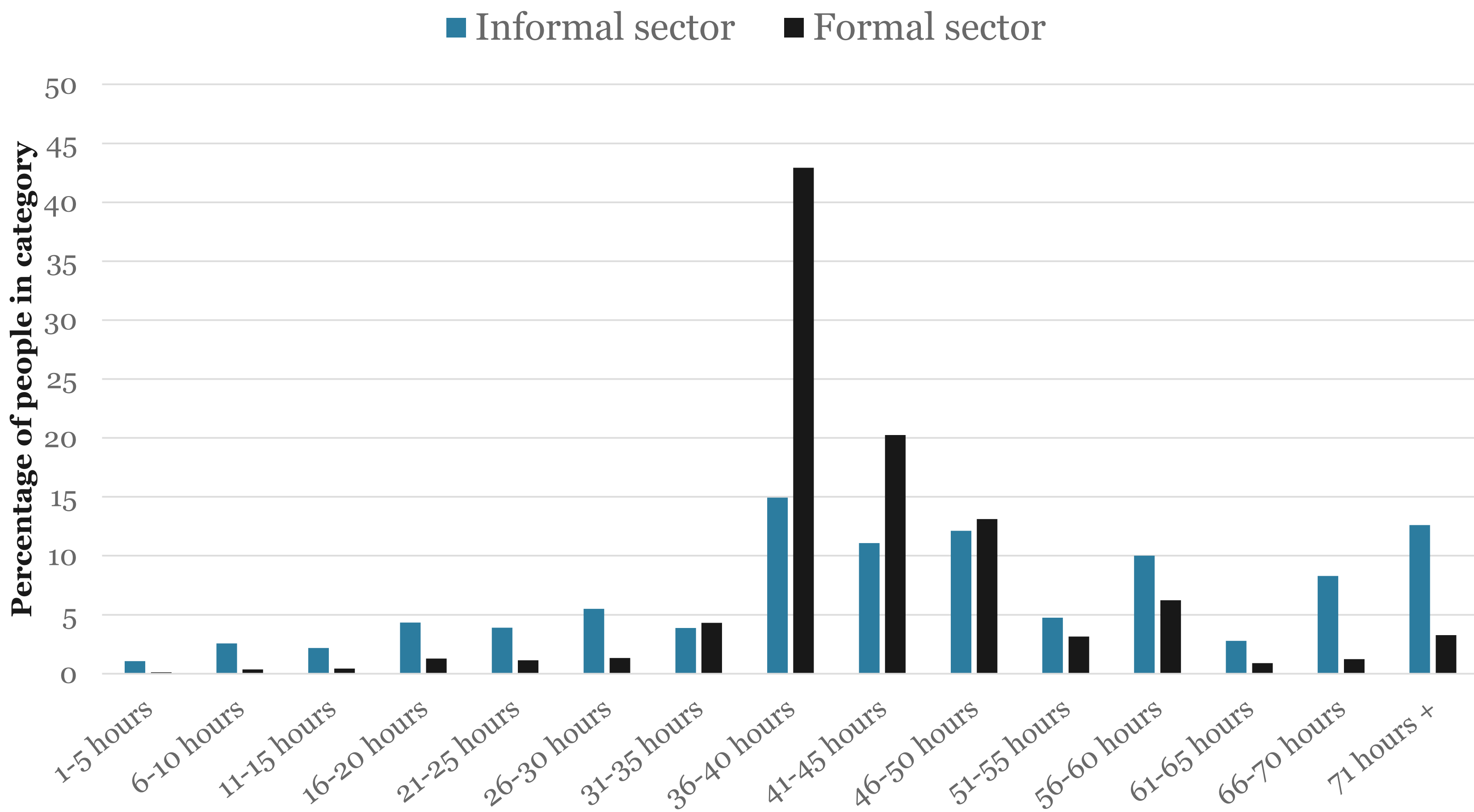


Source: QLFS, Q2 2013

Number of Employees by Industry (IS)

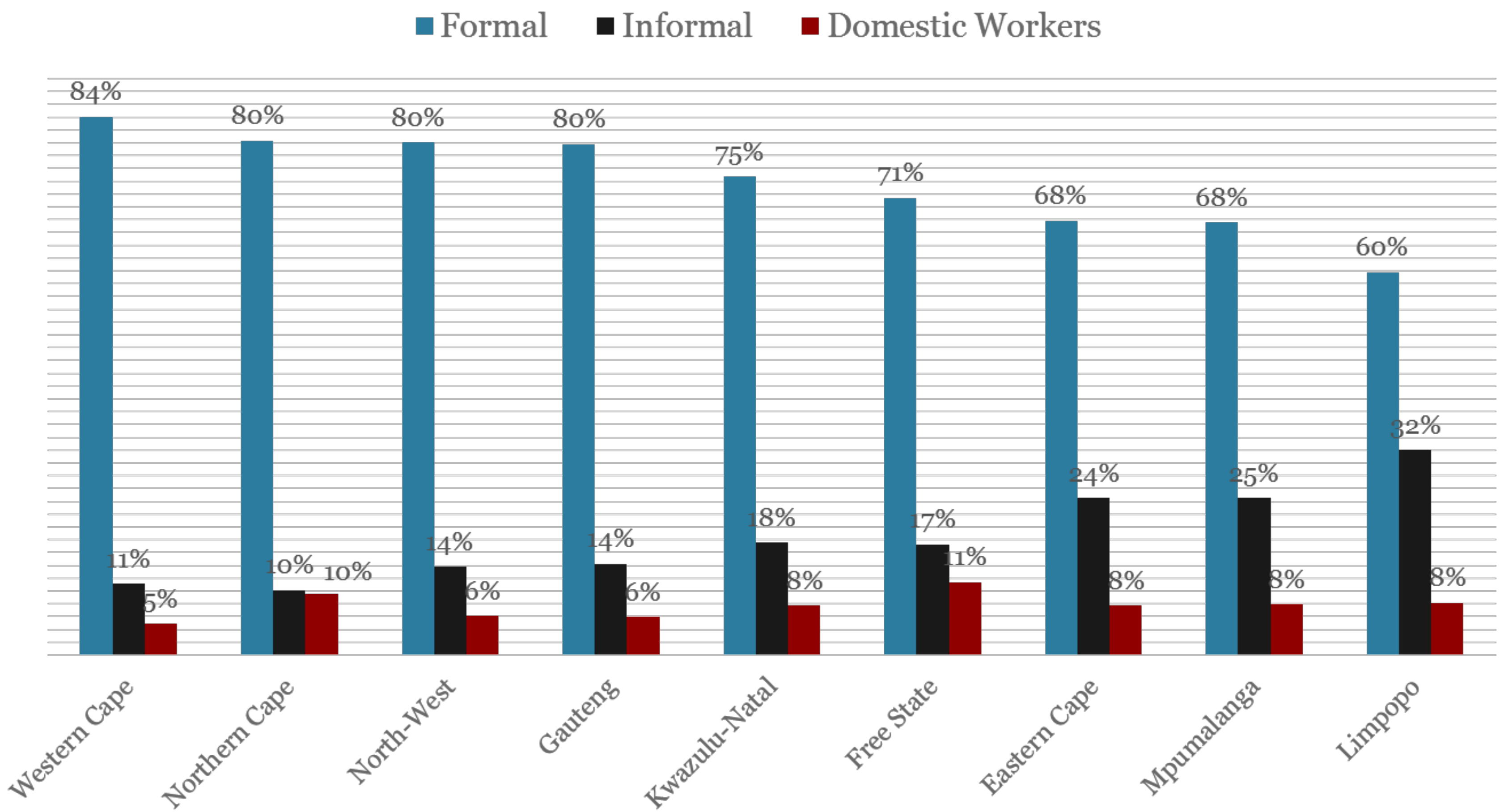


Hours worked



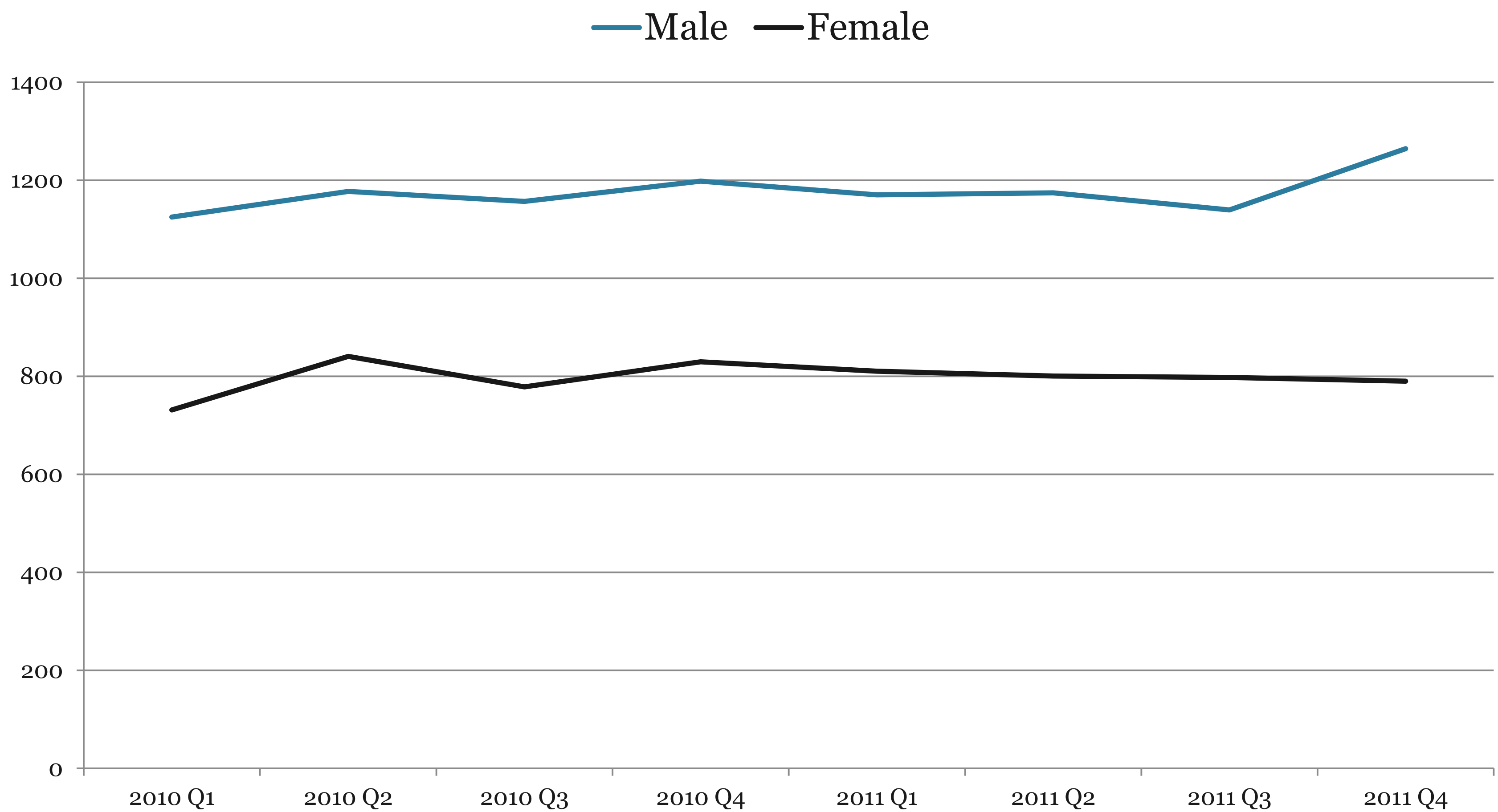
Source: QLFS, Q2 2013

Percentage of Non-agricultural Work by Province

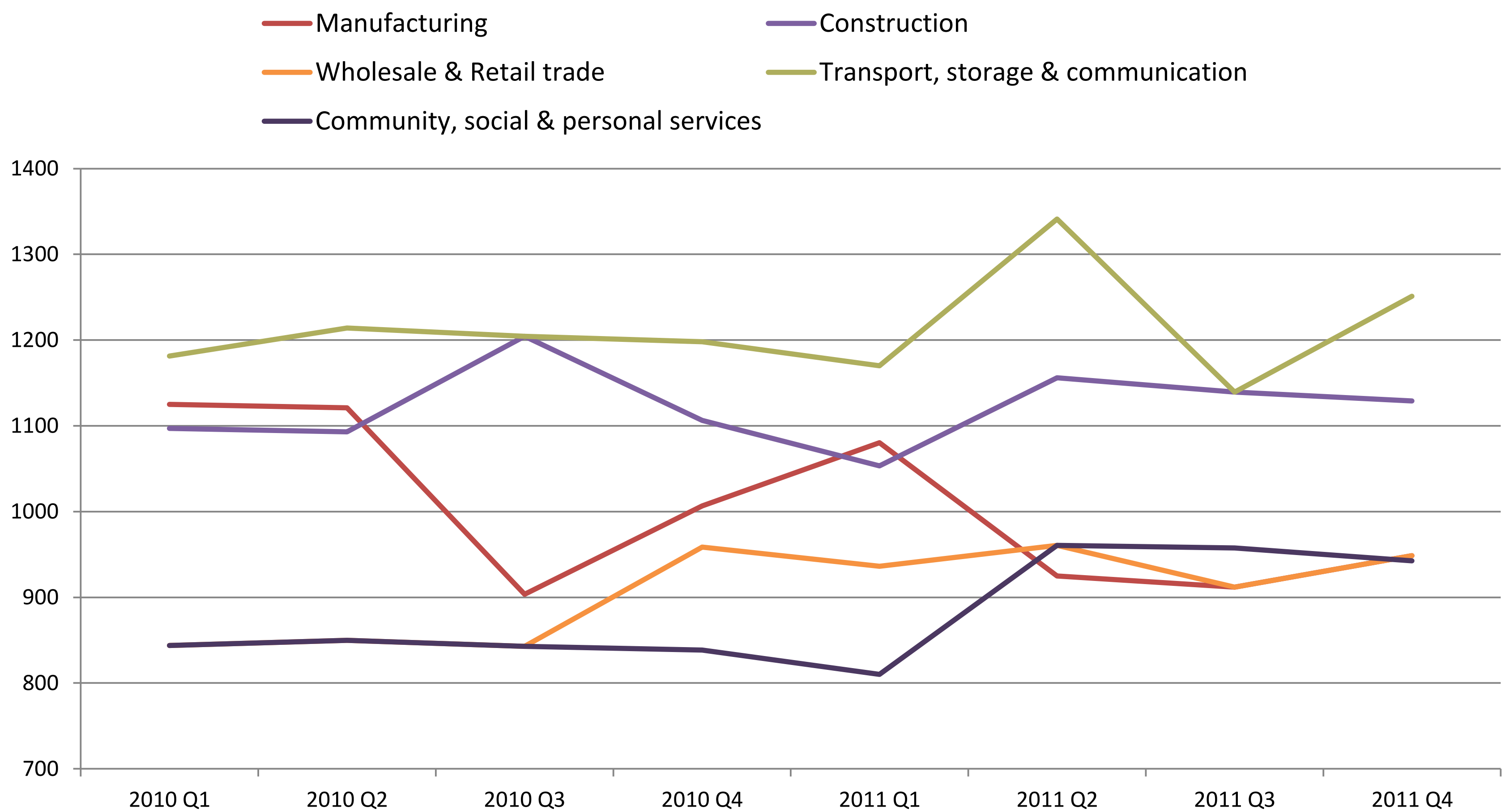


Source: QLFS, Q2 2013

Median Monthly Wages by Sex



Median Monthly Wages by Industry



Regression

- Simple OLS regression on real earnings to evaluate mean income differences between education levels, gender, and industries

- Women in the informal sector earn consistently less than men, age is positively correlated, there are increasing returns to education, and the industries as a whole are relatively similar. Financial services have the highest wages, followed by transport and construction.

Regression results

Dependent variable: ln(real earnings)	Pooled data			Individual quarters							
				2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4
Female	-0.47***	-0.49***	-0.46***	-0.41***	-0.43***	-0.41***	-0.46***	-0.45***	-0.52***	-0.46***	-0.57***
	(0.017)	(0.017)	(0.019)	(0.049)	(0.056)	(0.053)	(0.049)	(0.051)	(0.052)	(0.054)	(0.051)
Age	0.023***	0.025***	0.026***	0.031***	0.022**	0.02	0.034**	0.015	0.031***	0.021*	0.035***
	(0.0046)	(0.0043)	(0.0043)	(0.011)	(0.011)	(0.014)	(0.013)	(0.013)	(0.011)	(0.011)	(0.011)
Age^2	-0.00023***	-0.00017***	-0.00017***	-0.00024*	-0.00011	-0.00011	-0.00030*	-0.00006	-0.0002	-0.00011	-0.00031**
	(0.000058)	(0.000053)	(0.000053)	(0.00014)	(0.00013)	(0.00017)	(0.00017)	(0.00016)	(0.00013)	(0.00014)	(0.00013)
Primary school		0.043	0.039	0.21**	0.091	0.15	0.1	-0.015	0.16*	-0.24**	-0.18
		(0.036)	(0.036)	(0.088)	(0.1)	(0.093)	(0.097)	(0.1)	(0.091)	(0.12)	(0.11)
High school		0.31***	0.30***	0.43***	0.32***	0.38***	0.36***	0.28***	0.48***	0.071	0.018
		(0.036)	(0.036)	(0.088)	(0.1)	(0.096)	(0.092)	(0.11)	(0.09)	(0.12)	(0.11)
Matric or more		0.77***	0.76***	0.94***	0.80***	0.80***	0.71***	0.75***	0.98***	0.54***	0.49***
		(0.04)	(0.04)	(0.11)	(0.12)	(0.12)	(0.098)	(0.11)	(0.096)	(0.12)	(0.11)
Mining and quarrying			-0.34	0.54	-0.44	-0.59***	0.36***	-0.74**	0.26	1.08	0.60***
			(0.26)	(0.37)	(0.28)	(0.21)	(0.1)	(0.38)	(0.18)	(1.32)	(0.088)
Manufacturing			0.032	0.21**	0.063	0.018	0.05	0.054	0.02	-0.054	-0.095
			(0.028)	(0.096)	(0.075)	(0.097)	(0.078)	(0.075)	(0.077)	(0.066)	(0.067)
Electricity, gas and water supply			-0.04	0.48	1.79***	1.78***	-0.12	-1.41***	-0.17	-0.061	0.17**
			(0.26)	(0.47)	(0.061)	(0.078)	(0.55)	(0.52)	(0.19)	(0.25)	(0.067)
Construction			0.075***	0.14**	0.067	0.16*	0.02	0.032	0.11	0.051	0.0054
			(0.027)	(0.068)	(0.085)	(0.09)	(0.078)	(0.071)	(0.07)	(0.072)	(0.064)
Transport, storage and			0.096***	0.16**	0.073	0.11	0.067	0.13	0.15**	0.021	0.04
communication			(0.03)	(0.073)	(0.072)	(0.11)	(0.085)	(0.083)	(0.077)	(0.081)	(0.082)
Financial intermediation, insurance,			0.14***	0.18*	-0.02	0.029	0.039	0.21**	0.19**	0.25***	0.23**
real estate and business services			(0.034)	(0.092)	(0.085)	(0.12)	(0.087)	(0.09)	(0.094)	(0.092)	(0.096)
Community, social and personal			0.042*	0.031	0.041	0.067	0.023	0.015	0.017	0.079	0.075
services			(0.025)	(0.071)	(0.071)	(0.082)	(0.068)	(0.066)	(0.071)	(0.069)	(0.065)
_cons	6.57***	6.06***	6.01***	5.71***	6.08***	6.06***	5.95***	6.26***	5.75***	6.41***	6.25***
	(0.092)	(0.091)	(0.091)	(0.22)	(0.25)	(0.28)	(0.27)	(0.27)	(0.23)	(0.25)	(0.23)
r2	0.0440	0.1000	0.1000	0.1200	0.1000	0.0840	0.0810	0.1100	0.1400	0.1100	0.1200
N	27 012	27 012	27 012	3 433	3 536	3 410	3 387	3 248	3 320	3 337	3 341
N_pop	17 410 250	17 410 250	17 410 250	2 076 269	2 211 102	2 185 434	2 236 436	2 182 738	2 219 185	2 155 556	2 143 531

Abiding Curiosities

- Given our high unemployment levels, what are the barriers to entry to the South African informal sector?
- What are the constraints to growth /more secure livelihoods for people working in the informal sector?

The Role of Foreigners

- How do foreigners working in the South African IS compare to these national averages?
- If compared to their South African counterparts what are foreigners doing differently? How does this differ by sector?
- Where are the areas of current collaboration between foreigners and South Africans (supply, employment, hiring of premises)? How could these areas be strengthened?
- Some quantification of foreigners contribution to both the economy and to poorer consumers.

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