

Informal employment in South Africa

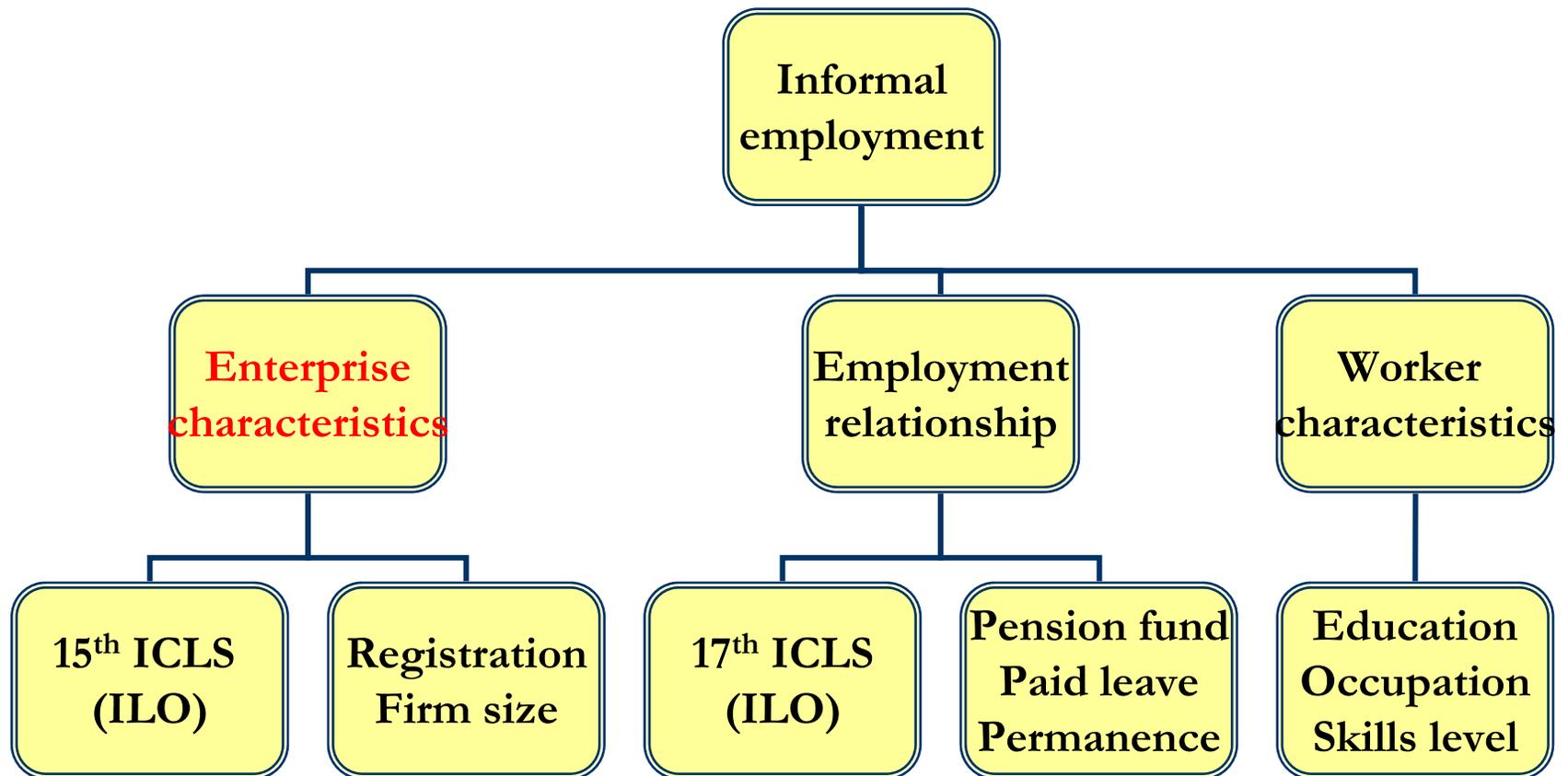
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*** The author acknowledges the valuable comments by **Prof. Servaas van der Berg**.

Format of the presentation:

- (Quick!) Review of the official (Stats SA) and unofficial (proposed) approaches to define informal employment
- Profile of informal workers
 - Demographic
 - Work activities
 - Working conditions
 - Earnings

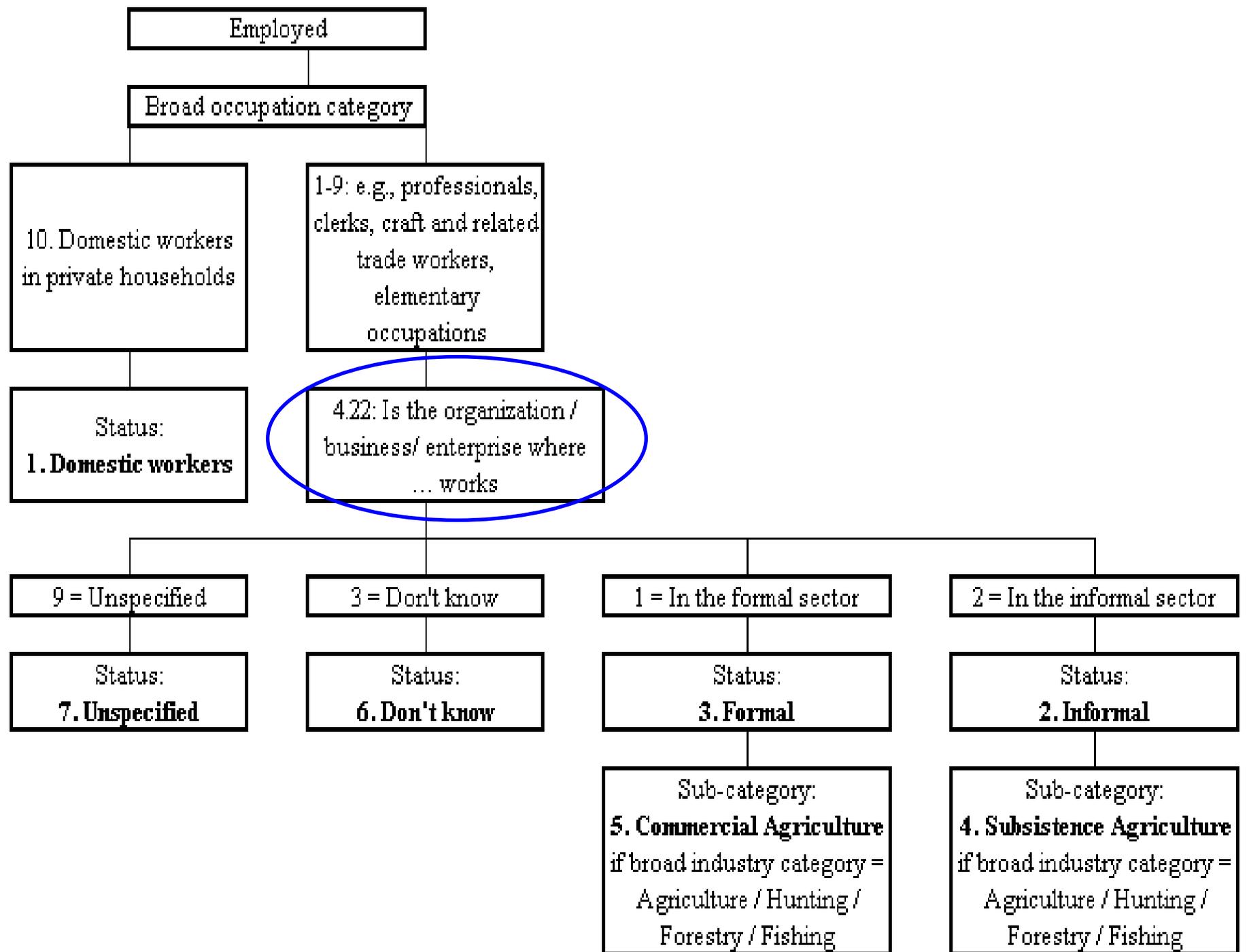
Common approaches to define informal employment



South African approaches: 1995-2007

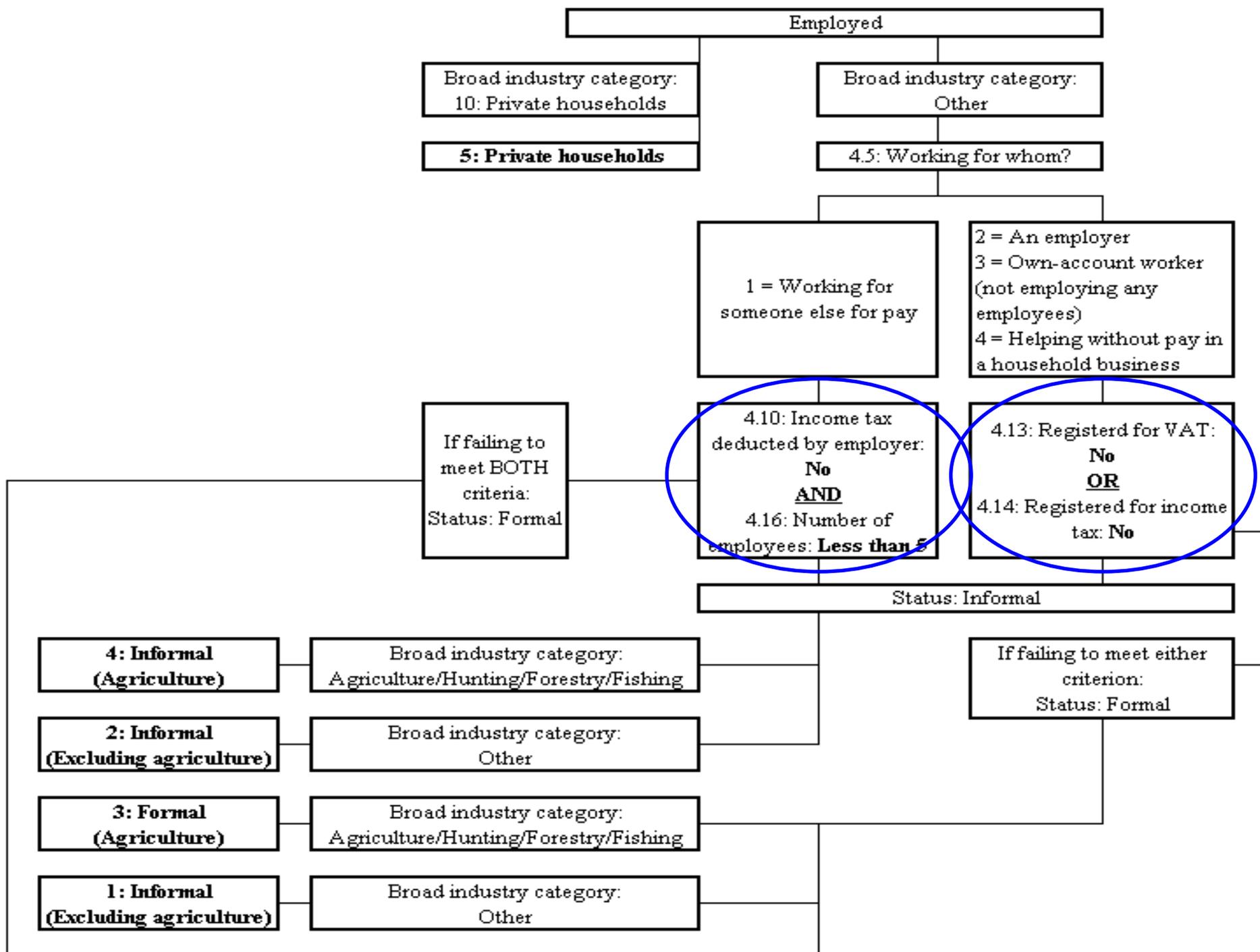
Stat SA (1995 – 2007)

- **Official method** to capture informal employment in 1995-2007
- **Enterprise-based** criterion adopted
- Criticisms:
 - Respondents' answer to the direct question were guided by their self-perception.
 - The questionnaire did not instruct the interviewers to read the footnote that explained the difference between formal and informal sectors in such direct question.
 - Even if the explanation was read, the respondents might not properly understand what registration of an enterprise entailed, thereby giving incorrect answers.
 - The questionnaire assumed that the employees knew the enterprise's formal/informal sector status.



South African approaches: 2008 – Stat SA method A

- **Official method** to capture informal employment since 2008
- **Enterprise-based** criteria adopted
- The direct, self-perceptive question on the formal/informal sector status was **completely abandoned** when distinguishing the informal sector workers. Other questions relating to the registration status of the enterprise are adopted when deriving informal employment.
- Employees were classified as informal workers if income tax (PAYE/SITE) was not deduced from their salary/wage and the number of employees at the place of work was fewer than 5.
- Employers, own-account workers and those who were unpaid in household business (all three categories are classified as self-employed) were classified as informal workers if they were not registered for either income tax or VAT.



South African approaches: 2008 – Stat SA method B

- **Unofficial method** to capture informal employment since 2008
- Enterprise-based and employment-relationship-based criteria adopted
- Methodology:
 - All the informal sector workers as defined in method A are still defined as informal workers.
 - Looking at the former sector employees, they are re-coded as informally employed if they are not entitled medical aid **OR** not entitled pension funds **OR** did not have written contract with the employer.

	[A]: Employment	[B]: Informal	[B] / [A]
OHS1995	9,499,347	521,668	5.5%
OHS1996	8,966,307	330,100	3.7%
OHS1997	9,093,647	1,043,347	11.5%
OHS1998	9,370,130	1,077,141	11.5%
OHS1999	10,356,143	1,571,646	15.2%
LFS2000a	11,874,409	1,819,556	15.3%
LFS2000b	12,224,406	2,026,065	16.6%
LFS2001a	12,260,207	2,836,182	23.1%
LFS2001b	11,167,541	1,964,763	17.6%
LFS2002a	11,603,398	1,821,426	15.7%
LFS2002b	11,283,924	1,778,542	15.8%
LFS2003a	11,297,621	1,827,711	16.2%
LFS2003b	11,411,351	1,901,131	16.7%
LFS2004a	11,378,217	1,764,630	15.5%
LFS2004b	11,630,196	1,944,236	16.7%
LFS2005a	11,894,320	2,068,479	17.4%
LFS2005b	12,287,798	2,459,690	20.0%
LFS2006a	12,437,963	2,187,940	17.6%
LFS2006b	12,787,285	2,376,338	18.6%
LFS2007a	12,634,896	2,129,164	16.9%
LFS2007b	13,293,327	2,083,855	15.7%
QLFS2008Q1	13,636,995	2,324,768	17.0%
QLFS2008Q2	13,749,288	2,347,559	17.1%
QLFS2008Q3	13,668,530	2,178,806	15.9%
QLFS2008Q4	13,861,822	2,249,608	16.2%
QLFS2009Q1	13,652,530	2,157,422	15.8%
QLFS2009Q2	13,388,133	2,113,654	15.8%
QLFS2009Q3	12,896,820	1,995,863	15.5%
QLFS2009Q4	12,983,951	2,110,204	16.3%
QLFS2010Q1	12,825,578	2,014,083	15.7%
QLFS2010Q2	12,766,534	2,132,921	16.7%
QLFS2010Q3	12,998,660	2,177,395	16.8%

ment: Number

Devey et al. (2006) argues that, the LFS 2001a figure might not bean outlier, but rather the 'correct' estimate.

It is because more probing questions were asked about self-employment and small businesses in a follow-up survey, which may have led to a larger number of respondents than usual classifying themselves as informal workers.

Informal employment: Demographic & education characteristics

- More Blacks in informal sector, increasing from 84% in early LFS to 87% in QLFS2009
- More males than females (ranges from 55%/45% to 60%/40%)
- Informal sector employment as percentage of non-agricultural employment by gender and race is the highest for **Black females**, hovers around 35%.

Informal employment: Demographic & education characteristics

- Concentrated in Gauteng (+-25%), KwaZulu-Natal (+-20%), Eastern Cape (+-15%) and Limpopo (+-13%) provinces.
- Aged 25-44 years.
- About 70% have less than Matric as highest educational attainment.

Informal employment: Demographic & education characteristics

QLFS 2010 Q2	Informal sector					Formal sector				
	Black	Coloured	Indian	White	All	Black	Coloured	Indian	White	All
No Education	5.9%	1.3%	1.0%	0.0%	5.2%	2.0%	0.6%	0.3%	0.0%	1.4%
Incomplete Primary	15.3%	8.1%	6.2%	0.8%	13.8%	6.5%	3.6%	1.1%	0.1%	4.6%
Incomplete Secondary	54.1%	62.0%	30.3%	22.3%	52.5%	37.8%	40.8%	20.9%	13.9%	32.5%
Matric	21.3%	22.1%	47.4%	44.4%	23.1%	32.1%	39.7%	51.5%	39.8%	35.6%
Matric + Cert./Dip.	3.1%	6.0%	8.9%	20.1%	4.3%	15.2%	9.8%	11.1%	21.4%	15.6%
Degree	0.4%	0.5%	6.2%	12.0%	1.1%	6.3%	5.6%	15.2%	24.8%	10.5%
Mean eduyear	8.75	9.61	10.85	12.08	9.04	10.76	10.91	12.05	12.89	11.28

Informal employment: Work activities

- About 60-65% of informal workers are self-employed
- Occupation: Mainly involved in unskilled elementary occupations (**but declining from 44% in 2005 to 33% in 2010**), craft and related trade work (20%) and working as service workers and shop/market sales workers (**increasing from 15% to 20% in 2010**)
- Industry: Nearly 50% are involved in activities in the wholesale and retail industry

Informal employment: Work activities

Male		Female	
% of total informal sector employment	%	% of total informal sector employment	%
Farm-hands and labourers	14.35	Street food vendors	30.53
Bricklayers and stonemasons	10.34	Street non-food vendors	13.48
Street food vendors	8.42	Spaza shop operator	6.02
Street non-food vendors	5.81	Tavern and shebeen operators	5.41
Motor vehicle mechanics and fitters	4.32	Hairdressers, beauticians and related workers	4.43
Spaza shop operator	3.85	Tailors, dressmakers and hatters	3.78
Car, taxi and van drivers	3.78	Bricklayers and stonemasons	2.84
Painters and related workers	3.15	Healer and sangoma	2.68
Carpenters and joiners	3.05	Personal care of children and babies	2.62
Construction and maintenance labourers	2.18	Shop salespersons and demonstrators	2.61
	59.25		74.40

Informal employment: Working conditions

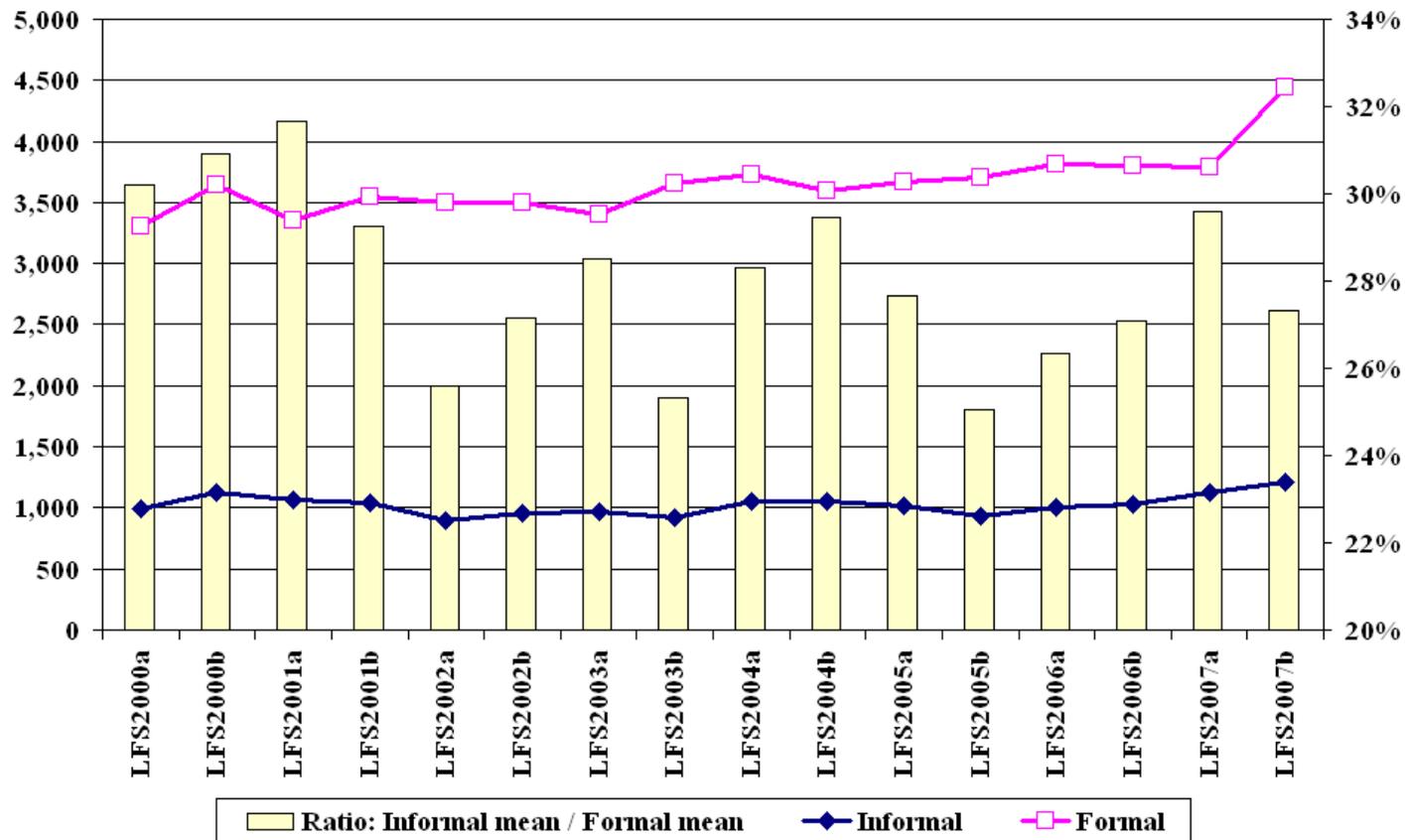
- Location:
 - About 40% of informal workers work at employer's work/home
 - 20% work at someone else's home
 - Nearly 25% do not have a fixed location of work
- Firm size:
 - Employees only: 25% have 1 worker only
 - Self-employed only: increases to 70%
 - All informal sector workers: more than 80%: < 5 employees

Informal employment: Working conditions

- Work permanence
 - Only 30% of employees in informal sector are permanently employed, showing downward trend
 - 63% are in casual / temporary posts (16% for formal sector)
- Tenure:
 - 40% of informal sector employees have worked for present employer less than 1 year
- Others conditions:
 - 20% have contract with employer
 - 3.5% are members of trade union (sadly not asked in QLFS...)
 - 12.5% are entitled paid leave
 - 7% have retirement benefits

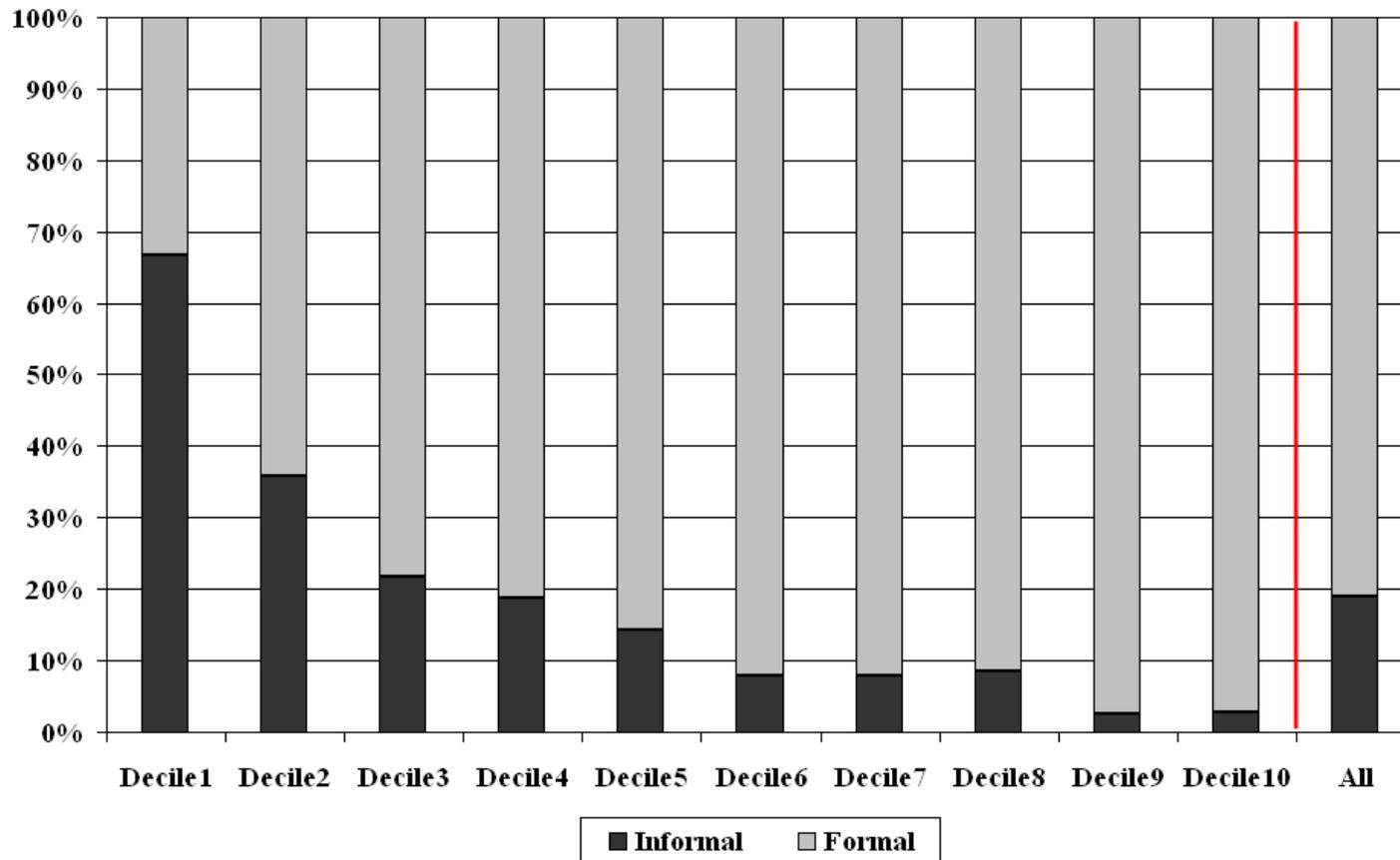
	Informal sector			Formal sector		
	Employee	Self-employed	Total	Employee	Self-employed	Total
LFS2000a	981	1 006	998	3 077	7 319	3 302
LFS2000b	1 011	1 194	1 127	3 379	6 055	3 547
LFS2001a	1 132	1 039	1 064	3 101	6 882	3 314
LFS2001b	1 031	1 042	1 039	3 315	7 036	3 531
LFS2002a	794	942	894	3 214	7 952	3 487
LFS2002b	867	989	951	3 272	7 146	3 502
LFS2003a	892	1 012	971	3 132	7 295	3 373
LFS2003b	903	935	924	3 383	8 157	3 652
LFS2004a	889	1 138	1 056	3 402	8 528	3 723
LFS2004b	823	1 169	1 058	3 341	7 880	3 591
LFS2005a	1 014	1 017	1 016	3 322	8 872	3 676
LFS2005b	974	902	928	3 462	7 317	3 678
LFS2006a	958	1 030	1 006	3 510	8 662	3 818
LFS2006b	904	1 094	1 029	3 564	7 802	3 802
LFS2007a	1 190	1 083	1 121	3 518	8 095	3 790
LFS2007b	1 139	1 250	1 214	4 241	7 749	4 441

Informal employment: Mean monthly earnings (2000 price)



	Informal sector				Formal sector			
	Black	Coloured	Indian	White	Black	Coloured	Indian	White
LFS2000a	765	961	1 917	3 701	2 139	2 574	3 547	6 360
LFS2000b	906	1 317	1 693	4 229	2 280	2 947	3 597	6 866
LFS2001a	874	1 213	2 210	3 939	2 183	2 874	3 606	6 347
LFS2001b	751	1 436	2 106	4 527	2 253	2 820	3 861	6 780
LFS2002a	715	1 154	2 705	3 241	2 305	2 790	3 780	6 775
LFS2002b	708	1 214	2 595	3 971	2 405	2 704	3 583	6 866
LFS2003a	713	1 189	2 250	4 324	2 247	2 703	3 921	6 672
LFS2003b	713	1 113	4 214	4 021	2 383	2 868	4 031	7 620
LFS2004a	782	1 413	2 861	5 324	2 459	3 034	4 924	7 346
LFS2004b	870	1 315	2 588	4 904	2 426	2 827	4 621	7 330
LFS2005a	854	1 157	2 136	4 566	2 534	2 910	4 871	7 299
LFS2005b	802	1 408	2 608	3 067	2 576	3 157	4 155	7 195
LFS2006a	856	1 543	2 916	3 030	2 585	3 128	4 418	7 575
LFS2006b	867	1 768	1 911	3 961	2 690	2 907	5 109	7 533
LFS2007a	952	1 532	2 255	3 300	2 684	3 330	5 176	7 367
LFS2007b	1061	1 514	3 285	3 692	2 813	3 414	9 723	9 455

Informal employment: Earnings decile of non-agricultural workers, LFS 2007 September



Conclusion on characteristics of informal sector workers

- Black
- Self-employed (especially females)
- Staying in Eastern Cape, KwaZulu-Natal, Gauteng or Limpopo
- Without Matric
- Aged 25-44 years
- Monthly earnings: ± R1000 (2000 prices)
- Temporary/Casual contract
- Involved in unskilled elementary occupations
- Involved in wholesale/retail industry

Entry to informal sector – voluntary or involuntary decisions?

- Voluntary (active) decision to enter:
 - Prefer the freedom in informal sector (compared with the rigid regulations and taxation faced by formal enterprises)
 - Strike the right balance between home and income-raising responsibilities (e.g., housewives teaching swimming to kids for 2hours/day, while still able to take care of their kids + watch Oprah Winfrey Show / 7 de laan at home)
 - Tax avoidance

Entry to informal sector – voluntary or involuntary decisions?

- Involuntary (passive) decision to enter:
 - Unable to find employment in formal sector (low education, experience, skills level, etc.)
 - Recently retrenched from the formal sector (recession, simply unproductive)
- Note: there could be barriers of entry to informal sector:
 - High crime rate at the work location
 - Lack of access to finance/loan
 - Lack of infrastructure
 - Lack of training opportunities to upgrade skills (due to short tenure?)

Thank you!

- Feel free to ask questions **formally** or **informally**...

3 groups of unemployed

