‘(Re)conceptualizing poverty and informal employment’

Michael Rogan
(Rhodes University & WIEGO)
Poverty narrative:

Former South African president Thabo Mbeki famously, and somewhat controversially, identified informal workers as part of the ‘second economy’ which is characterised by poverty and under-development and which is structurally disconnected from the formal economy.
Poverty in the informal economy:

• A well established narrative borne out by statistics
• 839 million working poor in the developing world that survive on less than $2/day, about 80% are in the informal sector (ILO, 2016).
• progress in reducing working poverty, particularly in developing countries, has stalled over the past five years (ILO, 2016).
A slightly different perspective:

• NB: But how does informal employment contribute to poverty reduction?

• Emphasis is often on entrepreneurship BUT this group has a different set of needs from the ‘survivalist’ sector

• Important to link informal employment to wider development goals and to begin to explore links to household well-being (however crudely)
Total Household Income in South Africa

- Informal employment: 9%
- Formal employment: 57%
- Social grants: 7%
- Other: 27%

Source: Own calculations (Cichello and Rogan, 2017) from NIDS using the DASP module developed by Araar and Duclos (2007)
Notes: The data are weighted.
Income sources are expressed in monthly per capita terms (2010 prices).
Total Contribution to Poverty Reduction

- Informal employment: 14%
- Formal employment: 38%
- Social grants: 21%
- Other: 27%

Source: Own calculations (Cichello and Rogan, 2017) from NIDS using the DASP module developed by Araar and Duclos (2007)
Notes: The data are weighted. Income sources are expressed in monthly per capita terms (2010 prices).
‘Poverty reduction ratios’ for the poverty headcount

Source: Own calculations from NIDS using the DASP module developed by Araar and Duclos (2007)
Notes: The data are weighted. Income sources are expressed in monthly per capita terms (2010 prices).
Relative impact ‘per job’ on poverty ($P_0$)

Source: Own calculations from NIDS using the DASP module developed by Araar and Duclos (2007)
Notes: The data are weighted.
Income sources are expressed in monthly per capita terms (2010 prices).

<table>
<thead>
<tr>
<th>Source</th>
<th>IS</th>
<th>Informal wage</th>
<th>Casual work</th>
<th>Domestic work</th>
<th>Formal sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>R307</td>
<td>0.63</td>
<td>0.81</td>
<td>0.54</td>
<td>0.85</td>
<td>1</td>
</tr>
<tr>
<td>R424</td>
<td>0.56</td>
<td>0.71</td>
<td>0.45</td>
<td>0.74</td>
<td>1</td>
</tr>
<tr>
<td>R594</td>
<td>0.48</td>
<td>0.6</td>
<td>0.38</td>
<td>0.48</td>
<td>1</td>
</tr>
</tbody>
</table>
Conclusions:

- Relative to their income shares, jobs in the informal economy have a large poverty impact.
- Underscores heterogeneity within the informal economy.
- It will be difficult to meet poverty reduction targets without improving the incomes/earnings of informal workers.
- In the process of ‘formalising the informal’ it will be crucial to avoid adding risks or placing pressures on the earnings of informal workers.
Source:


*REDI 3x3 Working Paper No. 34*. Southern Africa Labour and Development Research Unit (SALDRU), University of Cape Town