

# south africa's growing 'informal sector'

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*'Informal sector' is probably the most prevalent economic buzz-phrase of the moment. What does the term mean? How significant is the informal sector in our day-to-day economic life and for South Africa's transformation from a dualistic 'First World vs Third World' economic model to an integrated semi-developed economy?*



Cedric Nunn / South Africa. The cardboard heart

*Isithebe Industrial Park 1983.*

*(Isithebe was established as a 'growth point' 100 km North of Durban in Kwa Zulu.) The scene illustrates the formal / informal-sector interface described in the article.*

Like all buzz-words, 'informal sector' means different things to different people. Television viewers may visualise street hawkers or flea markets; established dealers think of the 'unfair competition' of sidewalk traders. Many people consider the informal sector somehow 'illegal' - shebeens, unlicensed taxis, and backyard panelbeaters operating without municipal permission. Many whites equate the informal sector with black business in general or, more narrowly, African economic enterprise in or around the townships.

All these examples - and a lot more - fall within the broad spectrum of the informal sector. All activities which fall **outside** the formal net of registered, taxed, licensed, statistically documented and appropriately zoned business enterprises comprise the informal sector.

One can distinguish two broad components of the informal sector: activities within the 'Third World' segment of our society - amongst township dwellers and in the rural areas - and those within the 'First World' (middle- and upper-income) segment.

*a closer look at the hundreds of black entrepreneurs reveals that most of them started 'small'*

### In the 'Third World'

'Third World' informal-sector activities comprise two inter-related groups: the so-called 'survival entrepreneurs', and proper embryonic entrepreneurs. The former encompass the unemployed who are looking for regular employment, but are meanwhile dependent on making a living through 'self-employment'. This class of 'entrepreneurs' covers a wide range, from pickpockets, drug pedlars, pimps and money dealers to private taxi-drivers, hawkers, shebeen owners, shack builders, second-hand clothing vendors, etc.

While the 'survival entrepreneurs' are trying to earn a minimum income for mere existence, the other group is taking an initial business step en route to a larger, more lucrative and (if necessary) formalised (taxed, licensed, properly accommodated, statistically registered) business. An example is the person who starts selling a few groceries from the homeshack to next-door neighbours, hoping to open a small general dealer 'outlet' and eventually own or run a 'proper shop' in a shopping centre.

Empirical evidence shows that very few of the survival entrepreneurs start proper businesses or make sufficient net profit to be regarded as successful entrepreneurs. Yet, a closer look at the hundreds of black entrepreneurs reveals that most of them started 'small', i.e. indistinguishable from the first category.

In a country where formal-sector, capital-intensive employment opportunities grow slowly,

it is essential that an increasing share of new jobs is created and maintained in the informal sector. This raises a most important question: how can informal-sector job creation be encouraged and stimulated through appropriate public- and private-sector support? Some experience has been gained in recent years - e.g. through the mini-loan scheme of the Small Business Development Corporation, training programmes offered by business institutions, assistance to co-operative ventures and marketing support for informal-sector operators. But a huge task still lies ahead.

### In the 'First World'

It is also important to consider informal-sector activities in the 'First World' segment of our race-class stratified society. Here again we can distinguish two categories: part-time, moonlighting and hobby-related activities (which are often untaxed, unlicensed, and home-based) and embryonic entrepreneurial activities aimed eventually at establishing a 'proper' business.

Close observation of this range of informal-sector activities reveals an equally astonishing diversity. It includes a multitude of recreational, sport-related, training/tuition-orientated, artistic, home-care, retail, catering and professional services or activities. Quite often people doubt that these informal activities are significant in number or economic contribution - until one asks them to list and estimate the income value of **all** such activities known to them within their own circle of relatives and close friends.



*Tailor with wife.  
Amouti, Inanda*

*...it seems reasonable to assume that at least about four million people... are involved in... informal-sector activities.*

### Deregulation and informal-sector growth

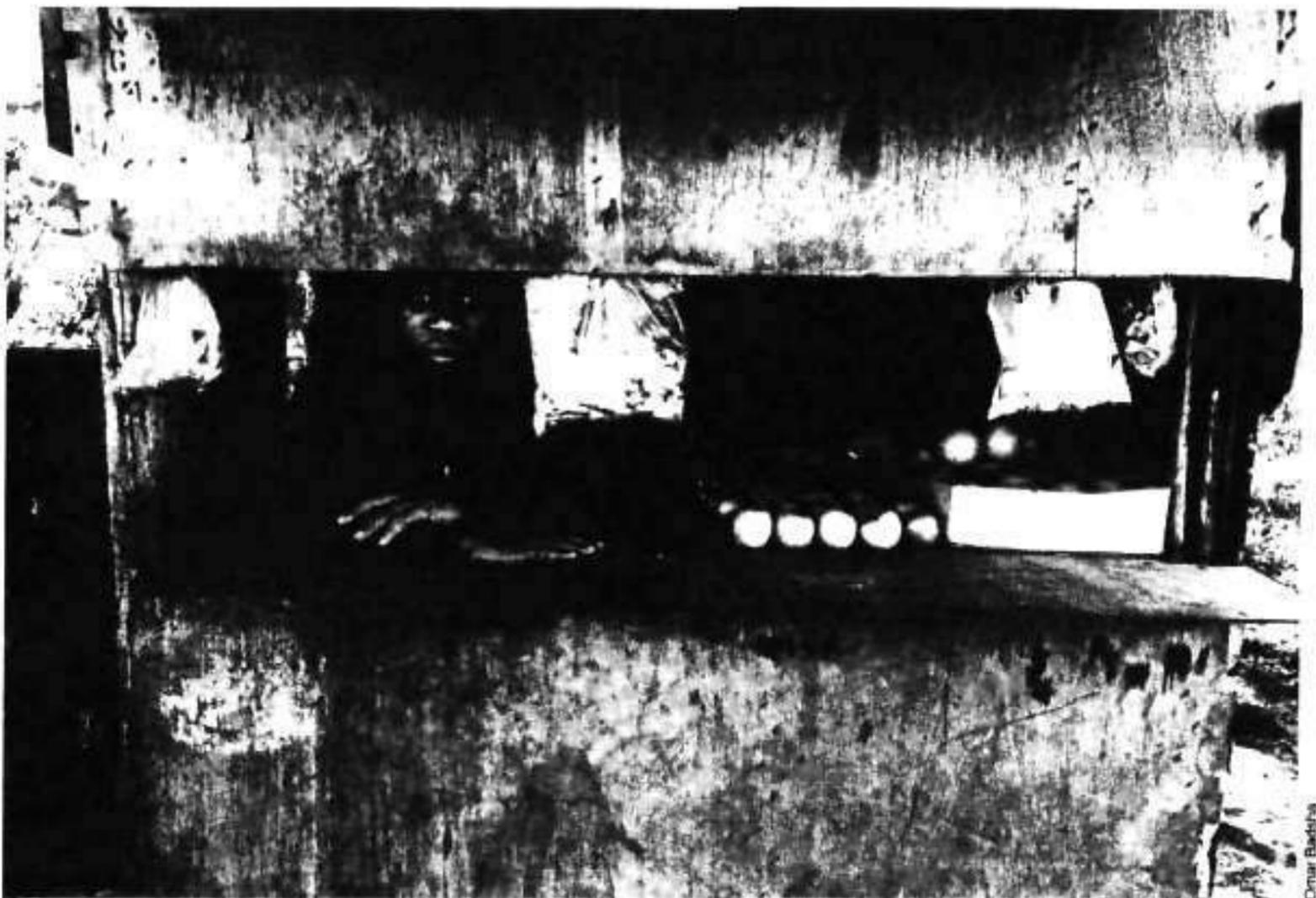
From the above, it should be clear why 'deregulation' - another economic buzz-word - is so important. Rigid enforcement of municipal, tax, licensing and other regulations and controls dampens the development and expansion of this complex pattern of self-initiated, informal activities. Municipal prohibitions on business activities on residential premises, for example, are not motivated by the need for job creation. Similarly, organised, established businesses that complain about the 'unfair' competition of hawkers in front of their shops are either selfish or ill-informed about the interaction between formal and informal businesses. (In some towns, vegetable and grocery dealers have learned that hawkers in front of their shops actually attract customers and constitute lucrative wholesale clients.)

Because of the difficulty of accurately conceptualising 'informal sector' activities and due to the understandable elusiveness of these operators when it comes to the documentation of their turnover, costs, or profits, estimates of the informal sector's overall contribution to South Africa's Gross Domestic Product (or National Income, both concepts measuring aggregate economic activity) range from Free Market Foundation director Leon Louw's wild guess of 60% **on top of** measured GDP to no provision at all by the prestigious S.A. Reserve Bank in its 'official' GDP statistics (without even a footnote conceding the possibility that these figures might exclude 'informal sector'

production).

To get a feel for the relative size of the informal sector we should look at a number of measurements, none of which reveals the full picture.

- In terms of **contribution to the GDP** it seems safe to argue that about eight per cent should be added to the official GDP figures to account fully for 'First World' informal-sector activities (some of which undoubtedly are included in the official figures) and another 12% for 'Third World' informal-sector activities. Percentages twice as high have been mentioned, but it is likely that these refer to the understatement of the GDP (which also relates to formal-sector activities) rather than the informal sector only. Nevertheless the 20% is most certainly a conservative estimate.
- With respect to **employment** it seems reasonable to assume that at least about four million of the six million people unaccounted for in formal employment statistics, but part of the labour force, are involved in part-time, temporary, after-hour or even full-time informal-sector activities. In addition, probably another one or two million of the eight million employed are more or less regularly engaged in some non-formal sideline activity or supplementary earnings. Thus, out of a total adult population (15 years and older) of 21 million, about six million are likely to be 'involved' in this sector.
- It is often forgotten that informal-sector activities can also contribute significantly to



*A township food stall: living through self employment.*

*...due to informal-sector growth, it is most probably not true that per capita GDP declined in South Africa during the 1980s.*

the **capital formation** process. For example, shack building in urban and rural 'squatter' areas comprises an average per shack of at least R1 000 in capital, none of which is supplied by either the state or formal-sector financial institutions. Thus, the 100 000-odd squatter shacks erected in greater Cape Town during the past seven years constitute a capital investment of at least R100 million (excluding later upgrading as well as furniture and other more durable consumer goods).

- In some subsectors of the economy - like shebeens, taxis, hawkers, and township money-lending - informal-sector enterprises constitute the bulk of establishments.

A further crucial point about the relative significance of the informal sector challenges much of the conventional wisdom about South Africa's alleged near-zero economic growth rate. With the rapid increase in African urbanisation (de facto urbanisation has reached 55% amongst Africans, notwithstanding census figures of less than 40%), and the 'deepening' of urban economic growth amongst all races, the informal sector actually increased disproportionately fast during the past five years. Since little of this sector's contribution to the GDP is measured in official statistics, the higher total share implies a significantly higher annual growth rate in the GDP - as much as one or two per cent higher. Thus, due to informal-sector growth, it is most probably not true that per capita GDP declined in South Africa during the 1980s.

### **The formal / informal-sector interface**

There are two seemingly contradictory views of the role and significance of the informal sector.

Critics on the progressive left have for a long time regarded the black ('Third World') informal sector as little more than a 'parasitic' way in which the unemployed (or those living below subsistence levels because of the inequity of the capitalist system) keep alive. It is argued that these marginalised pseudo-entrepreneurs have neither the capital, know-how, contacts or business experience to grow beyond mere 'survival' income generation. On the other hand, capitalists are seen to 'use' this sector to produce goods at lower prices, absorb second-rate goods from the formal sector and maintain a stock of surplus labour. Thus, the informal sector is regarded as highly dependent on the formal sector and powerless vis-à-vis the latter - a relationship of capitalist exploitation.

Free marketeers hold a sharply contrasting view of the informal sector. They marvel at what they see as the highly competitive and dynamic training field for more formal

enterprises. Besides, through the resourcefulness and adaptability of these operators, unemployment is reduced if not eliminated altogether. Thus, people still without a job are assumed to be 'voluntarily unemployed'.

The informal sector is also often seen as a useful counter to the wage-pressure from trade unions, to monopolistic tendencies by larger enterprises and to inflationary pressures caused by rising costs of business premises, rigid regulations and high business overheads. In short, some proponents see the informal sector as **the** factor that could transform South Africa's stagnant post-colonial economy into a vibrant Taiwan- or South Korea-type developing economy.

These two schools, even if not quite so extreme, seem difficult to reconcile. Nevertheless, it is possible to do so if we take account of day-to-day developments and contradictions at the formal/informal-sector business interface.

Anyone who has visited African squatter settlements is easily convinced of the 'Lumpenproletariat' explanation of the informal sector. Rows of hawkers try to eke out a living by selling some fruit or vegetables. Yet, once one takes a closer look and pierces through the networks of personal and business relationships, it becomes clear that the turnover of individual 'enterprise' is often higher than would be expected, that performance differs widely from one business to the next and there is a complex and often intensive learning and growth curve.

The outcome of these processes can be seen in the dramatic transformation of, amongst others, the black taxi, shebeen, cosmetic and haircare, construction, hawking and clothing sectors, all of which offer examples of entrepreneurs who have overcome small beginnings and almost insurmountable obstacles.

This growth is, to a large extent, the result of the expansion of the township economies, where the black informal sector has so far been protected from 'unfair' competition by large supermarkets, factory stores and other outlets. The boycotts of white businesses between 1984 and 1986 actually assisted the townships in a quantum leap of 'inward growth'. Since then the process has become much more diversified:

- With greater calm in the townships large white-owned wholesalers and other enterprises are keen and have succeeded in concluding business deals with township entrepreneurs;
- the consolidation of the urban settlement process and three years of mild economic boom have boosted black spending - much of it inside the townships;
- trade union pressures on wage levels have given impetus to big business' search for

*the structure of South African business is now changing dramatically*

- black sub-contractors willing to supply intermediate production services;
- the franchise system of establishing branches or outlets inside black townships - with black management - has caught on in a big way;
- bigger companies are getting interested in selling off some of their activities (like delivery services) to black staff, whom they treat as independent entrepreneurs;
- with the rapid increase in black matriculants and a variety of post-matric training, the range of black people able and willing to undertake entrepreneurial functions is increasing rapidly;
- almost every month new black business interest groups are established, contributing to a change in the image and leverage of black enterprise - until recently the 'Cinderella' and 'Uncle Tom' of the black political economy - and making people much more aware of opportunities in this field;
- efforts to strengthen the informal sector, train its participants and expand the interac-

tion with the formal sector are also increasing rapidly, with institutions like SBDC, Get Ahead and Get Up, company-specific projects and broader training efforts supplementing each other.

What does all this mean? Undoubtedly formal-sector business still controls the bulk of all economic activity in South Africa. Yet, with more than 50% of all (measured and estimated) consumer spending passing through black hands, the structure of South African business is now changing dramatically. The informal sector is an important factor in this transformation and its growing strength is playing an important role in black/white economic relations.

Till very recently critical observers of the black socio-political scene in South Africa considered the trade union movement (and the clergy) as virtually the only significant grassroot force(s) reshaping the black/white interface of power. With the growth of the black informal sector and its intricate link with the formal business sector this perception may be in need of revision. □

## co-operatives

Research is currently being undertaken at the Institute of Social and Economic Research at Rhodes University into the co-operative model as a means towards social and economic empowerment. According to the researcher, Neal Barratt, the work seeks to answer a number of questions about co-operatives.

The first of these asks, quite simply, what a co-operative is. In South Africa, the term has been used to explain practically any activity in which people get together and make something - a definition which is not entirely accurate. The research aims to arrive at a more concrete explanation of the term.

Secondly, so-called co-operatives have had an alarming record of failure in South Africa. The work hopes to identify what the major problem areas are, and suggest ways of overcoming them.

Thirdly, a distinction needs to be made between the different kinds of co-operatives that exist, as some

types have proved more successful than others. Producer co-operatives, for example, involve a group of people who produce items, such as a sewing co-operative that makes dresses. Many difficulties have been experienced in setting up this kind of venture. Consumer co-operatives have generally been more successful. For example, a group of people may get together and decide what basic foodstuffs they are going to need for a certain period of time. Each member contributes a given amount, and the group is able to buy what they need in bulk, at very low prices. Service co-operatives also exist. A group may set up a baby-sitting service or undertake shopping or gardening for one another. Worker co-operatives aim to gather unemployed people together, to pool their resources and attempt to find jobs for as many of their members as possible. Housing co-operatives, which are rare in South Africa, involve people joining together to buy a house or large

building in which they live communally. There are also house-building co-operatives where a group pools together to build houses for its members.

The philosophy behind co-operatives is one of mutual aid. The aim is to develop a co-operative community spirit. Co-operative philosophy has much to offer communities, not only from an economic point of view, but also in terms of community empowerment and co-operation.

The research is to be accessibly recorded and is intended for use by groups interested in forming co-operatives. The researcher will also produce a manual which will introduce people to what a co-operative is, the problems they are likely to encounter when setting one up, and a series of exercises on how best to overcome these problems. The research findings and the manual will be available early next year. □

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