

Beyond the Jobs Summit target: What contribution can informal micro-enterprises make? What policy interventions can enable that?

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Introduction¹

At the 2019 Jobs Summit of President Ramaphosa, a target of 275 000 new jobs was set. Various initiatives by the big business sector were tabled, mainly expressed in terms of billions of Rands of investment. In terms of marginalised areas of the economy, the government's plans included "re-prioritised government funding to ignite economic activity in township and rural areas". The latter was linked mainly to revitalising about 30 existing industrial parks close to townships that are underperforming, dysfunctional or run-down.

What received little mention, was the potential role and contribution of township micro-enterprises – the majority of which are informal – in pursuing this jobs target, and the policy measures required to enable such a pursuit.

This paper first summarises empirical research on the job creation potential and performance of the informal sector² (whether in or outside townships). This includes enterprise entry (startups) as well as employment expansion. It then analyses policy proposals and policy options to enable such enterprises. It is based on recent quantitative and qualitative research on job creation by informal enterprises, published in a recent HSRC edited volume (Fourie 2018).

One prominent policy proposal that appears to shape policy thinking in this regard, is the ILO's Recommendation 204 of 2015 re 'the transition from the informal to the formal

¹ Much of this paper has been abridged from the concluding chapter 17 of the RED3x3/HSRC informal-sector book edited by the author (Fourie 2018). For intensive reading and referencing, readers are referred to the full chapter, where space allows the necessary attention to various nuances and complex considerations, often also in important footnotes.

² This paper, and the book (Fourie 2018), is about the informal *sector* and not about the entire informal *economy*. Thus, it is about informal-sector employment (as an enterprise-based concept), and not the broader person-based concept of informal employment (which combines all forms of employment that are not characterised by formalised employment contracts, conditions and benefits such as legal or social protection, whether in the formal or the informal sector or households). It is important to clearly distinguish these concepts, since the potential confusion between them is an important one, notably from a policy perspective (see Fourie, Chapter 1 in the book).

economy’ – to which the South African government has subscribed.³ Against the backdrop of this recommendation, the paper proposes and develops a stepwise (or concentric) approach to the various elements of formality.

1. The economic significance of the South African informal sector

The informal sector mostly comprises very small enterprises based in poor areas of cities and towns. It is not uncommon to find researchers and commentators viewing informal-sector participants as being without aspirations or entrepreneurial skills, or as having no meaningful role to play in generating employment or reducing poverty.

However, the evidence shows that the informal sector is a significant component of the economy that provides employment, livelihoods and income for millions of workers and business owners. This has largely been overlooked by economic analysts and policy-makers in South Africa (and elsewhere). The informal sector has remained forgotten or, at best, in the margins of economic analysis and policy consciousness, as the Jobs Summit demonstrates.

It is important to take note that the sector is not homogeneous or comprising only own-account workers (often assumed to be street traders and hawkers) – various dimensions of heterogeneity characterise the world of informal enterprises and shape its functioning. It also is active in all the sectors of the economy (trade, manufacturing, construction, trade, financial services, community and social services, etc.)

This picture is not intended to romanticise work in the informal sector. Working in and running enterprises in the informal sector is anything but easy. Working hours are long, working conditions are often difficult. Earnings and returns are very low for all but a few. Both the mean and median earnings for the informal sector are less than half that of the formal sector.⁴ Owners and employees of enterprises across the size spectrum take risks, face many barriers and struggle to be viable. But, compared to being unemployed the informal sector is an important vehicle for gainful employment and earning income.

In terms of gross domestic output, the informal sector is estimated to contribute about 6% to GDP (gross domestic product) (2013 data; Stats SA 2014: 9).⁵ This is more than the contribution of formal agriculture (2.5%) or mining (5%).

³ The idea of formalising the informal economy has received prominence due to the International Labour Organisation’s International Labour Conference 2014 and 2015 deliberations, resulting in Recommendation 204 concerning ‘the transition from the informal to the formal economy’ (ILO 2015).

⁴ In 2014 the typical worker in the formal sector earned about R4 300 per month (mean earnings), while the typical informal-sector worker earned only R2 000. Earnings of the self-employed in the informal sector are higher than those of employees, particularly for men, whose *average* earnings as self-employed workers are more than R6700 per month. See Rogan and Skinner, Chapter 4 in the book.

⁵ The accepted definition of the informal sector excludes illegal business activities. Approaches that use the concept of the ‘shadow economy’ or ‘underground economy’ (e.g. Schneider 2014), which is estimated with data such as electricity usage, include illegal activities, tax evasion, etc. as well as the informal sector. Such approaches erroneously overestimate the size of the ‘informal economy/sector’ significantly.

1.1 The employment-generating performance and potential of the informal sector

GDP is only one measure of contribution. Across the country the informal sector in South Africa is a significant source of employment. Approximately 2.3 million people worked in the non-agricultural informal sector in 2013, a year central to our quantitative analysis. In 2019 it was 3 million.⁶

- At about 17-19% of total employment, one in every six South Africans who work, work in the informal sector.
- Therefore, the role of the informal sector as a source of employment and livelihoods for millions of South Africans must be properly appreciated.

Now we consider how informal enterprises vary with regard to having or not having employees, being ‘survivalist’ or ‘growth-oriented’, and so forth. The findings on informal enterprises that have employees – and thus are not own-account workers (one-person enterprises) – are particularly important. Yet multi-person enterprises are not the only ones that play a role in employment creation.

1.1.1 One-person and multi-person/employing enterprises

A sizeable component of informal-enterprise operators generate employment not only for themselves but also for a million other workers:⁷

- Almost 80% of the approximately 1.4 million informal enterprises are one-person firms (also called ‘own-account workers’) and 20% are multi-person, employing enterprises (2013 data).
- The number of working *persons* (rather than the number of enterprises) provides a very different picture. These 20% of enterprises provide paid work to about 850 000 people (owner-operators plus paid employees) in addition to approximately 210 000 unpaid workers that are probably paid in kind.

⁶ In the NDP (National Development Plan) the sector (together with domestic work) is projected to generate almost two million new jobs by 2030. The NDP has no specific plans or proposals for the sector, though, see Fourie, Chapter 15 in the book).

⁷ The enterprise-based SESE (Survey of Employers and the Self-Employed) data used by Fourie (Chapter 5 in the book) provide a more detailed analysis of the employment behaviour of informal enterprises than is possible with QLFS data.

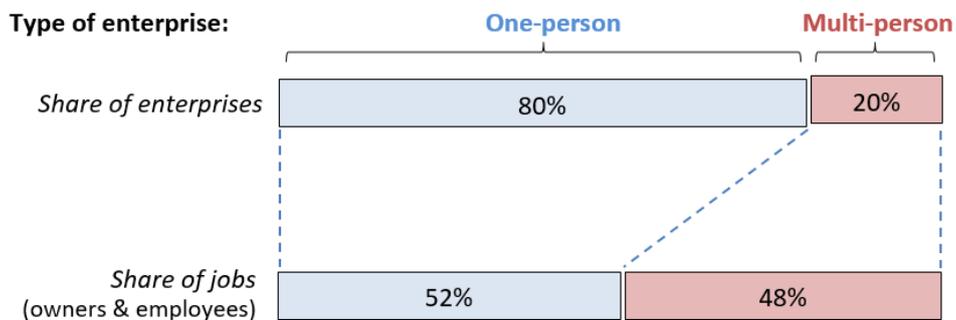
Table 1: Number of enterprises and people working in them

	SESE 2013
Number of owners/enterprises:	1.45m
One-person enterprises	1.15m
Multiperson enterprises	300 000 → 850 000
Number of employees	760 000
of which paid employees	[550 000] → 850 000
Total working in informal sector (2013)	2.21m

(Formal employment in mining sector 420 000)

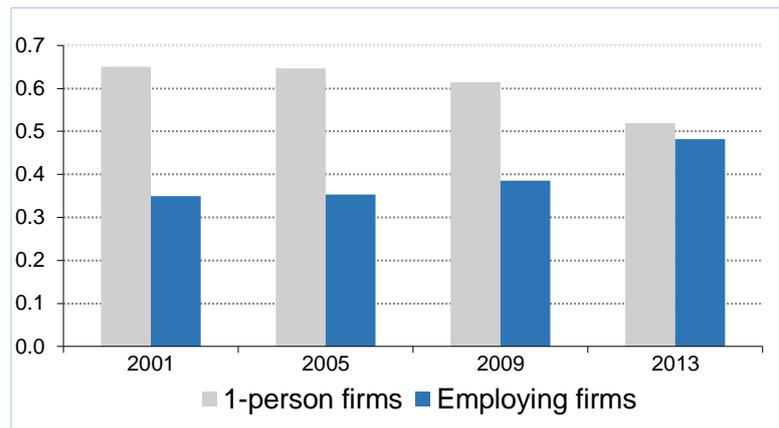
- This means that in 2013 about 1.1 million people – *about half of the people working in the informal sector* – worked in the 20% of enterprises that have employees, i.e. are multi-person firms (see figure 1).
- The employment performance of these 20% firms thus is quite substantial.

Figure 1: The contribution of one-person and multi-person informal enterprises to jobs 2013



- What is striking is that the number of *paid* jobs in the informal sector (850 000 in 2013) is almost double the direct employment in the formal mining sector (approximately 450 000 in 2013). By 2019, following declining mining employment and growing informal-sector employment, this multiple may have risen to almost three. Most of the employing enterprises are in construction, retail trade, and services, but also in manufacturing and communication.
- Since 2001 the proportion of multi-person enterprises has been increasing – from 15% to 21% of informal firms in 2013 – as has their propensity to employ (figure 2).

Figure 2: Share of persons working in one-person and multi-person informal enterprises 2001–2013



These changes suggest a compositional, or structural, change in the informal sector in the past decade that increased the *employment orientation* and *employment intensity* of the informal sector. (Indications are that this has continued up to the present.)

1.1.2 Key factors relating to the propensity to employ: first inferences

The increased propensity to employ is apparent in almost all industries/ sectors except financial services. The informal construction sector stands out for its significantly higher propensity to employ – in contrast to the trade sector. This suggests that dynamic policy support for the building industry could be important for job creation (in addition to the noted potential positive effects on housing quality and living conditions in townships and informal settlements).

Amongst the factors analysed non-sectorally in relation to the propensity to employ, two stand out: location and financial practices.

- First, the results show unequivocally that locational variables have a statistically significant positive association with enterprises having employees. Being operated in the dwelling or not is a key factor in the employment behaviour and profitability of informal firms. Enterprises in home-related locations have significantly lower propensities to employ than those in locations separate from the household. Enterprises in non-residential, commercial locations are also associated with much higher profits. While no simple causality can be concluded in this regard,⁸ the importance of access to suitable premises in appropriate locations for informal enterprises is clear.

Unsuitable locations or premises are frequently mentioned in surveys of obstacles identified by informal enterprise owners (e.g. Rakabe, Chapter 11 in the book; Stats SA 2014; Charman 2017). The statistical evidence discussed here reinforces the need for greater

⁸ As noted in Chapter 5, already employing and profitable firms may want to move to more convenient, larger business locations away from the home; alternatively, or simultaneously, informal firms already located in non-residential, commercial locations may aspire and be able to expand their activities and staff complement.

attention of policy-makers to the provision of non-residential premises with essential facilities, services and security in suitable locations with proximity to markets or suppliers.⁹

- The second key variable is about keeping the finances of the enterprise separate from the household or, simply, keeping the accounts of the business. The propensity to employ of owners who keep accounts (or keep business expenditures separate from those of the household) appears to be two to three times as high as the propensity of those who do not (and whose finances are largely integrated with that of the household). Moreover, informal firms that keep accounts have about 70% higher net profits than those that do not.

If there are no separate accounts, or if business revenue flows ‘unobserved’ into the household, the owner-operator cannot properly monitor the business and have a reasonably clear idea of how the business is doing. Simple bookkeeping skills could be readily imparted with targeted training initiatives, for example ‘mobile business clinics’ or accounting apps for cell phones that help owner-operators with basic bookkeeping – also emphasising the importance of keeping the business finances separate from the household (also when the owner or a household member is paid a salary from the business’ earnings). Even a home-based enterprise of an own-account worker would benefit from being seen and operated as a financially separate activity.

These two dimensions (separate premises and separate finances/accounts) are important elements in the development and sustainability of informal enterprise activities: spatial and especially financial differentiation signifies the degree of *institutional differentiation* between the household and the emerging business enterprise – as the set of business activities develop into an independent and organisationally stand-alone, self-standing, self-reliant institution. Such an ‘emancipation’ may be important in the continuing development of an enterprise, its profitability and its viability. It could also ease access to banking, credit and other business support services.¹⁰

In identifying these dimensions, a specific or prescribed sequence (or causality) is not implied. As different enterprises emerge and develop from ‘embryonic’ states, they will take different routes of maturation, depending on circumstances. Some may start differentiation by keeping separate accounts, become stronger and then feel ready to move to a non-residential location. For other enterprises, for example where the activity demands it, finding a non-residential location may occur first. Whatever the case may be, such institutional differentiation could be

⁹ The DSBD (Department of Small Business Development), discussed in Chapter 16 of the book, has funds available for developing infrastructure for informal business through the SEIF (Shared Economic Infrastructure Facility) programme. However, there appears to be little uptake on these funds from provincial and local authorities, who must contribute 50% of the cost. In their June 2017 report to Parliament, the DSBD reported R46 million underspending on the NIBUS (National Informal Business Upliftment Strategy). See <https://pmg.org.za/committee-meeting/24671/> (accessed 11 November 2017).

¹⁰ A third type of separation is more difficult to attain. It is about shielding the household from the risk of bankruptcy of the enterprise. In the formal sector this can be attained through the legal instrument of limited liability, available only to incorporated enterprises. In contrast, in a formal unincorporated enterprise personal assets must be provided as collateral to obtain business loans from a bank. An informal enterprise owner is in the same position, but is likely to have limited assets such as a house or business property.

instrumental in the development of self-reliant enterprises. This indicates the potential importance of such differentiation in policy design (as is discussed below).

1.1.3 Informal-sector employment growth: Expansion and entry

The overall picture of the sources of informal-sector employment growth in a one-year period (2013 data) is as follows (see Fourie, Chapter 5 in the book):

- More than half a million (approximately 530 000 jobs) were created.
- Of these, about 30% came from employment expansion (intensive growth) and 70% from entry (extensive growth).

Compared to the Jobs Summit goal of 275 000 jobs per annum, these are impressive numbers. There doesn't appear to be any shortage of entrepreneurship or desire to grow.

Employment expansion

Though comprising less than 10% of the entire informal sector, more than 90 000 informal enterprises expanded their employment in 2012–2013, producing about 150 000 new jobs in a year (as a rough estimate).¹¹

- Notably, more than 60% of these were prior one-person firms that took in employees, showing that one-person firms do have a role in jobs growth (even if these are a small percentage of all one-person firms). Being numerically the majority, one-person firms have provided most of the employment expansion.
- However, enterprises that already have employees (existing multi-person enterprises) have a significantly higher *propensity* to add employees than one-person enterprises.¹²
- In the same period, 25 000 informal enterprises (a small percentage, about 8%, of the enterprises with employees) reduced their employment, cutting around 60 000 jobs. This leaves the sector with net employment creation of around 90 000 in that year.

Clearly the informal sector is not an inert sector as far as employment expansion is concerned. Moreover, these results put paid to any generalisation that one-person enterprises are without entrepreneurial ambition and do not qualify for policy support with respect to employment creation. Effective enabling measures are likely to elicit much more employment expansion – and should be available to both one-person and multi-person enterprises.

¹¹ In Chapter 5 of the book the author warns that these results unavoidably had to be based on relatively small samples. Accordingly, the standard errors on the employment-growth results are relatively large, implying lower accuracy than one would ideally want. On the other hand, there is no other way to get a first look at employment-growth behaviour in the informal sector. But one must accept these numbers as approximate values.

¹² Multi-person firms' propensity to expand employment increased in the post-2009 upswing phase, a typical business response to improving business conditions. Compare Burger and Fourie, Chapter 8 in the book.

Enterprise entry and start-ups

This is the largest source of employment growth. Overall, approximately 300 000 new informal firms entered the sector in a 12-month period in 2012–2013 (i.e. they were less than one year old). This amounts to 21% of informal-sector enterprises active at the time of the survey in 2013 (the rest, just above three-quarters, were incumbent owners). Roughly 380 000 new jobs were created in the process.

- More than 80% of entrants are one-person firms, which produce about two-thirds of new-entrant jobs – in this case, jobs for the enterprise operators.
- Multi-person entrants create jobs for the owner-operator plus two employees on average – but there are fewer multi-person entrant firms than one-person entrants. Notably, the proportion of multi-person entrants has been growing.

In a related analysis for 2013 (though for two three-month periods), Lloyd and Leibbrandt find a roughly similar entry rate averaging 26% of informal enterprise owners (Chapter 6 in the book; it uses panel data). Clearly, there is no lack of willingness to start new enterprises. They also find a similar 26% exit rate within three months. For a combined six-month period, they find that almost 60% of enterprises survive while just more than 40% of enterprise operators exit the informal sector.

- Undoubtedly, entrant firms are fragile and vulnerable, and many owners soon exit or fail. One-person entrants are especially vulnerable. (Note that formal-sector SMME entrants also have high failure rates.)

A noteworthy finding is that the entrant owners that had previous work experience are less likely to exit than owners without prior work experience – and show more promise in terms of turnover and profit. This points to a potentially important role, from a policy perspective, of the prior work experience of entrants.¹³ Furthermore:

- Those who enter from a previously working situation are more likely to keep accounts, keep profits separate from the household, rent premises outside the residence, establish viable, stand-alone enterprises, have some management skills – and employ workers. (They are also more likely to go into manufacturing.) This group comprises about a third of total entrants, but their potential impact on employment, poverty reduction and economic development is significant.
- Almost all those entering from a non-working situation operate the enterprise from within the household, are likely to work alone as ‘own-account workers’ and have more vulnerable enterprises (mostly in retail). They are the ones most likely to exit soon – most probably

¹³ Charman (2017: 10–11), from a case study in two Midrand townships, distinguishes four typical pathways into informal business: (1) Starting out as a pure livelihood strategy with what is referred to as ‘make-work jobs’ to make ends meet. The business then unfolds, developing to a scale unimaginable at the outset and becomes permanent. (2) Acquiring skills, on-the-job experiences and access to customers through working someplace, then going on to establish an own, related business. (3) Investment by wealth holders in a business that they do not necessarily run, either setting up a new shop or buying out struggling businesses such as spaza shops. (4) Acquiring a business when it is passed on within an extended family, especially if it has a licence, permanent structure or accumulated business assets. The first of these four pathways is a transition from ‘not-working’ to ‘ownership’, the second a transition from ‘working’ to ‘ownership’.

into unemployment again, with an important poverty impact.¹⁴ This group comprises almost two-thirds of entrants into informal enterprise ownership.

These are important considerations for enterprise-support policy measures in terms of, for instance, differentiating according to prior work (or internship?) experience. Moreover, own-account workers (one-person enterprises) are more vulnerable; being an employer significantly reduces the probability of exit.

In summary, enterprise-based analysis shows a significant degree of dynamism in the informal sector – many informal firms are entering, many have employees, many are expanding employment, but some are contracting and failure and exit rates are high.

Reasonable measures to enable and support those owner-operators who start or operate informal businesses are critical from a policy perspective:

- One goal of policy should be to help enterprises to keep going, especially in the vulnerable first months or year (whilst accepting that not all entrants will or can be successful in informal business).¹⁵
- From an employment perspective one can argue that policy interventions should attempt to improve the survival rate and durability of informal firms that are growth-oriented – whether still one- or already multi-person enterprises – and try to shield them from factors that could threaten their viability.
- From a poverty-reduction perspective, helping to keep enterprises of all sizes going is a clear objective.

[Such support for enterprises, and one-person enterprises in particular, is to be analytically distinguished from forms of social protection that individuals may receive on the basis of considerations such as being unemployed or poor.]

1.2 Tiers, and barriers to entry and ‘stepping up’

Makaluza and Burger (Chapter 7 in the book) distinguish between a lower and an upper tier of informal-sector jobs (owners and/or employees). The lower tier contains jobs in enterprises characterised by self-employment with no or few employees, low wages and variable work hours, etc. The upper tier comprises jobs in enterprises that are more growth oriented, have better earnings, are more likely to have employees and have better job characteristics.

Using national labour-force data, they find that about 73% of those in informal-sector jobs are in the lower tier and about 27% in upper-tier enterprises. There is a much lower probability of

¹⁴ The poverty-increasing impact of such exits of own-account workers could be significant, as shown by Cichello and Rogan (Chapter 9 in the book).

¹⁵ Business always is a risky venture and if the owner does not do sufficient planning and/or does not have the wherewithal (personal acumen, skills, capital or premises) for a viable enterprise, policy support may not be apposite, or must at least not go beyond some point. Some entrants may just be trying to get by for a period without having any real intention to establish a sustainable business. From a policy effectiveness and affordability viewpoint, well-founded targeting and selection will have to be part of policy design.

persons entering the upper tier than the lower tier of the informal sector. This suggests greater barriers to entering the growth-oriented enterprise tier.

Similarly, Rakabe differentiates between ‘traditional’ and ‘modernising’ informal enterprises in townships (Chapter 11 in the book).¹⁶ He applied a number of indicators to distinguish whether an informal enterprise is mostly traditional or mostly modernising along a ‘modernisation path’. For *non-retail* enterprises he finds that 60% of enterprises in the two townships can be classified as traditional, with a notable 40% being ‘modernising’ enterprises. (The upper end of the modernising enterprises is 100% manufacturing.)

However, there are structural features that prevent a modernising component from growing. Most township enterprises cater for a spatially localised demand pattern of largely low-income consumers, which constrains the scope of informal retail and manufacturing. Philip (Chapter 12 in the book) adds that regular consumption sales in townships are dominated by branded products that are mass produced by large, vertically integrated corporations. This severely constrains informal manufacturing as well as retail.

Rakabe also finds that informal enterprises cannot graduate to an upper tier by gaining access to formal markets and supply chains: neither government, nor formal manufacturers or retail chains typically form part of the informal-sector customer base. Despite the proximity of factories in an industrial park, for example, the non-retail informal businesses are not involved in the production of inputs for these producers, not even maintenance or repair services. Even modernising informal-sector enterprises are worlds apart from large, vertically integrated corporate enterprises.

Philip highlights how informal enterprises remain locked into low-value income streams with little scope to grow. Engaging with formal-sector firms requires a huge step-change in scale, business sophistication and formalisation for an informal enterprise. It requires capacity in financial administration (invoices, receipts and regular payments), permanent physical premises, and an email address or an internet or social media presence. In addition, it requires compliance with ‘accepted’ business practices, signalling to formal-sector participants that contracts could be entered into with confidence. Lastly, the products or services also need to be more sophisticated. These elements constitute a formidable constraint to accessing external markets.¹⁷

Rakabe’s survey results suggest that informal enterprise owners do not really recognise these structural constraints. They typically list constraints relating to water or electricity, business stands, finance and credit, or a lack of government support. Access to markets and the threat of competition are not mentioned as major obstacles. This may indicate an inadequate

¹⁶ In this framework, ‘traditional informal enterprises’ are those that are static, less productive and incapable of facilitating capital accumulation; ‘modernising informal enterprises’ are those that are more dynamic and productive with better market linkages and higher earnings (see Rakabe, Chapter 11 in the book).

¹⁷ Philip rightly argues that such step-up challenges do not apply to informal enterprises only, but also to formal-sector small enterprises. Von Broembsen (2016) provides important case study material with regard to the obstacles faced by small enterprises trying to supply large retail chains.

managerial awareness of how market access and competitive structure can impact their businesses. (Most are not aware of available business support programmes either.)

It seems that policy-makers should consider measures to enable and capacitate owner-operators with the necessary skills and know-how to gain access beyond local markets. It is a complex issue, though. The solution is not as simple as reducing red tape, or formalisation, or skills development, though.

1.3 Business-cycle vulnerabilities

‘Popular wisdom’ holds that during recessions the informal sector plays a positive role by absorbing labour released (retrenched) from the formal sector. Rogan and Skinner (Chapter 4 in the book) show that in the 2008–2009 recession, the opposite happened: employment in the informal sector declined more than in the formal sector. Burger and Fourie (Chapter 8), using macroeconomic data over a longer period, show that the cyclical impact on the informal sector is complex. They confirm that the sector is particularly vulnerable during severe downturns. However, during milder slowdowns in the economy, it may happen that the informal sector as a whole absorbs some additional workers (though many enterprises still suffer).

In policy terms, this suggests that in severe downturns the informal sector should receive policy attention, particularly since informal enterprises typically have few resources (capital, savings or credit) to carry them through a recessionary period. Policy measures that enable them to ‘bridge’ major downturn periods, for example, could make informal enterprises cyclically more robust and contain failures.

On the positive side, the informal sector is part of the solution to reduce unemployment once economic growth starts to pick up. The period up to 2008 demonstrates that, during high or accelerating economic growth episodes, the informal sector has the ability and inclination to create employment, thereby contributing to reducing unemployment.

1.4 Industry and spatial factors

For policy making, disaggregation by industry is particularly important. Different industries/sectors/branches of economic activity have very different constraints to viability and growth and thus different policy needs.

- Retail and wholesale trade is by far the largest industry in the informal sector. However, its share of enterprises has been declining, from approximately 70% in 2001 to 57% (and 52% of persons) in 2013 (Fourie, Chapter 5 in the book).¹⁸ Policy measures should not only be

¹⁸ Changes in trade also highlight changes in the *gender composition* of the informal sector. The share of women in overall informal-sector employment (including enterprise ownership) declined significantly between 2008 and 2014. However, Rogan and Skinner (Chapter 4 in the book) also report that, in this period, own-account work became a smaller component of women’s total informal-sector employment, while a larger proportion became paid employees or employers. This signals a *significant reconfiguration of the composition of the informal sector*: for women, a move away from own-account work towards working in multi-person firms as either employers or employees (amidst a decline in total informal-sector employment for women); for men in multi-person enterprises, a move towards being employers rather than employees. QLFS (Quarterly Labour

built around trade (which tends to be the policy preoccupation of local authorities in particular), even though it employs up to half of informal-sector workers.¹⁹

- Manufacturing displayed a declining share, while ‘community and social services’ as well as ‘transport and communication’ also grew substantially.
- As noted above, the employment growth of the construction sector has been robust, and the potential of the construction sector holds promise: in townships this sector and its craft-based services are less vulnerable to formal-sector competition compared to tradeable products. Construction may also be very responsive to growing income levels and a growing middle class. In addition, housing maintenance and upgrading could play a major role in enhancing the quality of township living environments.

Spatial and geographical differentiation also matters. There are major differences between provinces and between the metropolitan areas. Generally, the share of the workforce that works in the informal sector is:

- lowest in Gauteng and the Western Cape, highest in the poorer provinces of Limpopo, Mpumalanga, Eastern Cape and KwaZulu-Natal (with the latter two provinces and the Free State showing large decreases in 2008–2013);
- higher in non-metropolitan than metropolitan municipalities;
- higher for those living in traditional communal areas and in urban informal settlements than in urban or rural formal settlements; and
- highest in Mangaung and lowest in Cape Town and Tshwane, with a middle group comprising Johannesburg, eThekweni, Ekurhuleni and Nelson Mandela Bay.²⁰

Clearly, different provinces face different informal-sector policy challenges, as do different metropolitan areas, non-metropolitan cities (secondary cities) and towns. It is important that national informal-sector policies enable and support differentiated provincial and local-government policies.

In addition, the spatial peculiarities of township areas are crucial. Informal enterprises are located all over townships and informal settlements – notably in residential areas rather than only in commercial or main-street areas. For example, in surveyed Cape Town townships, only 24% of informal enterprises are on the ‘high street’, the main thoroughfare and commuter pedestrian area. This shows that several business categories, including but not only spaza shops, have a strong locational preference for residential areas (see Charman and Petersen, Chapter 10 in the book). Such evidence is particularly relevant for local government policies regarding zoning, business licencing and the provision of services and premises. Applying

Force Survey) data also show that more women have moved into managerial positions. This suggests that the position of some women in the informal sector has in fact improved.

¹⁹ For example, in the GIBUS (Gauteng Informal Business Upliftment Strategy) (Gauteng Government 2015) the discussion, especially of municipal policies, is almost exclusively about informal traders. Of course, the needs of the trade sector with regard to security of tenure, suitable premises and location, utilities and security remain important.

²⁰ Average share of the informal sector in total employment for 2015 and 2016: Mangaung (almost 19%) and Buffalo City (17%), Cape Town and Tshwane (about 11%), Johannesburg, eThekweni, Ekurhuleni and Nelson Mandela Bay (14%–15%).

‘standard’ modernist city planning and zoning approaches in the township context may be quite inappropriate.²¹

2. What policy approach for enabling the informal sector?

Given the persistence of high and structural unemployment in South Africa, the policy goal should not be to shrink or eliminate the informal sector, but to grow and strengthen it – to create a larger informal sector with more viable, self-reliant enterprises and additional, better-quality employment.²² Recognising the informal sector as an integral part of the economy, rather than ignoring it, is a crucial first step towards such a policy approach.

The overall policy goal must be (a) to retain existing informal-sector employment (i.e. measures should do no harm) to improve the livelihoods, security and income of those already in the informal sector, and (b) address barriers to entry and growth to support newcomers and employment expansion. In short, policy must *enable and support* enterprises and workers in the informal sector. But how is this to be attained?

2.1 Enablement, development and institutional differentiation

Three core elements of informal-sector enablement need to be stressed:

- *Don't exclude half of those working in the informal sector.* Policy analysts and policy-makers who tend to focus largely on the plight of ‘own-account workers’ must realise that multi-person enterprise operators (i.e. employers) must be supported by policy – otherwise half of the people working in the informal sector will be excluded from policy support. An enterprise-based policy framework, rather than a person-based framework, is the key to such inclusiveness. Recognising and supporting the increasing employment orientation (and extent of paid employment) in the informal sector seems to be crucial.
- *Don't exclude (the other) half of those working in the informal sector.* Those who want to focus largely on firms that display entrepreneurial ambition by having employees and are not overtly ‘survivalist’ must realise that support for one-person enterprises (i.e. non-employing owner-operators) is essential, otherwise half of informal-sector workers and 80% of informal-sector enterprises will be excluded from policy support. One must recognise ‘own-account workers’ are embryonic enterprises with a substantial role in reducing poverty and creating livelihoods and employment – and, for some, potentially expanding employment.
- *Adopt a developmental approach to informal enterprise policy.* This suggests, as an overarching criterion and consideration for policy, broadly seeing informal enterprises –

²¹ At the same time, one must be equally aware that negative externalities could arise in such circumstances due to, for example, noise, crowding and pollution that affect households and other enterprises negatively, both in township and formal business areas. This also applies to informal enterprises in formal commercial areas in cities and towns, where ‘formal’ business areas may gradually degrade as informal traders occupy pavement areas. In policy-making the interests of the informal sector and the formal sector, including formal residential areas, must be harmonised.

²² The idea of eliminating the informal sector refers to a phrase used in the 2006 AsgiSA (Accelerated and Shared Growth Initiative for South Africa) policy initiative with regard to the ‘second economy’ (see section 1 of Fourie, Chapter 5 in the book).

whether one-person or multi-person – as situated on a developmental spectrum (or trajectory) from embryonic to mature states, from ‘survivalist’ to ‘growth-oriented’, with different aspirations, entrepreneurial aptitudes, degrees of development, complexity and capacity – and different needs and challenges.²³ Enterprises across this entire spectrum will always be there, some with employment and growth aspirations, others not.

Enterprises of all sizes need support, but the intervention should be appropriately targeted based on factors like the goals, orientation and capacity of the owner-operator, as well as the developmental stage of the enterprise. These relate to entry and establishment, productivity and profitability, viability and sustainability, employment expansion and propensity to employ, survival and prevention of exit (including protection against severe cyclical downturns).

Such factors could be used in determining the eligibility of enterprises/operators for different types of policy-support measures. For example:

- Certain policies will be appropriate for current multi-person firms and potential multi-person firms to enable them to survive – and grow if they want to.
- Other types of policy may be valuable to, for example, one-person firms that have little growth orientation.

As shown in the research, a likely central catalyst in this trajectory is the extent to which the informal enterprise realises elements of being an organisationally stand-alone institution. This requires differentiation and separation from the household, in the first instance financially (facilitated by keeping accounts for the business). Separation in terms of location and premises, where possible, is likely to complement this.

Policies and regulations need to take these into account explicitly. They also need to be guided and differentiated by factors such as:

- reasons for operating the business and strategic vision;
- start-up resources and capacity (early vulnerability);
- growth and employment orientation;
- prior work experience of the owner;
- being a non-employer or employer (one-person or multi-person enterprise);
- gender dimension;
- industry/sector (e.g. tradeable/non-tradeable, employment intensity, possible links to the corresponding formal-sector component);
- location (urban/rural, residential/non-residential, zoning categories);
- premises (separate, suitable and secure);
- property rights and title deeds;
- access to finance and credit;
- utility services, facilities and infrastructure;
- broad training needs (keeping separate accounts, managerial and competitive awareness, accessing new markets, utilising government support programmes);

²³ The NIBUS policy document as well as its Roadmap uses a similar concept of a *developmental continuum* for informal businesses (DTI 2014: 24; DSBD & ILO 2016: 3).

- structural barriers to accessing informal or formal (higher-value) markets.

This list points to a stimulating agenda for further research on informal-sector evidence and policy.

Some of these aspects bring to mind the list of intervention areas that is typically found in the literature and other South African studies as well as policy documents.²⁴ These include:

- access to financial services and credit;
- skills training;
- business premises and facilities (business infrastructure);
- basic utility services (water, electricity, internet);
- crime and security;
- access to markets and procurement;
- access to government support services;
- regulatory constraints such as permit and licensing requirements,
- regulatory inconsistencies or vicious cycles,²⁵ and
- harassment by police or local authorities.

Several of the research findings in the book serve to objectively confirm, in the data, the relevance of such factors and obstacles identified by respondents in surveys.) The key point that emerges from this book is that the conceptualisation, design and implementation of support measures need to be differentiated, nuanced and ‘smart’ to be optimally aligned to the existential and developmental needs of diverse informal enterprises.

For instance, it is one thing to say ‘training and skills development’ or ‘suitable premises’ must be provided.²⁶ It is another to customise training and skills development to (1) assist the owner-operator to appreciate the importance of institutional differentiation and self-reliance – separating the enterprise from the household in terms of, notably, finances as well as premises; (2) then provide appropriate training in basic bookkeeping to empower the owner to achieve financial separation (including how monetary or in-kind payments to the owner and family members are to be handled); and (3) simultaneously making properly serviced and secure business premises available and assisting the enterprise when it is ready to move there. Such training interventions could also differentiate: provide one set of skills, aimed at growth, for those with more business experience – and simpler skills for basic business analysis for smaller enterprises or less experienced operators.

These elements may also interact: having accounts and an informed sense of the ‘state of the business’ may make it easier for an owner to get a business loan at a financial institution – and even more so if the business has proper premises with a fixed address. Similarly, in the

²⁴ See the list in the NIBUS (DTI 2014: 39–42) and the GIBUS (Gauteng Informal Business Upliftment Strategy) (Gauteng Government 2015: 4).

²⁵ For a thorough analysis of the complex regulatory situation, see Turok et al (2017), especially section 3.

²⁶ In terms of the current supply of training, Skinner (Chapter 16 in the book) points out that the informal sector had fallen into the gap between small businesses and the unemployed, with the SETAs (Sectoral Education and Training Authorities) having little incentive or expertise to service the specific needs of the informal sector. The NIBUS is addressing this through the SEIF programme, but is still struggling to scale up their interventions.

negative: just providing business training without facilitating access to premises or capital (or vice versa) may not be effective at all.

Another example is to recognise the high vulnerability of start-up enterprises and provide well-designed government support measures (or non-governmental assistance) to try to reduce early failures. While such support will probably involve the above list of interventions, at issue is a specific focus and customisation to support the vulnerable entrant. This also means using insights about, for example, the relevance of owners having prior work experience (or not) to differentiate and fine-tune enterprise-support measures accordingly – whether for own-account workers or multi-person enterprises and whether these seem survivalist or growth-oriented.

If employment creation is the specific goal of a particular policy initiative, variables and conditions that are closely correlated with a higher employment propensity should feature prominently in the design of that policy.

* At this point one needs to recognise that there is a different layer of policy concerns regarding the informal sector, i.e. regarding the working conditions and lack of social protection of informal-sector workers.²⁷ (Interested readers are referred to Chapter 17 in the book.) This second layer of policy concerns is part and parcel of the broader discussion of (and sometimes confusion about) informality.

One manifestation of this complexity is the debate on formalisation.

2.2 ‘Formalising’ the informal sector?

Since the term ‘informal sector’ was first coined, ‘formalising the informal sector’ has been a constant refrain in both the academic literature and policy discourse, also in South Africa. It is also used in the NIBUS. Indeed, the most common substantive policy response to the problem of the informal sector is to ‘formalise’ the sector. Chen notes (Chapter 2 in the book) that the 2015 ILO recommendation on ‘formalising the informal economy’ has had a major impact on the narrative on informal-sector employment, also in South African policy circles. However, formalisation too often means simply regulating and taxing, two blunt instruments that can be destructive. A more refined and differentiated approach is necessary.

2.2.1 Recommendation 204 and the way forward

The idea of formalising the informal economy has been given new impetus due to the ILO’s International Labour Conference 2014 and 2015 deliberations, resulting in Recommendation

²⁷ This issue has gained prominence as part of a wider international programme, initiated by the ILO (International Labour Organisation), regarding the broader concept of *informal employment* (as distinct from *informal-sector employment*). Concern for the vulnerability of informal workers in all sectors has led to international policy initiatives to get governments to provide social protection to such workers in both the formal and the informal sector. To avoid policy inconsistency and ineffectiveness, social protection measures *for individuals* who work in the informal sector must be analytically distinguished from support policies *for informal enterprises*, as highlighted in the book. Even if such measures are eventually presented to potential beneficiaries as a policy package, they must be conceptually distinguished – and designed and targeted accordingly.

204 concerning ‘the transition from the informal to the formal economy’ (ILO 2015) (see Chen, Chapter 2 in the book). The Recommendation is built on the broad definitions of the informal *economy* and informal *employment* and accordingly focuses on working conditions of all informal workers and the situation of unprotected workers, with the concept of decent work and the human rights of informal workers central.

- Still, it recognises that improving these conditions also requires informal enterprises to be formalised eventually, requiring appropriate policies to incentivise and facilitate such a transition.

Unfortunately the document does not specifically refer to, or use the terms, informal sector or informal enterprises – unlike the earlier working document of the ILO (2014).²⁸ Whilst many of the principles and measures proposed could be read to be intended for the informal sector in particular, it could equally be read as a rather general statement of policies and desirables for a modern economy and its small-business component. These include: reducing barriers to and providing incentives for entering the formal economy, including improved access to business services, finance, infrastructure, markets, technology, education and skills programmes, and property rights.

This drains it somewhat of weight and import with regard to the challenges confronting the informal sector. Still, with respect to the formalisation of ‘micro and small economic units’ it has useful recommendations such as that countries should simplify entrant registration, reduce tax compliance costs, promote access to public procurement, improve access to inclusive financial services, improve access to entrepreneurship training and skills development, and improve access to social security coverage (ILO 2015: 16).²⁹

A third group of measures relate to ensuring compliance with and enforcement of national laws and regulations regarding employment relationships, including labour inspections by enforcement bodies and strict enforcement of administrative, civil or penal sanctions provided for by national laws for non-compliance; also, ensuring that informal workers enjoy freedom of association, the right to collective bargaining and to join such organisations (ILO 2015: 17). Interestingly, there is no mention of the issue of limited liability in the ILO document.³⁰

In terms of ‘transitioning from the informal to the formal economy’, the formulations are not particularly well articulated regarding the difference between what it would entail (1) for an informal-sector enterprise and (2) for workers informally employed by a formal enterprise. For

²⁸ One should keep in mind that the Resolution 204 document is a compromise or consensus resolution between various constituencies (business, labour and government) and member countries at the International Labour Conference. From an analytical and research perspective, the earlier ILO document is a much better resource regarding policy ideas.

²⁹ Chen (Chapter 2 in the book) says, with regard to Recommendation 204, that the ILO’s 2015 approach to formalisation ‘suggests a more inclusionary approach: one that recognises and supports informal enterprises in the informal sector, rather than simply trying to register and tax them’.

³⁰ Contrast the formalisation approach of WIEGO (2014), which is more detailed than that of the ILO.

the latter, an administrative–legal and compliance process is largely what is involved. For the former, such a process will not attain anything.

What informal enterprises need, above all, is support and enablement to survive and grow and create employment, even if it is informal. The question is how, or whether, formalisation can assist in this regard. Philip (Chapter 12 in the book) notes that, for the majority of informal enterprises whose market is restricted to low-income consumers in townships already served well by formal-sector goods and companies, formalising them would do little to change these competitive realities; typically it would add costs without any equivalent benefit. (Formalisation may well be of use to informal enterprises capable of accessing more sophisticated, higher-value formal markets or industry-specific value chains, though such access primarily requires a step-change in terms of business and product sophistication.)

What then is the potential role of formalisation for the South African informal sector? Chen notes that this is frequently understood in either of two ways.

- First, it means shifting people out of informal self-employment and wage employment into formal wage jobs. But in many countries, and South Africa in particular, not enough jobs are created for the unemployed, much less for those employed in the informal sector as well.
- Secondly, to many policy-makers formalisation means to register and tax informal enterprises. However, informal enterprises already pay VAT (value added tax) on inputs that they purchase from formal-sector firms – without even being able to claim refunds. In addition, many pay local-government licence fees or similar. If owners don't pay income tax, it could simply be that they earn below the income-tax threshold.³¹ Tax registration would not make much difference to their daily existence or viability.
- A third interpretation would focus on the regulation and compliance of the informal sector, notably through licensing and the control of trading and business spaces (via zoning) – which can easily be destructive if the overriding goal of the relevant authority is to obtain compliance or revenue (see Skinner, Chapter 16 in the book).

None of these interpretations of formalisation seems very relevant for strengthening the South African informal sector or helping to alleviate the unemployment problem. As stated by the ILO:

Formalisation may sometimes be narrowly conceived only in terms of registration and punitive sanctions for non-compliance with the law. Such an approach is likely to be counter-productive, as it does not take into account the many avenues towards formalisation, the limited choices facing most informal economy actors or the range of incentives which can encourage a genuine movement out of informality. (ILO 2014: 35)

³¹ In 2017 the threshold for compulsory registration of an enterprise for VAT was an annual turnover of R1 million. For personal income tax the annual taxable income threshold was R75 750 – more than three times the median earnings of self-employed persons in the informal sector. (Average exchange rate in 2017: US\$1 = R13.50). See <http://www.sars.gov.za/TaxTypes/PIT/Pages/default.aspx> (accessed 12 November 2017).

It needs to be appreciated that the NIBUS Strategic Implementation Roadmap does not use the term ‘formalisation’ but describes an *upliftment, transitioning and graduation process* in which informal businesses realise the benefits of transitioning to higher levels and eventually becoming formal SMMEs (small, medium and micro enterprises) (DSBD & ILO 2016: 3).

2.2.2 A developmental approach to formalisation: Towards a formalisation menu

In section 2.1 it was argued that a key element of enablement is to adopt a developmental approach to informal enterprise policy. It was suggested, as an overarching criterion and consideration for policy, broadly seeing informal enterprises as situated on a developmental spectrum from embryonic to mature states, with different aspirations, degrees of development, complexity and capacity – and different needs and challenges. Supporting policies must serve the full spectrum, with clearly differentiated and targeted policies.

This suggests that a matching developmental approach to formalisation may be fruitful. A first implication is that formalisation as such is not a goal or a policy achievement. It must be seen as a *means* to aid the quest for better livelihoods for more people and for stronger, more self-reliant informal enterprises. Formalisation should not focus on controlling and regulating but on enabling and supporting enterprises.

Secondly, several of the enabling elements noted earlier may require an element of registration or licensing (‘a bit of formalisation’) for an enterprise or its owner to qualify for access to that support. These include, for example, getting access to suitable premises in good locations; services such as water and electricity; training in basic bookkeeping; financial services such as banking, credit and loans for asset finance, and business insurance; cyclical ‘bridging finance’ measures; government subsidies; skills development regarding strategy, management, employment practices and contracts; assistance with regard to public-sector procurement systems or formal-sector supply chains, etc.

The various elements could be seen as elements, or steps, of a formalisation *process*.³² How this unfolds and plays out will vary across enterprises. Different owner-operators will require different elements at various times, according to the enterprise’s state of development, needs, circumstances, opportunities and aspirations.

- One can envisage a *formalisation menu* comprising support elements with matching elements of formalisation. Enterprise owner-operators can then select elements of formalisation as needed at a particular point in time – rather than being subject to a policy of compliance and control.
- If the utilisation of these elements brings benefits and better business outcomes, enterprises are likely to be incentivised to continue along the developmental and formalisation trajectory – voluntarily.

³² The NIBUS ‘Vuvuzela Graduation Model’ shows three pre-formal categories, or phases, of informal business, using the following terms: ‘survivalist informal enterprises’, ‘emerging informal enterprises’ and ‘micro-entrepreneurs’ (DSBD & ILO 2016: 4).

Brute or enforced formalisation is not the way to go. Formalisation is not a final state or pre-set, fixed condition of an enterprise. Various degrees of formalisation can and should coexist among the spectrum of informal enterprises.

This means that, as a *general* principle, enabling policies and formalisation should not be premised on targeted support for one specific category or type of enterprise, for example own-account workers or employing enterprises, or a particular industry. They should rather be based on understanding what might be constraining diverse segments, categories or sectors/industries and providing owner-operators with a menu of appropriate options from which they can then self-select.

This does not exclude that there could be additional, targeted policy initiatives for certain sectors (e.g. house building and maintenance) or identifiable groups of enterprises that warrant such support. An example of the latter would be recent entrants, which are particularly vulnerable; another would be so-called constrained gazelles³³ that appear to have much potential to grow if only their constraints were eased. Another example is enterprises that are almost ready to tackle the challenge of stepping up to access external, sophisticated, high-value markets (Philip, Chapter 12 in the book). Relatedly, one can envisage policy attempts to integrate informal-sector enterprises into the supply chains of formal-sector enterprises on a per-industry basis. An example would be if formal firms were to provide sectorally trained experts to help informal enterprises find supply niches and suitably capacitate them in terms of technology, management skills and output quality.³⁴

The existence of enterprises in different states of development should caution policy-makers not to label informal entrepreneurs too easily as survivalist, or as just waiting for a job opportunity, or as without entrepreneurial capacities and growth potential (Grabrucker et al., Chapter 3 in the book). Likewise, policies should avoid pre-emptively classifying enterprises as, for example, ‘survivalist’ or ‘growth oriented’. Such terms may mix (or confuse) elements such as owner orientation and aspirations, owner and enterprise capacity, or circumstances determined by market conditions, for example. Of course, there *are* many enterprises that are predominantly survivalist and/or not growth oriented.³⁵

The policy conundrum is that it may not be easy to objectively and conclusively decide, on the basis of observation or measurement, which enterprises are survivalist oriented and which

³³ Grimm et al. (2012) show that, between the so-called survivalists and the better-off growth-oriented entrepreneurs, there could be a third segment of entrepreneurs – the constrained gazelles – that have good managerial abilities and high returns but very low capital stocks; they may also be able to adapt their firms as they grow. Also see Grabrucker et al., Chapter 3 in the book.

³⁴ My thanks to Caroline Skinner for contributing this significant point regarding the importance of sector-based efforts to integrate the informal and formal sectors.

³⁵ In their study of informal enterprise failures in Delft township, Hartnack and Liedeman note: ‘There are undoubtedly many survivalist enterprises which operate for short time periods in a hand-to-mouth manner, their undercapitalised and under-skilled owners merely awaiting better opportunities elsewhere’ (2016: 30). Most of the so-called ‘failed’ enterprises (that they surveyed) in Delft South fall into this category.

growth oriented. In addition, enterprises may (want to) change their orientation.³⁶ Hence the preference that policy-makers should rather allow enterprise owners to self-identify and accordingly take part in, or make use of, appropriate policy instruments or formalisation elements (with eligibility criteria as applicable³⁷). This would also allow a wider range of measures and considerations than those typically included in standard formalisation approaches such as that of the ILO.

3. Concluding thoughts

The research in the book shows unambiguously that the informal sector is an important source of employment and of paid employment, with a growing propensity to employ. It is not suggested that the informal sector will ‘solve’ the problem of unemployment. But the *informal sector is and must be an integral part of the response* to the South African problems of unemployment, poverty and inequality.

It is not something that is in the way, or of little use, or has to be tolerated. It is there, waiting to be primed. Government policies to support and enable the informal sector in appropriate, judicious ways could make a significant difference – especially in the pursuit of inclusive growth, which must include the increased *participation*, via employment, of poor and marginalised people in growing economic processes (see Fourie 2014).

As far as support and enabling policies for the informal sector are concerned, at least three types of policy measures can be put forward:

- cross-cutting, generic measures regarding general support and enablement, the regulative framework, property, infrastructure, facilities, foundational business and accounting skills, access to finance, and so forth;
- tailored measures to support certain goals or groups, for example employing firms, one-person enterprises (own-account workers) or new entrants; and
- industry-specific measures: giving teeth and substance to integrating the informal and the formal components of an industry or supply chain, which implies industry-specific analyses and policy projects.³⁸

All such measures must be economically informed, that is, based on an understanding of how the prospects of informal-sector businesses are critically shaped by where and how they fit into value chains.

³⁶ This corresponds to the first pathway into informal business identified by Charman (2017: 10–11) in a case study: starting out as a pure livelihood strategy with ‘make-work jobs’ to make ends meet. The business then unfolds, developing to a scale unimaginable at the outset and becomes permanent.

³⁷ The sustainability of a policy initiative is at risk if it indiscriminately allocates support to all enterprise owners irrespective of personal or enterprise capacity and other pertinent considerations. Such an approach may produce an ineffective and unaffordable policy and cause it to be shut down.

³⁸ An example could be the development of inclusive, integrated, local agro-food systems in rural and peri-urban areas, which should include industry-focused training and capacity building.

To this one can add that spatial realities are not going to go away soon – and they impact all three types of measures noted above (Turok et al 2017). The same is true of gender realities and the vulnerable position of women in particular – a perennial issue in informal-sector analysis and policy. These two dimensions need to be ever-present in considering, designing and assessing policy measures.

An institutional challenge is how and where the three levels (or spheres) of government should be involved in these types of policy measures. The appropriate level of government needs to be capacitated and funded, taking into account an area's general status with regard to urbanisation, informal settlements, level of development and poverty.

A key requirement is comprehensiveness: policy-makers should explicitly take account of the informal sector in 'other' policies such as macroeconomic policy, trade and industrial policy, competition policy, agricultural policy and land reform, infrastructure provision, city and transport planning, government regulation, taxation, labour and minimum-wage legislation and social protection. The informal sector should also be included, explicitly, in discussions of central policy topics like employment creation and economic growth – and especially *inclusive* growth and development.

Therefore, informal-sector policy should not just be about initiatives to regulate traders in townships and city centres, or relegated to a small directorate in a small-business department. Core economic policies must always consider the implications for *both* the formal and the informal sectors – in an integrated fashion, not as an afterthought.

Such a comprehensive, integrated and 'smart' policy approach requires government departments and policy-makers to internalise the correct conception of the informal sector and informal-sector employment – as distinct from informal employment. If not, negative sentiments deriving from the intrinsic informality of the informal sector could dominate. This could contribute to a situation where the enterprise-based and employment-related needs of the informal sector continue to be 'forgotten'.³⁹

It is our hope that our research will inspire new empirical and policy research that builds on this and other existing empirical research. An important step, notably with regard to research, is to do research on specific policy measures, including experimentation with new options. This should include systematic assessments of the impact of prototype policies, using impact-evaluation methods.

Finally, a larger informal sector with more viable, self-reliant enterprises and additional, better-quality employment is an important objective for South Africa. Given the high levels of unemployment and poverty, the appropriate policy objective is not to shrink or eliminate the informal sector, but to grow and strengthen it. As it develops, a portion of the enterprises is likely to gradually adopt elements of formalisation. But there will always be enterprises across

³⁹ For more on the risk of confusion between these concepts and their implications, see Fourie, Chapter 1 in the book.

the spectrum from embryonic to mature – at various stages of entry, survival, development, profitability, capital strength and sophistication, with different aspirations, growth-orientation and entrepreneurial aptitudes. The policy framework must cater for the entire developmental spectrum and make a range of appropriate support available. In this way, an enabled, well-supported, more dynamic informal sector can become a potent instrument in broad-based economic empowerment and inclusive growth.

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