

SOUTH AFRICA'S TWO-TIERED INFORMAL SECTOR:

Most survivalists are female, while men dominate the upper tier



Nicolas Raymond

Overview

Despite South Africa's high unemployment rate, the country's informal sector remains small. A recent study suggests that part of the reason why policy has been ineffective in promoting movement of individuals from unemployment into the informal sector is because the diversity of the informal sector is often overlooked.

Key Results

- **The South African informal sector clearly consists of two tiers.** Two types of informal sector workers are clearly discernible, namely workers in a 'growth-oriented' (upper) tier who closely resemble formal sector workers, and workers in a 'survivalist'¹ tier.
- **Survivalist enterprises dominate the informal sector.** Three-quarters of the informal labor force comprise workers in survivalist enterprises, and entry appears to occur out of desperation rather than choice.
- **There are barriers to entering the growth-oriented tier.** Employment in the growth-oriented tier appears to be reserved for better educated job-seekers from wealthier households.
- **The growth-oriented tier can act as a springboard into the formal sector.** Many growth-oriented enterprise workers transition into formal employment, whereas this rarely happens for their survivalist counterparts.
- **Differences in the informal sector are gendered.** Men dominate the growth-oriented tier, while women dominate the survivalist tier.

By

Nwabisa Makaluza and Rulof Burger

The Growth to Empowerment (G2E) program within GrOW examines the impact of economic growth on women's economic empowerment.

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Background

Due to the varied nature of informal sector activities, researchers have questioned the appropriateness of treating the sector as a single, homogenous sector. Instead, models have been developed that distinguish between two very different parts of the informal sector: underemployed laborers in survivalist enterprises and entrepreneurs in growth-oriented enterprises. Importantly, wages and transition patterns differ markedly between these two tiers. Enterprises in the survivalist tier tend to pay low wages, and although employment here is relatively easy to access, there is very little employment stability. Jobs in the growth-oriented tier, on the other hand, pay wages comparable to jobs in the formal sector and offer job security, but are difficult to find.

It is clear that enterprises in these two tiers operate very differently, and promoting entry into either tier would require different policy interventions. It is therefore crucial to establish whether two distinct tiers can be identified in the South African informal sector, and whether enterprises in these tiers can be categorized as either survivalist or growth-oriented. Answers to these questions will determine the appropriate policy interventions required to promote transition into either tier.

Methods and Data

Two distinct tiers in the informal sector are identified using data-driven statistical techniques to cluster workers in the informal sector according to the work they perform, and then studying factors that determine entry into jobs in either tier of the informal sector. This clustering analysis groups enterprises together according to the following characteristics: wages, trade union membership, firm size, industry, occupation, enterprise registration for value added tax (VAT), hours worked, and whether the firm is private or public. Using these variables, the South African labor market is grouped into 15 distinct clusters, each of which is characterized by similar hourly wages and working conditions.

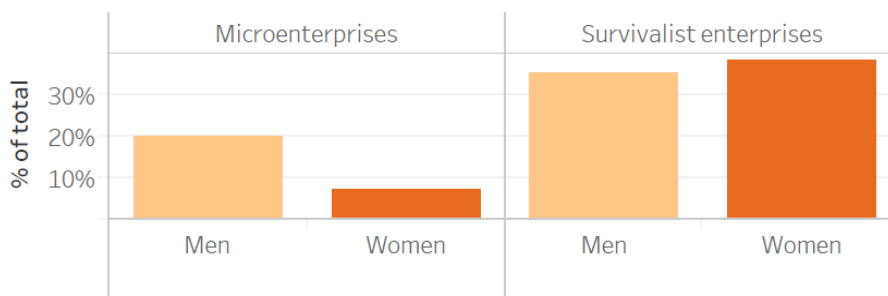
Main Results

- **The South African informal sector clearly consists of two tiers.** Workers in the lowest income clusters (the bottom six clusters) tend to be underemployed, are seldom unionized, are not registered for VAT, and tend to work as street vendors, domestic workers or agricultural workers. In other words, clusters with the lowest wages tend to be dominated by characteristics typical of survivalist enterprises.

On the other hand, there are informal workers who are clustered with formal sector employees in terms of the characteristics listed above. That is, they earn higher wages and appear to be performing jobs that are much more similar to those of formal sector workers, except that their firms are not registered for VAT. The informal sector workers in these upper clusters therefore appear to be in jobs with attributes that closely resemble those in the growth-oriented enterprise tier.

- **Survivalist enterprises dominate the informal sector.** Three-quarters of the informal labor force comprises workers in survivalist enterprises (see Figure 1). In other words, three-quarters of informal sector workers earn low wages, are self-employed, and express a stronger desire for alternative employment compared with workers in other sectors. This suggests that entry into the survivalist tier occurs mainly because of a need to provide for the most basic household needs given a lack of alternative sources of income.
- **There are barriers to entering the growth-oriented tier.** Those who are initially out of work are unlikely to enter the informal sector, particularly the growth-oriented tier. The fact that more non-employed enter the survivalist tier than the growth-oriented tier, despite the clear advantages of entering the latter over the former, suggests that there are substantial financial as well as human capital barriers to entering the growth-oriented enterprise tier. The multivariate analysis reveals that better educated job-seekers from wealthier households are able to overcome these barriers to entering the growth-oriented tier.
- **The growth-oriented tier can act as a springboard into the formal sector.** A substantial share of growth-oriented enterprise workers transition into formal employment, whereas this very rarely happens for their survivalist counterparts. This suggests that employment in the growth-oriented tier acts as a viable springboard into high paying formal sector jobs, whereas the same cannot be said for survivalist informal enterprises.
- **Differences in the informal sector are gendered.** Although there are roughly an even number of men and women who work in the informal sector, men dominate the growth-oriented tier of the informal sector, while women dominate the survivalist tier (see Figure 1). The schooling barriers to entering growth-oriented enterprises appear to be less pronounced for men than they are for women. Men who are the heads of households or married are also more likely to transition from non-employment into employment in growth-oriented enterprises. For women, such additional household responsibility is associated with a higher likelihood of employment in survivalist enterprises.

Figure 1. Composition of the informal sector workforce



* Note: Microenterprises refers to growth-oriented microenterprises

Policy Lessons

- **The informal sector is often treated as one homogenous entity although this study shows there are two clearly discernible and very different tiers in the informal sector.** Policy that attempts to regulate or stimulate the informal sector needs to be mindful of this distinction. Social grants provide an important safety net to help women provide for households without having to resort to survivalist employment.
- **Policies that improve the take-home pay, job security or working conditions in the survivalist tier will have positive effects on the welfare of poor households.** Such policies include local economic development that creates job opportunities closer to where poor households live, improved safety in areas of informal sector activities and transportation subsidies. Interventions aimed at suppressing or imposing additional regulation on informal sector activities may inadvertently make it more difficult for desperate job-seekers to find employment to provide for their households.
- Given that the survivalist tier is an employment opportunity of last resort, **policies should be aimed at making entry into this tier as easy and inexpensive as possible, rather than incentivizing the non-employed to enter this tier.**
- **Policies that help entrepreneurs overcome financial barriers to entering the growth-oriented tier - providing access to affordable loans, or entrepreneurship training or mentoring, for example – can provide a useful springboard into formal sector employment.** Equity considerations suggest that women should have the first claim on access to such programs.

Further Reading

Makaluza, N. (2016). Job-seeker entry into the two-tiered informal sector in South Africa. REDI [Working Paper 18](#), Research Project on Employment, Income Distribution & Inclusive Growth.

Endnotes

1. The survivalist tier consists of small enterprises that engage in low-productivity, low-income activities. Such enterprises have little growth potential and employ workers whose only alternative is unemployment.

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The **GrOW initiative** funds 14 research projects aimed to empower women to participate in economic activities, providing evidence that can inform social and economic policies to improve poor women's lives, while promoting economic growth.

Research Project – G2E (Growth to Empowerment) is a project of the GrOW initiative: Pathways for shared prosperity: Understanding the links between women's economic empowerment and growth.

Information

<https://www.uni-goettingen.de/grow>

Contact

Sophia Kan | skan@uni-goettingen.de

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