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Skills Needs of the Informal Sector: A Conceptual Framework

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Key Concepts

Defining “informality” and the “informal sector”

There have been ongoing debates on the nature of “informality” and specifically, the “informal sector”. The Department of Small Business Development, for example, often uses the term ‘informal business sector’ to refer to enterprises that operate informally, while the ILO’s Resolution 204 refers to an ‘informal economy’. The latter term includes individual employees (whose informality is defined in relation to basic employment conditions), as well as employers and own-account workers who operate informally (where the definition relates to the tax status of the enterprise). This report will focus on the ‘informal sector’, a term that relies on a specific enterprise-based definition. Following Statistics South Africa, and alongside definitions used by the ILO, this report classifies the informal sector as including:

- i. Employees in establishments (in other words, firms) with fewer than five employees, where income tax is not deducted from their salaries or wages; and*
- ii. Employers, own-account workers and unpaid workers employed in a household business who are not registered for either income tax or value-added tax.*

The report also includes those employed in the agricultural sector in the definition but, excludes those employed in private households (i.e. domestic workers). This definitional approach is widely recognised in the international literature and common in recent South African publications on the topic (Rogan & Skinner, 2017; Fourie, 2018).

1. Background

The informal sector in South Africa is small, both relative to the formal sector and as compared to other developing countries. Statistics South Africa (2019a) estimates that the contribution of the informal sector to Gross Domestic Product (GDP) was 6.0 percent in 2017. In 2019, prior to the Covid-19 pandemic, 18.3 percent of employed individuals in South Africa were employed in the informal sector (StatsSA, 2019b). Table 1 below, shows that employment in South Africa's informal sector is about one-third of the African average.

Table 1: Informal sector employment rates by region, developing countries

Region	Informal sector employment (%)
Africa	59
Asia and the Pacific	50
Arab States	56
Americas	30
Europe and Central Asia	15
World	41
South Africa	18.3*

Source: ILO, 2018, StatsSA, 2019, own calculations. The estimate for South Africa is for 2019, whereas the estimates for other regions is for the year 2016.

The sector has traditionally been largely neglected from an analytic and policy perspective in South Africa. Beginning in 2011, however, the lack of policy attention had begun to shift. Strategy documents such as the National Development Plan (NDP) envision that 2.1 million more informal sector jobs will be created by 2030 – a 72 percent increase from 2010. The Department of Small Business Development's (DSBD) National Informal Business Upliftment Strategy (NIBUS), which launched in 2014, was the first national policy document which focused directly on the informal sector and signalled a new approach to support the sector and drive growth in the sector. The Economic Reconstruction and Development Plan, released in October 2020- pledged to remove red tape, reduce time frames to obtain relevant licenses and design more suitable financial products for informal SMMEs. Alongside this renewed focus from a strategic planning perspective, the International Labour Organisation's (ILO) Resolution 204 has been adopted in South Africa and overlaps with the NIBUS – focusing as it does on securing workers' rights in the informal economy and assisting the formalisation of both workers and enterprises to ensure better employment conditions.

The informal sector has also recently received more attention due to the impact of the Covid-19 pandemic and associated lockdowns in South Africa. Although both formal and informal businesses were negatively affected by the pandemic, the economic effects were exacerbated in the informal sector due to a number of factors such as no access to savings, medical care, personal protective equipment, and financial support from government.

Köhler et al. (2021) considered the direct impact of the initial 2020 Covid-19 lockdown on employment in South Africa through the use of a quasi-experimental econometric technique to exploit variation in legislated industry-level permission to work and the coincidental timing of the lockdown and data collection dates of nationally representative labour force. They found that while workers across the economy were affected by the lockdown, the lockdown disproportionately affected individuals working in the informal sector with an estimated effect nearly three times larger than the overall effect for those employed in the informal sector. The authors also noted that employment in the informal sector has struggled to bounce

back: by the end of 2020, only one third of jobs lost in the informal sector since the implementation of the initial lockdown had been regained.

Analysis of skills needs of the informal sector in South Africa has been limited due to issues relating to data quality and availability, as well as differing views on what the role of an informal sector in the country's economy should be. The aim of this report is to provide an evaluation of skills requirements for individuals located within the informal sector – with the understanding that supporting relevant skills acquisition for individuals engaged in the sector can support much needed job creation in the South African economy. This evaluation will be done through the combination of a comprehensive literature review and a rigorous data analysis, utilising easily accessible labour force data.

In this regard, it is important to note that the ‘informal sector’ is not a sector such as those considered in the formal economy. It is worth recognising that growing the informal sector is regarded by some as an unwanted development given the precarious nature of employment in the sector and the ongoing effort to gradually formalise those in the broader informal economy. It is thus important to clarify the reasoning of this report here for supporting individuals engaged in the informal sector, which stems from an overarching concern about employment generation. The premises of this report are as follows:

1. The formal sector in South Africa cannot absorb all labour force participants as it is currently structured;
2. While this paper recognises its precarious nature, the informal sector can provide a livelihood for some of those in search of work and based on international experience should not be viewed as a temporary feature of the economy;
3. Work in the informal sector is often preferable and can have lower barriers to entry than the formal sector;
4. Thus, alongside efforts in line with the ILO's Resolution 204 to assist with transitions into the formal economy and improve employment conditions, the expansion of the informal sector, and support for those engaged in informal sector activities, should be encouraged.

2. Purpose of the report

The primary purpose of this study is to provide a perspective on the skills needs of individuals engaged in work in the informal sector in South Africa. In this regard, the report ultimately aims to understand the skills requirements of individuals engaged in the sector and consider how an enabling skills ecosystem for individuals to thrive in the informal sector can be created. The report will make use of labour force survey data from Statistics South Africa, as well as literature related to small businesses and the informal sector in South Africa, to do this.

3. Rationale for the report

Despite accounting for close to one in five jobs in South Africa, the informal sector is often not a key focus of research and policy related to the labour market and skills development in South Africa. With the formal sector not being able to generate employment for all South Africans looking to be employed, there is a need to better understand the opportunities for and challenges of individuals engaged in the sector, and how the skills ecosystem can best support the informal sector to enable the sector to generate livelihoods for individuals in need of it. From a research perspective, one of the major constraints making the informal sector a difficult subject for analysis at a national level has been the lack of publicly available, good quality data. This work seeks to provide a holistic perspective on skills needs for individuals in the informal sector

by analysing readily available labour force survey data, as well as synthesizing literature related to small businesses and the informal sector in South Africa.

4. Key research questions to be answered through the study

This report ultimately aims to identify skills needs of individuals in the informal sector, and appropriate policy responses to address the skills needs for individuals employed in the informal sector. To do this, it follows a tiered approach which first involves conceptualizing and contextualizing the informal sector in South Africa, and then turns to provide a profile of the informal sector in South Africa making use of available labour force survey data. The report will then go on to consider the challenges and unique circumstances faced in the informal sector in South Africa that individuals must be able to respond to. Based on these, the paper will then identify skills needs for individuals employed in the informal sector, provide an overview of how the skills ecosystem currently interacts with individuals working in the sector, and what can be done for the PSET system to be more responsive to the needs of the sector.

The key research questions to be addressed in this study can be grouped under four major themes.

Theme A: Contextualizing the informal sector in South Africa: How do we understand and conceptualize the informal sector in the context of South Africa?

Research question 1. How is the notion of the informal sector conceptualized? How can the informal sector be understood?

Research question 2. What is the importance of the informal sector, in South Africa, and internationally?

Research question 3. How does the size of, and nature of, South Africa's informal sector compare internationally?

Research question 4. What is the policy environment for the informal sector in South Africa?

Theme B: A profile of the informal sector in South Africa: What is the profile (size and composition) of the informal sector in South Africa, and how this changed over time?

Research question 5. What is the current size of the informal sector in South Africa and what has been the trend with regard to the size of the informal sector?

Research question 6. What occupations, sectors and geographic locations are associated with the informal sector in South Africa?

Research question 7. How has the composition of employment in the informal sector, with regard to sector, geography and occupations, changed over time? How has employment in the sector changed over time relative to employment in the formal sector?

Research question 8. How has COVID-19, in particular, affected the informal sector? What is the SA informal sector expected to look like in a post-COVID future?

Theme C: Understanding the skills needs of the sector: What are the challenges faced by, and the skills required, by individuals in the informal sector in South Africa?

Research question 9. What is the current level of education of individuals employed in the informal sector? How has this changed over time?

Research question 10. What challenges are experienced by individuals engaged within the informal sector in South Africa?

Research question 11. What kinds of skills (including generic, entrepreneurial and technical vocational skills) are generally associated with successful informal sector workers and business owners?

Research question 12. What are the determinants of successful individuals in informal sectors, internationally and in SA?

Theme D: *Skill responses for the informal sector: How can the skills requirements of individuals in the informal sector be supported by the Post-School Education and Training (PSET) system?*

Research question 13. Based on the above, what are the skills requirements of individuals in the informal sector?

Research question 14. How does the skills ecosystem and PSET system, specifically, currently interact with individuals in the sector?

Research question 15. How can the PSET system contribute to the strengthening of the informal sector's ability to provide decent employment opportunities for South Africans? What are the policy recommendations?

5. Target group for the report

The final report has a varied target audience that includes policymakers at Department of Higher Education and Training and other government institutions concerned with both education issues and labour market issues such as the Department of Employment and Labour; the National Planning Commission; academics and researchers; and organisations in the private sector involved in skills planning and enhancement of livelihoods in local communities. The report will also be of interest to the Department of Small Business Development. The findings derived from the report should assist officials to better understand the nature of the informal sector, and identify the skills required by individuals engaged in work in the informal sector.

6. Scope of report

The report will be structured as follows, and cover the following content and key research questions:

Table 2: Structure of report and key research questions

Section	Key research questions addressed
1. Introduction	
2. Contextualizing the informal sector in South Africa	Research question 1. How is the notion of the informal sector conceptualized? How do we understand the informal sector?
i. The notion of the informal sector	
ii. The South African context	Research question 2. What is the importance of the informal sector, in South Africa, and internationally?

Section	Key research questions addressed
iii. The role of the informal sector in the South African context	<p>Research question 3. How does the size of, and nature of, South Africa's informal sector compare internationally?</p> <p>Research question 4. What is the policy environment for the informal sector in South Africa?</p>
3. A profile of the informal sector in South Africa i. Overview of the informal sector ii. Composition of the informal sector iii. Trends in the informal sector over time iv. COVID-19 and the informal sector	<p>Research question 5. What is the current size of the informal sector in South Africa and what has been the trend with regard to the size of the informal sector?</p> <p>Research question 6. What occupations, sectors and geographic locations are associated with the informal sector in South Africa?</p> <p>Research question 7. How has the composition of employment in the sector, with regard to sector, geography and occupations, changed over time? How has employment in the informal sector changed over time relative to employment in the formal sector?</p> <p>Research question 8. How has COVID-19, in particular, affected the informal sector? What is the SA informal sector expected to look like in a post-COVID future?</p>
4. Understanding skills needs of individuals in the informal sector in South Africa i. Skills profile of employment in the informal sector ii. Challenges and skills requirements of individuals in the informal sector: A review of the literature	<p>Research question 9. What is the current level of education of individuals in the informal sector? How has this changed over time?</p> <p>Research question 10. What challenges are experienced by individuals engaged within the informal sector in South Africa?</p> <p>Research question 11. What kinds of generic skills are generally associated with successful informal sector workers, including entrepreneurial skills and attributes?</p> <p>Research question 12. What are the determinants of successful individuals in informal sectors, internationally and in SA?</p>
5. Skills responses for the informal sector in South Africa	<p>Research question 13. Based on the above, what are the skills requirements of individuals employed in the informal sector?</p> <p>Research question 14. How does the skills ecosystem and PSET system, specifically, currently interact with individuals engaged in the sector? Further, how are skills currently being acquired within the informal sector?</p> <p>Research question 15. How can the PSET system contribute to the strengthening of the informal sector's ability to provide decent employment opportunities for South Africans? What are the policy recommendations?</p>
6. Conclusion	

7. Methodology and approach

The report will take a tiered approach aimed at first understanding the context in which the informal sector exists in South Africa, before considering the profile of the informal sector in the country, and then considering the challenges and circumstances faced by individuals engaged in work in the informal sector. Based on these findings, the report will then identify skills requirements of individuals employed in the sector and how individuals can be supported to obtain these skills.

The project thus consists of four core components (what the report has called the four major themes), with the final component (identifying responses to skills needs) being the most important, but which must be located in the understanding obtained through the findings in the first three components of the report.

A combination of analysis of available data and review of relevant literature will be used to consider the research questions. The two main data sources will be Statistics South Africa's Quarterly Labour Force Surveys (QLFS) and the Survey of Employers and the Self-Employed (SESE). The table below notes whether data or literature will be considered for each of the research questions identified.

Table 3: Approaches to each research question

Research question	Analysis of data	Review of literature	Notes
Theme A: Conceptualization and context			
Research question 1. How is the notion of the informal sector conceptualized? How do we understand the informal sector?		✓	
Research question 2. What is the importance of the informal sector, in South Africa, and internationally?		✓	
Research question 3. How does the size of, and nature of, South Africa's informal sector compare internationally?	✓	✓	Primary data for size of South African informal sector. Secondary sources for size of informal sectors around the world.
Research question 4. What is the policy environment for the informal sector in South Africa?		✓	Review of both literature and policy documents.
Theme B: Profile			
Research question 5. What is the current size of the informal sector in South Africa and what has been the trend with regard to the size of the informal sector?	✓		Use of QLFS survey data from Statistics SA. Most recent available data will be used. A ten year period will be used to consider changes over time.

Research question	Analysis of data	Review of literature	Notes
Research question 6. What occupations, sectors and geographic locations are associated with the informal sector in South Africa?	✓		Use of QLFS survey data from Statistics SA. Most recent available data will be used. A ten year period will be used to consider changes over time.
Research question 7. How has the composition of the sector, with regard to sector, geography and occupations, changed over time?	✓		Use of QLFS survey data from Statistics SA. Most recent available data will be used. A ten year period will be used to consider changes over time.
Research question 8. How has COVID-19, in particular, affected the informal sector? What is the SA informal sector expected to look like in a post-COVID future?	✓	✓	Use of QLFS survey data from Statistics SA, supplemented with other secondary data and literature sources.
Theme C: Understanding skills requirements			
Research question 9. What is the current level of education of individuals in the informal sector? How has this changed over time?	✓		Use of QLFS and SESE survey data from Statistics SA. Most recent available data will be used. A ten year period will be used to consider changes over time.
Research question 10. What challenges are experienced by individuals engaged within the informal sector in South Africa?		✓	This question will be conceptualized by looking at sectoral challenges (i.e. manufacturing, retail) as well as cross-cutting challenges facing multiple sectors. An example of sectoral challenges could be an examination of factors inhibiting the informal retail sector in particular. In terms of cross-cutting challenges, this would include challenges such as access to financial services and training, poor infrastructure, or affordable childcare.
Research question 11. What kinds of skills are generally associated with successful informal sector workers, including entrepreneurial skills and attributes?		✓	By undertaking a literature review of existing research on the informal sector, we will provide an overview of the skills associated with success in the sector. This will build on the challenges identified in the previous research question, as skills for success are linked to the challenges experienced by individuals in the sector such as those related to access to capital, credit and financial services, and lack of accounting skills for owner-operators. It will also consider the specific technical vocational skills that are

Research question	Analysis of data	Review of literature	Notes
			required in many activities that form part of the informal sector.
Research question 12. What are the determinants of successful individuals in informal sectors, internationally and in SA?	✓	✓	<p>We will use the SESE data (which is designed to provide information about the characteristics of businesses in the informal sector in South Africa) to consider which firm-specific characteristics are linked to employment and financial growth of firms in the informal sector. The latest SESE data available is for the year 2017.</p> <p>In addition, we will use the literature review undertaken for the previous questions to provide a perspective on characteristics of successful individuals in informal sectors, both in South Africa and internationally</p>
Theme D: Identifying responses to address skills needs			
Research question 13. Based on the above, what are the skills requirements of individuals in the informal sector?		✓	This will be obtained through a synthesis of the key insights and findings of the previous four research questions, supplemented by additional sources if appropriate.
Research question 14. How does the skills ecosystem and PSET system, specifically, currently interact with individuals in the sector? Further, how are skills currently being acquired within the informal sector?		✓	<p>Review of both literature and policy documents. Specifically, we will assess the existing project landscape on skills development for the informal sector and highlight relevant findings from impact assessments that may exist in this regard. We will also consult with relevant stakeholders who are currently engaged in initiatives related to skills development for and in the informal sector where possible to draw out lessons that have been learnt with respect to skills support for the informal sector.</p>
Research question 15. How can the PSET system contribute to the strengthening of the informal sector's ability to provide decent employment opportunities for South Africans? What are the policy recommendations?		✓	<p>Building on the report's findings, we will use international best practices to inform the recommendations for how to strengthen the PSET's contribution to improving the South African informal sector. International best practices will be drawn from existing reports and research. Preliminarily, we envision that we will develop recommendations in seven broad areas: (i) increasing efforts of public</p>

Research question	Analysis of data	Review of literature	Notes
			skills providers in the informal sector; (ii) encouraging investments in skills by small and household enterprises; (iii) providing small firms in the informal sector with information about the benefits of training and competitive sources for obtaining it; (iv) encouraging industry associations to play a larger role in skills development for the informal sector; (v) improving information on training providers; (vi) promoting competition and innovation in training for the informal sector; and (vii) improving understanding of skills and policy effectiveness.

8. How will this report link to other reports or other components of the LMI research programme

This work is related to two themes of the LMI research programme: ‘Identification of skills needs and shortages for the short, medium, and long term’ and ‘general labour market analysis’. By providing a conceptualization of the informal sector and a profile of employment in the informal sector (as well as how this has changed and can be expected to change in the future), the report will contribute to the ‘general market analysis’ theme of the programme. By identifying skills needs and policy responses for the informal sector, the report will contribute to the ‘Identification of skills needs and shortages for the short, medium, and long term’ theme of the research programme. Specific reports undertaken under the LMI research programme that this report on Skills Needs in the Informal Sector will provide complementary insights to include:

- the LMIP report on Skills Supply and Demand in South Africa;
- to the extent that the report provides insights related to employment and skills needs of artisans in the informal sector, the LMIP report on Employment of Artisans in the South African economy, and;
- to the extent that the report provides insights related to foreign workers in the informal sector, the LMIP Migration Analysis report.

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