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POLICY DEVELOPMENT



VULNERABILITY IN EMPLOYMENT: EVIDENCE FROM SOUTH AFRICA

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DPRU WORKING PAPER 201604
NOVEMBER 2016



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DEVELOPMENT POLICY RESEARCH UNIT

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Working Paper 201604
ISBN 978-1-920633-36-3

November 2016

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Acknowledgements

This publication has been produced with the financial assistance of the Programme to Support Pro-Poor Policy Development (PSPPD), located in the Department of Planning, Monitoring and Evaluation (DPME), and is a product of the strategic partnership between South African government and the European Union. The content of this publication can in no way be taken to reflect the views of the DPME or the European Union.

Working Papers can be downloaded in PDF (Adobe Acrobat) format from www.dpru.uct.ac.za. A limited number of printed copies are available from the Communications Manager: DPRU, University of Cape Town, Private Bag X3, Rondebosch, Cape Town, 7700, South Africa. Tel: +27 (0)21 650 5701, email: sarah.marriott@uct.ac.za

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Recommended citation

Bhorat, H., Lilenstein, K., Oosthuizen, M., and Thornton, A. "Vulnerability in Employment: Evidence from South Africa." Development Policy Research Unit Working Paper 201604. DPRU, University of Cape Town.

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1. INTRODUCTION

Authors who have tried to understand vulnerability in employment have made the link not just between vulnerability and work, but between work and livelihoods. Bocquier et al. (2010) understand vulnerability as “how hard it is for individuals to manage ... risks”. Altman (2007: 22) talks about “the different ways that households assemble a livelihood.” Dubois and Rousseau (2001) in Bocquier et al. (2010: 1313) define vulnerability as “a person’s own structure of capabilities”. The literature on economic vulnerability is still emerging. Early definitions build on Amartya Sen’s capability approach (Bocquier et al., 2010). Vulnerability is about a myriad of ways in which individuals are or are not able to cope with risks that could take them closer to being unambiguously poor (Bocquier et al., 2010). Vulnerability in the labour market can take many forms and is often associated with the term ‘precarious work’. Ways in which workers can be vulnerable include working in the informal sector; earning low wages relative to the cost of living; not having a written contract; working in adverse conditions; not having access to benefits; and a lack of job security; amongst other examples.

The two most well-understood ways in which workers can be vulnerable is if they work informally or earn very little (the “working poor”). There is little consensus on how to define informality, despite its importance in developing country labour markets (Kanbur, 2011). The ‘informal sector’ is an enterprise-level concept and turns on whether or not enterprises are registered with the appropriate state authorities. On the other hand, the term “informally employed” pertains to workers and the set of benefits and protections afforded to them, making it a more relevant concept for labour market vulnerability. Statistics South Africa (2008: 5) defines informal employment as describing “...persons who work in precarious employment situations, irrespective of whether or not the entity for which they work is in the formal or informal sector”. Informal employment according to Statistics South Africa (2008) includes working individuals in the informal sector, including those working for no pay in private households or businesses, as well as formal sector employees with no written contract, pension or medical aid. Unless otherwise specified, the term ‘informal’ in this discussion means ‘informally employed’. Specifically, in this paper, we include workers with no written contract, pension or medical aid (informal employees), and those self-employed in unregistered businesses, in the definition of informal employment.

Low pay in the South African literature has been defined variously. Oosthuizen (2012) defined a low wage as less than two-thirds of the median wage, in line with European definitions. The cut off was R8.33 per hour in 2007. Valodia et al. (2006) looked at workers earning less than R2 500 per month in 2004, or an hourly wage of R14.12. This was the income band in the Labour Force Survey (LFS) closest to the threshold at which National Treasury exempts workers from income tax. The authors also investigated a stricter cut off of R1 000, which is roughly an hourly wage of R5.68.

Valodia et al. (2006) found that 65% of workers were earning less than R2 500 and 39% were earning less than R1 000. These shares represent roughly 7.4 million and 4.4 million workers, respectively. About a third of employees were found to be low paid in 2007 by Oosthuizen (2012)¹ and about a third of all workers were found to be employed informally in 2008 by Statistics South Africa (2008); both using the Labour Force Survey (LFS). Oosthuizen (2012) estimated that there were 3.5 million low paid employees in 2007, and Statistics South Africa found 4.9 million informally employed workers in 2008. All authors report overrepresentation of Africans, youth and women in their definitions of vulnerable workers. Domestic work or work in private households, agriculture and construction, came out of all three papers as home to many vulnerable jobs, as variously defined. In certain senses, we have an idea of what

¹ Oosthuizen’s (2012) sample is limited to employees who are those workers working for pay. Statistics South Africa (2008) has a broader sample that also includes the self-employed and those unpaid workers.

vulnerable workers look like before 2010, and how many of them there are. There is a contribution to be made in ascertaining to what degree those who are low paid intersect with those who are employed informally, and in updating these figures.

Two aspects of vulnerable work not well captured by informality and low pay are uncertainty and 'disguised' employers. Labour brokers – or temporary employment services – are middlemen that hire workers on behalf of those who would otherwise be their actual employers. This 'disguised' employment relationship deprives workers of job security and the usual benefits of permanent employment. Uncertainty about the duration of the contract features as a key characteristic in definitions of precarious work; a term from the sociology literature. An ILO Workers' Symposium on precarious work also set out a definition in an effort to collate factors common to most definitions of precarious work. The definition is described as "two categories of contractual arrangements characterised by four precarious working conditions" (ACTRAV, 2012: 29). The two contractual arrangements are: (1) the limited duration of the contract (i.e. uncertainty); and (2) the nature of the employment relationship (i.e. use of temporary hiring agents and "bogus" subcontracting). The four precarious work conditions are: (1) low pay; (2) poor protection from termination of employment (i.e. lack of a defined contract); (3) lack of benefits and social protection; and (4) lack of or limited access of workers to exercise their rights at work (i.e. would include union membership).

Uncertainty surrounding the job at hand is emphasised both by definitions of precarious employment and debates surrounding labour brokers in South Africa, detailed later on. Unfortunately, uncertainty is difficult to capture with the data available in South Africa. As a result, the decision was taken to focus on low pay and informality by the Statistics South Africa definition (to the extent that it can be applied in the data used). It must be acknowledged that such a focus does not perfectly represent vulnerability and neglects factors workers consider key to their vulnerability. Informality and low pay capture well the four conditions of precarious work in the ILO definition above, but bypass the contractual arrangements. The lack of questions about the nature and dynamics of employment is an important omission in South African official survey data.² Low pay and informality capture vulnerability as well as is possible given the data available.

This paper uses waves one and three of the National Income Dynamics Study (NIDS). Wave two of NIDS is excluded because the labour market statistics are not consistent with other Statistics South Africa surveys (Cichello et al., 2012). NIDS is a nationally representative survey that questions approximately 28 000 people and 7 300 households that form a panel for future waves. In wave three, about 37 000 people and 10 000 households were surveyed. The survey focuses on socio-economic variables and is run by the Southern African Labour and Development Research Unit (SALDRU).

We set out to update the impression of vulnerability in the labour market considering the latest analysis was for 2007. First, we deal with low pay, secondly, with informality. In the low pay section, we pay attention to policy debates surrounding minimum wages. What becomes clear is that a job alone is not a solution to poverty in South Africa. When we discuss informality we make comparisons to Latin America to emphasise what is unique about South Africa's informality. Informality in South Africa plays an important role as a buffer to unemployment in contrast to the higher levels of voluntary informality in Latin America. Our final section returns the discussion to the original focus of vulnerability by examining how low pay and informality

² Suitable questions were asked in the LFS, the predecessor of the Quarterly Labour Force Survey (QLFS), but were dropped when the QLFS took over. Sadly, the final wave of the LFS was carried out in 2007 and so it is fairly outdated for our analysis. Bhorat et al. (2015b) explain that in South African labour force datasets, labour broking is grouped with financial and business services and therefore 'hidden' for statistical purposes.

interact with each other, and with poverty. Throughout, we try to include comparative results from within the sub-Saharan Africa and Latin American regions.

2. LOW PAY

2.1 Background

The South African labour market is characterised by high unemployment, high earnings inequality and skills scarcity (Statistics South Africa, 2014; Altman, 2007). The interaction of these features has led to the proliferation of low wages for low skilled work relative to the cost of living. The idea of a 'living wage' versus a 'market-clearing' wage is at the heart of wage debates in South Africa. On the one side, emphasis is given to paying workers a 'living' or 'decent wage' relative to the cost of living. Low skill workers in South Africa have a living standard associated with a low income country (Altman, 2007). However, higher wages potentially come at the cost of displacing much-needed jobs. Advocates on the other side of the debate argue that lowering unemployment levels is of foremost importance, and that wage levels will increase as surplus labour supply shrinks. It is this context that makes the study of low pay particularly pertinent.

South Africa has high levels of poverty for an upper-middle income country. In 2011, 45.5% of the population lived below the Statistics South Africa upper poverty line of R620 per person per month (Statistics South Africa, 2014). This is accompanied by high income inequality. South Africa's Gini coefficient has increased from 0.66 in 1993, to 0.7 in 2008 (Leibbrandt et al., 2010). Both high poverty rates and high levels of inequality are at least partially explained by high unemployment levels. The narrow unemployment rate is 26.7%, and the broad unemployment rate that includes discouraged work seekers is 34.2% (DPRU, 2016). As will be discussed, a smaller proportion than expected are employed in the informal sector in South Africa. The strong correlation between unemployment and poverty (Cohen & Moodley, 2012) makes job creation an intuitive solution to reduce both problems at once (Altman, 2007).

Addressing these phenomena is very delicate. A number of options are open to government to help poor households manage their livelihoods. The social grant system plays a crucial role in poverty reduction for a number of households. However, the social grants bill is already fairly high; National Treasury is spending 11.4% (R167.5 billion) of the budget on social protection this year (National Treasury, 2016). Another approach could be to lower the cost of living. National Treasury has already made efforts here to reduce personal income tax on those who earn R43 000 a year or less (Altman, 2007). Controlling the cost of food, transport and housing is a lot more difficult. Raising minimum wages is the controversial option at the heart of the debate outlined above. This requires the difficult balancing act of raising incomes whilst keeping disincentives for firms to employ under control. A less controversial but no less difficult method is job creation. Job creation requires stimulating a listless economy in the aftermath of a global recession in which most job growth has been in skilled sectors, bypassing the poorest.

The South African government directly sets minimum wages for nine sectors that are considered vulnerable. Godfrey et al. (2006) estimate that this covered about 3.4 million employees (36% of employees) in 2005. A further 25% of employees are covered by bargaining councils that determine minimum wages in sectors considered sufficiently represented (ILO, 2014). In September 2010, the ILO and the National Economic Development and Labour Council (NEDLAC) of South Africa signed the Decent Work Country Programme for South Africa. The Decent Work Country Programmes are the main means with which the ILO provides technical assistance to countries by promoting decent work as national development strategies. NEDLAC is a statutory body that brings together stakeholders from government, organised labour, and organised business. This move by NEDLAC therefore

symbolised government's commitment to bringing wages in line with a dignified standard of living.

Despite this action, government has failed to create jobs even with the help of the ILO. Between 2004-2009 (phase 1), 500 000 new job opportunities were created through the Expanded Public Works Programme with the help of the ILO. However, these jobs have been criticised for being short-term, poorly compensated, and with no social benefits (Cohen & Moodley, 2012). The global recession led to 900 000 job losses over a similar period which counteracted these gains.

Along with an economy struggling to create jobs, other labour market trends include increased 'casualisation' in the era since the latest recession. Standard employment contracts are being replaced with temporary ones organised by temporary employment services (TES's), or labour brokers as they are called in South Africa (Cohen & Moodley, 2012). This triangular employment relationship is identified as a precarious one by the ILO Workers Symposium discussed in the literature review, because the arrangement extricates employers from their responsibilities to employees. Workers are deprived of benefits, job security, and legal recourse in many instances (ACTRAV, 2012). It is also practically very difficult to unionise if workers are hired by a labour broker.

Bhorat et al. (2015b) chart the rise of labour broking (or temporary employment services) in South Africa: the practice of labour broking has risen from 2.2% to 6.4% of total employment between 1995 and 2014. As a percentage of financial and business services, labour broking has increased from 26.6% to 47.4% between 1995 and 2014. This growth has largely come from the Protective Services Workers (e.g. security guards) and commercial helpers and cleaners. This trend reflects the rising uncertainty surrounding jobs in South Africa, highlighted by workers' discussions of precarious employment above. Labour broking is a controversial topic in South Africa. In media debates, the usual explanation for increased prevalence of labour brokers is South Africa's rigid regulatory environment which labour brokers enable firms to circumvent by using their services (Bhorat et al., 2015b). Last year the Labour Relations Act (LRA) was amended to limit labour broking to truly temporary work – as opposed to workers being employed for years through labour brokers without the concomitant benefits of being a permanent employee. Half of those employed through labour brokers lost their jobs as a consequence of this amendment, whilst a fifth were taken on as permanent employees (Bhorat et al., 2015a).

On the other side of the wage debate is concern that South Africa's wage-setting institutions (minimum wages and bargaining councils) curtail labour absorption and contribute to unemployment (Nattrass, 2012). Wage-setting in low-skilled sectors discourages the hiring of low-skilled workers, and sometimes causes firms to lay off existing workers that become comparatively more expensive after wage hikes set in. This has been found to be the case in the agricultural (Bhorat, Kanbur, & Stanwix, 2014) and the clothing manufacturing sectors (Nattrass & Seekings, 2014), but not for domestic workers (Dinkelman & Ranchhod, 2012). Conflict is born out of an "entrenched oppositional relationship" between labour market and macroeconomic policy (Nattrass, 2012: 65). Nattrass (2012) argues that labour market policymaking has been captured by organised labour, which is determined to avoid low-pay strategies because they are a reminder of exploitative apartheid-era labour practices.

A key example of this is the clothing industry in Newcastle. The bargaining council process to set minimum wages for the clothing industry is fairly unbalanced. Large, urban-based firms dominate the council which then sets and unilaterally extends the wage to the rest of the country. This is regardless of the fact that a lower wage may be more appropriate for businesses operating in rural, poverty-stricken areas like Newcastle. Regular increases in the clothing manufacturing minimum wage either forced firms to shut down, or to continue operating by illegally paying below minimum wage. Between 2007 and 2010, 30 000 jobs were

lost in the clothing industry. In 2011, five small clothing enterprises in Newcastle tried to take legal action against having to raise their wages but ultimately were forced to comply (Nattrass & Seekings, 2014). This case illustrates the tension between the ideals of wage setting institutions and the firms and jobs that bear the losses in the process. From a policy perspective, firms in certain sectors in South Africa bear the contradictory burden of having to create jobs whilst also paying higher minimum wages.

The degree to which all of these aspects are interrelated and trigger each other complicates the debate. Setting minimum wages and trying to balance living wages with unemployment is a tricky exercise in an economy with such stark inequality, low-income country levels of poverty, and competing narratives about the direction of causality between jobs and poverty reduction. What is clearer is that in the current scenario, a job alone is not a panacea for poverty. For example, a key point for Altman (2007) is that policies like minimum wages and social grants are needed as a livelihood strategy for individuals even if they are employed. Leibbrandt et al. (2010) find that 17% of South African workers were living in poverty in 2012, despite the presence of wage-income in the household (2016). Altman (2007: 22) discusses how poor households “assemble a livelihood” and emphasises that jobs alone are not sufficient to keeping households out of poverty. Many poor households ‘assemble a livelihood’ from income from both regular employment and social grants. Livelihood strategies are put under extra strain in a context of high unemployment where dependency ratios are high (Altman, 2007). In a country lacking an unemployment grant, the unemployed survive by tapping into a private social security net by modulating household formation. The unemployed often move back in with parents or other relatives or friends that do have access to resources, however limited they may be. In this way further strain is put on the resources of the receiving household (Klasen & Woollard, 2009).

2.2 Low Pay in South Africa

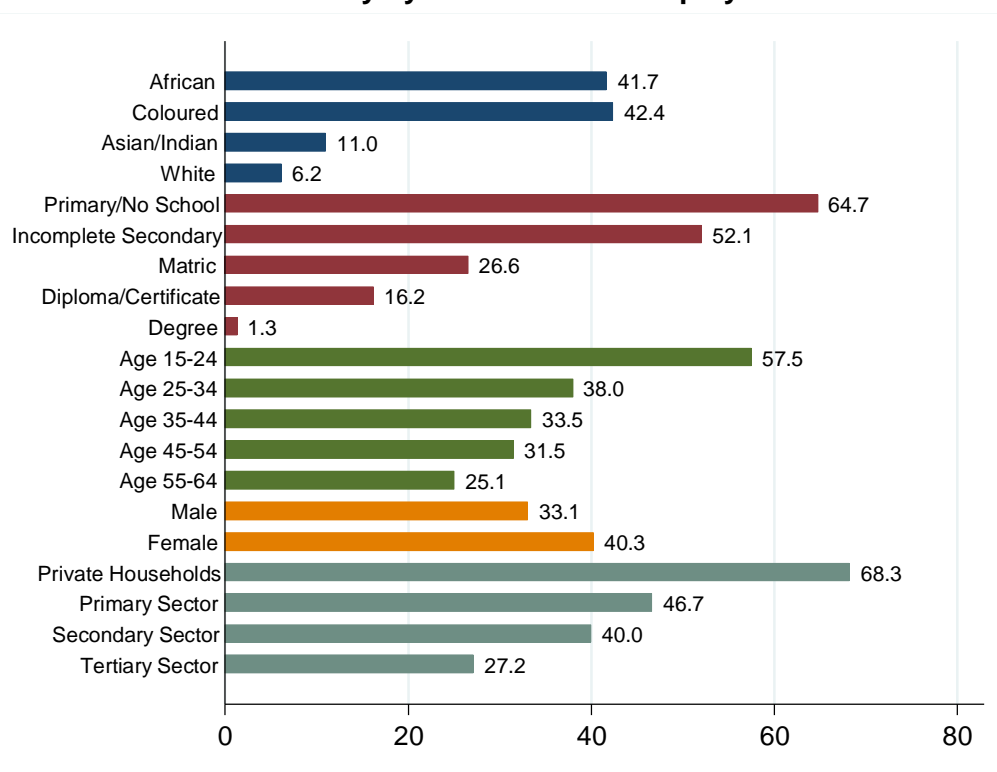
It is with this complicated background in mind that we turn to analysing low pay in South Africa. In 2007, 32.4% of workers were low paid, meaning they earned less than two-thirds of the median hourly pay (Oosthuizen, 2012). Oosthuizen (2012) observes that Africans, women, and people aged 15-24 years are overrepresented in low-paid employment. Low educational attainment is strongly associated with low pay as is expected. The author also found that union membership and being covered by sectoral determination of the minimum wage lowered the chance of low pay. These are important policy instruments available to government to combat vulnerability in employment.

In the analysis that follows, low pay is defined as earnings that are less than two-thirds of the median pay, using the NIDS 2008 and 2012 data. Earners include anyone who classified themselves as employed and earned wages as an employee in the formal or informal sector, casual work, self-employment, agricultural work, or working in a friend or family member’s business. Incidence of low pay has been very stable over the four-year period: 37.6% of workers were low paid in 2008, and 36.3% were low paid in 2012.

Incidence of low pay was computed for various demographic and employment characteristics in Figure 1. This figure shows that African, Coloured, female, and young workers are more likely to be low paid. The persistent race divisions in the South African labour force are clear, with 42% of African and Coloured workers in low paid employment, compared with only 11% and 6% of Indian/Asian and White workers, respectively. Education is understandably a significant marker for low-paid work, with 65% of workers with no schooling or primary schooling in low-paid work. There is also a substantial difference in the remuneration of work amongst employed individuals with different levels of post-secondary education: while 16% of those with a diploma or certificate are in low-paid work, almost no employed individuals with a degree are earning a low wage. Age also appears to be important, with youth aged 15 to 24 more than twice as likely to be in low paid work than those aged 55 to 64. Finally, workers in

private households (including domestic workers and gardeners) face the highest incidence of low pay, with 68% employed in low-paid work. Domestic workers are usually African or Coloured females, which contributes to the high incidence of low pay for these groups. The minimum wage for domestic workers is below the two-thirds of the median cut-off which explains why such a high proportion of workers in private households are classified as low paid.

Figure 1: Incidence of Low Pay by Individual and Employment Characteristics, 2012.



Source: Own calculations using NIDS Wave 1 and 3.

Notes: Adjusted using calibrated sampling weights.

Table 1 looks specifically at changes in low-pay status over time, and therefore includes only those individuals appearing in both 2008 and 2012 in the NIDS data. For example, of those who were not low paid in 2008 (first row), 77.1% were not low paid in 2012. A further 12.7% were low paid and 10.2% were unemployed in 2012. This indicates the relative stickiness of “higher” paid work. In other words, those who were not low paid in one period were most likely to not be low paid in the next period. Furthermore, those in “higher” paid work (i.e. not low pay) are less likely to transition into unemployment than those in low paid work. Overall, there is a degree of churn between “Low Pay” and “Not Low Pay” employment, although the relative security of “higher” paid work is clear.

Table 1. Movement of Workers into and out of Low Pay: 2008 to 2012.

		2012			Total
		Not Low Pay	Low Pay	Unemployed	
2008	Not Low Pay	77.1	12.7	10.2	100.0
	Low Pay	41.6	43.2	15.2	100.0
	Unemployed	36.9	24.0	39.1	100.0

Source: Own calculations using NIDS Wave 1 and 3.

Notes: Adjusted using calibrated sampling weights.

To summarise, about a third of the employed are low paid, which amounts to about 4.4 million workers. There has been little change over the four-year period investigated and these figures are also similar to those of Oosthuizen (2012) (who used the same criteria for low pay) for 2007. We can therefore conclude that low pay in South Africa is quite persistent. There is a degree of churn in and out of low pay, but most of those who were low paid in 2008, remained so in 2012.

3. INFORMALITY

3.1 Overview

The working age population of Sub-Saharan Africa grew by just under 8.5 million per year between 1980 and 2010 (United Nations, 2015). For many of these individuals, their only hope of employment is found in the informal sector, as African economies have struggled to create jobs over the same period. South Africa is an outlier in this regard as the informal sector has provided less opportunity than would be expected given the high levels of unemployment in the South African economy. The Sub-Saharan average unemployment rate for 1994-2014 (i.e. corresponding to the post-apartheid period) is less than 10%; South Africa's unemployment rates for the same period are consistently above 20% (World Bank, 2015). South Africa is not unlike other Sub-Saharan African economies in struggling to create jobs, however, the informal sector in the rest of the region is far more labour absorptive.

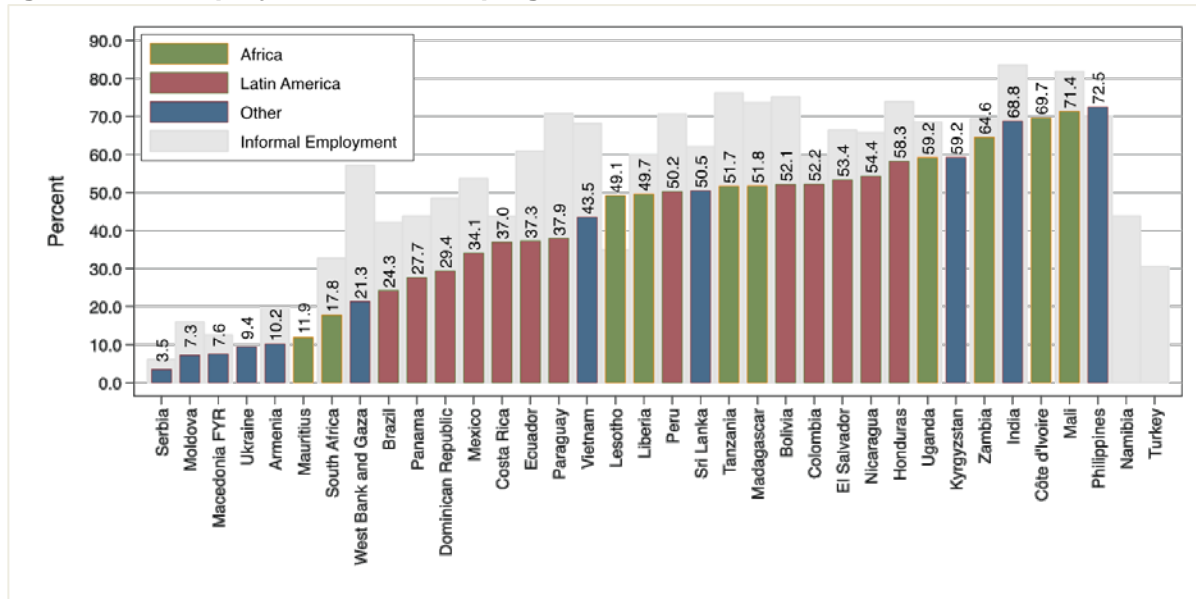
In South Africa there is a large degree of consensus that the informal sector should play a greater role in engaging unemployed people in informal entrepreneurial activities. However, the policy discourse surrounding this topic is not always coherent. The growth of the informal sector has been curtailed by various factors such as the legacy of apartheid, stringent legislation, and bureaucratic red tape. There are inconsistent and even conflicting approaches in policymaking at a national, provincial, and local level. Unfortunately, little is known about how and why workers enter and exit the informal sector, and which factors promote self-employment.

This could partly be because, despite its importance, there is little agreement on how to define informality (Kanbur, 2009; 2011). Terms such as the 'informal sector' need to be differentiated from the 'informal economy' and 'informal employment'. This paper distinguishes the informally employed from the informal sector. The informal sector relates to whether an enterprise is registered with the appropriate authorities (e.g. for tax purposes). However, informal employment pertains to the protections and benefits afforded to workers. This means that informal employment can occur in both the informal and formal sectors. For example, a worker could be working without a written contract – meaning they are informally employed – but for a firm that is registered for VAT, implying it is a formal sector enterprise. The extent to which this dual-definition of informality is applied, differs across countries. Informal employment, for example, is applied using a vast array of criteria, including payment of tax and the existence of social security benefits, leave, and medical aid. For more detail on these definitional issues, see Appendix A.

Despite these differences, Figure 2 presents estimates of the size of the informal sector and informal employment as a share of non-agricultural employment, across low- and middle-income countries for which data exists. This figure illustrates that there is significant variability in informality rates across countries. Furthermore, the variance in informality rates between African countries exceeds that of Latin American countries. In Sub-Saharan Africa, Mauritius and South Africa have the lowest rates of informal employment (11.9 and 17.8%, respectively), while Mali and Cote d'Ivoire experience the highest rates (71.4 and 69.7%, respectively), amounting to a 59.5 percentage point difference between the country with the lowest and highest rate of informal employment. In contrast, the lowest rates of informal employment in Latin America are found in Brazil (24.3%), while the highest are found in Honduras (58.3%),

with the overall difference in informal employment between the countries being 34 percentage points.

Figure 2: Informal sector employment and Informal employment as a share of non-agricultural employment in developing countries



Source: ILOSTAT (2015). Reproduced from Oosthuizen et al. (2016).

Looking at the Sub-Saharan African region as a whole, Vanek et al. (2014) estimates informal employment to be about 66% of total non-agricultural employment. About a third of informal employment is wage employment, and two-thirds is self-employment. Vulnerable groups like women and youth are more likely to be employed informally. Of employed women in Sub-Saharan Africa, 74% are informally employed compared to 61% of men (Vanek et al., 2014). Turning to the informal sector, it is estimated that about 80% of the workforce in Sub-Saharan Africa is employed in the informal sector. Additionally, the informal sector is estimated to account for 55% of Sub-Saharan African GDP (AfDB, 2013). The informal sector is so prominent in many of these economies because of the lack of employment opportunities in the formal sector.

3.2 Types of Informality

Fernández et al. (2016) hypothesize three broad types of informality corresponding to different reasons for working in the informal labour market. Subsistence informality is typified by workers who do not have the skills or productivity to work in the formal labour market. In this case, informality is involuntary. Induced informality is also an example of involuntary informality. However, in this case, workers have comparable productivity levels with formal sector workers but are forced into informality by explicit or implicit barriers, such as legislation or discrimination. Finally, the voluntary informal are those informal workers who have comparable productivity levels with formal workers and do not face barriers to formality, but rather choose to work informally. In this case, the informal market offers some sort of compensating differential to the formal market in the form of higher (untaxed) earnings or market regulation evasion.

Each type of informality implies different policy responses. It is therefore important to take into account the distribution of informality in the labour market at hand when making policy decisions. For example, if subsistence or induced informality is most prevalent and workers are better off in this employment than if they were unemployed, then the informal labour market is positively affecting the lives of these informal workers. However, policies resulting in the

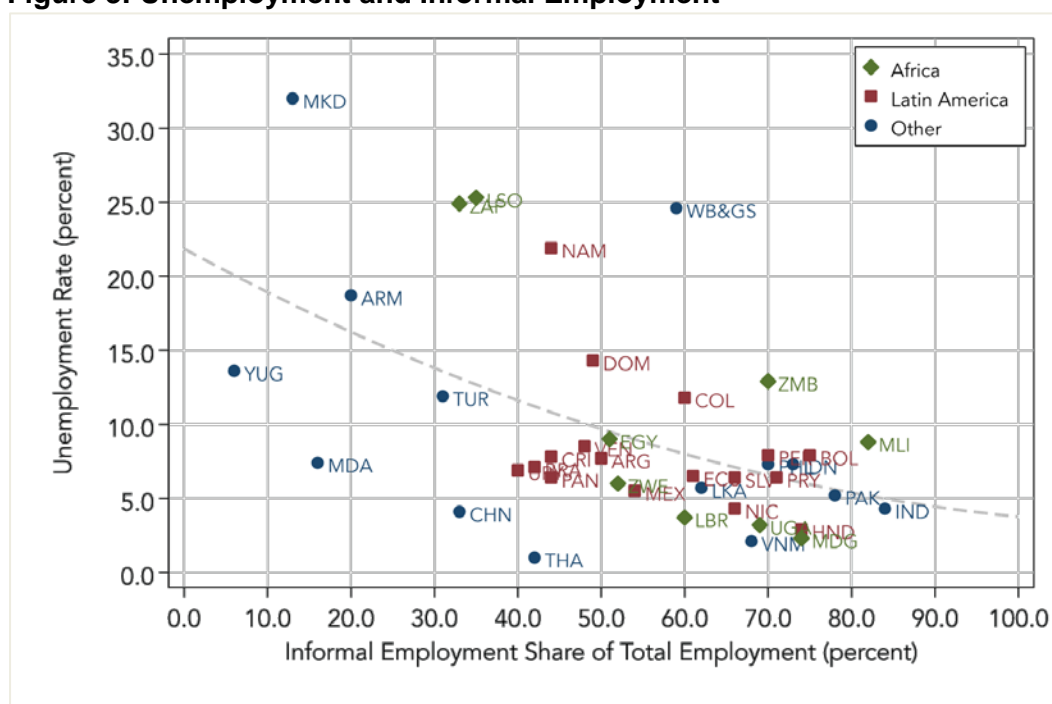
successful formalisation of the involuntary informal would move these individuals into the better employment conditions associated with formal employment, thereby leaving them better off than they were in informal employment. While the subsistence informal would benefit from decreased barriers to formality (i.e. access to credit, removal of stringent legislative requirements), the induced informal would require policies aiming to increase their productivity to a level comparable to the formally employed (i.e. skills and managerial training) (Fernández et al., 2016).

Voluntary informality has free rider benefits for the individual; however, overall a proliferation of this type of informality is detrimental to the economy. If many individuals (who could work formally) are working outside the reach of the law, this has negative implications for the business environment, working conditions of labour, and tax collection. These workers would require policies aimed at increasing the benefits to formality in order to encourage formalisation (Fernández et al., 2016).

3.3 Informality as a Buffer to Unemployment

If those working in subsistence or induced informality were not working in the informal labour market, they would most likely be unemployed. In this way, these types of informality are a “default option to unemployment” (Fernández et al., 2016). For the poor in low income countries, unemployment is ‘not an option’. Individuals have to self-employ, work in subsistence agriculture, or move to the urban informal sector in order to survive (Fields, 2011). Own-account workers made up over half of total employment in Zambia, Burundi, Uganda and Tanzania in 2012, according to the ILO (ILOSTAT, 2015). On the other hand, middle income countries, like South Africa, tend to have more sophisticated social protection systems which act (often indirectly) as a security net for the unemployed. Figure 3 plots the unemployment rate against the share of informal employment in the economy. The figure notes a negative relationship between the two rates. Figure 3 illustrates a previous point about the outlier status of the South African informal sector. South Africa is unusual because it has high unemployment, but low informality. This is along with the rest of Southern Africa (Namibia and Lesotho) and war-torn and blockaded countries (WB&GS).

Figure 3: Unemployment and Informal Employment



Source: ILOSTAT (2015). Reproduced from Oosthuizen et al. (2016).

In trying to assess whether or not informality is a preferable alternative to unemployment, a useful question is whether or not informally employed individuals are ‘better off’ than the unemployed or underemployed. Indeed, the average informal sector income is higher than that of subsistence agriculture in Sub-Saharan Africa (Fox & Gaal, 2008); but wages are lower than in the formal sector (ILO, 2002). This suggests a hierarchy of employment options in which formality is preferable to informality, which in turn is a better option than subsistence agriculture. Table 2 compares poverty headcount and poverty depth rates for the unemployed and informally employed in South Africa in 2012. These shares are calculated by comparing per capita monthly household income to poverty lines specially calibrated for NIDS.³ The poverty headcount for the unemployed (47.2%) is about double that of the informally employed (23.0%) by the lower bound poverty line. By the upper bound poverty line, the poverty headcount for the unemployed (73.3%) is about 20 percentage points higher than that for the informally employed (52.5%). Mean deprivation of the unemployed, as indicated by the poverty depth measure, is about double that of the informally employed, irrespective of the poverty line used. Using this money-metric approach to well-being, the informally employed in South Africa appear better off than the unemployed.

Table 2: Poverty Rates for the Unemployed and the Informally Employed in South Africa, 2012

	Lower Bound Poverty Line		Upper Bound Poverty Line	
	Headcount (P_0)	Depth (P_1)	Headcount (P_0)	Depth (P_1)
Unemployed	47.2%	19.8%	73.3%	40.1%
Informally Employed	23.0%	8.2%	52.5%	23.4%

Source: Own calculations using NIDS Wave 3.

Notes: Adjusted using sampling weights; Poverty calculated based on household per capita income measured against poverty lines specially calibrated for the NIDS Data (Budlender et al., 2015).

In Tanzania and the Republic of Congo, household survey data indicates that the primary reason for entering the informal sector was that individuals were unable to find wage employment (Benjamin & Mbaye, 2014). This literature suggests a high level of subsistence and induced informality in these countries. In Latin America, household survey data gives the proportion of the self-employed who would prefer a formal sector market. This was 59% in Colombia, 40% in Argentina, 26% in Bolivia, and 25% in the Dominican Republic (Arias & Bustelo, 2007; Arias, Landa, & Yañez, 2007). However, unlike Sub-Saharan Africa, there is also a large deal of voluntary informality in Latin America. In Mexico, 44% of the male population were self-employed to gain higher earnings, and only 12.4% because they couldn’t find a job in the formal market. Only 6% of women working in the informal market couldn’t find a formal sector job. The main reason they were working in the informal sector was to gain additional income.

Within Latin America, Colombia in particular is useful to compare to South Africa because the two countries have similar per capita income and inequality levels, amongst other economic and social characteristics. However, South Africa has persistently higher levels of unemployment; whereas, Colombia has persistently higher levels of informality. This means that the policy debates surrounding informality are very different in these countries. South Africa views the informal sector as a lever to reduce unemployment and so encourages informal entrepreneurship. Colombia on the other hand, views informality as a brake on formal sector growth.

³ There is more detail on these poverty lines in Section 4, which deals with the intersection of household poverty and labour market vulnerability.

Data from the 2007 Colombian Household Survey identifies whether workers are informal out of choice or necessity. In Colombia, 36% of informal workers indirectly indicated that they are voluntary informal workers⁴. This rises to 41% in urban areas, in particular. Fernández et al. (2016) profile the drivers of voluntary informality: being female, over 45 years old, having a tertiary education, and living in a big city, increased the likelihood of preferring informal jobs.

BOX 1: Background to Comparing Colombia and South Africa

South Africa and Colombia are useful countries to compare because both countries have very similar economic and social indicators. This can be observed in Box Table 1, which is reproduced from Oosthuizen et al. (forthcoming). However, the structure of the labour market in particular is quite different. Unemployment in South Africa far exceeds that of Colombia; whereas, informality in Colombia far exceeds informality in South Africa. These countries offer the opportunity to compare two economies that are very similar, save for the labour market.

Box Table 1: Country Statistics: Colombia and South Africa.

Indicators	Year	Colombia	South Africa
Economic structure			
GDP (US\$ billions)	2014	378	350
Agriculture, value added (% of GDP)	2014	6.3	2.5
Manufacturing, value added (% of GDP)	2014	12.2	13.3
Industry, value added (% of GDP)	2014	36.0	29.5
Services, etc., value added (% of GDP)	2014	57.7	68.0
Total natural resources rents (% GDP)	2013	10.3	9.2
Population			
Population	2014	47.8	54.0
Population growth (annual %)	2014	0.9	1.6
Population ages 0-14 (% of total)	2014	24.7	29.5
Population ages 15-64 (% of total)	2014	68.5	65.4
Population ages 65 and above (% of total)	2014	6.8	5.0
Employment			
Working age population (thousands)	2015	34.6	36.1
Inactive population (thousands)	2015	13.3	14.9
Formal employment (thousands)	2015	8.8	11.0
Unemployment (thousands)	2015	2.2	5.4
Informal employment (thousands)	2015	13.1	4.8
Geography			
Area (km ² , millions)	2014	1.1	1.2
Population density (people per km ² of land area)	2014	43.1	44.5
Urban population (% of total)	2014	73.2	64.3
Population in the largest city (millions)	2014	9.6	9.2
Population in urban areas of more than 1 million (millions)	2014	20.3	20.0
Social indicators			
Per capita GDP (PPP)	2014	13 357	13 046
GNI per capita, PPP (current international \$)	2014	12 910	12 700
Gini	2011	54.2	63.4
Poverty (US\$3.1)	2011	15.3	34.7
Mortality rate, under-5 (per 1,000 live births)	2015	13.6	33.6
School enrollment, secondary (% gross)	2013	93.0	110.8
School enrollment, tertiary (% gross)	2012	45.0	19.7
Life expectancy at birth, total (years)	2013	73.8	56.7
Intentional homicides per 100,000 people	2013	31.8	31.9

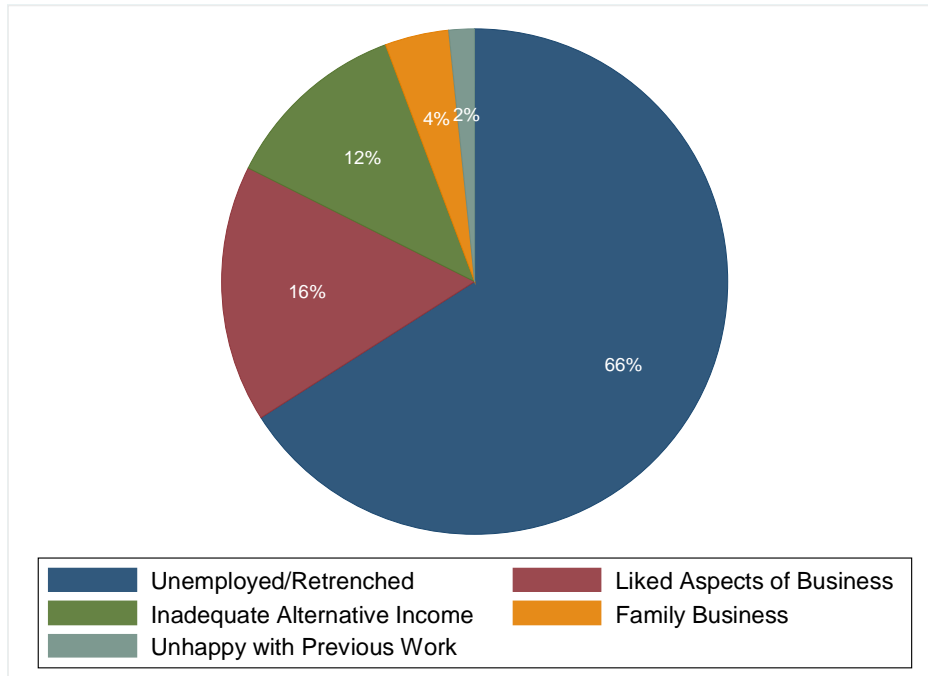
Source: World Development Indicators, World Bank. GEIH (2015) and Statistics South Africa: QLFS Q3 2015; Statistics Colombia GEIH Q3 2015.

Unfortunately, South African datasets do not have this type of information. Figure 4 though, looks at the reasons that informal business owners decided to start their business in a sample of informally self-employed South Africans. This figure shows that only 16% started their business because of positive attributes of that business, and 4% were involved in a family/inherited business. The remaining individuals started their business not because of positive attributes surrounding the business, but because of negative attributes of the

⁴ This classification comes from two questions. The first asks whether informal workers would accept a formal sector job with the same wage plus benefits, or a higher wage. The second asks why workers are informally employed. If workers answer 'no' to the first question and do not cite the impossibility of finding a job as their answer to the second, they are considered voluntarily informal.

alternative. While 2% said that they were unhappy with their previous employment, 12% started their business because of inadequate alternate income sources, and 66% started their business due to unemployment or retrenchment. Taken together, 78% can be said to have revealed themselves indirectly as involuntarily informal.

Figure 4. Reasons Informal Business Owners Started their Business



Source: Own Calculations. Survey of Employers and the Self-Employed 2013. (Statistics South Africa).

This supports other work giving reasons for informality in South Africa. Unskilled women in Durban, South Africa, frequently found the informal sector to be their only option for employment in a study by Lund in 1998. Several years later, Dinkelman and Ranchod (2007) find that it remains the case that the informal sector in South Africa is often the only employment option for vulnerable groups. As a result, the informal sector houses diverse types of enterprises and employment as individuals with few alternatives adapt to avoid unemployment. This indicates that, in many cases, informal sector employment may be viewed as a last resort to inadequate alternatives. The way in which individuals adapt to informal employment to keep unemployment at bay is detailed in the next section.

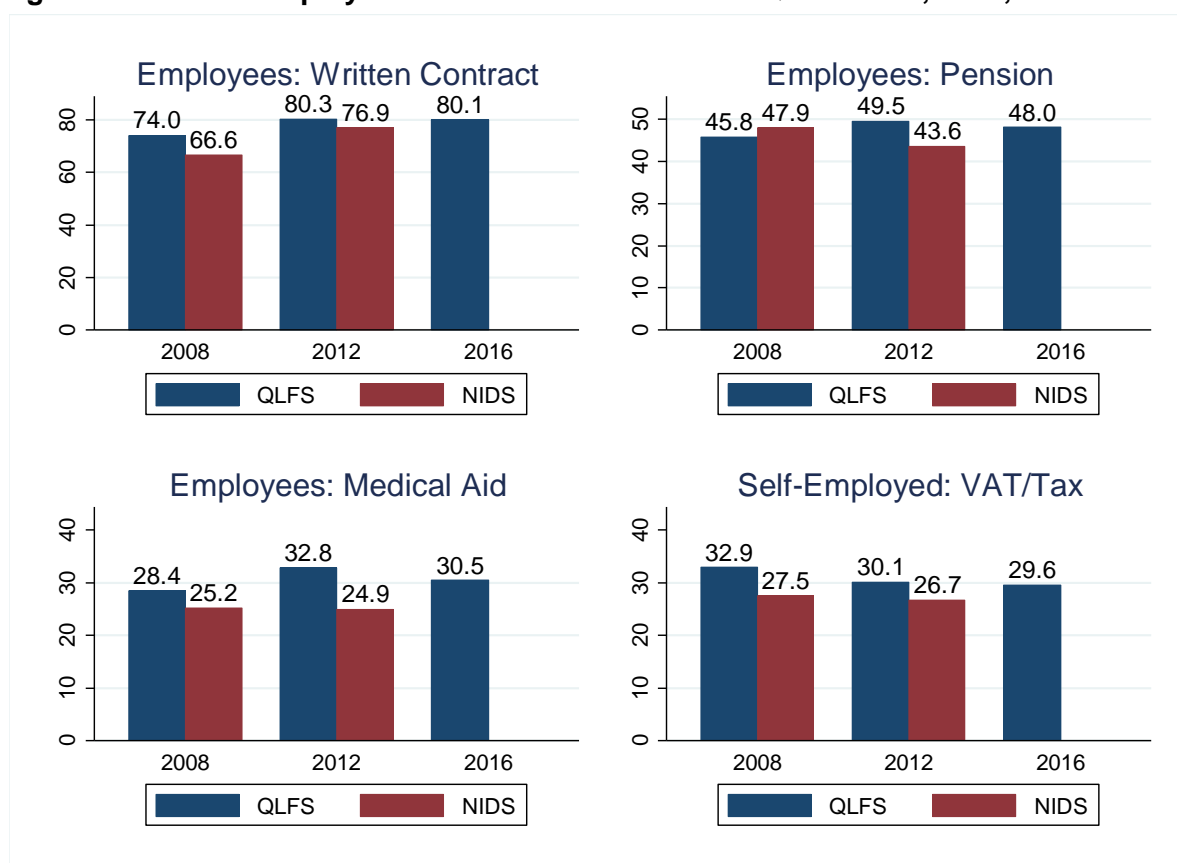
3.4 Informality in South Africa

To calculate informality in South Africa, the Statistics South Africa definition of 'informal employment' is applied as accurately as possible, using the NIDS data. The Statistics South Africa definition includes those in the informal sector, helping unpaid in a household business, and those working in the formal sector or private households but lacking sufficient benefits as in informal employment. The informal sector is defined as employees working in businesses which are not registered for VAT or income tax and have fewer than 5 employees, as well as the self-employed who are not registered for VAT or income tax. In the NIDS data, the informal sector cannot be determined, as only the self-employed (and not employees) are asked about the registration status of their place of employment. NIDS also does not have information about firm size. Therefore, the NIDS definition of informal employment includes informal employees (regardless of the formality of their place of business) and the informal sector self-employed (with informal sector determined only by registration of business and not firm size).

Therefore, informality using the NIDS definition includes employees who lacked a written contract, medical aid and pension deductions from their salaries. Workers who are self-employed but not registered for tax; doing casual work; helping in a friend or family member's business; or doing agricultural work on their own or a friend's plot of land, are also included. In each of these cases, the way in which the person is hired or doing work is not rigorous in terms of the law; it is 'informal'. The four aspects used to create the informal employment variable are graphed in Figure 5, using data from both NIDS and the QLFS.

According to NIDS data from Wave 1 and 3, informality has fallen from 44.5% of total employment in 2008, to 34.6% in 2012. This is a substantial drop over a period of four years, driven mainly by an increase in the prevalence of written contracts, seen in Figure 5. In 1998, the Basic Conditions of Employment Act was amended to ensure that employers have written contracts with employees. The percentage of workers with permanent contracts increased, although this did not translate into an increase in private benefits (Altman, 2007). The proportion of workers covered by contracts increased from 62% to 82% between 1999 and 2005, according to the Labour Force Survey (Altman, 2007). However, these may not all be of a permanent nature, considering the high amount of churn between the informal and formal economy (Valodia et al., 2006). The number of workers on private pension plans remained largely constant over the same period, moving from 62% to 66%.

Figure 5. Informal Employment Indicators in NIDS and QLFS: 2008, 2012, and 2016



Source: Own Calculations. National Income Dynamics Study (NIDS) Wave 1 and Wave 3 and Quarter 1 of the Quarterly Labour Force Survey for 2008, 2012, and 2016.

Notes: Weighted using calibrated Wave 3 weights.

Figure 5 also shows that the share of workers covered by written contracts increased by 7.3 percentage points between 2008 and 2012, using the NIDS data. The QLFS similarly shows an increase in the prevalence of written contracts between 2008 and 2016. Note that the same figure gives conflicting results regarding the change in pension and medical aid benefits

between 2008 and 2012. While the NIDS data shows that the proportion of workers with pension and medical aid deductions from their salaries dropped, the QLFS data shows the opposite. Note that pension and medical aid deductions are not basic conditions of employment and therefore not a legal requirement. Nevertheless, their incidence is a reflection of the vulnerability of workers and their treatment by employers. Figure 5 also provides an indication about the informality of self-employed workers, giving the share of self-employed businesses that are registered for VAT/Income tax. Both the NIDS and QLFS data indicate that this has dropped slightly over the period, suggesting a very consistent level of informality amongst the self-employed by this metric.

Examining the incidence of informality across South African workers (Table 3) indicates the relative paucity of this type of employment amongst White South Africans, who only have a 10.5% incidence of informal employment. The highest incidence of informality is amongst Africans, with 39.4% of these workers informally employed. Gender differences are less stark, although females do experience higher informality rates than men. It should be noted that this gender difference is smaller when using data from Statistics South Africa's 2012 Labour Market Dynamics Study (LMDS).

Table 3. Incidence of informality across South African Workers: 2012

	Informal	Employees: No Written Contract	Employees: No Pension	Employees: No Medical	Self-Employed: No VAT Registration
OVERALL	34.6	23.1	56.4	75.1	73.3
RACE					
African	39.4	26.2	58.8	78.4	89.3
Coloured	30.5	21.3	61.7	78.5	57.1
Asian	26.2	17.3	34.4	54.8	68.9
White	10.5	9.2	44.1	58.4	22.9
GENDER					
Male	31.5	20.7	50.6	73.6	69.0
Female	38.4	26.2	63.7	77.0	79.3
AGE GROUP					
15-24 years	49.6	34.6	77.4	92.6	78.6
25-34 years	32.9	21.5	59.8	78.6	79.3
35-44 years	32.0	22.2	52.7	73.2	76.4
45-54 years	34.6	22.0	48.0	69.6	85.0
55-64 years	33.0	21.4	51.6	61.3	43.4
SCHOOLING					
None	73.2	55.1	88.6	96.1	100.0
Primary	53.8	36.6	73.1	86.0	94.4
Secondary	46.1	34.7	66.7	90.3	87.5
Matric	28.0	17.7	55.5	72.8	81.2
Dip/Cert	17.5	9.5	42.4	62.4	60.7
Degree	3.2	5.8	28.4	38.1	4.0
SECTOR					
Agriculture	48.8	44.2	88.3	96.5	75.8
Mining	1.9	3.1	25.6	59.3	68.3
Manufacturing	23.0	14.7	50.1	81.1	83.7
Utilities	38.4	27.2	58.6	72.3	93.7
Construction	64.0	45.7	81.7	97.8	82.9
Retail	26.4	19.1	60.8	88.0	67.9
Transport etc.	27.2	22.9	51.4	71.0	32.1
Financial	9.3	12.4	48.5	72.1	43.0
CSP Services	21.2	12.4	42.1	53.0	73.1
Private HH	85.9	79.2	97.9	99.7	95.4

Source: Own Calculations. National Income Dynamics Study (NIDS) Wave 3.

Notes: Weighted using calibrated Wave 3 weights.

As expected, informality rates amongst youth are higher than in any other age group. This mirrors what we know about the vulnerability of youth in the labour market – namely that they are more likely to be unemployed and, assuming that they find employment, low paid (Oosthuizen, 2012; Statistics South Africa, 2014).

The relationship between education and informality is also intuitive, with informality rates falling consistently as education level rises. The importance of finishing secondary school is clear, with informality rates falling from 46.1% for those with an incomplete secondary education to 28.0% for those who have completed their secondary school studies. Furthermore, there is a substantial difference in the informality rate between individuals with alternate forms of post-secondary education: those with a diploma or certificate face a 17.5% informality rate, compared with only 3.2% for those with a degree.

Finally, informality is prevalent amongst private household, construction and agriculture workers, and is least common amongst mining and financial workers. Private household

workers are particularly at risk of vulnerable forms of employment due to the nature of their employment. As many domestic workers are hired by individuals, they are at risk of fluctuations in the terms of their employment as the circumstances of their employer varies. Furthermore, it is difficult to monitor the employment conditions of domestic workers or for domestic workers to organise, making them vulnerable to poor or even illegal working conditions. It is because of reasons like this that domestic workers are automatically considered vulnerable in Colombia (compared to public sector workers who are automatically excluded) (Fernández et al., 2016). Private household workers are overwhelmingly African and female, emphasising the special attention that should be paid to this group of workers in protecting them from vulnerable forms of employment.

The 2013 Survey of Employers and the Self-Employed (SESE) provides some insight into the characteristics of the informal sector, particularly. This data indicates that just over three-quarters of informal business are own-account, or do not employ any workers. 53.0% of these informal businesses are located within or attached to the owner's dwelling, while 18.2% are mobile and do not have a fixed location. The majority of informal sector business are owned by Africans (88.5%) and, to a lesser extent, males (55.1%). Informal sector employment also varies greatly across provinces. The majority of informal business owners are located in Gauteng (30.3%), KwaZulu-Natal (20.1%) and Limpopo (14.4%), while only 15.4% of informal business owners are located in the Western Cape, Northern Cape, Free State and North West, collectively. In general, provinces with lower employment levels have higher levels of informal business owners. Limpopo has the second lowest provincial employment rate (31.9%), and is home to the third largest share of informal business owners. Employment rates in the Northern Cape (45.4%) and the Free State (44.9%) are higher than that of KwaZulu-Natal (33.4%) and KwaZulu-Natal has the higher level of informal business owners. The exception is Gauteng, which has the second highest provincial employment rate (52.2%) and which has the highest number of informal business owners (30.3%). Compare Gauteng to the Western Cape, which has the highest provincial employment rate of 54%, yet only a small fraction of local business owners reside there.

Valodia et al. (2006) used the special panel of the Labour Force Survey to construct transition matrices between formal and informal work. The authors found that 53.7% of workers changed their job status between September 2001 and March 2004. Only 28% of workers who started in the formal economy⁵ managed to stay there, and 18.3% moved between informal and formal work. Table 4 provides more recent transition matrices using NIDS data. This table gives the movement of individuals in and out of formal and informal employment, as well as unemployment, between 2008 and 2012, with rows summing to 100. It is clear from this table that formal employment is a relatively 'sticky' state, with 82.7% of those formally employed in 2008 remaining in this state in 2012. Conversely, only 41.0% of those who were informally employed in 2008 were still informally employed in 2012.

⁵ Valodia et al. (2006) define the informal economy is defined as being either part of the formal or informal sector but not having traditional employment benefits.

Table 1. Movement of Workers between Labour Market States: 2008 to 2012.

		2012			<i>Total</i>
		<i>Formal</i>	<i>Informal</i>	<i>Unemployed</i>	
2008	<i>Formal</i>	82.7	9.9	7.4	100.0
	<i>Informal</i>	37.5	41.0	21.5	100.0
	<i>Unemployed</i>	29.9	23.5	19.8	100.0

Source: Own calculations using NIDS Wave 1 and 3.

Notes: Adjusted using calibrated sampling weights.

The relative instability of informal employment highlights the vulnerability of these workers. When employment is uncertain, effectively managing consumption and saving is harder due to the higher risk of job and income loss. This is highlighted when looking at movements into unemployment, which were also more common for the informally employed. 21.5% of those who were in informal employment in 2008 were unemployed in 2012. This figure was only 7.4% for those in formal employment in 2008. For the unemployed, movements into formal and informal employment were similar between 2008 and 2012, although it was more common for the unemployed to gain formal employment. This indicates that the informal labour market played an almost equally important role as the formal one in absorbing the unemployed into wage employment.

4. THE INTERSECTION OF INFORMALITY AND LOW PAY: Layers of Vulnerability

Vulnerability has been variously described as a “structure of capabilities” (Bocquier et al., 2010: 1313) or how people “assemble a livelihood” (Altman, 2007: 22). The concept relates to the capability of individuals to manage risk and to distance themselves from being unambiguously poor or at least, less poor (Bocquier et al., 2010). In this regard, we are concerned about informally employed or low paid workers because these characteristics loosen the structure keeping individuals out of poverty. Informal employment typically comes with uncertainty about the duration of employment and little recourse to legal rights. This impacts an individual’s ability to efficiently manage risk and opens them up to abuse. Low pay could imply that individuals are income poor which immediately limits their ability both to cope with shocks and to save.

However, being either low paid or informal does not imply that workers are vulnerable. Vulnerability is a nebulous concept that is difficult to pin down with data. Quantifying the exact “structure of capabilities” needed to keep individuals out of poverty is a very intricate process and one that is beyond the data at hand. Instead, we can think of instances in which informal or low paid workers might not be vulnerable. Low paid workers may live in households with other earners who are remunerated much better. Self-employed workers could choose to run the risks of working in the informal sector because of the compensating differential in income (voluntary informality). Informality and low pay are not the final word on vulnerability. This section analyses how informality, low pay, and poverty overlap to understand how labour market vulnerability relates to overall vulnerability. In 2012, there were almost 4.4 million low paid employees and about 4.5 million informally employed workers representing 36.3% and 34.6% of the these respective groups. Are these the same people? Are the informally employed low paid, and vice versa? Or, are informality and low pay different but overlapping aspects of vulnerability?

Previously, we have made the comparison between Colombia and South Africa because of the useful similarities and differences between the economies (See Box 1). In Table 5 below,

we introduce some wage indicators to contextualise our discussion of labour market vulnerability in the two countries. Wage inequality is high in both countries, but is higher in South Africa with a wage Gini of 0.62. The wages of the richest ten percent in South Africa are 17.19 times the wages of the poorest ten percent. Whereas, in Colombia, this ratio is only 8.85 times. Wage inequality increases more steeply in South Africa as well, with the top 25% earning wages about 5 times that of the poorest 25%. In contrast, the top 25% in Colombia only earn wages 2.49 times the wages of the poorest 25%. Comparing the mean and the median also reveals the greater skewness of the South African wage distribution. The South African median wage is further away from the mean wage than is the case for Colombia. The South African mean wage is more than double the median; whereas, the Colombian mean wage is about one and a half times the median. Also reported in Table 5 is the cut-off for low pay in each country which is two-thirds of the median wage.

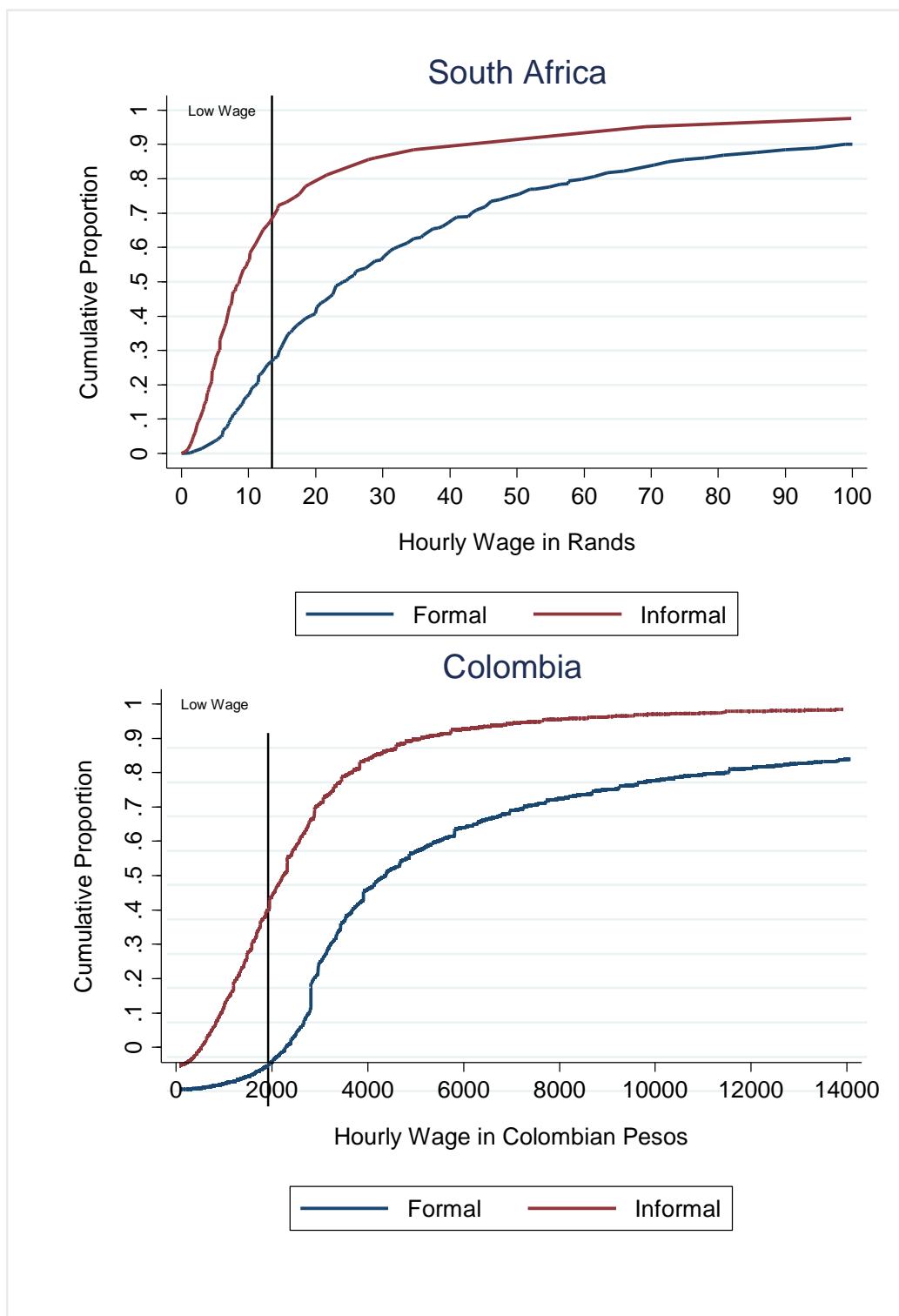
Table 5: Summary Statistics for Wages in South Africa and Colombia, 2012

	Gini	90-10	75-25	Mean	Median	$\frac{2}{3}$ (Median)
South Africa	0.62	17.19	4.67	R39.33	R17.88	R11.92
Colombia	0.50	8.85	2.49	4130.99 pesos	2707.86 pesos	1805.24 pesos

Source: Own calculations. Data for South Africa: NIDS Wave 3, adjusted using sampling weights. Data for Colombia: GEIH 2012, adjusted using sampling weights.

Notes: Mean, median and $\frac{2}{3}$ (Median) are reported in the local currency. This is the Rand in South Africa and the Colombia Peso in Colombia.

Figure 6 illustrates the interaction of low pay and informality in South Africa and Colombia. There are large differentials between the incidence of low pay amongst the informally and formally employed in both South Africa and Colombia. As expected, informal workers face higher incidence of low pay than formal workers in both countries. Comparing the two countries, while 70% of the informally employed in South Africa were also low paid in 2012, only 43.0% of the informally employed in Colombia were low paid in the same year. Similarly, while 28.0% of formally employed South Africans were low paid in 2012, only 7.3% of formally employed Colombians were low paid in the same year. This suggests that even the formally employed in South Africa are not as well protected against poor pay as one might imagine. Overall, low pay afflicts higher proportions of South African workers compared to Colombian workers across the formality divide.

Figure 6: CDF of hourly wage by Formal/Informal Employment, 2012

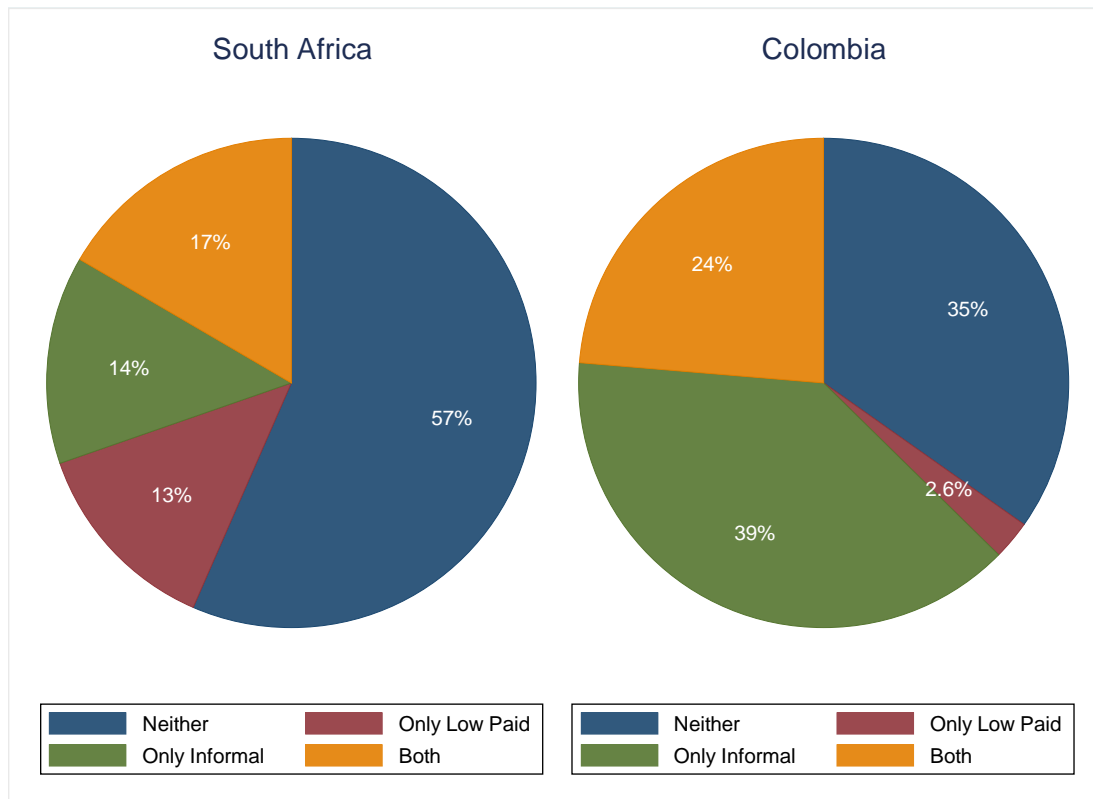
Source: Own calculations. Data for South Africa: NIDS Wave 3; adjusted using sampling weights. Data for Colombia: GEIH 2012, adjusted using sampling weights.

Figure 7 details whether workers are characterised by low pay, informality, both, or neither in Colombia and South Africa. Workers characterised by both types of vulnerability are considered to have the highest level of vulnerability and those with neither type, the lowest. There is no particular reason to rank workers who are only low paid as more vulnerable than

those who are only informal, or vice versa. These workers sit in the middle ground between the two poles by having one type of vulnerability.

Figure 7 shows that 57% of the employed in South Africa are neither low paid nor informal. This leaves 43% of the employed with some level of vulnerability. In comparison, a much higher proportion, roughly two-thirds, of Colombian workers have some level of vulnerability. Given the high level of informality in Colombia, it is unsurprising that the proportion of only informal workers is higher in Colombia (39%) than South Africa (14%). Only 2.6% of Colombians are only low paid. This is much smaller than the 13% of South Africans. The share of workers who are both informal and low paid is about a quarter in Colombia and 17% in South Africa. This suggests that if a worker is low paid in Colombia, it is highly likely that they are also informal. In South Africa, on the other hand, there is a weaker association between low pay and informality as a substantial proportion of workers are low paid but not informal. This is also observed in the CDF in Figure 6 above, where 28% of formally employed workers were low paid in South Africa in 2012. Overall, both countries have a similar level of low pay but Colombia has a higher level of informality, leading to a higher share of workers that have at least one type of vulnerability.

Figure 7: The Distribution of Different Types of Vulnerability amongst the Employed, 2012

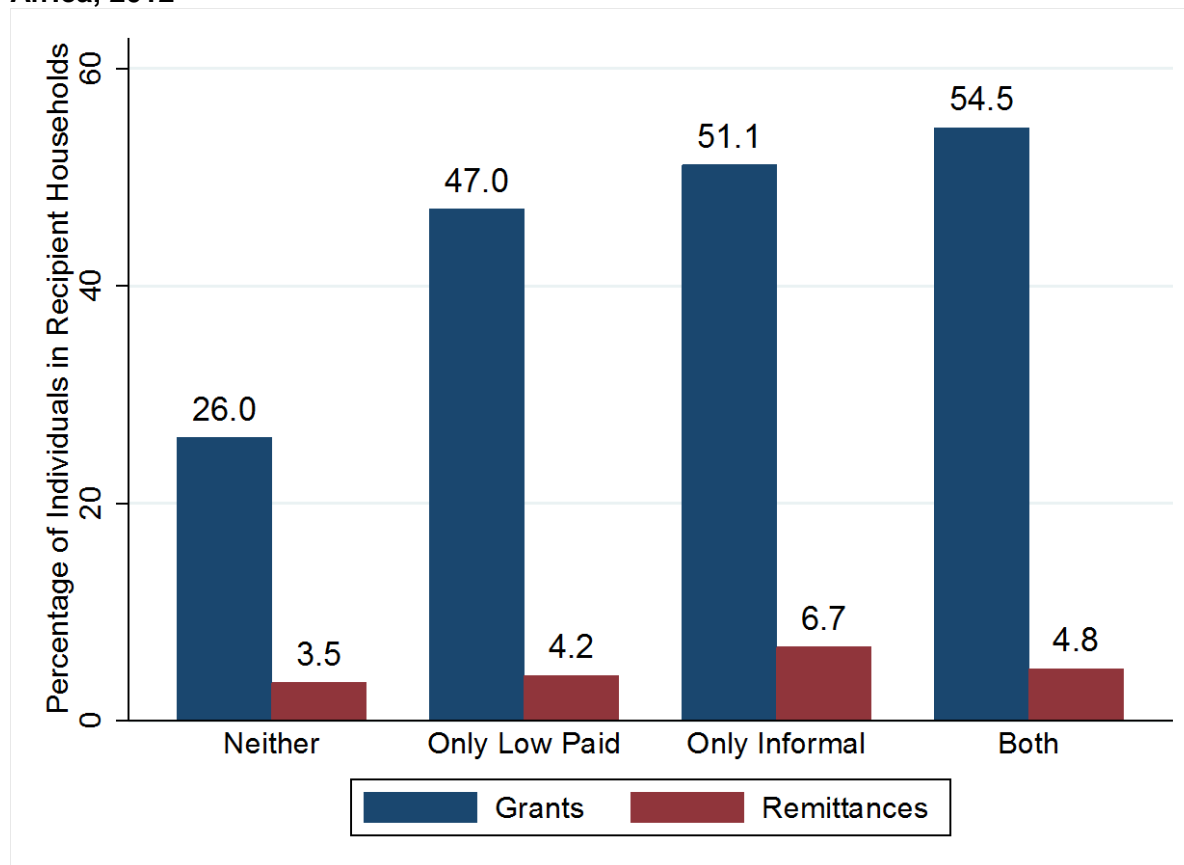


Source: Own calculations. Data for South Africa: NIDS Wave 3; adjusted using sampling weights. Data for Colombia: GEIH 2012, adjusted using sampling weights.

Figure 7 suggests that there are degrees of vulnerability and maps these to shares of the working population. If we are interested in how individuals “assemble a livelihood” an interesting question is to what degree the households that low paid and informal workers live in rely on other income sources. If households are drawing on non-employment income, it could be because employment income is not enough to sustain their livelihood. Figure 8 details the extent to which low paid and informal workers draw social grants and remittances to supplement their income in South Africa.

Figure 8 shows that vulnerability in South Africa is correlated with living in a household receiving a grant. The most vulnerable group is roughly twice as likely (54.5%) to live in a household receiving grant income than the least vulnerable (26.0%). Any type of vulnerability propels the chance of grant income up by at least 20 percentage points. Amongst vulnerable workers, there is less variability, with only an eight percentage point difference between those who are low paid (47.0%) and those who are both low paid and informally employed (54.5%).

Figure 8: Alternative Sources of Household Income for Employed Individuals in South Africa, 2012



Source: own calculations using NIDS Wave 3; adjusted using sampling weights.

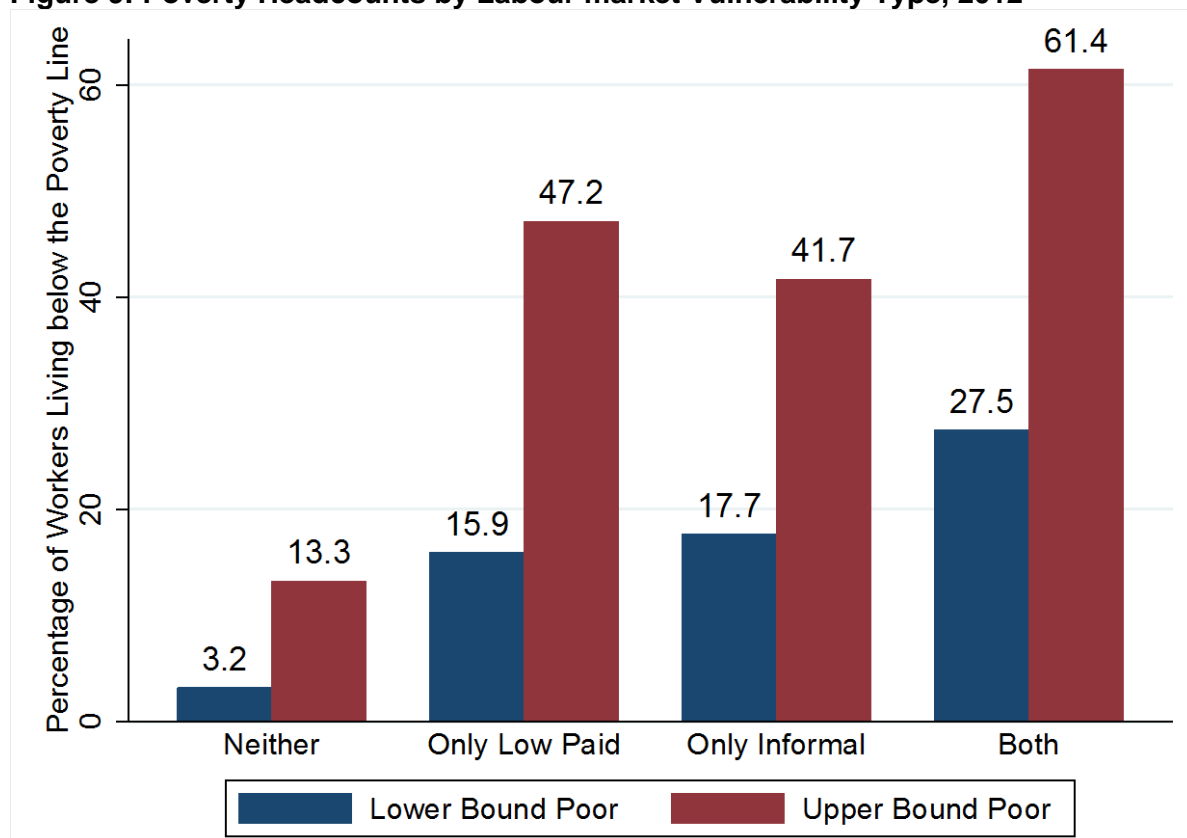
A much smaller proportion of all workers live in households receiving remittances, with the incidence ranging from 3.5% to 6.8%. Again, workers with neither type of vulnerability are least likely to live in a house receiving remittances. However, workers with both type of vulnerability are not most likely to be living in households which receive remittances. It is possible that social capital plays a role as in order to receive remittances you have to have someone to receive them from, necessitating some sort of social network. Possibly, being so vulnerable that you are both low paid and informally employed is also an indicator of additional low social capital vulnerability.

Next, we investigate how labour market vulnerabilities square with poverty. To do this, we calculate whether workers with a degree of vulnerability live in households that are poor. Workers are considered poor if their monthly household per capita income falls below a chosen poverty line. These poverty lines are two new money-metric poverty lines created by Budlender, Leibbrandt and Woolard (2015) at the Southern Africa Labour and Development Research Unit (SALDRU) that are calibrated specifically for NIDS data. The lower bound was R575 in 2012 and is the minimum consumption required for non-food items. The upper bound poverty line was R1 111 in 2012 and captures the minimum food and non-food consumption required for not being impoverished.

Overlaying units of analysis – the household versus the worker – helps build up a layered image of vulnerability. The household approach allows us to sift out workers who may be ‘poor’ based on individual earnings but who are actually part of well-off households when income is pooled. This does though set aside intra-household distribution problems.

Figure 9 depicts a strong positive correlation between poverty headcount and labour market vulnerability. Poverty rates using both the upper- and lower-bound poverty lines increase as labour market vulnerability increases, with workers with both types of vulnerabilities about 4.5 to 9 times more likely to live in a poor household than those with no vulnerability. There is remarkable similarity between those with only one dimension of vulnerability. About 42% to 47% of those who have one dimension of labour market vulnerability are poor by the upper bound, and 16% to 18% by the lower bound poverty line. In contrast, those with both types are substantially poorer and those with no types are substantially less poor. Roughly 60% of those with both types of vulnerability are poor by the upper poverty line. Clearly, there are layers of vulnerability which correspond with our ideas of poverty. The chance of a worker living in an impoverished household by either poverty line is less than 14% if workers have no type of vulnerability. In other words, labour market vulnerability – and particularly more than one dimension of labour market vulnerability – indicates an increased likelihood of living in poverty.

Figure 9: Poverty Headcounts by Labour market Vulnerability Type, 2012



Source: Own calculations using NIDS Wave 3; adjusted using sampling weights.

In an effort to understand the determinants of vulnerability better, Table 6 reports the correlates of vulnerable employment in 2012. The dependent variables used are three dummies: those who are both low paid and informally employed in 2012 (column 1), those who were low paid in 2012 (column 2) and those who were informally employed in 2012 (column 3). A probit is run on these dummy variables and the marginal effects can be interpreted as a percentage change in chance of being vulnerable. We regress these different

states of vulnerability on age, race, sector, location, education and their vulnerability status in 2008. In each case, previous vulnerability status was one of the most important predictors of vulnerability status in 2012.

Table 6: Marginal Effects of a Probit Regression on Types of Labour Market Vulnerability, 2012

Depvar:		1. Both	2. Low Paid	3. Informal
Previous Vulnerability ^a Status	Vulnerable 2008	0.10** (0.03)	- -	- -
	Unemployed 2008	0.12*** (0.03)	- -	- -
Previous Low Pay Status	Low Paid 2008	- -	0.24*** (0.04)	- -
	Unemployed2008	- -	0.15** (0.06)	- -
Previous Informality Status	Informal 2008	- -	- -	0.21*** (0.03)
	Unemployed 2008	- -	- -	0.25*** (0.03)
Sector	Private Households	0.30*** (0.08)	0.07 (0.06)	0.35*** (0.07)
	Mining	-0.25*** (0.06)	-0.41*** (0.06)	-0.35*** (0.07)
	Manufacturing	-0.15* (0.06)	-0.17** (0.06)	-0.19** (0.07)
	Utilities	-0.20** (0.07)	-0.08 (0.11)	0.13 (0.13)
	Construction	-0.04 (0.08)	-0.15 (0.08)	0.05 (0.09)
	Trade	-0.15* (0.06)	-0.15** (0.06)	-0.16* (0.07)
	Transport	-0.03 (0.10)	-0.10 (0.09)	-0.08 (0.09)
	Financial Services	-0.20*** (0.06)	-0.09 (0.06)	-0.28*** (0.07)
	CSP Services	-0.11 (0.07)	-0.21*** (0.06)	-0.16* (0.07)
	Education	Primary/No School	0.05 (0.04)	0.23*** (0.05)
Incomplete Secondary		0.05 (0.03)	0.19*** (0.04)	0.01 (0.03)
Diploma/Certificate		-0.06* (0.03)	-0.04 (0.04)	-0.08* (0.03)
Degree		0.00 (.)	-0.19*** (0.04)	-0.20*** (0.05)
Location	Traditional	0.10*** (0.03)	0.15*** (0.03)	0.11*** (0.03)
	Farms	0.03 (0.03)	0.11 (0.06)	0.00 (0.04)
N		2148	2266	2386

Source: Own calculations using NIDS Wave 1 and 3.

Notes: Standard errors in parenthesis; * p<0.05, ** p<0.01, *** p<0.001; ^a Vulnerability in this case means being both low paid and informal; base category for Previous Vulnerability Status is 'employed but not vulnerable in 2008'; base category for Previous Low Pay Status is 'employed but not low paid in 2008'; base category for Previous Informality Status is 'employed but not informal in 2008'; base category for Sector is 'agriculture'; base category for Education is 'matric'; base category for Location is 'urban'; other regressors included, but not reported, include age group categories, race and sex; sample limited to African and Coloured people of working age in both 2008 and 2012 and employed in 2012; standard errors adjusted for clustering and sample weights.

Compared to workers who were not low paid in 2008, those who were unemployed in 2008 have a 15% chance of being low paid in 2012 and those who were low paid in 2008 have a 24% chance of remaining low paid in 2012. Comparing to those who were (employed, but) not informally employed in 2008, those who were unemployed in 2008 have a 25% chance of being informally employed in 2012 and those who were already informally employed in 2008 have a 21% chance of remaining so in 2012.

There are important sector effects, all relative to agriculture. Employment in private households is a statistically significant determinant of informal work and those who are both informal and low paid. Employment in a private household increases the chance of being employed informally by 35%, all else equal. Being a worker in manufacturing, trade or the mining industry significantly reduces your chance of experiencing either kind of vulnerability or their intersection. Employment in financial services also significantly reduces the chance of informality and the combination of informality and low pay. Those working in CSP services are also less likely to be low paid or informal. This makes sense as CSP includes the public sector.

Informality and the intersection of informality and low pay are made less likely by post-secondary education, in particular. In fact, there were no workers who were both low paid and informal whilst having a university degree in this sample. In contrast, having incomplete secondary education or less is significantly associated with a higher chance of low pay. The location variables represent the role of structural dynamics in the labour market. Compared to those living in urban areas, those living in traditional areas are 10% more likely to be both low paid and informal; 11% more likely to be informally employed; and 15% more likely to be low paid.

5. CONCLUSION

High levels of unemployment and poverty in South Africa have led to emphasis on jobs as a solution to these problems. Job creation has been at the forefront of almost every important economic policy document in South Africa since the end of apartheid. This analysis shows, however, that whilst jobs bring down unemployment rate, they are not necessarily a panacea for poverty.

Vulnerability in the South African labour market is analysed according to the twin characteristics of informal employment and low pay. About a third of the labour force is either only low paid or informal and about 16% are both low paid and informal. We consider those who are both the most vulnerable as these workers are significantly more likely to live in poverty than those with only one dimension of vulnerability, who in turn have a higher risk of poverty than those with no dimensions of labour market vulnerability.

According to both Oosthuizen (2012) and this analysis, it appears that low pay has affected about a third of the employed from about 2007 until 2012. In contrast to the stability of low pay, informality experienced a significant drop from about 45% to about a third between 2008 and 2012. This can be traced to the increase in the prevalence of written contracts; although there is contradiction (depending on the data used) whether other benefits, like pensions and medical aid have followed suit.

Tackling each of these dimensions brings their own challenges. A usual policy for reducing low pay is minimum wages. There is heated and polarised debate about the level at which minimum wages should be set and even whether they should exist at all. Government has the very delicate task of trying to raise the earnings of those at the bottom end of the earnings distribution, whilst also balancing the need to create jobs and possible displacement effects on existing jobs. Job creation remains relevant given high unemployment and to boost household resources in general.

Job creation is also crucial for growing the informal sector. From our discussion, two important points come out. The first is that the informal sector in South Africa is highly heterogeneous and policy needs to take this into account. For example, updates in the Basic Conditions of Employment Act may have contributed to the reduction in overall informality by prompting the usage of written contracts. However, such a policy change bypassed the informally self-employed for whom informality was highly stable between 2008 and 2012 since their employment is not governed. Secondly, the overwhelming majority of informal workers in South Africa are either subsistence or induced type informality, unlike a country like Colombia. For these workers, informality is the only alternative to unemployment. To illustrate this fact, we note that the informal labour market was as important as the formal one in absorbing the unemployed into wage work between 2008 and 2012. Furthermore, two-thirds of a sample of informal self-employed workers indicated that they had started their business because of unemployment or job loss.

The implication of this is that the informal sector should be supported, not discouraged. Encouraging informal sector employment as a strategy for reducing unemployment and poverty does, though, require that ongoing attention be paid to the situation of informal workers. This is particularly true given the significant welfare gaps and gaps in employment protections that exist between formal and informal workers.

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APPENDIX A

Defining Informality in South Africa

This section is reproduced exactly from Appendix B in Oosthuizen, M., Cassim, A., Lilenstein, K & Steenkamp, F. Informality and Inclusive Growth in Sub-Saharan Africa. Development Policy Research Unit (DPRU). (forthcoming).

Official Datasets

The debate around informality in South Africa is very much alive (see Heintz and Posel 2008; Yu 2012). Until 2007 Stats SA used an enterprise-based definition to define informality in the Labour Force Surveys (LFS), and the October Household Surveys (OHS) before that. This approach relied on enumerators providing a definition of the formal and informal sector, and then asking both the self-employed and employees which sector they perceived themselves to be working in. Heintz and Posel (2008) note that in most of the literature up till 2007, a combination of this self-perception question, and information on whether or not the enterprise that an individual worked for was registered or not, was used to define informality.⁶

Yu (2012) explains that with the introduction of the Quarterly Labour Force Survey (QLFS), Stats SA adopted two new definitions of informality: Firstly, an enterprise-based definition that moved away from the self-perception question, and secondly, an employee-based definition, which is a combination of the enterprise characteristics and employee characteristics. We discuss both of these definitions in greater detail below.

The informal sector – Stats SA definition A: The method currently applied by Stats SA uses firm characteristics to determine classification of all employed persons into the formal and informal sector.⁷ The self-employed (employers and own-account workers), and unpaid household workers are all classified as informal if they are not registered for income tax, or not registered for Value Added Tax (VAT). Employees are classified as informal if income tax is not deducted from their salary, and if there are less than five employees at the work place. Therefore, registration for company or individual tax is the main South African classification utilised for defining the informal sector. It is important to note that this definition assigns employees and the self-employed into the formal and informal sector based on the characteristics of the enterprise in which they work – employees in enterprises classified as informal are defined as informal sector employees.

Using this enterprise-based approach the informal sector (including agriculture) comprises 18.3 percent of total employment in South Africa in quarter two of 2015.

Informal employment – Stats SA definition B: In addition to the informal sector enterprise-based definition mentioned above, Stats SA applies an informal employment definition as per the recommendations of the 17th ICLS. As per the enterprise-based definition, the self-employed (employers and own-account workers) in the informal sector, as well as employees employed in informal sector enterprises are counted as being informally employed. So the informal sector definition discussed above remains intact.

However, the employee-based definition departs from the informal sector definition along two dimensions: Firstly, all unpaid household workers who were not defined as informal sector workers previously are now classified as informally employed. Secondly, the employee-based

⁶ Here 'registered' refers to: a) registered as a company or a close corporation, or b) registered for VAT.

⁷ Although Stats SA also has an employee-based definition that measures formal and informal employment, it typically reports statistics pertaining to measures of the formal and informal sectors (i.e. measures derived from the enterprise-based definition).

definition identifies informal employment relationships in formal sector enterprises and private households (predominantly domestic workers). The definition found in Statistics South Africa's Guide to the Quarterly Labour Force Survey August 2008 classifies employees in formal sector enterprises and private households as informal, based on three criteria: Firstly, if they are not entitled to medical aid from their employer. Secondly, if there is no employer pension contribution. Thirdly, if there is no written employment contract. An employee is classified as being in a formal employment relationship if s/he responds in the positive to any of these three criteria.

Using this definition, which measures both informal sector employment and informal employment relationships outside of the informal sector, reveals that total informal employment accounts for 31.6 percent of total employment in in South Africa in quarter 2 of 2015 (own calculations, QLFS 2015Q2).

Other Datasets

The National Income Dynamics Study (NIDS), a nationally representative panel survey, employs a modified version of the Statistics South Africa definition B in order to examine informal employment in South Africa. This definition moves away from measuring informality using self-perception and combines the enterprise- and employee-based characterisations of informality. The modification of the official Statistics South Africa informality definition is necessary due to constraints within the data, and is outlined below.

The informal sector – NIDS definition: The Statistics South Africa method utilised to classify the self-employed as within the informal sector is preserved using the NIDS data: these workers are all classified as informal if they are not registered for income tax or Value Added Tax (VAT). Furthermore, all individuals engaged in personal agriculture are assumed to be self-employed in the informal sector. However, we are not able to classify employees as within the informal sector or not as questions surrounding the registration of their workplace for tax were not asked. For this reason, all employees are classified using the informal employment definition below. This means that the informal sector (although not total informal employment) will appear substantially smaller using the NIDS data, when compared with the official definition. As the formal and informal sectors consist only of the self-employed, these workers are termed 'formal self-employed' and 'informal self-employed' in the analysis here.

Informal employment – NIDS definition: Employees with regular work are classified following the official definition based on the following three criteria: firstly, if they are not entitled to medical aid from their employer; secondly, if there is no employer pension contribution; and thirdly, if there is no written employment contract. An employee is classified as being in a formal employment relationship if he or she responds in the positive to any of these three criteria. Employees working in casual jobs or helping in a friend's business are automatically classified as informal employees. This is because there are no identifying criteria to classify these workers as formal or informal and it is assumed that, for the majority at least, this work is characterised by vulnerable working conditions.

The last important deviation from the official definition is in dealing with workers in private households, who are classified outside of the formal/informal definition by Statistics South Africa. In the NIDS data, it was not possible to determine the sector of casual and self-employed workers in Wave 1. For this reason, private household workers are included as formal/informal self-employed or employees, based on the definitions above. As the vast majority of private household workers in South Africa are female and informally employed, this increases the share of informal employees who are female, when compared with the official definition.



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