Monitoring the Performance of the South African Labour Market

An overview of the Informal Sector from 2013 Quarter 3 to 2016 Quarter 3

Factsheet 18

July 2017

Development Policy Research Unit

Employment Promotion Programme

South Africa's Informal Sector

While employment is the key channel through which working age adults interact with the broader economy, not everyone has access to secure, good quality employment with the various protections mandated by labour legislation. As a means of avoiding unemployment and destitution, many find employment within the informal sector.

In line with the recommendations of the International Labour Organisation (ILO), Statistics South Africa defines the informal sector as having two components, namely: "[employees] working in establishments that employ fewer than five employees [and which] do not deduct income tax from their salaries/wages" and "[employers], own-account workers and persons helping unpaid in their household business who are not registered for either income tax or value-added tax" (Statistics South Africa, 2016). Using this definition, it is estimated that approximately 18 percent of the employed are engaged in the informal sector, while a further 8 percent are employed in private households.

South Africa's informal sector is, though, relatively small when compared with other countries at similar levels of economic development. The ILO (2013) estimates that the informal sector in South Africa accounts for 17.8 percent of non-agricultural employment (using 2010 data), compared with 21.9 percent in China, 24.3 percent in Brazil, 34.1 percent in Mexico, 43.5 percent in Vietnam, 52.2 percent in Colombia. What makes South Africa unusual is that this relatively low rate of informality is coupled with a high rate of unemployment. As Verick (2012) notes, the South African labour market is characterised by high unemployment rates, a low employment-to-population ratio and a small informal sector relative to other emerging markets.

Like many, particularly developing, countries, South Africa faces a significant challenge in ensuring that the economy creates sufficient numbers of jobs to absorb the growing numbers of young people into productive employment. There are 10 to 12 million youth entering the labour force in Africa on an annual basis, necessitating substantial employment growth to reduce the number of unemployed and discouraged youth (African Economic Outlook, 2012). Over the next 40 years to 2050, the working age population in sub-Saharan Africa is estimated to grow by 21.5 million each year on average (own calculations, United Nations 2015). Given current labour force participation rates of around 70 percent among 15 to 64 year olds, this translates into demand for more than 1.25 million net new jobs per month over the next 40 years. Creating productive jobs is essential if countries are to be able to harness and exploit the demographic dividend. In South Africa's case, it is estimated that less than three decades of demographic dividend remains (Oosthuizen, 2015), heightening the urgency with which this jobs challenge should be addressed.

In particular, it is those with fewer skills and lower levels of education that experience the most significant barriers to entering the formal labour market and, as a result, the informal sector plays an important role in providing income-earning opportunities for those excluded from formal sector employment. Critically, while it is tempting to look to the informal sector to create the required jobs, such jobs are often inferior to formal sector jobs in terms of remuneration, job security, legal protections and safety. In this context, this factsheet explores the differences between the formal and informal sectors over a three-year period between 2013Q3 and 2016Q3.

Recent Labour Market Trends

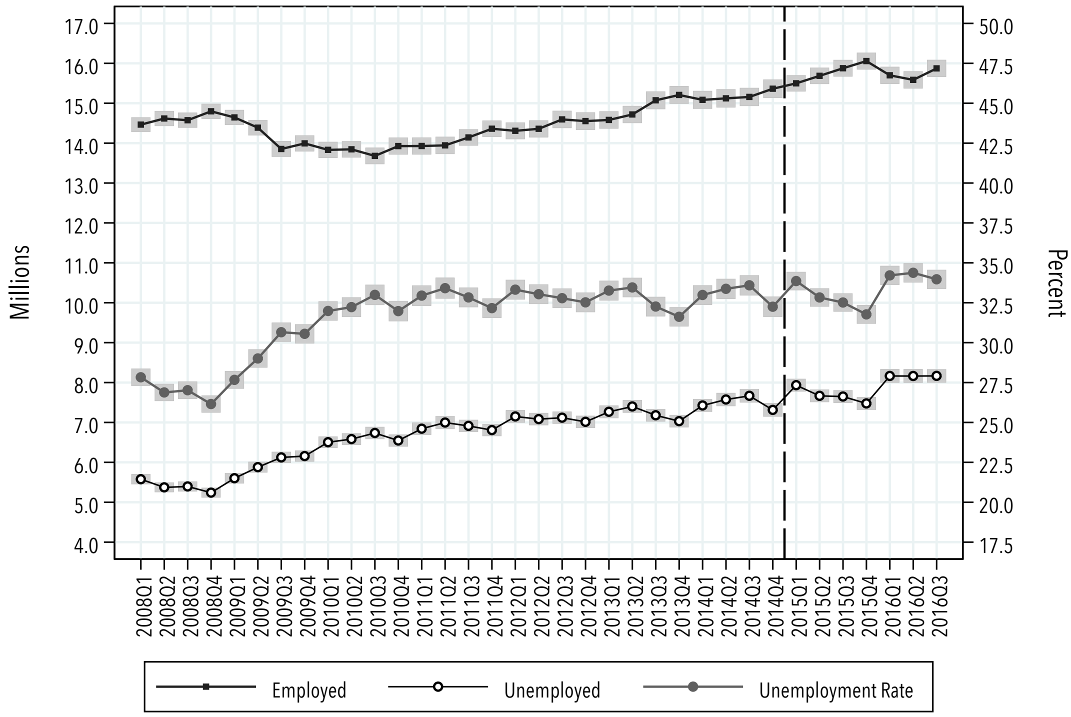
South Africa has made significant economic progress in the post-apartheid era. The economy experienced 40 consecutive quarters of real GDP growth prior to the recession, accompanied by improvements in the welfare of its citizens (Bhorat et al., 2014). However, the global financial crisis that began in 2008 and resulted in a recession locally, had a strong impact on the South African labour market.

In the post-recession period, growth in South Africa has been subdued. Although real GDP growth rebounded relatively quickly to 3.5 percent year-on-year in the first quarter of 2011, it has since moderated significantly: real GDP growth fell from 3.3 percent in 2011 to 1.7 percent in 2014 and averaged just 0.3 percent in 2016 (own calculations, SARB, 2016). Once population growth is accounted for, the picture is even gloomier: real per capita GDP growth fell from 2.1 percent in 2011 to -1.1 percent in 2016 (own calculations, SARB, 2016). In such a weak economic environment, members of the labour force are more likely to experience difficulties in retaining or finding employment.

South African employment and unemployment trends are illustrated in Figure 1, using data from the Quarterly Labour Force Surveys (QLFS) from 2008Q1 to 2016Q3. Employment declined by 944 000 or 6.4 percent from 2008 to 2009, sparked by the local effects of the global financial crisis. Subsequently, employment increased gradually, reaching 16.0 million jobs in 2015Q4. However, employment was slightly lower during 2016, totalling 15.9 million in 2016Q3.

Using the broad definition of unemployment, which includes both the searching and the non-searching unemployed, unemployment has followed an upward trend over the period. In 2008 unemployment was at its lowest, averaging around 5.5 million. For the next six years, unemployment increased continuously on a year-on-year basis (except in 2015Q3), reaching 8.0 million in 2015Q2. The unemployment rate has also increased in the post-recession period and peaked at 34.4 percent in 2016Q2.

Figure 1: Quarterly Estimates of Labour Market Aggregates



Source: Own calculations, Statistics South Africa (various years).
Notes: 1. The expanded definition of unemployment is utilised here.
2. Shaded areas represent the 95 percent confidence intervals around the estimates.

A Labour Market Overview

Table 1 gives a broad overview of the South African labour market, year-on-year from 2013Q3 to 2016Q3. Employment growth over the period has been relatively slow, growing at 1.7 percent per annum from 15.1 million to 15.9 million. Nevertheless, it has managed to almost keep pace with the growth of the working age population, which averaged 1.8 percent per annum. However, due to gradually rising labour force participation rates, the labour force has grown significantly more rapidly: growth in the narrow labour force averaged 2.9 percent per annum, while that of the expanded labour force was slightly slower at 2.6 percent. As a result, the number of unemployed has grown rapidly. Thus, the number of individuals unemployed according to the narrow definition of unemployment grew by almost one million over the three-year period from 4.9 million to 5.9 million, at an average rate of 6.4 percent per annum.

While the rate of growth of unemployment outpaced that of employment between 2013Q3 and 2016Q3, the number of discouraged workseekers (i.e. the non-searching unemployed) was stagnant. This stands in stark contrast to the immediate post-recession period during which discouraged workseekers represented the most rapidly-growing component within the labour market (DPRU, 2016).

With the labour force expanding more rapidly than employment, unemployment rates have trended upwards. By 2016Q3, the narrow unemployment rate stood at 27.0 percent, up 2.5 percentage points from 2013Q3, while the broad unemployment rate had increased by 1.7 percentage points to reach 34.0 percent. Thus, one out of three members of the broad labour force was unemployed in 2016Q3.

In 2016Q3, the employment-to-population ratio was approximately 43 percent. This low rate is partly the result of high unemployment rates, but it also relates to the relatively low rates of labour force participation in South Africa. The narrow labour force participation rate is estimated at 58.8 percent in 2016Q3, while the expanded participation rate was 64.9 percent. In other words, fewer than two out of three working age adults were economically active, using the expanded definition of unemployment. Irrespective of the definition used, however, participation rates are estimated to have increased by between 1.5 and 2.0 percentage points over the period.

Table 1: Labour Market Overview, 2013 Quarter 3 – 2016 Quarter 3

	2013 Quarter 3	2014 Quarter 3	2015 Quarter 3	2016 Quarter 3	Change ('13-'16) Absolute	Relative	
Labour Market Aggregates ('000s)							
Working Age Population	35 105	35 729	36 416	37 016	1 911	1.8	
Employment	15 073	15 157	15 876	15 872	800	1.7	*
Narrow Unemployment	4 881	5 152	5 420	5 874	993	6.4	*
Narrow Labour Force	19 954	20 308	21 296	21 747	1 793	2.9	*
Expanded Unemployment	7 178	7 667	7 649	8 165	987	4.4	*
Expanded Labour Force	22 251	22 824	23 525	24 038	1 786	2.6	*
Discouraged Workseekers	2 297	2 515	2 229	2 291	-6	-0.1	
Unemployment Rate (%)							
Narrow Unemployment Rate	24.5	25.4	25.5	27.0	2.5	3.4	*
Expanded Unemployment Rate	32.3	33.6	32.5	34.0	1.7	1.7	*
Labour Force Participation Rate (%)							
Narrow LFPR	56.8	56.8	58.5	58.8	1.9	1.1	*
Expanded LFPR	63.4	63.9	64.6	64.9	1.6	0.8	*

Source: Own calculations, Statistics South Africa (2013, 2014, 2015, 2016b).
Notes: 1. An asterisk denotes statistically significant changes at the 95 percent confidence level, while a dagger (†) denotes statistically significant changes at the 90 percent confidence level.
2. The working age population includes all individuals aged between 15 years and 65 years inclusive.

The Informal Sector

The South African labour market is predominantly a formal labour market: in 2016Q3, the formal sector accounted for nearly three-quarters (74.4 percent) of total employment (Table 2). The informal sector represented 17.4 percent of total employment, or 2.8 million workers, while private households accounted for the remaining 8.1 percent.

In both the formal and informal sectors, non-agricultural workers were dominant: agriculture accounted for 6.5 percent of formal sector employment, and just 3.9 percent of informal sector employment. In other words, South Africa does not have the large informal (subsistence) agriculture sector that absorbs the unemployed in many other sub-Saharan African countries.

While total employment grew by 800 000 over the three-year period to 2016Q3, this growth came from different sources in terms of sectors. The formal and informal non-agricultural sectors each contributed over 300 000 jobs to this total; however, given the difference in size, this implies a much faster pace of expansion in the non-agricultural informal sector of 4.3 percent per annum, compared with just 1.0 percent in the non-agricultural formal sector. The formal agriculture sector contributed less than half as many net new jobs, but this was equivalent to a rate of expansion of 7.1 percent per annum. Thus, while employment growth almost kept pace with the rate of expansion of the working age population, most jobs came from either the informal sector or from agriculture, neither of which are characterised by secure, high-wage employment.

Table 2: Employment Trends by Sector, 2013 Quarter 3 – 2016 Quarter 3

	2013 Quarter 3 ('000s)	2014 Quarter 3 ('000s)	2015 Quarter 3 ('000s)	2016 Quarter 3 ('000s)	Change ('13-'16) Absolute ('000s)	Relative (%)	
Total Employment	***15 073***	***15 157***	***15 876***	***15 872***	***800***	***1.7***	***
Agriculture	742	686	900	882	140	5.9	*
Formal agriculture	630	583	779	774	145	7.1	*
Informal agriculture	112	104	121	108	-4	-1.3	
Non-agricultural employment	13 064	13 287	13 692	13 704	640	1.6	*
Formal non-agricultural	10 730	10 874	10 962	11 055	325	1.0	†
Informal non-agricultural	2 334	2 413	2 731	2 649	315	4.3	*
Private households	1 267	1 184	1 284	1 286	19	0.5	*

Source: Own calculations, Statistics South Africa (2013, 2014, 2015, 2016b).
Notes: 1. An asterisk denotes statistically significant changes at the 95 percent confidence level, while a dagger (†) denotes statistically significant changes at the 90 percent confidence level.

It is important here to distinguish between employment in the informal sector as discussed above, and informal employment. As noted, the informal sector is defined according to the registration status of the firm. Informal employment, however, is defined on the basis of the characteristics by the employment relationship between the firm and its employees, with informal employment capturing precarious types of employment. Statistics South Africa (2017) defines informal employment as comprising "all persons in the informal sector, employees in the formal sector, and persons working in private households who are not entitled to basic benefits such as pension or medical aid contributions from their employer, and who do not have a written contract". As per the definition, all informal sector workers are defined as being in informal employment.

Table 3 provides a sense of the overlap between the two concepts. While the informal sector accounted for 17.4 percent of total employment, 30.7 percent of the employed were informally employed. This latter proportion was comprised of the informal sector (17.4 percent of employment), as well as sizeable numbers of workers employed in either the formal sector or private households. Hence, the number of informally employed workers was larger than the number of informal sector workers due to the way in which informal employment is defined.

The majority (77.8 percent) of workers in private households—i.e. domestic workers—were informally employed; amongst formal sector workers, though, this proportion is 8.2 percent. Nevertheless, this means that almost one million workers (952 000) in the formal sector were informally employed and therefore lack basic benefits and protections.

Table 3: Formal and Informal Employment across Sector, 2016 Quarter 3

	Share of Total Employment (%)			Share within Sector		
	Formal Employment	Informal Employment	Total	Formal Employment	Informal Employment	Total
Formal Sector	67.5	6.0	73.5	91.9	8.2	100.0
Informal Sector	-	18.2	18.2	-	100.0	100.0
Private Households	1.9	6.5	8.4	22.2	77.8	100.0
Total	69.3	30.7	100.0	69.3	30.7	100.0

Source: Own calculations, Statistics South Africa (2008, 2010, 2012, 2013).

Notes: 1.An asterisk denotes statistically significant changes at the 95 percent confidence level, while a dagger (†) denotes statistically significant changes at the 90 percent confidence level.

By definition, the firms that employ informal sector workers are small. More than half (51.3 percent) of informal sector workers worked alone, while a further 11.7 percent worked with one other employee (Figure 2). Overall, 98.5 percent of informal sector workers were employed in firms with five or fewer employees (including the respondent). Formal sector workers, in contrast, work in large firms: 43.5 percent worked in firms with more the 50 employees, while just 5.6 percent worked in firms with five or fewer employees.

Demographic Characteristics of Informal Sector workers

The number of people employed in the informal sector increased significantly over the period, from about 2.4 million workers in 2013Q3 to 2.8 million workers in 2016Q3 (Table 4). Africans constituted the vast majority in the informal sector, accounting for 86.6 percent of informal sector employment, while Coloureds accounted for 6.6 percent. Whites and Asians together accounted for the remaining 6.8 percent. Over the three-year period, the number of Coloureds in the informal sector increased rapidly (8.9 percent per annum), while that of Africans grew by 3.6 percent; both changes are statistically significant.

In 2016Q3, men accounted for almost two-thirds of informal sector employment. This proportion is somewhat higher than three years earlier due to the rapid expansion in the number of male informal sector workers over the period (7.1 percent per annum), compared with stable numbers for women.

Informal sector workers were typically between the ages of 25 and 54 years (82.1 percent of the total), with the most rapid rates of growth observed amongst 35-44 year olds and 45-54 year olds (6.4 percent and 5.7 percent per annum). Two out of five workers in the informal sector in 2016Q3 were youth, aged 15 to 34 years. This is equal to the group's 40.0 percent share of formal sector employment but is far below its share of broad unemployment, which stood at 64.6 percent.

Close to half (44.2 percent) of informal sector workers had incomplete secondary education, while 21.0 percent had no more than primary education and 26.4 percent had at least completed secondary education. Virtually no informal sector workers had post-secondary education (5.3 percent with diploma or certificate and 1.9 percent with degrees in 2016Q3). There was a sharp increase in employment for those with completed secondary (12.0 percent) education and a modest increase by 2.6 percent for those with incomplete secondary education per annum. These changes were statistically significant.

Table 4: Demographic Characteristics of Informal Sector Workers, 2013 Quarter 3 – 2016 Quarter 3

	Share of Informal Sector Employment (%)				Change			Informality Rate (%)		
	2013Q3	2014Q3	2015Q3	2016Q3	'000s	%		2013Q3	2016Q3	
Total Employment ('000s)	*2 447*	*2 517*	*2 851*	*2 757*	*311*	*4.1*	*	*16.2*	*17.4*	†
By Race										
African	87.8	85.7	85.8	86.6	242	3.6	*	19.6	20.3	
Coloured	5.7	7.4	7.1	6.6	41	8.9	*	8.9	11.0	
Asian	2.1	2.6	2.3	2.2	7	4.5		10.3	11.3	
White	4.4	4.3	4.8	4.6	21	6.1		5.3	6.7	
By Gender										
Male	58.7	61.9	62.9	64.0	329	7.1	*	17.2	19.7	*
Female	41.3	38.1	37.1	36.0	-19	-0.6		15.1	14.4	
By Age Group										
15 to 24 year olds	10.4	9.7	10.5	8.8	-13	-1.7		19.3	19.1	
25 to 34 year olds	32.1	32.8	33.2	31.2	76	3.1		16.5	17.6	
35 to 44 year olds	28.9	29.7	29.4	30.9	145	6.4	*	15.3	17.3	†
45 to 54 year olds	19.0	18.6	19.1	20.0	85	5.7	*	15.3	16.6	
55 to 65 year olds	9.6	9.2	7.7	9.1	17	2.4		17.6	17.2	
By Youth Status										
Youth	42.5	42.5	43.8	40.0	64	2.0		17.1	17.9	
Non-youth	57.5	57.5	56.2	60.0	247	5.5	*	15.6	17.0	†
By Educational Attainment										
Primary or less education	25.1	23.7	23.5	21.0	-37	-2.1		27.7	26.8	
Incomplete secondary	46.2	44.7	42.2	44.2	89	2.6	†	23.4	23.2	
Completed secondary	21.2	23.2	25.2	26.4	209	12.0	*	11.2	14.4	*
Diploma or certificate	5.0	5.7	5.3	5.3	24	6.2		5.8	8.5	*
Degree	1.3	1.3	1.9	1.9	20	18.2		3.0	3.3	

Source: Own calculations, Statistics South Africa (2008, 2010, 2012, 2013).

Notes: 1. An asterisk denotes statistically significant changes at the 95 percent confidence level, while a dagger (†) denotes statistically significant changes at the 90 percent confidence level.

2. Percentage changes are average annual growth rates between 2013Q3 and 2016Q3.

The likelihood that workers were employed in the informal sector was higher for Africans than other race groups: the informality rate for Africans stood at 20.3 percent in 2016Q3, nearly three times the rates for Whites (6.7 percent) and almost double the rates for Coloureds (11.0 percent) and Asians (11.3 percent). Similarly, males had a slightly higher rate of informality than women, in contrast to the general pattern in other countries of higher rates for women (Chen et al, 2006), and was up a statistically significant 2.5 percentage points from 2013Q3. There is, interestingly, no strong evidence of a correlation between age and the informality rate, although employment for the 35-44 age cohorts became increasingly informal between 2013Q3 and 20126Q3. However, higher levels of educational attainment are associated with lower rates of informality: the informality rate falls from 26.8 percent for those with no more than primary education to 14.4 percent for those with at least completed secondary education. This is unsurprising given skills shortages in the formal sector and the resulting positive correlation between educational attainment and the probability of employment in that sector.

Sectoral Employment Trends

Table 5 compares the industrial structure of employment within the formal and informal sectors between 2013Q3 and 2016Q3. In 2016Q3, more than two-thirds (67.5 percent) of formal sector employment was in the tertiary sector; the sector was three times the size of the secondary sector (22.3 percent of formal sector employment) and more than six times the size of the primary sector (10.2 percent). The tertiary sector was even larger within the informal sector, accounting for 71.1 percent of informal sector employment. A further 24.3 percent of informal sector employment fell within the secondary sector and just 4.1 percent in the primary sector. At this aggregated level, the formal and informal sectors are relatively similar in structure, although the informal primary sector is relatively small.

At the level of industries, however, significant differences emerge. In 2016Q3, wholesale and retail trade alone accounted for almost two-fifths (38.8 percent) of informal sector employment (38.8 percent), a much higher proportion than within the formal sector (18.0 percent). This was followed by construction and CSP services, which accounted for 17.3 percent and 15.5 percent of informal sector employment. Together, these three industries—wholesale and retail trade, construction and CSP services—employed 71.6 percent of those in the informal sector. Compared with the formal sector, agriculture, mining, manufacturing, and financial and business services were relatively small employers in the informal sector. In contrast, construction, wholesale and retail trade, and transport accounted for relatively large shares of informal sector employment when compared with the formal sector. Trade and construction were particularly easily accessible to new entrants, while the taxi industry represented a significant proportion of informal sector employment in the transport, storage and communication industry.

Informal sector employment was concentrated in relatively few industries: as noted, just three industries accounted for more than seven out of ten informal sector jobs, while in the formal sector the three largest industries by employment accounted for 61.9 percent of employment. As a result, total informal sector employment is exposed to greater volatility due to changing fortunes in these three industries.

Table 5: Industrial structure of employment, 2013 Quarter 3 to 2016 Quarter 3

	2013Q3			2016Q3			Ave. Ann. Change (%)				Informality Rate (%)		
	Formal	Informal		Formal	Informal		Formal		Informal		2013Q3	2016Q3	
Total employment ('000s)	*11 360*	*2 447*	*	*1 189*	*2 757*	*	*1.4*	*	*4.1*	*	*16.2*	*17.4*	†
Agriculture, forestry, fishing	5.5	4.6		6.5	3.9	*	7.1	*	-1.3		15.1	12.2	
Mining & quarrying	3.7	0.1	*	3.7	0.1	*	1.1		19.8		0.5	0.9	
Primary sector	**9.2**	**4.7**	*	**10.2**	**4.1**	*	**4.8**	*	**-0.8**		**9.8**	**8.5**	
Manufacturing	13.9	8.3	*	12.7	6.8	*	-1.7		-2.6		11.4	11.1	
Electricity, water & gas	1.2	0.0	*	1.0	0.2	*	-6.1		71.3		0.8	4.5	
Construction	7.2	13.6	*	8.6	17.3	*	7.8	*	12.6	*	29.1	31.8	
Secondary sector	**22.3**	**4.7**		**22.3**	**24.3**	†	**1.3**		**7.6**	*	**17.5**	**20.2**	*
Wholesale & retail trade	18.9	43.1	*	18.0	38.8	*	-0.2		0.6		32.9	33.4	
Transport, storage, comm.	6.3	8.9	*	5.6	9.2	*	-2.4		5.5		23.3	27.8	
Financial & business services	16.7	6.7	*	17.8	8.1	*	3.4	*	11.1	*	7.9	9.6	
CSP services	26.6	14.8	*	26.1	15.5	*	0.7		5.7	†	10.7	12.2	
Private households	-	-		-	-						-	-	
Tertiary sector	**68.4**	**73.4**	*	**67.5**	**71.7**	*	**0.9**	†	**3.3**	*	**16.6**	**17.6**	

Source: Own calculations, Statistics South Africa (2014, 2015, 2016b).

Notes: 1. An asterisk denotes statistically significant differences in the share of employment at the 95 percent confidence interval, while a dagger (†) denotes statistically significant differences in the share of employment at the 90 percent confidence level.

Source of formal and informal sector employment growth were also different. Statistically significant growth over the period was observed in agriculture (7.1 percent per annum), construction (7.8 percent) and finance (3.4 percent) in the formal sector. In the informal sector, construction expanded by a statistically significant 12.6 percent per annum, finance (11.1 percent) and CSP services expanded by 5.7 percent per annum. Secondary sector employment became increasingly informal with informality rate increasing from 17.5 percent in 2013Q3 to 20.2 percent in 2016Q3.

Occupational Employment Trends

As is to be expected, employment in the formal sector was more highly skilled than in the informal sector. Breaking down total employment within the two sectors by occupation, Table 6 shows that this difference is the result of substantial differences at the top and at the bottom of the occupational gradient. Skilled workers were dominant within both the sectors, accounting for about three-fifths of employment in each sector over the period. However, the proportion of high-skilled occupations within formal sector employment was more than twice that within informal employment (16.9 percent compared to 7.2 percent in 2016Q3), while one-third (32.3 percent) of the informal sector were low skilled compared to 21.8 percent in the formal sector.

At a more disaggregated level, informal sector employment was dominated by three occupations: elementary occupations accounted for around one-third (32.3 percent) of employment in the sector, while crafts and related trades and service and sales workers accounted for 23.6 percent and 20.4 percent. This means that three-quarters (76.3 percent) of informal sector workers were employed in one of these three occupational categories. In contrast, the comparable proportion for the formal sector was 51.2 percent, with the three largest occupational categories being elementary occupations, service and sales workers and clerks.

The likelihood of being in the informal sector was higher for low-skilled workers and lower for high-skilled workers. In 2016Q3, informality rate for low skilled workers was 18.8 percent, almost twice that of skilled and high skilled workers (9.0 percent).

Table 6: Occupational structure of employment, 2013 Quarter 3 to 2016 Quarter 3

	2013Q3			2016Q3			Ave. Ann. Change (%)				Informality Rate (%)		
	Formal	Informal		Formal	Informal		Formal		Informal		2013Q3	2016Q3	
Total employment ('000s)	*11 360*	*2 447*	*	*11 829*	*2 757*	*	*1.4*	*	*4.1*	*	*16.2*	*17.4*	†
Managers	9.8	5.2	*	10.0	6.3	*	2.0		11.0	*	10.2	12.8	
Professionals	8.1	1.4	*	6.9	0.9	*	-4.2	†	-11.1		3.5	2.8	
High skilled	**18.0**	**6.6**	*	**16.9**	**7.2**	*	**-0.7**		**7.1**		**7.3**	**9.0**	
Technicians	13.5	5.4	*	11.3	4.8	*	-4.4	*	0.1		7.9	9.0	
Clerks	14.2	3.6	*	13.4	2.7	*	-0.6		-6.2		5.2	4.4	
Service and sales workers	14.4	21.7	*	16.0	20.4	*	5.0	*	1.9		24.3	22.7	
Skilled agricultural workers	0.4	1.0	*	0.5	0.7		7.4		-6.7		35.1	26.1	
Crafts and related trades	10.3	21.0	*	11.0	23.6	*	3.6	†	8.2	*	30.4	33.4	
Operators and assemblers	9.1	8.5		9.2	8.4		1.5		3.7		16.7	17.6	
Skilled	**61.9**	**61.2**		**61.3**	**60.6**		**1.0**	†	**3.7**	*	**17.5**	**9.0**	
Elementary occupations	20.2	32.2	*	21.8	32.3	*	4.1	*	4.1	*	24.0	24.0	
Domestic work	-	-		-	-		-		-		-	-	
Low skilled	**20.2**	**32.2**	*	**21.8**	**32.3**	*	**4.1**	*	**4.1**	*	**18.3**	**18.8**	

Source: Own calculations, Statistics South Africa (2014, 2015, 2016b).
Notes: 1. An asterisk denotes statistically significant differences in the share of employment at the 95 percent confidence interval, while a dagger (†) denotes statistically significant differences in the share of employment at the 90 percent confidence level.

Occupational distribution changes within the informal sector were observed over the three-year period. There was an increase in managers (11.0 percent), crafts and related trades (8.2 percent) and elementary occupations (4.1 percent). These changes were statistically significant. In the formal sector, though, statistically significant contractions in employment are observed for professionals (-4.2 percent per annum) and technicians (-4.4 percent), while growth is observed for service and sales workers (5.0 percent), crafts and related trades (3.6 percent) and elementary occupations (4.1 percent).

Nature of Employment Contracts

Integral to the definition of the informal sector is the fact that workers lack basic benefits and protections. Table 7 investigates differences in types of employment contracts between the formal and informal sectors.

One of the factors that complicates comparisons of contracts between the two sectors is that informal sector workers are far more likely to be self-employed than their formal sector counterparts. This should not come as a surprise given the differences in firm size between the two sectors, discussed above. In 2016Q3, 57.4 percent of informal sector workers were self-employed and hence not subject to employment contracts. This is ten times the proportion for the formal sector. Not only were informal sector workers more likely to be self-employed, they were also growing in number more rapidly than is the case in the formal sector. Over the period, the number of self-employed individuals grew by statistically significant 6.1 percent per annum, compared with 2.2 percent in the formal sector, although this latter change was not statistically significant.

Table 7: Nature of employment contracts in the formal and informal sectors, 2013 Quarter 3 to 2016 Quarter 3

	2013Q3			2016Q3			Ave. Ann. Change (%)			
	Formal	Informal		Formal	Informal		Formal		Informal	
Total employment ('000s)	*11 360*	*2 447*	*	*11 829*	*2 757*	*	*1.4*	*	*4.1*	*
Proportion self-employed	5.5	54.2	*	5.7	57.4	*	2.2		6.1	*
Contract duration (employees only)										
Limited	15.2	16.3		14.8	17.9	*	0.6	†	5.3	
Permanent	70.9	21.9	*	69.5	22.3	*	0.7	†	2.7	
Unspecified duration	13.9	61.7	*	15.7	59.8	*	5.6	*	1.0	
Contract Type (employees only)										
Written contract	91.7	36.2	*	91.0	38.0	*	1.1	*	3.7	
Verbal contract	8.3	63.8	*	9.0	62.0	*	3.9	†	1.1	

Source: Own calculations, Statistics South Africa (2014, 2015, 2016b).
Notes: 1. An asterisk denotes statistically significant differences in the share of employment at the 95 percent confidence interval, while a dagger (†) denotes statistically significant differences in the share of employment at the 90 percent confidence level.

Amongst employees, permanent contracts were the most common type of contract in the formal sector, while contracts of unspecified duration were the most common type in the informal sector. In the informal sector, 59.8 percent of employees had contracts of unspecified duration, compared to just 15.7 percent in the formal sector; conversely, permanent contracts were held by 22.3 percent and 69.5 percent of informal and formal sector employees respectively. Limited duration contracts were held by 17.9 percent of informal sector employees in 2016Q3, slightly higher than the 14.8 percent for the formal sector.

In terms of contract types, verbal contracts are rare in the formal sector, with just 9.0 percent of employees in the sector having them in 2016Q3. In contrast, almost two out of three (62.0 percent) informal sector employees had verbal employment contracts. This lack of written contracts for the majority of informal sector workers further adds to the picture of greater vulnerability amongst employees in this sector.

On average, workers in the informal sector worked slightly longer hours than their formal sector counterparts (Table 8). In 2016Q3, workers in the informal sector worked 46.0 hours per week while formal sector workers worked 44.0 hours per week. However, while formal sector workers were concentrated from 40 to 49 hours per week (70.5 percent), this was true of only 35.6 percent within the informal sector. As a result, larger proportions of workers in the informal sector worked relatively few hours or relatively long hours. Thus, 25.8 percent of informal sector workers worked fewer than 40 hours per week and 38.6 percent worked 50 hours or more per week, compared to 10.3 percent and 19.2 percent respectively for formal sector workers.

Table 8: Hours worked in the formal and informal sectors, 2013 Quarter 3 to 2016 Quarter 3

	2013Q3			2016Q3			Informality Rate			Ave. Ann. Change (%)			
	Formal	Informal		Formal	Informal		2013Q3	2016Q3		Formal		Informal	
Hours worked per week													
1-19 hours	2.1	7.9	*	2.5	8.4	*	30.9	31.1		8.3	*	6.3	
20-39 hours	7.9	17.6	*	7.8	17.4	*	24.6	26.8		1.0		3.8	
40-44 hours	43.8	15.8	*	44.3	18.5	*	6.8	8.3		1.7	*	9.7	*
45-49 hours	27.5	14.5	*	26.2	17.1	*	9.8	12.7	*	-0.2		10.0	*
50+ hours	18.7	44.3	*	19.2	38.6	*	32.3	30.6	*	2.1		-0.7	
Average	44.1	47.8	*	44.0	45.6	*				-0.1	†	-1.3	*
Proportion of those who would want to have worked more hours at current pay	29.4	32.0		26.4	32.0	†				-3.1		6.4	

Source: Own calculations, Statistics South Africa (2014, 2015, 2016b).
Notes: 1. An asterisk denotes statistically significant differences in the share of employment at the 95 percent confidence interval, while a dagger (†) denotes statistically significant differences in the share of employment at the 90 percent confidence level.

The data show that mean hours worked in the formal sector were virtually unchanged between 2013Q3 and 2016Q3, while in the informal sector average hours worked fell by 2.2 hours. More employees in the informal sector would have liked to work more hours, compared with those in the informal sector. While 26.4 percent of formal sector workers would have liked to work more hours in 2016Q3 (a decline of 3.1 percentage points from 2013Q3), 32.0 percent of informal workers would have liked to work more hours (6.4 percent increase over the three-year period), although neither of these changes were statistically significant.

Conclusion

While the South African labour market is predominantly formal, informal sector employment has grown rapidly since 2013. In absolute terms, the non-agricultural informal sector contributed as many net new jobs between 2013Q3 and 2016Q3 as its formal counterpart, despite being less than one-quarter of its size.

This factsheet makes the important distinction between employment in the informal sector and informal employment. The latter is defined according to the nature of the firm, while the latter is determined by the nature of the employment relationship. Thus, while the informal sector accounted for 18.2 percent of employment in 2016Q3, 30.7 percent of all workers were informally employed.

Employment in the informal sector is dominated by Africans, who accounted for 86.6 percent of employment in 2016Q3. Informal sector workers were most often male (64.0 percent), between the ages of 25 and 54 years (62.1 percent) and rarely have post-secondary education (7.2 percent). Youth, though, are not more likely to be employed in the informal sector than they are within the formal sector.

At the level of primary, secondary and tertiary sectors, the structure of formal and informal sector employment is broadly similar and concentrated within services. However, employment in the informal sector is more concentrated within a small number of industries than is the case in the formal sector, with construction, wholesale and retail trade, and transport, storage and communication being relatively large employers within the informal sector.

In terms of skills level, employment in the formal sector is relatively high-skilled intensive, while that in the informal sector is low-skilled intensive. Skilled workers were dominant within employment in both sectors each accounting for about two-thirds of employment over the period. The three top occupations within the informal sector were: service and sales workers, crafts and related trades, and elementary occupations which jointly accounted for 76.3 percent of employment in the sector.

More than half of informal sector workers were on contracts of unspecified duration while less than one-quarter had permanent contracts in 2016Q3. Informal sector employees were also far less likely than their formal sector counterparts to have written contracts: 62.0 percent of informal sector workers had verbal contracts, compared with just 9.0 percent of formal sector workers. In addition, informal sector workers were more likely to work relatively short or relatively long hours. On average, informal sector workers reported usually working 45.6 hours per week, 1.6 hours longer than in the formal sector.

In the face of relatively weak employment growth in the formal sector, many are looking to the informal sector as a route through which increasingly large cohorts can be absorbed into the labour market. While this may have important benefits in terms of poverty and other indicators (relative to individuals being unemployed), it is important to bear in mind the vulnerable position that many in the informal sector find themselves in. Thus, policy that aims to facilitate the expansion of employment in the informal sector should also aim to improve the lot of workers, both the self-employed or employers, and employees.

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