

Rethinking development: The informal sector's role in transforming South Africa's economy

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OIDA International Journal of Sustainable Development, Ontario International Development Agency, Canada.
ISSN 1923-6654 (print) ISSN 1923-6662 (online) www.oidaijsd.com
Also available at <https://www.ssrn.com/index.cfm/en/oida-intl-journal-sustainable-dev/>

Abstract: The informal sector plays a pivotal yet often underestimated role in shaping South Africa's economic landscape. Despite government recognition, this sector remains undervalued and underutilized, impeding its potential impact. Thus, using a comprehensive desktop study, this study delves into the multifaceted role of the informal sector in South Africa's economy, examining its dynamics, challenges, and potential for transformative change. It uncovers the dynamic nature of informal enterprises, emphasizing their contributions to employment generation, poverty alleviation, and social inclusion. The study went ahead to identify key challenges and constraints hindering the sector's full realization of its developmental potential across economic, social, and environmental dimensions. The study also highlighted strategies for harnessing the transformative power of the informal sector towards South Africa's economy. The study recommended a collaborative working relationship between the Envisioning a collaborative future that integrates both formal and informal economies, the study offers insights into reimagining development in South Africa. To conclude, by acknowledging the innovation, and dynamism of informal enterprises and by adopting policies and interventions that formalize, integrate, and empower this sector, South Africa can chart a promising path towards development.

Keywords: Development; Economic Growth; Formalization; Informal Sector; South Africa

Introduction and Background

South Africa, a nation with a complex history of apartheid and subsequent efforts at democratic transition, has continually grappled with the challenge of achieving inclusive and sustainable development. The conventional paradigm of development has often been centered on formal economic structures and industries. However, in recent decades, scholars and policymakers, particularly in developed countries have begun to recognize the importance of the informal sector towards shaping the economic landscape (Chen, 2007; Ulyssa, 2020). A sector that is mostly undermined by many African countries like South Africa (Rogerson, 2000).

Historically, South Africa has undergone substantial economic transformations marked by the dismantling of apartheid and the advent of democracy in 1994. In between this period, there was a high figure of inequality that took place as a result of racial segregation. While strides have been made in various sectors, a significant portion of the population remains marginalized particularly those engaged in the informal sector. The informal sector according to a report by StatsSA (2019) makes up 20% of total employment in the country and contributes to 5.1% of the country's GDP. Implicitly, with this statistic one in every six South Africans who work, work in the informal sector.

The informal sector mostly associated with precarious employment, tax evasion, and poor governmental support comprises a varied array of economic activities, including street vendors, spaza shops, hawkers, sidewalk sellers, laundromats, individuals running small home-based businesses, and other service-oriented ventures. Often marked by their unregulated nature and absence of formal recognition (SME South Africa, 2022; Charmes, 2015), this sector, while seemingly inconspicuous, carries substantial economic potential that could prove beneficial if subjected to regulation. Hoggs (2020) conducting a study in the informal sector specifically those that deals in food business estimated it to generate R87 billion a year, and this is a sector that has existed for 10-20 years. Likewise, on the residential side, backroom rental industry just generates R30 billion a year in rental income (Thwala et al, 2023).

These statistics indicate the amount of cash flow that goes on in the informal sector. Ironically, its contribution to the economy is not acknowledged as it is still “neglected”.

On this note, using systematic and extensive literature, the study seeks to explore and redefine the narrative of development in South Africa, placing a spotlight on the often overlooked but immensely significant sector in the economy “the informal sector”. The study answers the question of how the informal sector can contribute to the transformation of South Africa's economy in the 21st century.

This study aims to contribute to the existing body of literature on informal sector and South Africa's economy by providing a comprehensive analysis of the informal sector's role in South Africa's economic landscape. Understanding and harnessing the potential of the informal sector would not only enhance economic growth but also foster inclusivity, address socio-economic disparities, and boost the country's development.

Overview of the informal sector.

The informal sector, colloquially known as the “shadow economy or grey economy”, signifies a critical fraction of the economic activity that goes on in a country. Operating beyond the bounds of formal regulations, this sector is characterized by a myriad of unregulated and non-standard economic activities. According to the 17th International Conference of Labour Statistics, the informal sector does not include illicit business operations like drug peddling, etc (Etim and Daramola, 2020). Instead, unregulated economic activities are characterized by activities outside the purview of government regulation and taxation. In other words, businesses and workers in the informal economy often do not benefit from the legal and institutional framework that guides the formal sector, and this can hinder their productivity and business growth.

The informal sector is not homogeneous; it includes a range of activities from unregistered small enterprises to casual jobs and self-employment that operate beyond formal regulatory boundaries. The significance of the informal sector lies in its role as a substantial source of employment, and income generation, and its contribution to overall economic growth. To Mahadea an Zogi (2018), the informal sector is an avenue for survival because a lot of people who work in that space earn below-average wages.

Globally, about two billion people are in the informal employment (ILO, 2018a). This equates to 60% of the global labour force and 90% of small-medium scale enterprises (ILO, 2018b). For Africa, 8 out of 10 workers are in the informal economy (ILO, 2018a). This suggests the informal sector is a major source of employment. Corroborating this is Kiaga and Leung (2020) who affirmed that 85.8% of the workforce in Africa today works in the informal sector and 71.9% if its excluding agriculture. Regionally, the evidence of the informal sector has been high. In Sub-Saharan Africa, it is 89.2%, and in North Africa 76.8%. Within Sub-Saharan Africa, the statistic of the informal sector varies as well with Southern Africa (40.2%), Western Africa (92.4%), Central Africa (91.0%), and Eastern Africa (91.6%). Despite the numbers, the informal sector is difficult to account for (ADB,2007). Neuwirth (2011), in his study, estimated the informal sector to be worth USD 10 trillion globally.

In Africa, the informal sector deprives the government of potential tax revenue and capacity for regulatory oversight (MBN, 2023) unlike the developed countries where income-tax and means-tested transfer payments dominate (Ravallion, 2015). The oversight in Africa has led to a potential loss in public revenue, and could create an uneven playing field with formal businesses. Hence, there has been debate about how best to approach the informal sector. Some argue for formalization, including providing incentives for businesses to register and comply with regulations, whereas others highlight the importance of understanding and supporting the unique conditions within which the informal sector operates.

Schneider et al (2003) in their study argued for the formalization of the informal sector. According to them, formalizing the informal sector will provide more income for both the National and Sub National Governments. Supporting this claim, USAID (2012) suggests that the formalization of the sector orients it towards upgrading the operations of the business and contributing to economic growth. In essence, a country's GDP. Contrastingly, Moyo (2020) contends that supporting the informal sector doesn't necessarily require formalization, given the burdensome regulatory processes they might face. Moyo emphasizes that the fees, financial requirements, and compliance standards outlined in various legislations can be regressive, hindering the growth and expansion of informal businesses disproportionately. Rather than imposing formalization, Moyo suggests implementing collaborative measures to establish a legal and straightforward method of regulating these businesses, indirectly benefiting the government through increased revenue. For instance, informal sectors in India, were provided with robust reforms to assist with their growth (ILO, 2019). The reforms “Contract Labour Act” and “Unorganized Workers Social Security Act”, were meant to protect the workers in that sector (ILO, *ibid*). Also, in Kenya, there is a streamlined

unified tax system for those in the informal sector (USAID, 2012). Improving the business environment and introducing a comprehensive one-stop Act can be an effective solution to regularize the informal sector (Moyo, Ibid). However, the International Labour Organization views the solution from a different lens, particularly towards aiding development in countries and for the future of the world of work.

In an International Labour Conference in 2015, the ILO focusing on the informal economy and its entirety came up with practical guidance to address these issues. The recommendation stresses the need to:

“(1) facilitate the transition of workers and economic units from the informal to the formal economy, while respecting workers’ fundamental rights and ensuring opportunities for income security, livelihoods, and entrepreneurship; (2) promote the creation, preservation, and sustainability of enterprises and decent jobs in the formal economy and the coherence of macroeconomic, employment, social protection and other social policies; and (3) prevent the informalization of formal economy jobs”.

According to ILO, this consensus is essential to achieving inclusive and sustainable development for countries. Also, it will assist in the actualization of a “decent work for all” as stressed in the Sustainable Development Goals agenda of 2030-, particularly SDG 8 “to promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all”.

Theoretical Framework

To comprehend the dynamics of the informal sector’s contribution to South Africa’s economy and its development, the study will be underpinned by the Structural Transformation Theory and Dual Economy Model.

The *structural transformation theory* rooted in the works of Lewis (1954) and later expanded upon by Fei and Ranis (1964) postulated that as societies develop, there is a shift in labor from low-productivity sectors to high-productivity like manufacturing and services. The adoption of this theory in the African context can be dated back to the early post-independence period. As highlighted by scholars (Sparks and Barnett, 2010; Kiaga and Leung, 2020), the 1980s which is described as a “lost decade” is when Africa saw the decline of developmentalism. During this period, many African countries adopted the “Structural Adjustment Programmes” [SAPs]. According to scholars (Fenwick et al, 2007; Sparks and Barnett, *ibid*), SAPs is the main driver of informality in Africa. Based on this, the theory argues for there to be a transformation, there has to be a change in productivity. According to Sparks and Barnett (2010) and UNIDO (2012), structural transformation is a mechanism that helps to achieve greater diversity in the economic structure which creates a country’s resilience to poverty. McMillan et al (2013) see it as a long-term shift that can be adopted towards establishing the pathway of economic growth and development.

Relating this to South Africa, historical inequalities particularly during the apartheid and SAPs era have resulted in a fragmented economy with significant disparities in resources and allocation. This has pushed many people into marginal conditions and forced them to forge survivalist strategies by joining the informal sector (Skinner, 2016). Hence, in applying Structural Transformation theory, we hypothesize that the informal sector often viewed as peripheral can become a dynamic force facilitating the necessary shift in labour. The informal sector by engaging in diverse economic activities and industrial policies can contribute to a broader restructuring of the economy by creating alternative pathways for economic development.

Complimenting the Structural Transformation Theory is the *Dual Economy Model*. This model recognizes the co-existence of a formal and informal economy within a Nation (Lewis, 1954). The formal economy is characterized by established institutions, regulations, and structured employment while the informal economy operates often beyond the scope of formal regulations. The dual economy model casts the informal sector as a unique segment of the economy that is not responsive to formalization policies (La Porta and Shleifer, 2014). La Porta and Shleifer (*ibid*) argue that the informal sector is a product of underdevelopment and backwardness, and will disappear when growth improves.

In the South African context, duality is particularly pronounced with a historical legacy that has led to a persistent informal sector operating parallel to the formal economy. Characterizing the dual economy, the then President Mbeki in 2003 referred to it as the “first” and “second” economy with the “first being the formal sector” and the “second the informal or marginalized economy”. According to the then-president, “The second economy is marked by underdevelopment. They contribute little to the country’s GDP and are occupied by a great number of the population (Valodia et al, 2006). Elaborating on this, the governing party, highlighted South Africa’s dual nature,

“The first and second Economies in our country are separated from each other by a structural fault. Accordingly, what we now have is the reality... of a “mainly informal, marginalized, unskilled economy, populated by the unemployed and those unemployable in the formal sector”. The second economy is caught in a “poverty trap”. It is therefore unable to generate the internal savings that would enable it to achieve the high rates of investment it needs. Accordingly, on its own, it is unable to attain rates of growth that would ultimately end its condition of underdevelopment (ANC Today, Volume 4, No. 47, 26 November - 2 December 2004)”

South Africa’s dual nature reflects the legacy of apartheid marked by entrenched inequalities and skewed distribution of resources. Post-apartheid, while there has been progress, disparities persist and the informal sector remains a critical player in the socio-economic landscape. Recognizing this and its effect on development, the then President of South Africa, Thabo Mbeki in his State of Nation Address in 2005 argued that “we must achieve new and decisive advances towards eradicating poverty and underdevelopment within the context of a thriving and growing.

first economy and the successful transformation of the second economy...” (Valordia et al, 2006).

Drawing on Mbeki’s insight, a formalization, regularization, and or transformation of the second economy will bring about development. As stressed by Valordia et al (2006), the ANC sees the second/informal economy as being structurally disconnected from the mainstream of the economy.

Integrating these theories into the study, the framework posits that the informal sector as a catalyst for structural transformation can contribute significantly to redefining the narrative of development in South Africa. By recognizing the country’s dual nature, the study continued to shed light on the transformative potential of the informal sector in fostering inclusive and sustainable development.

In the subsequent sections, the study explored how the informal sector actively contributes to the restructuring development of South Africa’s economy.

The Informal Sector in South Africa: An Overview.

The informal sector has emerged as a complex and multifaceted component of the economy, an act that stemmed from its apartheid era. The post-apartheid era brought about political change but it also underscored the persisting economic disparities. Literature has provided a nuanced understanding of the informal economy, emphasizing the diverse skills and businesses that fall under this umbrella, ranging from street vendors, spaza shops, and small home-based businesses to small-scale manufacturing (Charmes, 2015; SME South Africa, 2022).

In South Africa, the informal sector often marginalized and overlooked has become a crucial source of livelihood for many South Africans, particularly those in historically disadvantaged communities. Studies have documented the substantial size and significance of the informal sector in South Africa. According to Stats SA report in 2020, close to 4.8 million are working in the informal sector (Cowling, 2023). This figure indicates a tantamount number of the populace working in this sector. According to IEJ (2018), a high percentage of individuals in this sector are workers and owners of street and spaza shops, taxi drivers, waste recyclers, tailors, shoe repairers, hairdressers, and mechanics, amongst others. It has been estimated that the informal sector contributes about 6% to the country’s economic GDP that is for those that could be accounted for (Stats SA, 2021). Data also showed that a greater proportion of men work in the informal sector; while when it comes to the ownership status of these informal businesses, more women than men hold ownership status (Stats SA, *ibid*).

Unarguably, South Africa’s informal sector plays a vital role in boosting the economy by making available employment avenues available to people and contributing to income generation. However, challenges such as lack of formal recognition, limited access to resources, and vulnerability to economic shocks persist, raising questions about the sector’s full potential for transformative impact.

The Informal Sector, South Africa and Its Development.

The informal sector has emerged as a new focus area when it comes to development studies (Sheikh, 2018). Its immense contribution to the development agenda has made this sector of global interest. According to a global report by StatsSA (2020), 60% of the world's employed population is situated in the informal sector. Linking these statistics to its benefit towards development, the informal sector contributes to employment creation and income generation thereby reducing poverty and inequality in the society. Unsurprisingly, the Sustainable Development Goals [SDGs] also tried to incorporate the benefit and awareness of this sector towards promoting development. Goal 8 of the Sustainable Development Goals focuses on "promoting sustained inclusive and sustainable economic growth, full and productive employment and decent work for all". This includes decent job creation in small businesses.

The importance of this sector has also been underscored by the South African Government. As reflected in Goal 8 of the SDGs, the South African National Development Plan [NDP] also advocates for decent work. In actualizing this, the informal sector has a key role to play. In a projection by NDP, 11 million jobs should have been created by 2030, out of which the informal sector will be dominating as one of the job providers for citizens with an estimated figure of 1.2 million to 2.1 million jobs (NDP, 2012). There is also the National Business Upliftment Strategy [NIBUS], released in 2012 by the Department of Trade and Industry. It is the first attempt by the Government at a coordinated policy and approach in dealing with the informal sector; and at the provincial level, there is the "township economy" (Rogan and Skinner, 2017). However, these policies have a few concerning elements, such as "the graduation to formal economy" for those who are already doing better (Rogan and Skinner, *ibid*). This tends to neglect the informal sector and cause harm to the sector.

The stage of development of a country influences the types of policies needed. However, when there is a large informal sector, development can be hampered (Ravallion, 2015). Using developed countries in stressing his point, Ravallion (*ibid*) emphasized that income-tax and means-tested transfer payments dominate rich countries thus helping them build their economy through the generated income. However, in countries where there is a large existence of informal sectors, there are developmental constraints. This is because no taxes and compliance with regulations are not good for sustainable development (La Porta and Shleifer, 2008). For example, a significant portion of individuals working in the informal sector often evade tax obligations and fail to report their income. This results in a loss of potential tax revenue for the government and reduces its ability to enforce regulatory measures.

A substantial informal sector can consequently impose a heavier tax burden on formal labour and businesses, which may be perceived as exploitative. Furthermore, formal industries may struggle to capture the revenue generated, impacting their ability to invest in the economy. This, in turn, can hinder a country's economic development.

Compared to other developing countries, South Africa's workforce is dominated more by the formal sector than the informal (MBN, 2023). The informal sector in South Africa has a smaller but significant total share of employment. A report by Stats SA (2021) revealed that one-third of those employed nationally is dominant in the sector. However, as small as the sector in South Africa appears to be, it still plays a pivotal role in fostering inclusive and sustainable development, contributing to economic growth, poverty alleviation, and social equity.

The informal sector serves as a vital source of livelihood for millions of South Africans, particularly those from marginalized communities. A figure that is estimated to skyrocket in light of Africa's population come 2030. According to Prince-Zulu (2023), the working-age population in Africa is expected to increase by 224 million in 2030 and 730.4 million in 2050. While this figure implies opportunities for economic growth, the formal sector is not enough to create sufficient jobs. Hence, the onus will lie more on the informal sector. By providing opportunities for self-employment, income generation, and entrepreneurship, individuals will participate actively in the economy. This inclusivity is essential for reducing inequalities and fostering a more equitable distribution of wealth and resources which are benefits of a developed society.'

The informal sector also contributes to social equity. By providing employment opportunities to vulnerable groups including women, youths, and individuals with limited formal education. The sector promotes social inclusion and empowerment. The informal sector contributes to environmental sustainability which is a nitty-gritty area of development (Vanek et al, 2014). By harnessing local knowledge and traditional practices, the informal sector plays a role in promoting sustainable consumption and production patterns.

Likewise, the informal sector fosters community, continuity of economic activities, and cash inflow and outflow, particularly during times of economic uncertainty and crisis. Often at times, people who lose their jobs in the formal

sector mostly move into informal self-employment to generate a source of revenue for themselves. This is affirmed by the Organization for Economic Cooperation and Development [OECD], which emphasizes the informal sector to be a “shock absorber” in times of crisis for people who do not have formal jobs. Supporting this claim is South Africa’s NDP (2012:374) where it emphasized that the informal sector provides a cushion for those who lost their jobs or need to supplement their formal incomes in times of crisis. For instance, during the Global economic crisis of 2008, Rogan and Skinner (2017) in their study revealed the formal sector provided succor to citizens by relatively becoming a greater source of employment for people. Implicitly, Informal economies serve as a buffer against economic hardship and volatility.

Lastly, Informal sectors are often more agile and responsive to local needs, enabling communities to adapt to changing circumstances and withstand external shocks (Chen, 2007). Ironically, despite the growth and beneficial opportunity provided by this sector towards development, it is still under minimal utilization in South Africa. Realizing the full potential of the informal sector to foster development requires supportive policy frameworks and interventions which are still underestimated and largely missing in South Africa.

Challenges facing the Informal Sector in South Africa

The informal sector plays a crucial role in the South African Economy. As discussed in earlier parts of the study, the informal sector provides employment opportunities and contributes significantly to GDP. However, the sector is faced with numerous challenges and constraints that hinder its ability to fully realize its potential as a catalyst for development. These challenges stem from various factors including economic, environmental, and social aspects. Below are some of the key challenges and constraints faced by the informal sector in South Africa.

1. **Regulatory Constraints:** Governments have been found to still treat informal sectors with past laws. In South Africa, the laws still portray workers in the informal sector as illegal and creating a nuisance (Department of Trade and Industry, 2013). Njenga and Ngambi (2014) in their study argued that the set laws enable city authorities to forcibly remove “any nuisance, obstruction or encroachment on streets or any public places”. In another report, Prince-Zulu (2023) stated informal traders are being viewed by local governments to be law-breakers who deal in illicit goods and need to be stopped and controlled. This has led to the confiscation of goods or and payment of hefty fines. An example is the 2013 violent removal of 6000 inner city traders under “Operation Clean Sweep” in Johannesburg (Rogerson, 2015).
2. **Limited access to finance:** Most informal traders do not have bank accounts for their business as their enterprises are not formally registered. Hence, they struggle to access formal financial services such as loans and credit due to traditional financial institutions often perceive them as high-risk borrowers and are reluctant to extend credit to them (Crush & Hovorka,2018). As a result, informal entrepreneurs rely heavily on informal sources of finance, such as savings, loans from family and friends, and moneylenders, which may come with high-interest rates and unfavourable terms. This therefore constrains the growth and competitiveness of informal enterprises, hindering their ability to contribute to economic development and poverty reduction.
3. **Lack of Basic Infrastructure:** Infrastructure deficiencies pose significant challenges to the operation of informal enterprises in South Africa. Informal businesses often operate in areas characterized by inadequate basic infrastructure like water, sanitation, electricity, and transportation. This is because the businesses often view services provided by the municipalities to be expensive that they cannot afford or sustain. This therefore limits market access and inhibits business expansion.
4. **Social Exclusion and Vulnerability:** Informal workers, particularly women, youth, and migrants, often face social exclusion, discrimination, and stigmatization in society. They are prone to sexual harassment, victimization, and social arrest which compromise their well-being and livelihood security. There are policy gaps that do not protect women thus making them prone to exploitation (Njenga and Ngámbi, 2014). Looking at Africa as a case study, Mwaba (2010:14) argues “that the dominated patriarchal system in Africa has caused a major contribution towards the discrimination of women and ensuring that they remain subordinate to their male counterparts”. In Mwaba’s words, “Women as compared to their male counterparts have less voice, less autonomy, and fewer opportunities”. For instance, some people make demeaning statements or questions like knowing whether or not a woman is menstruating before engaging in business with her as they believe women ought to stay away from their businesses during the period or get other people to assist (Njenga and Ngámbi, *ibid*).

5. **Anti-foreign sentiments:** The informal sector in South Africa is amply dominated by immigrants. According to Stats SA (2019b), many immigrants work in the informal sector rather than the formal sector. Hence, it has become an avenue for “scapegoating”. According to IEJ (2018), xenophobic statements and actions by the Government and citizens have also hindered a progressive stance on the informal sector. For instance, in 2013, the police in Limpopo launched a province-wide campaign to close down migrant-owned businesses dubbed “Operation Hardstick”. As a result of this action, 600 migrant businesses were closed down, owners detained, goods confiscated, fines were imposed and migrants verbally abused (Tawodzera and Crush, 2023). Another instance is President Cyril Ramaphosa’s campaign in 2019 when he said “Everybody just arrives in our townships and rural areas and set up businesses without licenses and permits, we are going to bring this to an end...” (Olofinbiyi, 2022). This statement gave rise to intense heat and violence directed towards foreigners. Especially those in the informal sector. Also, there is “Operation Dudula”, an anti-immigrant body that has targeted immigrant traders based on taking “jobs meant for citizens” (Evans, 2022; Mabasa, 2023). This action impacts the economic trajectory of the country because migrants in this sector cannot pronounce their business as they ought to.
6. **Governance Mismatch:** The government’s action towards the informal sector has been ironical. While there has been recognition by the Department of Labour, and the Department of Trade and Industry in acknowledging this sector, it is still accorded low priority with insufficient human and financial resources being allocated to this sector. Likewise, the activities and behaviour of the municipalities towards this sector reflect an austere attitude, especially to those who operate in the public space, as it is seen as an eyesore to what constitutes a “modern society”.
7. **Lack of Formal Recognition:** The lack of formal recognition poses a significant challenge. Informal sectors often operate in grey areas, facing barriers to accessing financial services, infrastructure, and legal protection. It also renders those who work in the sector vulnerable to exploitative practices, including low wages and unsafe working conditions.

The Future of South Africa’s Economy: Harnessing the Potential of the Informal Sector

The significance of the informal sector in bolstering the economy, both at the national and regional levels, cannot be overstated. According to Omomia (2014), the informal sector accounted for 53% of the newly generated employment opportunities in the first quarter of 2013 in Nigeria. This highlights the vital role it plays in fostering economic growth. Therefore, for countries in Africa, with a particular focus on South Africa, neglecting the informal sector would impede economic development.

In light of this, the study delves into strategies and policy interventions aimed at harnessing the transformative potential of the informal sector. By doing so, it seeks to promote inclusive growth and advance the attainment of sustainable development within the country.

1. Formalization and Integration

The formalization and integration of the informal economy have come under intense heat because there is no definite meaning to it. Different scholars and observers have different notions of what the formalization of the informal economy should be (Diaz et al, 2018; Elmi and Robleh, 2019; Fourie, 2019; Boly, 2020; Zylifijaj et al, 2020). To some, it is the shifting of informal workers to formal wage jobs (Elmi and Robleh, 2019; Fourie, 2019; Bolly, 2020); to others, it means registering and taxing informal businesses (Diaz et al, 2018; Zylifijaj et al, 2020). Njenga and Ng’ambi (2014) assert that formalization aims to mitigate the exclusion of informal economy workers from the formal sector. This transition allows informal firms and businesses to avoid being coerced into exploitative relationships with formal entities (Galín, 2001). Moreover, formalization affords them legal protection, intellectual property rights, and opportunities to overcome growth obstacles such as limited access to capital, credit, and governmental assistance. It’s no surprise that the shift toward formalization has become a focal point in Africa’s policy discussions. Little wonder, South Africa saw a break when it was selected as a test case for the ILO implementation of R204.

The R204 which was adopted in 2015 seeks to transition the informal to the formal economy while respecting the workers (Moyo, 2022). According to ILO, the formalization of the sector will assist in achieving inclusive development as well as the realization of sustainable development goal 8, “decent job for all”. In South Africa, policies, acts, and strategies such as the National Informal Business Upliftment Strategy [NIBUS], the Self-employed Women’s Union, and the Informal Economic Policy have been adopted and utilized to integrate the informal to the formal (Kiaga and Leung, 2020). However, it is

discovered that the implementation of these policies is contrary to its initial intention of formalization. Rather, many of the policies address the increase in productivity and earnings while trying to reduce poverty (Kiaga and Leung, *ibid*). For instance, eThekweni municipality in Durban in cooperation with organizations of informal sectors decided to buy recyclable materials from self-employed waste collectors. This act helped in increasing market access and in creating a market exchange that was not prevalent before. However, it does not speak to formalization. Instead, it just increased their productivity and earnings by providing them with market access.

Hence, the government must establish specific criteria when aiming to facilitate formalization. Given the diverse nature of regions, these criteria may need to be tailored according to the characteristics of each province, as a one-size-fits-all approach may not be suitable. For example, incentivizing formalization among young individuals engaged in the informal sector could be relatively more achievable. Furthermore, articulating the tangible advantages associated with formalization can help individuals within the informal sector recognize its importance and the potential benefits it offers.

Likewise, formalization should offer the benefits and protections that come with being in a formal sector and not impose the informal sector into becoming formal. For instance, for a self-employed, formalization should not be limited to just obtaining a license, registering accounts, and paying taxes but should consist of the benefits of operating formally in return for paying these costs such as tax breaks and incentive packages to increase their competitiveness, enforceable commercial contract, legal and social protection.

The informal economy can be formalized through different forms such as shifting informal workers to formal jobs, registering and taxing informal enterprises, providing business incentives and support services to informal enterprises, securing legal and social protection for the informal workforce, recognizing the organizations of the informal workforce and allowing their representatives to take part in rule-setting, policy-making, and collective bargaining processes.

It's important to acknowledge that not all informal enterprises will be able to formalize. Therefore, there should be flexibility to permit some to continue operating in their current informal or semi-formal status.

2. Regulatory Reform

It is crucial to develop appropriate regulations that discourage employers, both in the formal and informal sectors, from hiring workers informally or transitioning formal jobs into informal ones. Research has shown that some businesses resort to operating in the informal sector due to rigid regulations imposed by the state. For example, a study conducted by Gajigo and Hallward-Driemier (2012) across four African countries—Ivory Coast, Kenya, Nigeria, and Senegal—revealed that start-up firms initially operating in the formal sector shifted to the informal sector due to corruption, characterized by informal and burdensome payments to public officials, which impeded their productivity and performance. Similarly, Chuc et al. (2014) found that individuals often move from formal to informal employment to evade government regulations.

Implementing regulatory reforms that simplify registration procedures, reduce compliance costs, and offer legal recognition and protection to informal businesses would benefit both sectors and facilitate the feasible formalization of the informal sector.

3. Policy Coordination and Governance

Informed policy decisions grounded in robust empirical evidence and research findings are pivotal for designing effective interventions and assessing their impacts. To achieve this, governments and development agencies must prioritize investments in comprehensive data collection, monitoring, and evaluation systems. These systems should provide timely and accurate information on informal economic activities, employment trends, and socio-economic indicators (Rogerson, 2018).

Policies must be supportive of informal operators rather than biased against them. Addressing biases in economic and sector policies is essential when gathering information for policymaking and interventions. For instance, in South Africa, existing policies often overlook the informal trade sector, particularly concerning women's participation. Therefore, it is imperative to analyze these policies through a "gender lens" to understand and address the multiple challenges faced by women in the informal sector compared to their male counterparts.

Furthermore, it is essential to ensure that micro-level policies and government procurement practices stimulate demand for goods and services produced by informal enterprises. For example, the collaboration between the eThekweni municipality, Durban, and waste collectors highlights the potential for such partnerships to support informal businesses (Kiaga and Leung, 2020).

4. **Access to finance and Resources:** Facilitating access to finance is crucial for supporting the growth and sustainability of informal enterprises. The government should work collectively with financial institutions and stakeholders in providing microfinance services, credit facilities, and savings programs tailored to the needs of informal entrepreneurs. The government can also promote financial assistance by providing informal business owners with grants and funding mechanisms.

5. **Infrastructure Development and Service Provision**

Investments in infrastructure development and service provision are critical for improving the operating environment and productivity of informal enterprises. According to the findings from Roever's (2014) study, improving access to infrastructure in informal settlements and economic hubs can reduce operational costs, improve market access, and stimulate economic activity. Therefore, upgrading basic infrastructure like transportation, electricity, and water supply, and providing it at a subsidized rate can enhance the accessibility and efficiency of informal markets and reduce transaction costs for informal businesses. Moreover, targeted interventions in informal settlements like community facilities, and disaster risk reduction measures, can improve the liveability of these areas, enabling informal entrepreneurs to thrive in a more conducive environment.

6. **Government Support and Creating a Receptive Environment:**

A critical issue facing the informal sector is the lack of adequate support and coordination between municipalities and informal business operators. Currently, the relationship between the government and these operators is often characterized by exclusion and neglect. To harness the full potential and benefits of the informal sector for the economy, the government needs to establish close collaboration with informal business operators and prioritize initiatives that foster growth and development within this sector.

Furthermore, creating a conducive environment for informal businesses is crucial. This includes addressing any prejudices, particularly those directed towards migrant informal business owners and traders. By promoting inclusivity and tolerance, we can provide them with the opportunity to thrive and contribute significantly to the economy.

7. **Skills Development and Capacity Building**

Offering targeted training and skill development programs is essential for empowering informal entrepreneurs. These initiatives will equip them with the necessary knowledge, skills, and tools to effectively manage and expand their businesses. Providing guidance on accessing grants and funding, complying with legal regulations, and implementing effective marketing strategies can significantly benefit these entrepreneurs, enabling them to make meaningful contributions to the economy. Moreover, facilitating access to business development services such as mentorship, technical assistance, and support for market access can further enhance the competitiveness and scalability of informal businesses.

8. **Monitoring and Evaluation**

In the endeavor to integrate the informal sector into economic growth, conducting regular impact assessments of policy interventions and programs targeting this sector is imperative. Such assessments are vital for gauging effectiveness and pinpointing areas requiring enhancement.

Moreover, nurturing a culture of learning and adaptation is paramount for addressing evolving challenges and opportunities within the informal sector. It is equally crucial to facilitate ongoing innovation and refinement in policy design and implementation to ensure sustained progress.

Conclusion.

The study sought to assess how the informal sector can help South Africa attain development by boosting its economy. The study emphasized the informal sector to be a source of employment and an income-generating avenue for people to live by. It also stressed the immense contribution of the sector to the

economy of the state. Based on these points, the study argues that the sector must be recognized and valued for its contribution to the economy which keeps aiding the development of the country.

As reflected through the theories used, the informal sector is reshaping the traditional narratives of development and offering pathways for inclusive and sustainable growth. This aligns with Mbeki's (2006) view when he emphasized that the formalization and regulation of the sector will bring about development.

Through a comprehensive analysis, the study demonstrated the informal sector to be a vibrant and integral component of South Africa's development landscape. From street vendors to home-based workers and micro-entrepreneurs, the sector encompasses a diverse array of economic activities that provide livelihood for millions of people, particularly from marginalized communities. This role played by the sector alleviates key developmental challenges which are unemployment and poverty. Despite operating within challenging environments marked by limited resources, regulatory barriers, and economic uncertainty, informal workers and entrepreneurs have been able to create opportunities and contribute to the vibrancy of local economies. For example, the statistical figure of its contribution to the country's GDP is emphasized in the study.

Moving forward, in navigating South Africa's development trajectory, it is imperative to adopt a holistic and concerted effort in addressing and managing the sector. This entails formalizing and integrating informal enterprises into the formal economy, access to finance, skills development, capacity building, etc. By embracing the diversity of economic activities within the informal sector, South Africa can forge a more inclusive, resilient, and equitable path towards sustainable development.

To conclude, the informal sector's role in transforming South Africa's economy cannot be overstated. By recognizing the innovation, and dynamism of informal enterprises, and by embracing policies and interventions that formalize, integrate, and empower the sector, South Africa can chart a path towards inclusive and sustainable development that leaves no one behind.

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