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NORESERVATIONS

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SECOND ECONOMY: *Government failing small business and informal sector*

REMEMBER WHEN the informal sector was presented as the panacea for South Africa's economic problems, particularly unemployment? That view was particularly prevalent in the Eighties and Nineties, when information about the size of the informal sector and how many people were employed in it was virtually non-existent.

Now that there's more information about the informal sector – and SA's ability to generate accurate statistics has improved – those voices are almost silent. Those who said the informal sector would add another 40% to SA's economy have shut up. The truth is that the informal sector is small and unemployment is high. But that doesn't mean the informal sector, as well as small business – the so-called "second economy" – doesn't have a crucial role to play in growth and employment generation.

Statistics SA, in its release for gross domestic product for third quarter 2009, did some revisions on the size of the economy and a major update of the informal sector. Unlike past revisions, the size of the economy didn't increase massively as a result of the exercise. That shows Statistics SA's ability to collect the correct data has improved. It found the informal sector of the economy accounted for 5,3% of GDP in 2008 – down from 5,8% in 2005. It's important to note Stats SA gives a breakdown for the "non-observed" economy, of which the informal sector is just a part.

As referred to before in this column, illegal activities – some crime – also make up part of the non-observed economy. Stats SA doesn't spell out the total for crime but we can infer the category "other non-observed" refers to illegal activities, such as drug running, prostitution and smuggling. That category amounts to just 0,2% of the economy and has been at that level since 2002, except for 2007, when it was 0,1%.

The 0,2% of the economy amounts to only around R4,6bn. I'm betting Stats SA won't be putting too many resources into tracking that aspect of the economy. SA – so sensitive about its

image as a crime hotspot – wouldn't want to tarnish that image further by having a "big" slice of GDP, and even GDP growth, coming from crime. You can't fault Stats SA for not being keen on tracking those figures. And kudos to it for giving a breakdown of the non-observed economy rather than lumping crime in with the informal sector.

Though the informal sector doesn't account for a big portion of GDP, it makes for a relatively large slice of employment. Stats SA figures show the informal sector accounts for 16% of employment. Agriculture, much of which is also informal, accounts for a further 5,6%. That isn't to be sneezed at.

Yet SA's informal sector is often described as small when compared with other developing countries. That could be seen as a good thing, as workers in the formal sector have better benefits and contribute to the tax base. Human Sciences Research Council research director Miriam Altman refers to "high levels of regulatory compliance by formal firms". However, she also mentions barriers to entry to the informal sector as a reason why it's comparatively small.

I think SA shouldn't pin its hopes on the "shadow" economy to make a big dent in unemployment. It's better that firms be drawn into the formal sector net. The Government's phrase "second economy" may have originally only referred to the informal sector but it actually goes wider – to small business development. SA's small business development policy has been a mess for years. Small business consultants SBP quote trade and industry director-general Tshediso Matona as saying Government's small business support efforts had delivered few results. He conceded "we're doing things on such a minuscule scale that, given the needs and challenges, we'll not be able to make an impact".

The "second economy" isn't just a catchphrase: Government urgently needs to step up related policy efforts. Otherwise, past promises will ring hollow. ■

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