

Transitions into Informal Employment: An Analysis of South African Panel Data, 2008 - 2012

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Rationale & Background

- High and persistent unemployment in SA – 29% (narrow) 37% (broad) in Q4, 2019 (Statistics SA, 2020).
- High mobility rates of labour across labour market states (Verick, 2011; Essers, 2013; Cichello et.al, 2014).
- Low levels of informal employment (34%) compared to similar countries [e.g. Botswana (65.6%), Namibia (67%)] (ILO, 2018).
- Coexistence of the above is puzzling vis-à-vis dualist theories.
- Possible reason: barriers to entry into informal self-employment (Davies & Thurlow, 2010; Philip, 2011).
- Considerable research on informal employment, but question of mobility is underexplored.
- Worker transitions have not received much focus in the literature.
- Amidst barriers to entry, which types of workers are more likely to move from unemployment into informal employment, specific interest, self employment.

Aims & Objectives

- To explore which types of workers are more likely to move from unemployment into informal employment.
- Characteristics of interest:
 - Gender
 - Age
 - Education,
 - Race
 - Marital status
 - Location

Data & Methodology

- South Africa's National Income Dynamics Study (NIDS) 2008 and 2012..
- SA's first nationally representative household panel survey.
- Follows the same individuals over time.
- Tracks 28,000 individuals in 7,300 households.
- Contains rich information on demography and labour market participation .

Unemployed (U)	not working, but actively searching for a job, as well as discouraged workers
Not economically active (NEA)	not employed and do not want to find employment
Formal wage employed (FWE)	entitled to social (UIF, pension, medical aid) and legal (written contract) benefits
Formal self-employed (FSE)	engaged in self-employment activities whose businesses are registered for VAT or income tax
Informal wage employed (IWE)	holding informal jobs, that is, NOT entitled to social (UIF, pension, medical aid) and legal (written contract) benefits
Informal self-employed (ISE)	engaged in self-employment activities whose businesses are NOT registered for VAT or Income tax

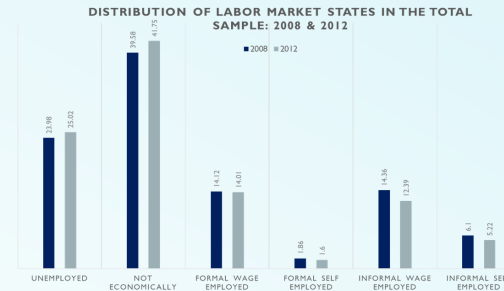
- Separated workers into different labor market states.
- Constructed transition matrices:
$$p_{ij} = n_{ij} / n_i \dots (1)$$
$$r_{ij} = n_{ij} / (n_{ij} + n_{ji}) \dots (2)$$
- Probit regression (following Chong et al, (2008); Leung (2009); Essers (2013) $Pr(Y = 1 | X^{t-1}) = \Phi(X^{t-1}\beta)$ (3)

Y: binary outcome of the transition under study

X: various characteristics of individuals, which determine their probabilities of moving between the different employment statuses.

Φ : standard normal cumulative density function for the probit distribution.

B: marginal effects of individuals' labor market characteristics on their transition probabilities into the various employment statuses.



Findings

	U	NEA	FWE	FSE	IWE	ISE
U	39.19	34.09	7.11	0.44	14.14	5.04
NEA	26.10	59.91	2.21	0.26	8.61	2.92
FWE	7.98	12.66	67.23	3.20	6.22	2.71
FSE	14.64	8.41	5.32	47.65	13.20	10.78
IWE	19.63	34.35	10.09	1.18	30.79	3.97
ISE	17.52	36.10	6.25	3.16	10.38	26.59

Variables	U -> IE	U -> IWE	U -> ISE
Female	0.0852	0.154	-0.111
35 - 44	0.0408	0.0823	-0.0726
45 - 64	-0.314***	-0.333***	-0.200
Primary edu	-0.347**	-0.398***	-0.177
Secondary edu	-0.339**	-0.287*	-0.380
Post school, no matric	0.231	0.296	-0.0315
Higher edu	-0.674***	-0.536**	-0.922**
Colored	0.0629	0.0180	0.134
Asian/Indian	-0.0607	0.0179	-0.560
White	-0.808***	-1.075***	-0.375
Married/cohab	-0.270**	-0.239	-0.261
Married/cohab females	0.370**	0.247	0.575**
Urban	0.0628	0.0163	0.171
Unweighted obs	331	253	78

- We cannot neglect the barriers to entry into informal employment in SA based on low % of workers from U → IE, especially ISE.
- Young, single, uneducated, Africans more likely to enter IE from U – risk-taking, (last resort: utility-maximising), more marginalised from FE opportunities

Key References

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