



COVID-19 and the informal economy in South Africa

The precarious nature of the informal economy needs more attention and innovative policies to alleviate pressure on low-income households during pandemics/contractionary periods

There has been a growing consensus amongst global policymakers that workers and businesses will disproportionately feel the socio-economic consequences of the pandemic, with the International Labour Organisation placing particular emphasis on informal workers, marginalised groups, the youth and the disabled. This concern is underpinned by the precariousness of the informal sector brought by the lack of social security and livelihood protection measures against the economic impact of COVID-19. These concerns are worrisome in developing nations, where most of the population makes a living in the informal economy, estimated to be just over 90% in developing nations. In South Africa, these concerns are intensified by pre-existing socio-economic deprivations of unemployment, poverty and inequality. In these difficulties, low-income households are generally overrepresented in the informal economy and suffer a vicious cycle as they are the working poor. This study contributed to the growing body of work on the socio-economic impact of the pandemic through case studies of two South African municipalities.

The Impact of the COVID-19 Pandemic on the Informal Economy and Possible Future Options

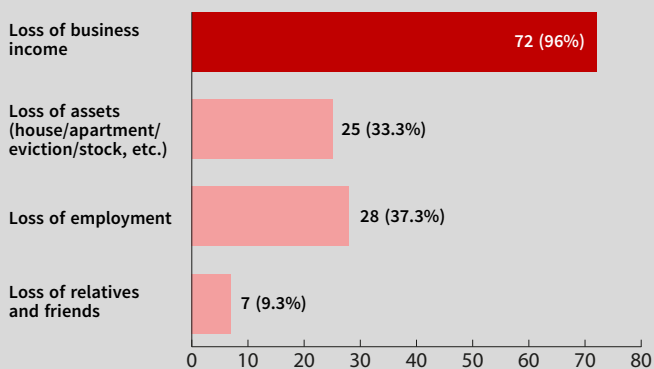
Most literature on COVID-19 tends to focus on the macro-economic impact of the pandemic based on national data linked to the Gross Domestic Product, unemployment and poverty levels. Some studies also focus on the governments' responses to the pandemic and the effectiveness of counter-cyclical policies on poverty, income and unemployment.

There is an acute need to build on studies focusing on the territorial impact and responses to the pandemic as informed by each locality's social, political and economic dynamics. In this study, we explored the impact of COVID-19 in South Africa and the responses adopted by local governments.

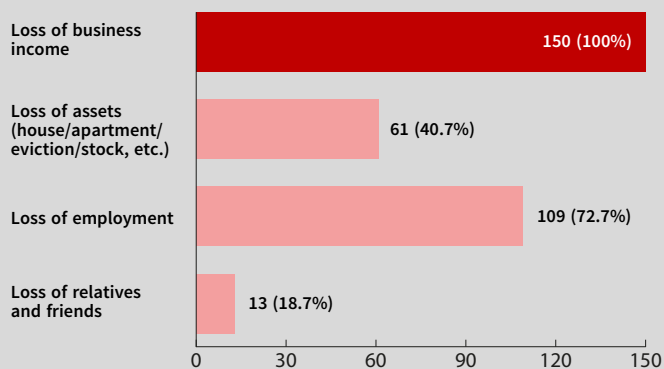
From both municipalities (96% in KwaDukuza and 100% in eThekweni), the participants highlighted the loss of income as the leading socio-economic impact of the pandemic on their livelihoods. The first stringent lockdown measures (between March and June 2020) were the hardest periods in their livelihoods because of the limited economic activities and a lack of sustained income. The loss of income also meant the loss of employment because the informal sector is their only means of generating an income and contributed to the loss of assets, particularly for those selling perishable goods. Similar trends were also observed in Bangkok, where many informal workers could not make an income during the hardest lockdown periods and struggled to recover their pre-COVID-19 income.

On the livelihood impact of the pandemic on informal workers, over 75% of the participants in KwaDukuza and over 80% in eThekweni struggled to afford to buy food and pay for daily living expenses. Struggles to pay rent, business premises and employees because of the lack of economic activities due to the lockdown measures were also recorded.

Statistics for KwaDukuza Municipality



Statistics for eThekweni Municipality



In terms of economic support, most informal workers did not receive financial support from the national government or their respective municipalities. The main reason for this predicament is that the government's funding criteria focused on pro-formal business requirements, such as tax registration and income statements. Participants from both municipalities cited the cumbersome requirements as one of the leading reasons for not applying for funding. These requirements inevitably led to the exclusion of informal workers from accessing these grants. Essentially, the lack of social security disproportionately contributes to the precariousness of the informal sector.

Based on the above factors, the reliance of the informal sector as an unemployment buffer should be reconsidered after the evidence from the COVID-19 era. There is also a gap in transforming and formalising the informal sector to withstand pandemics/contractionary periods as noted during the Ebola pandemic. This gap resulted in the informal sector not receiving priority from government responses to the socio-economic impact of the pandemic. As such, the government needs smart policies to cater to the informal economy and the working poor during pandemics as many workers depend on daily income.

There is a need to ensure the informal economy is not left behind in the digital economy. The government needs to promote the use of ICT in the informal sector. Furthermore, informal workers must be trained to manage their businesses and savings better to withstand unexpected economic shocks. Lastly, there has never been a time when the welfare nature of the state must be reconsidered amid growing poverty levels, with a dire need to craft policies

capable of unlocking the hidden potential of the local economy.

Conclusion

The COVID-19 pandemic required innovative counter-cyclical policies to be implemented due to the immediate public health risks that forced social distancing and the lockdown of national economic activities to combat the spread of the deadly virus. Many studies focus on the macro impact and responses to the pandemic, which does not suffice in explaining the territorial impact of the pandemic. In focusing on the localised impact of the pandemic on the most precarious sector (informal economy) of the economy, we demonstrated how the impact of the pandemic was worsened by the pre-existing precariousness of the informal economy.

The formal sector has greater capabilities to withstand economic shocks because of higher levels of social security and government interventions, whereas those in the informal economy and without social security face the greatest risk of falling into extreme poverty. While localised interventions were essential in sanitising public spaces, identifying indigent citizens to receive food parcels and creating safe spaces for the homeless, greater fiscal control of economic responses is needed at the local level.

Reference:

COVID and the Informal Economy in South Africa.
Khambule, I¹

Affiliations

¹ School of Built Environment and Development Studies, University of KwaZulu-Natal