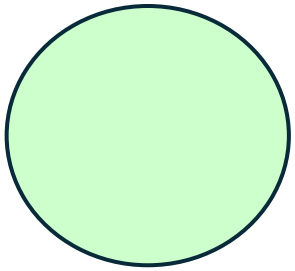
The employment impact of formal economy growth

BASELINE

Output:
- 90% formal
- 10% informal

Employment: 12 million formal
- 4 million informal
- *8 million unemployed*
- *4 million discouraged*

4% formal sector growth annually, for 10 years
- 4-5 million additional jobs
- Economic and social dualism largely unaddressed



Three *mutually reinforcing* pillars

- ***Pillar #1: Growth of the formal economy***
  - Growth and job creation

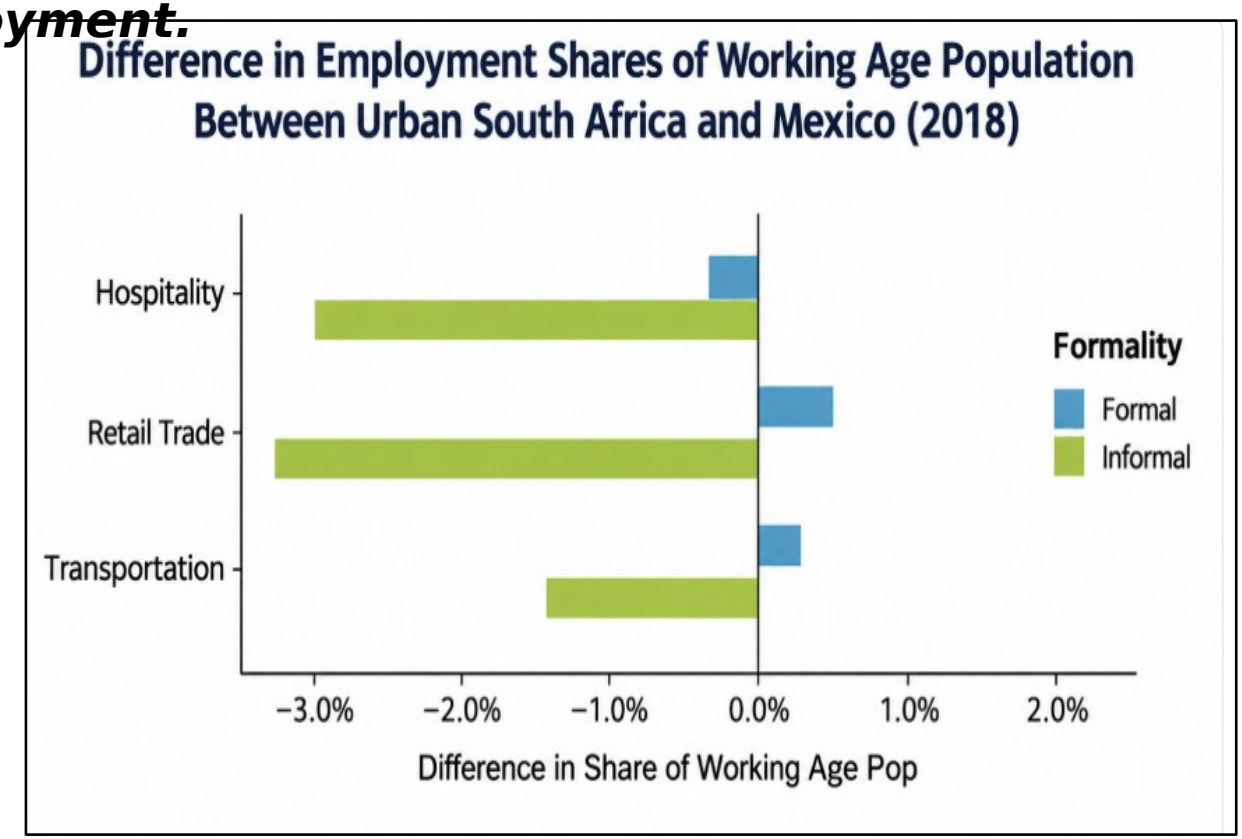
- ***Pillar #2: An improved economic environment for informal firms***
  - Unrealized (potentially large) job creation potential

- ***Pillar #3: The connective revolution at the interface between township and formal economies***
  - Helps fill the 'missing middle' of the labor market

South Africa's startlingly small informal economy

Bhorat et al: "For 2019, almost the entire difference between South Africa and the [average] middle income country (MIC) arises from having more unemployment and less informality… " (UCT DPRU and Harvard Growth Lab)

The informality gap accounts for much of SA's measured excess unemployment.



The informal sector – an overview

As of 2025, according to StatsSA there were roughly 1.9 million informal businesses (ie businesses not registered for VAT).

- What is the 'informal' sector?
  - Variation by geography: 'township' and beyond
  - By size
  - By earnings and entrepreneurial ambition
    - 'Survivalist' vs entrepreneurial
    - About three-quarters of informal sector enterprises are survivalist.

"The kasipreneurs who have visions of scale and growth…a world of small people doing big things….. are building the South African economy…We often see them as hustlers, small-time operators, or don't see them at all. We [fail] to recognize entrepreneurship in its unromantic starting point…."

GG Alcock

“Heuristic Empirics I”

(Parameters/assumptions in technical annexes)

Table 1: Illustrative 10-year impact on employment and GDP of economic growth and reform of the enabling environment for ‘township’ enterprises – three scenarios

	Scenario 1 Enabling reforms only
Jobs created (total) Of which:	1.6 million
Formal	- 0.3 million
Informal	+1.9 million

Key challenges:

- Urban transport costs (spatial legacy…..)
- Regulatory regime, licensing and zoning
- crime and security
- Supporting infrastructure (market facilities, storage, ablution…)

AND

- Resistance from formal businesses
- Opposition from residents in middle class/higher income neighborhoods

“Heuristic Empirics I” (ctd….)

(Parameters/assumptions in technical annexes)

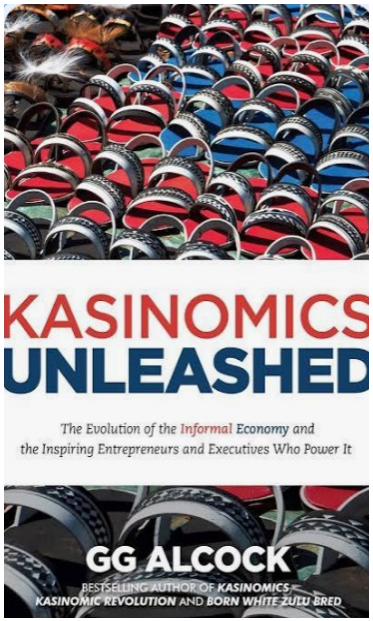
Table 1: Illustrative 10-year impact on employment and GDP of economic growth and reform of the enabling environment for ‘township’ enterprises – three scenarios

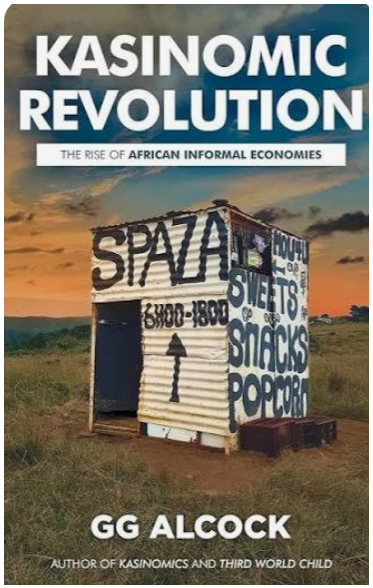
	Scenario 1 Enabling reforms only	Scenario 2 Formal sector growth only (4% annually)	Scenario 3 Both enabling reforms and formal sector growth
Jobs created (total) Of which:	1.6 million	4.7 million	7.1 million
Formal	- 0.3 million	+ 3.8 million	+ 3.6million
Informal	+1.9 million	+0. 9 million	+3.5 million

Three *mutually reinforcing* pillars

- ***Pillar #1: Growth of the formal economy***
  - Growth and job creation
- ***Pillar #2: An improved economic environment for informal firms***
  - Unrealized (potentially large) job creation potential
- ***Pillar #3: The connective revolution at the interface between township and formal economies***
  - Helps fill the 'missing middle' of the labor market

The ICT/AI connective revolution:
Lower transactions costs can transform the township economy





"E-commerce, online shopping, delivery, are all coming to a kasi near you, but just in a different format:

- *A Facebook Lite page with a Whatsapp link….*
- *on a low-end android smartphone….*
- *to send ipini/location and an order to be delivered to an internet café by a local kasi homeboy or girl…..*
- *Paid for by PayShap or Swypa"*

"Within a few years of start-up, Siya Dhlamini's chilla hang-out business had five outlets & a fleet of bicycles delivering around Soweto.

- *A lot of his sales are paid for by debit card, and he has a financial services card acceptance and stock management device.*
- *The transactions processed on that device enabled him to get a loan from financial services firm with which he purchased a bakkie for his business".*

The connective revolution at the formal/informal interface
Lower transactions costs open up new opportunities

- **SA's ICT platform: near-universal digital connectivity**
  - 127 million active mobile accounts

- **Fintech: facilitating access to finance for informal firms**
  - 2026 - over 1 million MSMEs use card machine payments
  - transactions as platform for short-term cash advances
  - Business services (input sourcing, delivery, record-keeping etc)

- **Innovative market linkages at the interface**
  - *Kandua* – link artisans to high-income markets (vetting insurance claims)
  - *Abalobi* – small-scale fisheries link to restaurants
  - *Motor Spares Collective* – aggregate purchasing by township mechanics
  - *Takealot Seller Growth Programme*

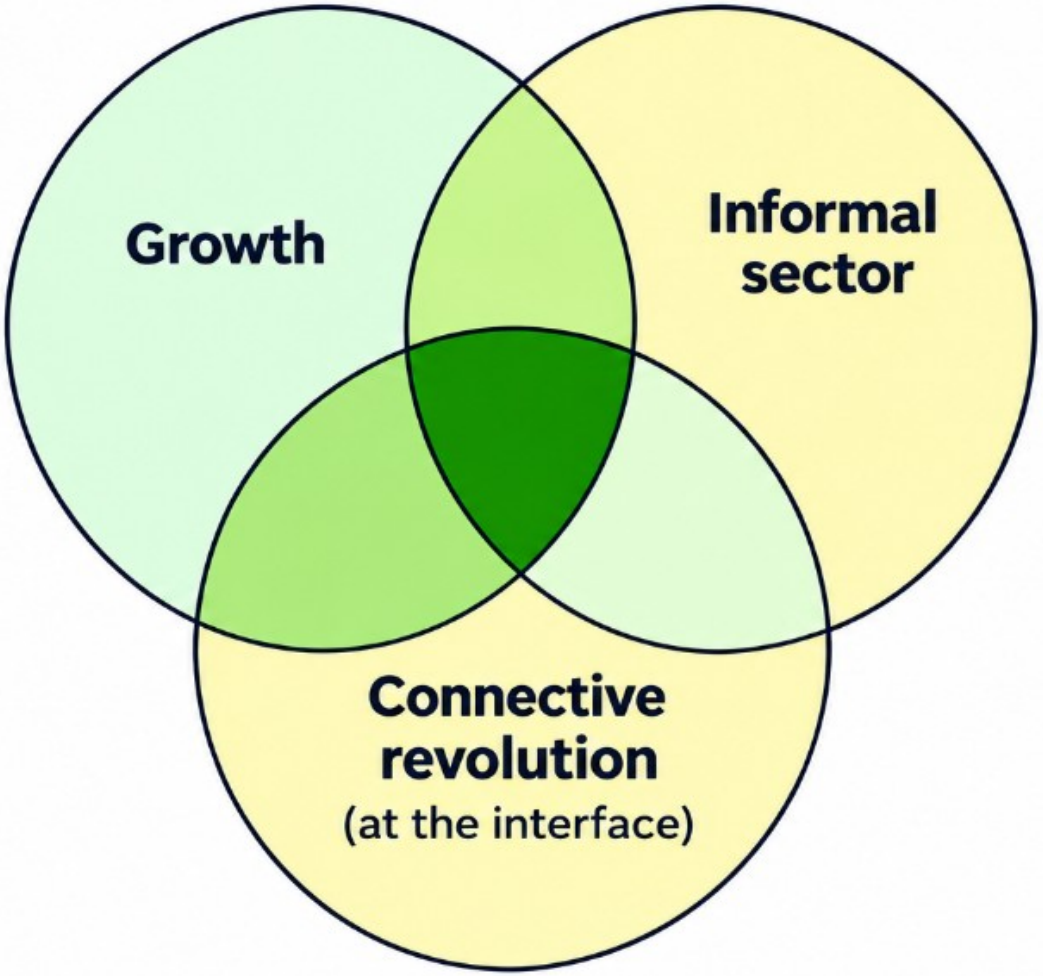
"Heuristic empirics" II:
The connective revolution at the interface

Table 1: Illustrative 10-year impact of the 'interface' connective revolution on employment

(4% formal sector growth and liberalized informal economy; number of jobs, millions).

Total Employment	Baseline	4% growth & liberalization	With connective revolution: annual rate of expansion into higher income market:		
			10%	15%	25%
Formal	12 m	15.6 m	15.5 m	15.4 m	15.3 m
Informal	4 m	7.5 m	6.9 m	6.8 m	6.5 m
Connective middle			0.7m	0.85 m	1.35 m
TOTAL	16 million	23.1 million	23.1 million	23.1 million	23.2 million

The Sweet Spot – All of the Above



- Growth only
- Informal sector only
- Connective revolution only
- Growth + informal
- Growth + connective revolution
- Informal sector + connective revolution
- All of the above (the sweet spot)