Lesson Description

In this lesson we:

- Discuss the difference between an informal settlement and informal sector
- Discuss the concept of informal sector employment
- Explore characteristics of informal sector employment
- Consider reasons for high informal sector employment in South Africa
- Explore challenges facing South Africa's informal sector
- Discuss the importance/role of the informal sector in the economy
- Look at strengthening the informal sector

Summary

The difference between an informal settlement and informal sector

**Informal Settlement**
- Are settlements which are densely populated areas with high building density, self-constructed shelters and lack of basic services.

**Informal Sector**
- Businesses that do not follow the laws and rules associated with a formal business e.g. they don't pay tax.

**Informal sector employment**

They are involved in the niche market and focus on the needs of the smaller and local market.

Examples are flea markets, many domestic workers, selling items such as fruit, cigarettes and sweets on the side of roads.

**Characteristics of informal sector employment**

- They don’t pay tax
- Form due to unemployment and poverty
- Low costs are incurred to start an informal business
- Labour intensive with little technology
- It has no access to credit from institutions or other support and protection
- Operations are small scale
- Generally family ownership
Reasons for high informal sector employment in South Africa

- High rate of unemployment
- Poverty
- Illegal immigrants
- Don’t pay tax
- Employees do not contribute to their employers additional benefits e.g. pension
- Fund and medical aid

Challenges facing South Africa’s informal sector

- Lack of education e.g. entrepreneurial skill limit the improvement of their businesses
- They don’t receive much support from the local governments
- Limited access to finance from banks etc
- Limited access to infrastructure and services
- Lack of storage facilities
- Low and irregular income
- Crime

Importance/role of the informal sector in the economy

- Reduces unemployment
- Improves peoples quality of life
- Reduces crime

Strengthening the informal sector

- Amend laws that will allow government to develop and regulate the informal economy
- Government can provide facilities and support services
- Choosing location that are accessible and visible to allocate informal business
- Educate e.g. training in entrepreneurial skills
- Providing financial support
Test Yourself

Question 1
Choose the correct option from the words below that applies to the sentences

- Xenophobia, formal, informal, not registered, self employed

1.1 … sector is a sector that is not taxed.
1.2 Hatred for foreigners can cause …
1.3 … sector is a sector that is taxed.
1.4 Most of the people in the informal sector are …
1.5 Informal sector business is …

Question 2
State whether the following statements are true or false:

2.1 People in the informal sector generally earn little.
2.2 People in the informal sector experience job security.
2.3 All informal activities in the informal sector are illegal.
2.4 A reason for the expansion of the informal sector is the high rate of formal unemployment.
2.5 Government regulation of the informal sector is a solution to the challenges faced by the informal sector.

Question 3
Match the words in Column A with their definitions in column B. Write the correct letter next to the number

<table>
<thead>
<tr>
<th>No.</th>
<th>Column A</th>
<th>Column B</th>
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<tbody>
<tr>
<td>3.1</td>
<td>Informal sector</td>
<td>Crime</td>
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<tr>
<td>3.2</td>
<td>Cause of informal sector</td>
<td>Government providing facilities and support services</td>
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<td>3.3</td>
<td>Improving conditions in the informal sector</td>
<td>Settlements which are densely populated areas with high building density, self constructed shelters and lack of basic services.</td>
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<tr>
<td>3.4</td>
<td>Informal settlement</td>
<td>Unemployment</td>
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<tr>
<td>3.5</td>
<td>Challenge to informal sector</td>
<td>do not follow the laws and rules associated with a formal business</td>
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</table>
Question 1

Study the picture and answer the questions that follow:

1.1 Explain the term informal sector
1.2 Describe FOUR characteristics of the informal sector
1.3 Explain THREE causes of informal sectors
1.4 State THREE challenges faced by the informal sector
1.5 Local government needs to get involved in improving the conditions in the informal sector. In a paragraph of approximately 10 lines explain four ways in which local government can improve conditions for the informal sector.

Question 2

Study the picture and answer the questions that follow:

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<th>Sector</th>
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<th>Sep'02</th>
<th>Sep'03</th>
<th>Sep'04</th>
<th>Sep'05</th>
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<td>Thousand</td>
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<td></td>
<td></td>
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<td>7 273</td>
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<td>905</td>
<td>881</td>
<td>859</td>
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<tr>
<td>Agriculture*</td>
<td>1 178</td>
<td>1 429</td>
<td>1 212</td>
<td>1 063</td>
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<td>11 296</td>
<td>11 424</td>
<td>11 543</td>
<td>12 301</td>
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<td>Percentage</td>
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<td>64.8</td>
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<tr>
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<td>12.8</td>
<td>10.7</td>
<td>9.2</td>
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* Agriculture is excluded because of the extreme season variation of the industry.

Employment in the informal and formal sector

2.1 State the number of people employed in the informal sector in 2001 and 2005
2.2 State the percentage of people employed in the informal sector in 2002 and 2004
2.2.1 Identify the trend regarding employment in the informal sector from 2001 to 2005
2.2.2 Give possible reasons for this trend
2.3 Explain the negative impact that this trend will have on the economy of South Africa
2.4 People involved in the informal sector contribute positively to the economy. Do you agree with this statement? Give a reason for your answer.

Question 3
Study the article and answer the questions that follow:

THE SOUTH AFRICAN INFORMAL SECTOR
There are over 750 000 informal businesses in South Africa. These businesses face great challenges and very rarely improve their economic status. A significant number of these businesses are owned by immigrants from neighbouring countries like Zimbabwe and Lesotho. These immigrants are often discriminated against and even experience violent attacks from the locals.

3.1 Explain why businesses in the informal sector very rarely improve their economic status.
3.2 State the term that refers to foreigners or refugees getting violently abused.
3.3 South Africa gets one of the largest influx of immigrants in Africa. Give reasons for this occurrence.
3.4 Give reasons as to why immigrant or refugees are discriminated against in the informal sector.
3.5 Explain ways in which government could reduce this discrimination against Immigrants or refugees.

Links