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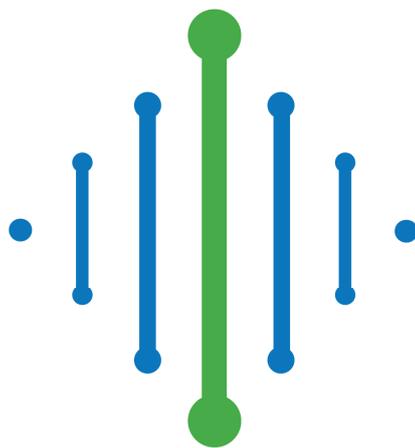


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# Vulnerability in the Labour Market: Jobs, Livelihood Strategies & Poverty in South Africa

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The Development Policy Research Unit (DPRU) specialises in socio-economic research with a core focus on the areas of labour markets, poverty and inequality. The DPRU is located in the School of Economics at the University of Cape Town.



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## Summary

Millions of jobs in the South African labour market can be classified as ‘vulnerable’ or ‘precarious’. This means that these jobs are lacking in areas such as sufficient pay; formality; benefits; or job security. Vulnerable jobs impact negatively on the ability of individuals to cope with risk and protect themselves from poverty.

This brief explores the two most well-understood ways in which workers can be vulnerable: low pay and informality. Background is provided for the prevalence of each in South Africa, as well as their intersection. We find that when jobs are vulnerable they are often inadequate to act as the

sole strategy for livelihoods. The precariously employed live in households which are more likely to rely on other forms of income such as social protection or remittances. In a context of persistently high unemployment, inequality and poverty the

## Key Implications

1. A job is not a panacea for poverty in South Africa
2. Households need many strategies to “assemble a livelihood”
3. Vulnerability is well-aligned with our idea of poverty

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implication is that households need many strategies to draw upon – of which a job is just one – in order to ‘assemble a livelihood’ (Altman, 2007).

Vulnerability aligns well with our understanding of poverty, which means that typical anti-poverty policy is appropriate to combat vulnerability in

the labour market. Policy that bolsters alternate income sources for the poor are recommended. Policy to encourage the unusually small informal sector in South Africa is also supported, as even vulnerable forms of employment may leave South Africans better off than unemployment; although the transition to formality must be managed.

## Introduction

South Africa’s labour market is defined by the triple characteristics of high unemployment, high wage inequality, and high poverty. This has led to jobs being heralded as the solution to reducing unemployment, and thereby reducing poverty and inequality. However, it is not necessarily the case in South Africa that a job will pull a person out of poverty. Jobs could be too low paid; or, there could be a lot of uncertainty surrounding whether the worker will still be employed in the near future. Alternatively, jobs could lack pension deductions or a written contract.

Collectively, jobs of this type are called ‘vulnerable’ or ‘precarious’ because they put workers at risk in one way or another.

This brief explores the two most well-understood ways of being vulnerable in the labour market: low pay and informal employment. An important question is whether or not the low paid are the same people as the informally employed, or whether these are separate groups of workers. Additionally, to what degree does each type of vulnerability correspond with our idea of poverty?

## Low Pay in South Africa

The prevalence of low pay has been highly consistent, affecting about a third of employees (or 4.4 million workers) in 2012. Those most likely to be low paid were Africans, the less educated, young people and women. The sector most commonly associated with low paid work was work in private households, followed by the primary sector. Oosthuizen (2007) finds that factors that reduce

the risk of low pay include union membership and being covered by a sectoral determination. Analysis over time shows that being in a relatively ‘high’ paid job is ‘sticky’. Those who were not low paid in 2008, were very likely to remain so in 2012. On the other hand, those who were low paid in 2008 faced moderate probabilities for escaping low pay; remaining in low pay; and becoming unemployed.

## Informality in South Africa

South Africa has an unusually small number of informally employed workers compared to the rest of Sub-Saharan Africa and other comparable developing countries. Unemployment has a negative correlation with informality in the developing world: countries with higher unemployment tend to have larger informal sectors to absorb the excess labour. South Africa’s small informal labour market is therefore hard to explain given the country’s high unemployment rate. Explanations include persistence of apartheid-era spatial dynamics within South Africa, coupled with high transport costs.

The prevalence of informality in South Africa has declined from 45% to 35% of employment between 2008 and 2012. This was largely driven by an increase in written contracts. However, as this aspect of employment does not apply to the

**Table 1. Movement of Workers between Labour Market States: 2008 to 2012.**

		2012			Total
		Formal	Informal	Unemployed	
2008	Formal	82.7	9.9	7.4	100.0
	Informal	37.5	41.0	21.5	100.0
	Unemployed	29.9	23.5	19.8	100.0

Source: Own calculations using NIDS Wave 1 and 3.  
Notes: Adjusted using calibrated sampling weights.

self-employed, informal self-employment has remained very stable at about 30% of the self-employed between 2008 and 2012. Amongst informal workers, there is overrepresentation of Africans, women, those with less schooling, and youth. Sectors that are prone to informality include private households (86%); followed by construction (64%) and agriculture (48%).

Most informality in South Africa can be characterised as involuntary, driven by a lack of formal labour market opportunities. This means that informality in South Africa is used as a buffer to unemployment. Between 2008 and 2012, informal work was almost equally important as formal work in absorbing the unemployed (see Table 1).

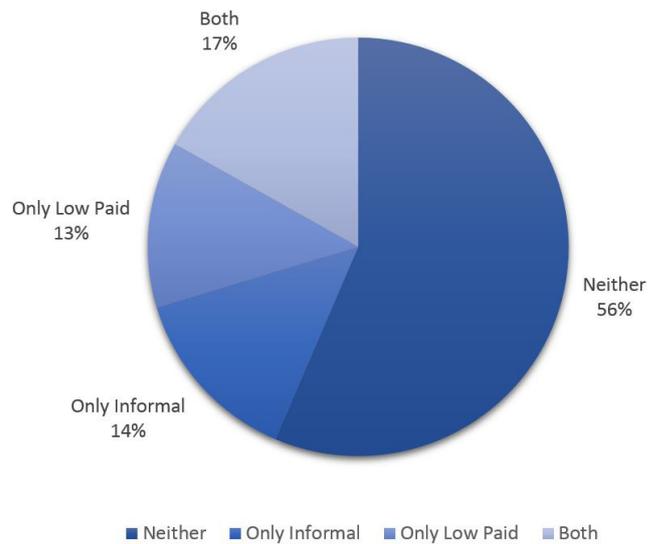
Inability to transition into the formal labour market could be due to obstacles internal to the worker, such as low productivity or education levels. Informal workers may also face external obstacles which inhibit transition to formality, such as bureaucracy, rigid legislation, or discrimination.

## Layers of Vulnerability

Low pay and informality affect similar groups (Africans, youth, women) and similar sectors (private households; agriculture), so there is likely a high degree of overlap. Figure 1 reveals the distribution of those who suffer from both low pay and informality; either low pay or informality; and neither.

Those who suffer from both types of vulnerability are considered the most vulnerable and those who suffer from neither, the least vulnerable. Overall, 43% of the employed were vulnerable in some way in 2012, and 17% fell into the most vulnerable category of those who were informally employed and earning a low wage. Roughly equal portions of the remainder were either only low paid or only informal. This means that there is a large degree of overlap between the two types of vulnerability; but substantial amounts of people are only affected by one type of vulnerability.

Figure 1. Layers of Vulnerability: 2012



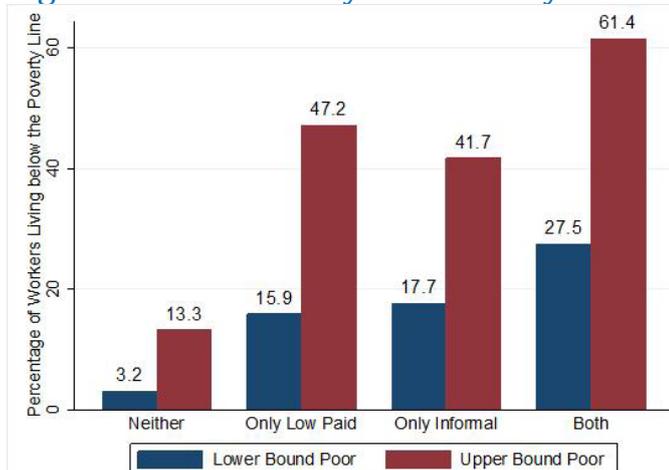
Source: Own calculations using NIDS Wave 3.  
Notes: Adjusted using calibrated sampling weights.

## Vulnerability and Poverty

Incidence of poverty increases with the level of employment vulnerability. Figure 2 reports the proportion of workers living below the SALDRU upper and lower bound poverty lines (Budlender et al., 2015). Having any type of vulnerability in-

creases the chance of being poor by about 30 percentage points (upper bound poverty line). Being in the most vulnerable category increases your chance of poverty by around 5 (upper bound poverty line) to 9 (lower bound poverty line) times, compared to those with no vulnerability.

Figure 2. Vulnerability and Poverty: 2012



Source: Own calculations using NIDS Wave 3.  
Notes: Adjusted using calibrated sampling weights.

Vulnerability in the labour market is closely related to the ability of a household to keep poverty at bay. This speaks to how individuals assemble a livelihood and cobble together different strategies to build their living. Social grants and remittances are examples of livelihood strategies.

The proportion of employed people living in households receiving social grant income doubles when the employed individual has the highest level of vulnerability (55%) as opposed to no vulnerability (26%). Remittance reliance is also higher amongst those that are vulnerably employed, than those who are not.

# Key Policy Recommendations

## 1. Low pay

*Key Idea: raising wage levels to a 'decent' level relative to the cost of living, whilst trying to avoid job displacement effects in a context of high unemployment.*

- Recent policy moves might include the national minimum wage; however, violation of the minimum wage is not uncommon

Policy Recommendations:

1. Prioritise compliance measures
2. Manage job displacement by making job creation and retention attractive to firms e.g. the ETI

## 2. Informality

*Key Idea: encourage informality to absorb excess labour, but manage the transition to formality and better quality jobs.*

- Informal workers are heterogeneous and policy needs to respond in kind

Policy Recommendations:

1. For the already informally employed: Make formality less costly and more attractive to the informally self-employed
2. For the already informally employed: Tighten compliance and legislation surrounding benefits for informal employees
3. For the unemployed: Bring policy in line with encouraging informality by eliminating costs
4. For the involuntarily informal: increase productivity and remove barriers with upskilling programmes

## 3. Vulnerability

*Key Idea: a job is not a panacea for poverty in South Africa. Households need various strategies with which to "assemble a livelihood".*

- Since vulnerability aligns well with our idea of poverty, typical anti-poverty measures are appropriate

Policy Recommendations:

1. Job creation remains important
2. Closing the gap in the social safety net for working age adults e.g. expanding UIF coverage

## Conclusion

Combating vulnerability in the labour market involves multiple strategies designed to bolster the ways in which individuals assemble livelihoods to keep poverty at bay. Individuals assemble various sources of income and support, of which a job is just one. There is nuance in acknowledging that informal jobs are vulnerable, and simultaneously noticing that for many, an informal job is the only alternative to unemployment.

This requires differentiated policy-making that takes aim at improving the quality of informal jobs, whilst not stifling the ability of informal work to create jobs.

This means tackling the problem from many different points of entry, such as encouraging the informal sector, but also enforcing minimum wage legislation.

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