

## THE EFFECTS OF COVID-19 ON THE SOUTH AFRICAN INFORMAL ECONOMY: LIMITS AND PITFALLS OF GOVERNMENT'S RESPONSE

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### **Abstract**

It is often thought that the informal economy is insulated from global economic volatilities because it functions outside of mainstream economic principles and regulations. This perception led to the informal economy being regarded as an employment shock absorber during economic crises. However, these assumptions have been tested by the recent COVID-19 pandemic that has brought the entire global economy to a halt due to the COVID-19 lockdown that subsequently resulted in economic downturns. The COVID-19 critical disruptions are likely to wipe out the gains made in addressing developmental challenges in developing nations and place strain on meeting the sustainable development goals. Against this backdrop, this paper interrogates the effectiveness of South Africa's R500 billion social and economic relief package on the livelihood of those employed in the informal economy. The article reveals that while the government's R500 billion social and economic relief is an effective measure to stimulate the economy and cushion workers and citizens, it does little to protect those in the informal economy. The government's interventions are not fully inclusive of the realities of the informally employed who remain without social security, and the pandemic is likely to worsen their socio-economic conditions.

**Key words:** COVID-19, informal economy, social security, livelihoods, volatilities.

### **INTRODUCTION**

There is a general belief among policymakers that the informal economy is insulated from global economic volatilities because it functions outside of mainstream economic principles and regulations (Mróz, 2015).

This perception led to the informal economy being regarded as an employment shock absorber during economic crises because of the limited barriers to enter the informal sector. These assumptions have been tested by the COVID-19 pandemic that has caused the death of more than 300 000 people, with over 5 million infections recorded between November 2019 and May 2020 (WHO, 2020). The rapid spread of the virus led to the lockdown of social and economic activities in countries across the world to combat the spread of the virus. Episodic shocks accompany COVID-19 as the prospects of economies and the quality and quantity of employment are marginally diminishing because of the contraction of many economies (International Labour Organisation (ILO) (2020a). The adverse effects of COVID-19 is likely to give rise to social and economic vulnerabilities because of the disruptive nature of this virus on the sustainable livelihoods of billions of people across the globe.

Those in the informal economy, wage labourers, the marginalised, the elderly and the disabled will be most affected by the vicious socio-economic impact of COVID-19 (ILO, 2020a). Against the observed social and economic effects caused by the COVID-19 pandemic, countries across the world have adopted social and economic relief packages to cushion workers and businesses from global economic downturns. A significant objective of the adopted interventionist policies is to stimulate economic activities to keep the economy afloat, both on the supply and demand side (ILO, 2020a; International Monetary Fund, 2020). With the widespread evidence of countries adopting universal welfare packages to cushion their citizens and businesses against the economic crisis, this paper interrogates the effectiveness of South Africa's R500 billion social and economic relief package on the livelihoods of those employed in the informal economy. In the South African context, the social and economic relief was adopted to mitigate the social and economic impact of COVID-19, address the decline in economic activities and to protect jobs (The Presidency, 2020). These measures are important for the country as it faces a 29% unemployment rate and a 55% poverty rate (Statistics South Africa, 2020).

This article is structured as follows: The first section introduces the nature and background of the study. The second section reviews the literature on the size and composition of the informal economy. The third section reviews the literature on the informal economy in South Africa and the various challenges that face the country's informal sector. The fourth section discusses the social and economic impact of COVID-19 in the global landscape, with a particular focus on the unemployment and poverty outcomes. The fifth section presents and discusses the responses adopted by the South African government to

mitigate the social and economic effects of COVID-19. The sixth section discusses the limits and pitfalls of the government's measures to reduce the vicious outcomes of COVID-19 on the social and economic conditions of those employed in the informal economy. The last section concludes the paper.

### **The Informal Economy and the Shock-Absorbing Effect**

The informal economy is generally defined as a sector of the economy that functions outside of government regulations. Shapiro (2015: 79) offers an all-compassing definition of the informal economy as an economic sector where "firms and workers produce legal, market-based goods and services but circumvent government regulations, accounts for an important share of economic activity, ranging from 8% of GDP in some developed countries to almost 70% of GDP in some developing countries". The difference between the high rates of the informal economy GDP contribution between developed and developing economies is because of the high rates of informality in many emerging and developing economies. The high rates of informality in developing nations and the larger population in these regions result in lower GDP per capita between developing and developed nations. Based on the World Bank's (2020) calculations, lower middle-income economies are countries with a per capita between \$1 026 and \$3 995, while upper middle-income economies have a per capita between \$3 996 and \$12 375, and high-income economies consist of a GNI per capita of \$12 376 or more.

Getting reliable data on the informal economy remains one of the biggest challenges because the informal sector is mainly unregulated with flexible entry and exit. However, Burger and Fourie (2019) argue that some barriers do exist in the informal economy, although not at such a large scale as in the formal economy. The ILO (2018) compiled the most comprehensive dataset on the informal economy in the various economic groupings as per Table 1.

**Table 1:** Informal employment as a percent of total, rural and urban employment

	<b>Total</b>	<b>Rural</b>	<b>Urban</b>
World	61	80	44
Developing	90	90	79
Emerging	67	83	51
Developed	18	22	17

Source: ILO, 2018

Based on the ILO's (2018) data, 61% of employment in the world takes place in the informal economy. An economic breakdown of the informal economy by grouping reveals that the informal sector contributes 90% of employment in developing countries, while it constitutes 67% in emerging countries. The share of the informal economy as a total of employment is low in developed countries, standing at 18%, which is five times less than in developing countries and almost four times less than in emerging economies. These statistics explain Shapiro's (2015) assertion that the informal economy contributes a larger share of the GDP in developing economies than in developed economies. Throughout the different economies, most of the informal economy is in rural areas (ILO, 2018). This explains the increasing use of the informal economy as a livelihood strategy by many people that are marginalised from the formal economy.

The informal economy statistics can also be broken down by region to gain a deeper understanding of the informal sector in developing countries. As per Table 2, it is evident that sub-Saharan Africa has the largest share of informal economic activities.

**Table 2:** Informal employment as a percent of total employment by region (excluding developed countries)

<b>Region</b>	<b>Percentage</b>
Sub-Saharan Africa (excluding Southern Africa)	92
Sub-Saharan Africa as a whole	89
Southern Asia	88
East and South-eastern Asia (excluding China)	77
Middle East and North Africa	68
Latin America and the Caribbean	54
Eastern Europe and Central Asia	37

Source: ILO, 2018

Southern Asia has the second-highest informal employment with 88% of employment coming from the informal sector, while East and South-eastern Asia have a lower (77%) contribution of informal employment (ILO, 2018). The difference between the percentage of employment that stems from these regions is likely due to the strong performance of East Asian states such as South Korea, Singapore, Taiwan and Indonesia, commonly known as the Asian Tigers. Eastern Europe and Central Asia have the least informal employment at 37% among developing, emerging and transition economies as evident in Table 2.

These statistics also correlate with the growing concerns about the growing poverty in sub-Saharan Africa, while other regions have been able to lower their poverty rates (World Bank, 2015). Throughout these regions, the millions of people in the informal economy are mainly working in poverty since they earn less than the prescribed international poverty lines of US\$1.90, US\$3.20 and US\$5.50 per day to ensure a sustainable livelihood.

Throughout developing nations, the informal economy plays a leading role in absorbing low-skilled workers (ILO, 2016). This resulted in the conception of the informal economy as a shock absorber by international organisations such as the ILO and the Organisation for Economic Co-operation and Development. The general perception of the informal economy as insulated from economic downturns is based on the assumption that “self-employment does not typically react to economic downturns; it acts as a ‘default’ option for survival or maintaining income—often in the informal economy. For this reason, informal employment tends to increase during crises” (ILO, 2020a: 4). It is for such reasons that some progressive governments such as South Africa have been supporting the informal economy by creating a conducive environment for informal market activities. For developing nations, this is an essential stance to ensure those in the informal economy can maximise their livelihood because of the failure of the state and the private sector to create sufficient formal job opportunities.

While many governments regard the informal economy as a viable livelihood strategy, there are some concerns with the impact of the informal economy on the entire economic sector. In viewing the informal economy as the ‘Beauty and the Beast’, Mróz (2015) observes that the informal economy brings positive and negative components to the economy. The negative elements are related to the almost non-existent social security contributions, inability to contribute to the tax necessary for improving public infrastructure to stimulate further economic activities, social transfers and the unfair competition against formalised businesses (Sergi and Bagatelas, 2005; Mróz, 2015). On the other hand, the positive components are related to the ability of the informal economy to increase production and stimulate consumer demand in the economy, and most importantly, the provision of employment opportunities to the most vulnerable and economically marginalised from the formal economy (Mróz, 2015; Theodore et al., 2015; Burger and Fourie, 2019). These pros and cons often lead to governments needing to weigh the benefits of informal economic activity in business centres and earmarking certain places in the CBD for informal economy activities to limit competition with formal businesses.

The lack of social security for those in the informal economy remains one of the fundamental challenges to the attainment of sustainable development. The ILO (2020b) observes that 45% of the global population is covered by at least one social protection benefit, while only 29% of the global population is covered by a comprehensive social security system. For those using the informal economy as a livelihood strategy, the lack of social security means they will not be included in the face of risks that threaten their income and economic activities. In addition to this, only 25% of the working population has a pension scheme. Appropriate and effective social security measures can be used as social and economic stabilisers during a pandemic or social and economic crisis if they are adopted as ex-ante strategies. This was evident in the Ebola outbreak in West Africa which “showed that the lack of social protection measures in the context of health epidemics aggravates poverty, unemployment and informality, leading to a vicious circle of even greater fragility” (ILO, 2020b: 15). The lack of social security in the informal economy is further exacerbated by the fact that most of those in the informal sector already work in poverty and do not have any means to mitigate livelihood risks.

### **The Informal Economy in South Africa**

The informal economy in South Africa is regarded as an important sector of the economy that has the potential to help the country address the high levels of poverty that stand at a staggering 55% and a 29% unemployment rate. The National Development Plan considers the informal economy capable of creating an additional 2 million jobs to absorb millions of unemployed and labour seeking people (National Planning Commission, 2012). In this context, the country’s informal economy needs to be understood as a shock absorber that has the counter-cyclical role of mitigating the country’s high unemployment rate because of the perceived flexibility in entering the informal sector. Blaauw (2017) underscores that the shock-absorbing effect of the informal economy in South Africa is challenging because of its long-term nature. These doubts are cast based on the observed longevity of people in the informal economy without any progression to formal job opportunities, with the average length of an informal job being 10.5 years between 1951 and 1991 (McKeever, 2007). For example, in a study done on 914 waste pickers, the most extended participant had been in the occupation for 37 years (Viljoen, 2014).

The statistical composition of the informal economy in South Africa is approximately 3 million people working and translates to 18–20% of the total employment in the country (StatisticsSouth Africa, 2019). Other estimates suggest that the country’s informal economy contrib-

utes up to 30% of the country's overall employment, with approximately 5 million active in the informal economy (Rogan, 2019). These varying statistics can be attributed to the challenges in collecting reliable data on informal activities because the sector is not regulated and is episodic, making it hard to conclude on the totality of informal activities. At a country analysis, the country has more people (48%) active in the rural informal economy than in the urban informal economy (24%) in metropolitan municipalities (Rogan, 2019). These statistics correlate to global trends that show a higher percentage of people in the informal economy are in rural areas than in urban areas, as per Table 1. Such differences are underpinned by the fact that cities are drivers of economic growth and development because of their agglomeration effects and economies of scale. As such, cities can create more formal employment opportunities than informal employment than rural areas.

The size and composition of the South African informal economy has been unstable during the past two decades. Willis (2009) observes that the number of people active in non-agricultural informal employment declined from 3.96 million in 2005 to 3.65 million in 2007. Heintz and Posel (2008) attribute this to the formalisation of wage employment over a stipulated period. While South Africa adopted a new minimum wage of R 3,500 in 2017, the size of the informal economy seems to have been constant from 2017 to 2019 at 30% (Rogan, 2019). Some other estimates suggest that the size of the informal economy is between 18% and 20%, which might mean that the size of the informal economy has shrunk from 2005 (Statistics South Africa, 2020). This might suggest that the formalisation of the minimum wage could have led to a decline in informal employment. However, it should be noted that an increase in the informal economy could be expected because of the unwillingness of some informal economy employers to pay the minimum wage.

The informal economy in South Africa is driven by diverse economic activities such as food vendors, waste pickers, market traders and domestic workers (Statistics South Africa, 2020). The high concentration of the informal economy is evident in that 70% of households in South African townships source food from informal vendors (Crush and Frayne, 2011). While there is a general perception that there are fewer barriers in the informal economy, some studies have attempted to reveal the barriers to entry that remain ignored by policymakers and researchers. Barriers such as the need for small to high capital, some level of education and skills demand. Capital remains a barrier to entry in informal economy activities such as small retail stores, backyard industries and street traders, while education and skills are important

in informal activities such as day labouring and domestic duties (Viljoen, 2014). The capital barriers remain the main obstacle for many people looking to enter the informal economy, and therefore, have an effect on the country's high unemployment rate.

A leading challenge that faces the informal economy at the global level, which is relevant in the South African context, is the number of people who work in poverty. This concern led to the ILO (2002) to advocate for decent wages to be paid in the informal economy to ensure better livelihoods. There is also an increasing need to study the vulnerabilities associated with the informal economy in South Africa (Blaauw, 2017). This is brought up by the country's high poverty rate, currently at a staggering 55%, and the current high unemployment rate that is worsened by the country's sluggish economic growth. Further to this, the fight for opportunities, markets and resources in the informal sector has largely been affected by the episodic xenophobic attacks against foreign citizens. Some of these emerging vulnerabilities are capable of causing instabilities in the informal economy that millions of South Africans depend on as a livelihood strategy. These vulnerabilities are underpinned by the institutional, economic and psychological causes of the informal economy (Golebiowski, 2007).

### **The Social and Economic Impact of COVID-19 on the Informal Economy**

The emergence of the unprecedented COVID-19 pandemic has created global challenges in the social, political and economic development landscape that are likely to challenge the sustainability of the development that has been achieved globally. These results are brought by the lockdown of national economies that many countries across the world embarked on as a measure to contain the spread of the virus. Countries locked down on social and economic activities, with an exception for essential services, thereby resulting in economic and labour market shocks on the production of goods and services and the consumption of such products (ILO, 2020a). For emerging and developing economies, the COVID-19 pandemic proves that the informal economy is not insulated from global instabilities and it threatened the very source of income and livelihood for hundreds of millions engaged in informal activities. According to Sumner et al. (2020), the COVID-19 pandemic is likely to wipe out the social and economic gains of the last 30 years and lead to unprecedented poverty and unemployment rates. As such, it becomes important to map out the social and economic effects of COVID-19 on poverty and unemployment in the economy.

Given that COVID-19 cases were first reported in Wuhan, China, the first series of lockdowns began in China and moved to some other



Asian countries because of the rapid spread of the virus. Because of the lockdown effect and the limited economic activities in the world's leading manufacturer, China experienced a 13.5% decline in the total value added of industrial enterprises during the first two months of 2020 (National Bureau of Statistics of China, 2020). The global value chain disruptions that complemented the spread of the virus led to businesses all over the world facing sustainability challenges, particularly labour-intensive services such as aviation, tourism and hospitality industries (ILO, 2020a). The social distancing regulations meant that economic activities that are labour-intensive had to halt their operations as workers were barred from going to work, with those in the informal economy included in the economic activities barred from taking place. The inevitable lockdown regulations resulted in ripple effects in many economies, particularly countries that do not have sufficient domestic resources to mitigate vicious outcomes.

In their study estimating the impact of COVID-19 on global poverty, Sumner et al. (2020) estimate likely outcomes based on three scenarios of a low, medium and high global contraction of 3%, 10% and 20% on the poverty headcount based on the World Bank's international poverty lines. The study finds that a 5% mean consumption contraction could potentially raise global poverty counts at US\$1.90, US\$3.20, and US\$5.50 per day by an estimated 80–140 million, while a 10% contraction is likely to raise global poverty by 180–280 million people. In a worst-case scenario of a 20% contraction, the global poverty headcount is expected to rise by much as 420–580 million (Sumner et al., 2020). In addition to this study, Voset al.(2020) find that a contraction of global GDP by 1% is likely to increase poverty in sub-Saharan Africa and South Asia by approximately 14–22 million people. These figures suggest that the COVID-19 pandemic is likely to undermine the developmental achievements made in alleviating hundreds of millions out of poverty that resulted in the halving of global poverty between 1990 and 2020.

Employment plays an essential role in preventing people from falling into poverty, vulnerabilities and enhancing capabilities to mitigate against potential risks. Due to the COVID-19 pandemic, a significant rise in global unemployment and underemployment is expected to occur. The ILO uses three different scenarios to estimate the potential impact of COVID-19 on global GDP. Based on a low scenario, global unemployment is expected to rise by 5.3 million, while it is expected to increase by 13 million in the mid scenario and by 24.7% in a high scenario (ILO, 2020b). Based on economic grouping, lower middle-income countries are expected to experience an increase in unemployment of 0.7–2.8

million, while upper middle-income countries are expected to experience an increase of 1.7–7.4 million and high-income countries are expected to experience an increase of 2.9–14.6 million, based on a low to high scenario (ILO, 2020a; McKibbin and Fernando, 2020). Current trends suggest that these statistics are undervaluing the unemployment effect of the pandemic as more than 30 million people have filed for unemployment in the United States alone.

In South Africa, the lockdown of social and economic activities extended to all economic sectors, including the informal economy, which was regarded as a higher risk because of being unregulated (Cooperative Governance and Traditional Affairs, 2020). Given that many South Africans in the informal economy and the unemployed rely on a limited income, the exclusion of the informal economy from essential services created a bleak future for those active in this sector of the economy. This response, therefore, threatened the livelihood capitals, which Su et al. (2020) define as the various resources such as financial and social capitals needed to improve the capabilities to resist shocks. This reveals the negative effect of the health risk on livelihood capitals, which is evident in that the COVID-19 pandemic resulted in the limited use of livelihood capitals. While the country has not released the statistics on the social and economic impact of COVID-19, the Premier of Gauteng, South Africa's commercial hub, estimates that the province has lost approximately 900 000 jobs, with an estimated 2 million to be lost due to the pandemic lockdown (Madia, 2020).

### **The Government's Responses to Mitigate COVID-19**

Many countries across the world responded to the health hazards posed by COVID-19 by a lockdown on social and economic activities. For South Africa and many other countries, this included the prohibition of mass gatherings, limiting people's movement, the lockdown of borders and entry points and halting production in many economic sectors. While the ILO (2020a) estimates a rise in global unemployment of up to 7 million in high-income countries, the United States has recorded more than 30 million job losses during the ongoing pandemic period. This means that the increase in unemployment might be catastrophic for developing nations, particularly sub-Saharan Africa, and worsen the already high levels of poverty and unemployment. The Asian regions proved capable of addressing high poverty rates by moving hundreds of millions out of poverty from 1990 to 2013, more than halving the global poverty rates while poverty rates have increased in sub-Saharan Africa (World Bank, 2015). As such, the way in which governments respond to COVID-19 have an effect on the social and economic conditions of millions of people living and working in poverty.

The COVID-19 pandemic presented a need for innovative social policies linked to the design of “robust and universal social protection systems that can act as automatic economic and social stabilizers in the face of crises” (ILO, 2020: 3). The South African government adopted a R500 billion (over \$26 billion) stimulus package, equivalent to 10% of the country’s GDP, to mitigate the impact of COVID-19 on businesses and citizens (The Presidency, 2020). This was also supported by the South African Reserve Bank cutting the repo rate by 275 basis points, which is estimated to unlock more than R80 billion in the economy (South African Reserve Bank, 2020). These measures were designed to alleviate the social and economic pressure against the increased poverty rates, with the government dedicating a 6-month special Coronavirus grant targeting the poor and elderly through increasing social grants. This also included a special COVID-19 Social Relief of Distress grant of R350 per month for the next 6 months for the unemployed without any form of government support (The Presidency, 2020).

In addition to the lockdown regulations that South Africa introduced to combat the spread of COVID-19, the government implemented emergency measures such as the release of disaster relief funds, tax relief, small business funding and the Unemployment Insurance Fund (UIF) as a measure to mitigate adverse economic outcomes. The second phase of the government’s response was to stabilise the country’s economy and address the decline in the supply and demand side that resulted in economic downturn and a threat to job security. This was undertaken through the R500 billion social and economic relief (The Presidency, 2020). This is an important milestone in South Africa’s uneven development landscape as the 500 billion was primarily focused on alleviating the already high level of poverty and unemployment in the country by keeping the ailing economy afloat. According to The Presidency (2020), the R500 billion social and economic relief is intended to boost the health budget (which received R20 billion) to intensify measures of dealing with the pandemic and relieve hunger and social distress.

The South African government were criticised for side-lining the informal economy from being declared an essential service. The widespread societal criticism was that some sections of the informal economy such as informal food vendors provide the very same services provided by big corporation, although their provision is at a small community scale. The heavy criticism against the government’s lack of empathy for the informal economy resulted in the government revising the lockdown regulations to permit some informal traders to continue their economic services (Cooperative Governance and Traditional Affairs, 2020). The condition was that the COVID-19 regulations, such as social distancing

and disinfecting of the workplace, were to be followed by those in the informal economy to maintain their livelihood in the face of livelihood risks. This process also entailed the opening of informal enterprises, commonly known as community tuck shops and spaza shops owned by South African nationals (Cooperative Governance and Traditional Affairs, 2020). These amended regulations were designed to ensure that informal traders did not lose their only source of income and promoted the sustainable livelihood of those at the margins of poverty.

The local government is the sphere of government that is closest to the citizens and the prioritisation of service delivery was more important during the lockdown phase. The government used its powers to distribute R20 billion to municipalities for the provision of services in a manner that is efficient and meets the needs of the citizens as proclaimed in the 'White Paper on Local Government' (Department of Provincial and Local Government, 1998). The R20 billion is explicitly dedicated to municipal services such as increasing water supply and sanitation of public spaces and facilities because sanitation is important in the fight against COVID-19. The funding was also earmarked for the provision of food and shelter for the homeless (The Presidency, 2020). As such, municipalities throughout the country had emergency and temporary shelters for the homeless to ensure they are kept safe in line with the country's Constitution, which mandates the government to ensure that every citizen has a right to shelter. These measures are essential in ensuring that every citizen, irrespective of socio-economic status, are protected from the virus and receives the decent services that all citizens are entitled to. Essentially, these measures are important in reducing livelihood risks.

A fundamental step that was taken by the government was the establishment of measures to protect the workers by funding businesses. To this cause, the government dedicated R2 billion to small businesses and spaza shop owners as well as a R200 billion loan guarantee scheme by the National Treasury and the South African Reserve Bank (The Presidency, 2020). These measures were also supported by the various initiatives established by subnational governments through small business support programmes that targeted the businesses, including the informal economy based at respective municipal jurisdictions. Such a role was previously noted through the Industrial Development Corporation's R6 billion investment to save many industrial businesses from the 2008 global financial crisis. The Department of Small Business Development (2020) enlisted criteria such as registration with the revenue services, permits to trade and submitting of monthly management accounts as some of the requirements for formal and informal businesses to qualify for the funding.

### **The Limits and Pitfalls of the Government's Responses**

In response to the social and economic effects caused by COVID-19, the South African government adopted interventionist policies through the counter-cyclical role of the state to cushion the citizens from falling to vulnerabilities. Measures were also adopted to stimulate economic activities to keep the economy afloat in the midst of demand and supply decline due to the pandemic. This counter-cyclical role of the state is similar to the one adopted by the government in 2009 to mitigate the economic effects of the 2008 global financial crisis that increased global unemployment by 22 million. However, based on the current estimates and the observed reality of job losses in the US, unemployment is likely to increase beyond the current estimated figures. If these increases surpass the estimated figures, global levels will likely be higher for lagging regions such as sub-Saharan Africa. The ILO (2020a) reveals that those in the informal economy, unprotected workers, the self-employed, migrants, casual workers and women will be the most affected because they fall outside social security regulations. Therefore, it becomes important to assess the government's responses to alleviating the plight of those who will be most affected by the pandemic.

The lockdown resulted in the halting of social and economic activities with a detrimental impact for the global economy and the labour market and resulted in pressure for the government to find means of protecting the loss of income because of the reduced economic activities. While those in the formal sector can get support based on their contribution to the governments UIF, those in the informal economy with no social security find themselves in a precarious situation that could lead to falling into poverty and vulnerabilities. The limited economic activities in the informal economy is a source of discomfort for many countries in the developing nations because the informal economy assists millions at the margins of poverty. Estimates suggest that such a problem is likely to increase global poverty to the highest levels experienced more than 30 years ago (Sumner et al., 2020). These factors will be worsened by the lack of absence of social protection and a lack of access to credit institutions by those in the informal economy (Loayza, 2016).

In the absence of social protection from the government, those in the informal economy barred from any economic activities have two avenues for raising capital to sustain themselves. Some sort of government grant such as a child support grant or the newly introduced R350 special COVID-19 Social Relief of Distress grant. This grant falls far behind the required US\$ 1.90, US\$3.20 and US\$5.50 per day by inter-

national standards to ensure a sustainable livelihood. This means that most South Africans are likely to be condemned into working poverty as the country battles to mitigate the social and economic outcomes of COVID-19. Teachout and Zipfel (2020) argue that 9.1% of the sub-Saharan Africa population have fallen into extreme poverty because of COVID-19, and 65% of this increase is due to the lockdown. High-income countries such as Canada and Japan are insulated because they adopted higher social assistance of between \$1 200 to \$2 000 a month. While the ILO (2020a) suggests an increase of up to 35 million for those who work in poverty. These rates are likely to be higher considering the economic contraction of many emerging and developing economies that do not have sufficient domestic resources to support their citizens.

While the South African government opted to lockdown the entire country, including economic activities in the informal sector, thereby risking the income opportunities for 3–5 million informal traders, the Indian government did not close down the entire informal economy but opted to strengthen safety measures to prioritise the health of the citizens. Although there are unreliable statistics, according to the Indian Economic Survey 2019–20, the informal economy in India accounts for 93% of the total workforce (Department of Economic Affairs, 2019). The Indian government ensured stricter measures by using the police to ensure that social distancing rules are adhered to in the informal economy, including marking lines for shoppers to limit the spread of the virus. The approach devised by the Indian government demonstrates a developmental government that prioritised the health of its citizens while also ensuring that there is a limited loss of income for those in the informal economy. In South Africa, the amendment of the regulations to allow some informal economy activities to function during the lockdown was a result of pressure from the citizens.

The last resort of protecting those in the informal economy by the government is available in the various funding dedicated to small businesses spearheaded by the Department of Small Business Development and the small grants provided by municipalities. As noted from The Presidency (2020), the funding focuses on small businesses, spaza shops and somewhat the informal economy. However, a fundamental challenge for the government is the unavailability of data on informal economy activities in many small-town and rural municipalities, thereby making it impossible to support those in the informal economy. While comprehensive data exist on the informal economy by some authors (Viljoen, 2014; Blaauw, 2017; Burger and Fourie, 2019; Rogan, 2019), most of this data is on informal economy activi-

ties in urban areas. Thus, the traditional failure of municipalities to plan for local economic development in South Africa undermines the efforts to effectively address the plight of those in the informal economy during the pandemic lockdown. Essentially, the pandemic has awakened the sleeping beast of the informal economy as it has demonstrated the precariousness that is often thought to be insulated from global volatilities.

It is evident from this discussion that there are some misadventures and limitations in the government's response to the social and economic conditions of those in the informal economy. The commonality of the responses from the government is that they are not fully inclusive of the informal economy despite evidence from the COVID-19 pandemic that the informal economy is not insulated from pandemics and the complementing effects. From Mróz's (2015) analysis of the 'Beauty and the Beast' of the informal economy, the lack of prioritisation can be understood as the government prioritising economic sectors that pay taxes and contribute to social security. This understanding fits this context because only the government's social grants are likely to reach those in the informal economy, either in the form of child support or the special COVID-19 Social Relief of Distress grant. In essence, this reveals that the government has not fully prioritised the informal economy despite the significant role it plays in absorbing millions of those marginalised from formal employment. Such exclusionary measures are likely to result in pitfalls for those who are already at the edge of absolute poverty and increase the country's high poverty rates.

## **CONCLUSION**

The informal economy plays an essential role in the economic development of many emerging and developing economies, which is evident in the size of the informal sector. For those who cannot find employment in the formal sector, the informal economy acts as a shock absorber and provides alternative means of crafting livelihood strategies. However, the emergence of the COVID-19 pandemic that has resulted in more than 300 000 deaths to date has disrupted social and economic activities and led to the contraction of many economies across the world. The pandemic is expected to increase global unemployment and the number of people working in poverty if governments do not adopt appropriate interventionist policies to mitigate the vicious outcomes of COVID-19. While the informal economy is mostly thought to be insulated from economic volatilities, COVID-19 has revealed that it is also susceptible to global shocks driven by pandemics. Based on the various social and economic stimulus packages adopted by countries across the world, this paper interrogated the effectiveness of South Africa's

R500 billion social and economic relief on the livelihood of those in the informal economy.

A thorough analysis of South Africa's R500 billion social and economic relief revealed three important measures to mitigate the adverse social and economic impact of COVID-19. The first measure was to use the UIF to assist businesses with salaries, the second measure focused on direct social assistance through grants to the citizens, and the third measure focused on availing funding for small businesses (including spaza shops and the informal economy) affected by the lockdown. It becomes important to discuss such measures against their ability to positively affect the informal economy. The use of the UIF to ensure workers are paid benefited many businesses and over 600 000 workers from the formal sector, while the most vulnerable in the informal economy could not benefit from the UIF because they do not contribute to social security through the UIF. This means that this measure mainly benefits those who already have social security while neglecting those who are already at the edge of poverty. While South Africa is the most unequal country in the world, the lack of effective measures that prioritise the informal economy might likely increase the economic inequality gap.

In relation to the measures focused on the provision of social assistance to the citizens, the government increased the old age grant and the child support grant to ensure enhanced capitals to improve the livelihood outcomes. In addition to this, the government introduced a special R350 grant for the unemployed. Based on these initiatives, it is clear that there are no effective means that are specifically targeted at those in the informal economy. For example, the use of social assistance as a strategy to mitigate the effects of COVID-19 on the vulnerable is insufficient as the grant is far below international standards. The pitfalls of these measures are evident in that the informal economy remains unprioritized with the potential to increase the country's poverty rates because of the lack of social security and funding to support small informal businesses. The precariousness of the informal economy has also revealed that the informal economy might be a shock absorber, but it is not immune to global volatilities caused by pandemics.

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