



Note on developments in self-employment¹

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Introduction

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Self-employment is widely viewed as an important engine of economic and employment growth. There is ongoing debate regarding the dynamic inverse relationship between self-employment and unemployment, with not all commentators convinced that more self-employment is a sign of progress. Changing business models such as franchising, outsourcing and growth in the number of small-scale production enterprises, driven by technological developments and diversification of consumption patterns, merit careful analysis as these are factors influencing self-employment and employment generally. Trends in self-employment are also studied to better understand the impact of tax regimes, access to capital and entrepreneurship on the pace of employment growth.

The purpose of this note is to highlight the sectoral, age, gender, occupational and educational profile of non-agricultural self-employment in the South African economy as revealed by Statistics South Africa's *Labour Force Survey* (LFS). Critical data issues are outlined before describing the pattern of self-employment. The note ends with a few concluding remarks.

Definitional issues and data sources

Most international definitions consider *self-employment* as the residual category of employment that is not compensated through wages or salaries. The International Labour Organisation (ILO) includes more positive criteria in the definition of self-employed such as the control exercised over the business venture by the self-employed individual, the extent of risk-taking and the responsibility resting upon the self-employed for the success or failure of his or her undertaking. These are criteria more closely related to the definition of entrepreneurs. The following analysis seeks to identify broader patterns and its scope is largely dictated by the available official data.

² Question 4.14 of the LFS questionnaire is used to establish the type of business activity as well as the self-employment/employee status. In LFS 2003 questionnaires, the question reads 'Is the business or enterprise/branch where [the respondent] works...?'. The possible answers given include the category '8 – Self-employed'. International experience shows that classification of self-employment can be reliably based on respondents' own assessment because it tends to be consistent with other 'indirect' criteria that might be applied to confirm the workers' status.

Most national and international information on self-employment comes from household surveys of the labour force. In South Africa the LFS is used as the official source of information on self-employed workers. For purposes of this analysis, the self-employed are identified directly through respondents' own self-assessment². This analysis considers self-employment in all the non-agricultural sectors, disaggregated into formal and informal self-employed workers. It uses the results of the September 2003 LFS³, which is based on a national sample of 30 000 households.

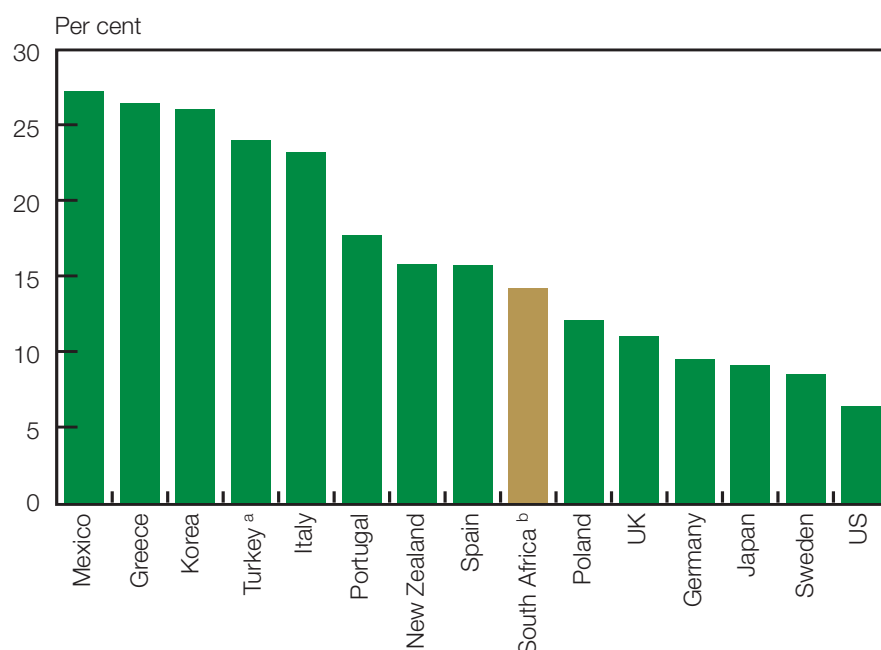
International comparison

Figure 1 gives an overview of the extent of self-employment in a selection of countries including South Africa.

Self-employment as a percentage of total non-agricultural employment is generally higher among the Organization for Economic Co-operation and Development (OECD) countries. South Africa is seemingly more comparable to less industrialised than to more advanced OECD economies. According to the LFS, self-employment constituted 14,2 per cent (approximately 1,3 million workers) of total non-agricultural employment in September 2003.

³ The informal sector excludes domestic workers.

Figure 1 Self-employment as a percentage of non-agricultural employment in selected OECD and some emerging economies, 2002



Source: Blanchflower, D.G. 2004. *Self-employment: More may not be better*. National Bureau of Economic Research. Working Paper No. 10286, March: Cambridge.

a. 2001

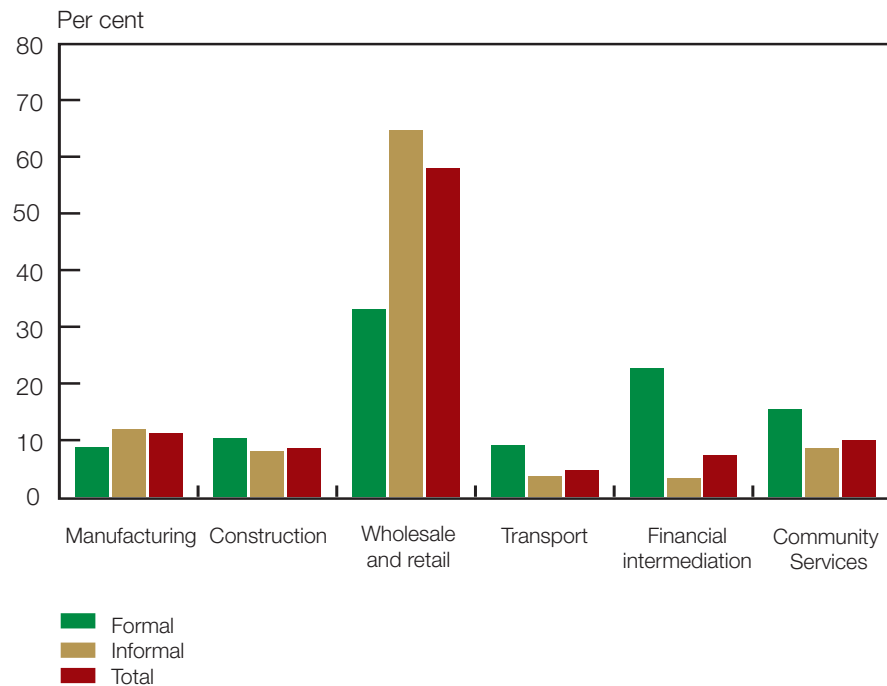
b. Own calculation based on *Labour Force Survey*, September 2003.

The percentage share of males was marginally higher (51,5 per cent) than that of females (48,5 per cent) in total non-agricultural self-employment in 2003. The rate of male participation in *formal* sector self-employment was overwhelmingly higher (72,7 per cent) than that of females (27,3 per cent). There were, however, more females in *informal* sector self-employment at 54,2 per cent in 2003.

In the same manner as in the OECD and consistent with international trends, the bulk of non-agricultural self-employed workers is found in wholesale and retail trade with 57,9 per cent (approximately 758 000 workers) of the total self-employed population. This is followed by manufacturing with 11,2 per cent (approximately 147 000 workers), and community, social and personal services with 10,0 per cent (approximately 131 000 workers) of total self-employed in 2003. South Africa is comparable to OECD economies in that mining and quarrying, electricity, gas and water supply contribute very little to self-employment. The sectors with the highest number of women in self-employment are the formal wholesale and retail trade with 40,0 per cent (approximately 30 000 female workers) and community, social and personal services with 26,6 per cent (approximately 20 000 female workers) in 2003.

Self-employment as a whole is skewed towards lower occupational skills. However, a distinction between the formal and informal sector showed an overwhelming bias towards *higher* occupational skills in the formal sector. Elementary occupations comprise the largest share of total self-employed at 36,9 per cent (approximately 482 000 workers) followed by craftworkers with 20,8 per cent (approximately 273 000 workers) and service workers at 15,3 per cent (approximately 201 000 workers). Formal

Figure 2 Non-agricultural self-employment by industry:
Percentage of the total share, 2003



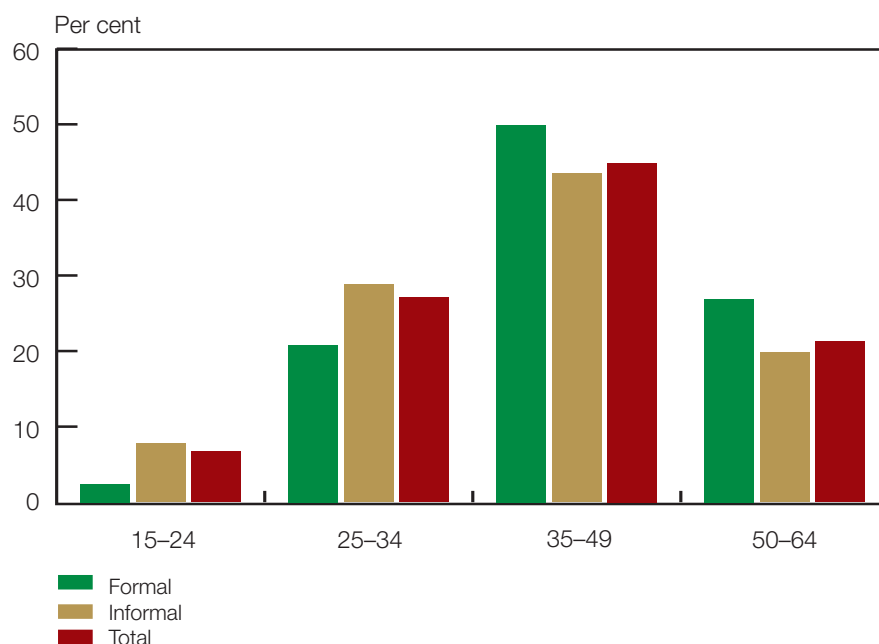
Source: Own calculation, based on *Labour Force Survey*, September 2003.

self-employment is dominated by higher occupational categories. Managers comprise approximately half of the total self-employed at 49,2 per cent (or approximately 137 000 workers) followed by craftworkers with 10,7 per cent (30 000 workers) and service workers at 10,6 per cent (29 500 workers) in 2003. Elementary occupations dominate the informal sector with 45,6 per cent (approximately 470 000 workers), followed by craftworkers at 23,5 per cent (approximately 243 000 workers) and service and sales workers at 16,6 per cent (approximately 171 000 workers) in 2003.

Other features that tend to have an influence on self-employment are age and educational qualification. Non-agricultural self-employment is generally not conducive to labour market entrants. In relative terms it is easier for labour market entrants to enter informal than formal self-employment. Among the older total self-employed workers (25 to 64 years of age), the dominant sub-group in 2003 was the 35-49-year age group constituting 48,1 per cent of the total self-employed or approximately 585 000 workers. In second place was the age group 25 – 34 at 29,1 per cent (approximately 353 000 workers).

Classified by educational qualification, total self-employment is dominated by workers with some secondary education, at 34,5 per cent (approximately 449 000) followed by those with some primary education at 26,5 per cent (approximately 345 000). Workers with secondary education constituted 20,1 per cent (approximately 261 000) of total self-employment in 2003. Overall, only about 31,0 per cent of self-employed workers had secondary education or a higher educational qualification in 2003, indicating that a substantial proportion of total self-employed workers have relatively low skill levels. Nearly 72 per cent of self-employed workers in the *formal* sector had secondary education or a higher educational qualification in 2003, indicating a significant skill bias in formal non-agricultural self-employment in the country. The *informal* sector indicated a tendency towards low-level educational qualifications with 80,1 per cent (approximately 820 000 self-employed workers) without secondary education.

Figure 3 Non-agricultural self-employment by age: Percentage of the total share, 2003



Source: Own calculation, based on Stats SA, 2003

Concluding remarks

According to recent LFS results, mainstream *formal* sector self-employment is relatively scarce in South Africa. Most self-employment is found in the *informal* sector which is biased towards females with a focus on wholesale and retail trade and with participants that tend to be relatively low skilled and younger. Similar to aggregate employment and economic activity in general, most self-employment is located in the services sectors. Nevertheless, it is noteworthy that those in manufacturing and construction constituted almost a fifth of total self-employment.

With regard to the occupation and education profile of the self-employed, South Africa's self-employment is generally associated with relatively low-skilled occupational categories and involves substantial numbers of workers without secondary education. However, in the formal sector those in self-employment tend to have either secondary education or a higher qualification.

References

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