



COVID-19 And The Informal Sector In South Africa: Lessons, Challenges And Benefits

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Abstract: This paper examines the impact of the Covid-19 outbreak on informal trading in South Africa. This paper argues that the phenomenon of unemployment has always been a factor that pushes people to become informal traders, pre and post-COVID-19 outbreak in South Africa. However, as far as Covid-19 could have posed critical to the nation's economy, this paper further asserts that the covid-19 brought major positive contributions to the citizenry, organizations and institutions in South Africa. COVID-19 is said to have originated in China, and Wuhan in the year 2019 and later spread out across the globe to many countries and South Africa is not an exception. The COVID-19 outbreak has forced the South African government to impose strict lockdown regulations to curb the spread. The outbreak of COVID-19 has, inter alia, influenced an increase in the unemployment rate and number of informal traders. Informal trading is the new norm in the post-COVID-19 era since different economic sectors were affected. Methodologically, this paper is conceptual in nature and it relies heavily on the existing literature to contribute to knowledge production with the discourse of the informal economy. The paper recommends that the South African government should come up with workable policies that will be effective even after the outbreak of any unforeseen circumstance like COVID-19. In essence, contingency plans must be in place and should be implemented timely. Workable policies can only be reached if informal traders become part of planning, decision making and implementations in the policy formulation process.

Keywords: COVID-19 Impact, Informal Trading, Unemployment, Lockdown Regulations, Sustainable Livelihoods, Contingency Planning, South Africa Economy

1. Introduction

The coronavirus (COVID-19) outbreak significantly disrupted global economic activities, including informal trading, and caused a worldwide rise in unemployment (Naseer et al., 2023). Lockdown regulations aimed at curbing the spread of COVID-19 restricted human movement and forced the suspension of informal trading operations (De, 2020). Informal trading, which serves as a critical source of income for many in developing economies, was classified as non-essential and thus halted during the lockdowns (Evelina et al., 2020). Only essential workers, such as healthcare professionals, petrol station attendants, emergency services personnel, municipal workers, and retail employees, were permitted to work (Ekong & Michael, 2023).

Globally, the outbreak affected countries economically, politically, socially, and financially, while also straining public health systems (Khetan et al., 2022). The first case of COVID-19 was reported in Wuhan, China, on December 31, 2019 (Worobey, 2021). By early 2020, the disease had spread internationally, fueled by global travel and human mobility (Khanna et al., 2020). As Singh (2022) notes, COVID-19 caused massive job losses in the formal sector, as companies were forced to retrench employees to survive. In parallel, informal traders faced devastating financial vulnerabilities, as their operations were shut down during the pandemic (Wrigley-Asante & Frimpong, 2024).

For many informal traders, the pandemic resulted in defaulting on burial society premiums, struggling to afford basic necessities, and being unable to pay school fees due to a lack of income (Dafuleya, 2018). Since informal trading relies on daily earnings, the suspension of operations created a complete loss of livelihood for countless individuals. This financial insecurity increased their reliance on government assistance, such as food parcels and relief grants (Nayam, 2021). In the aftermath, individuals who lost jobs in the formal sector turned to informal trading as job opportunities in the formal economy became increasingly scarce (Khambule, 2022).

The pandemic's impact on the formal sector was equally severe. Companies that continued operations were burdened with additional expenses for personal protective equipment (PPE), such as masks and sanitizers, cutting into their profits. In post-COVID-19 South Africa, the informal sector became a critical safety net for those retrenched from the formal economy. However, the sharp rise in informal traders created new challenges, including increased competition and a heightened demand for municipal services such as water, sanitation, and refuse removal in urban areas. These

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dynamics often resulted in conflicts over customers and operating spaces due to the oversupply of traders and insufficient demand for goods.

Against this backdrop, this paper seeks to examine the lessons, challenges, and benefits of COVID-19 for the informal sector in South Africa. It aims to provide a nuanced understanding of how the pandemic reshaped informal trading and highlight critical insights for policymakers to strengthen this vital economic sector in the future.

2. Theoretical Framework

This section presents and discusses relevant theories pertinent to the informal sector and informal trading in South Africa.

2.1. Legalist Theory

According to Skinner (2018: 414), the legalist position was popularized by the influential work of De Soto (1989), who argued that informal entrepreneurs are excluded from the formal sector due to cumbersome government regulations. Essentially, the informal sector is viewed as the "people's response" to overregulation. For over 30 years, De Soto's think tank, the Institute for Liberty and Democracy, has collaborated with numerous governments—not only in Latin America but across the Global South—to reduce bureaucratic burdens and design programs for deregulation.

The key policy goal of this theory is to release informal operators from government regulation, focusing primarily on informal enterprises and the formal regulatory environment, often neglecting informal wage workers and the linkages between the formal and informal sectors. Since 2000, De Soto has increasingly emphasized extending property rights to enable informal entrepreneurs to convert their informal assets into real capital assets (De Soto, 2000). Complementing this theory is the dualist theory, which supports the legalist perspective while advocating for the protection and formalization of the informal sector and informal trading.

2.2. The Dualist Theory

According to Ndlovu (2011), the dualist school of thought asserts that the informal economy is characterized by marginalized economic activities, dominated by the poor as a source of income and a safety net during periods of economic meltdown. This theory attributes the existence of the informal sector to the insufficient creation of formal job opportunities to absorb surplus labor. It is recognized by the government as one of the potential pillars of employment in the country (Dell'Anno, 2022).

Ndlovu (2011: 6) further argues that the persistence of informal activities stems from the slow rate of economic development and the faster rate of urbanization, which fail to produce enough formal job opportunities to absorb surplus labor. This paper finds both theories relevant to the discussion of informal trading, as the informal sector in many states is regulated by a variety of legislative frameworks and policy imperatives, requiring its acknowledgment as a legitimate economic sector alongside the formal sector.

At the same time, the informal sector is indeed characterized by marginalized economic activities dominated by the poor, serving as a crucial income source and safety net during economic crises. This observation aligns with the South African informal sector, forming the foundation of this paper's argument, which advocates for the protection and recognition of informal traders as participants in a legitimate employment sector. This paper further underscores the value chain benefits that informal traders stand to gain.

2.3. Legislative Framework Governing the Informal Sector in South Africa

The informal sector in South Africa is governed by various policies, laws, regulations, and the Constitution of the Republic of South Africa, which is the supreme law. These legislative frameworks aim to regulate and manage the informal sector to ensure fairness and smooth operations. While numerous policies govern the informal sector, this paper focuses on three key frameworks: the Constitution of the Republic of South Africa (1996), the Business Act 71 of 1991, and the Informal/Street Trading By-laws of 2014.

2.3.1. The Constitution of the Republic of South Africa, 1996

The Constitution of the Republic of South Africa is the supreme law of the country, and all other laws and policies must align with it (Klug, 2010). Msipa (2016) notes that Section 22 of the Constitution provides that every citizen has the right to choose their trade, occupation, or profession freely. However, this right is qualified by a provision requiring that the practice of a trade, occupation, or profession be regulated by law (Mattoo & Mishra, 2009).

Lethugile (2020) and Pramod (2023) highlight that while the freedom to trade includes informal traders, the Constitution allows the state to control informal trading through legislation and bylaws. Chapter 10 of the Constitution protects the right to human dignity, stating that everyone has the right to inherent dignity and to have their dignity respected and protected (Nodangala & Masumbe, 2023). Human dignity is closely tied to informal traders' ability to participate in the informal economy (Fourie, 2018). Furthermore, De Vos (2013) argues that Section 9 of the Constitution affirms that all South African citizens are equal before the law.

2.3.2. The Business Act 71 of 1991

The Business Act 71 of 1991 is a key piece of legislation governing informal trade in South Africa (Selepe, 2019). Mwipopo (2022) explains that the Act grants municipalities the authority to regulate informal trading by enacting fair bylaws. The Business Act has brought significant changes to how informal trading is governed, recognizing it as an important economic activity (Aigbavboa, 2022). Roever (2016) notes that the Act addresses several issues related to informal trading, including the issuance of permits.

In 1993, the Business Act was amended by the Business Amendment Act 186 of 1993. Section 6A of the Amendment Act empowers municipalities to regulate informal trading within their jurisdictions and even prohibit it in certain areas (Ramsuraj, 2020). Section 6A(1)(c) allows municipalities to issue trading permits, while Section 6A(1)(d) outlines procedures for implementing informal trading bylaws. Non-compliance may result in penalties, including fines and the impoundment of goods (Letsiri, 2020).

2.3.3. Informal Trading By-laws of 2014

Ramsuraj (2020) emphasizes that the primary objective of the Informal Trading By-laws of 2014 is to regulate informal trading to ensure it is conducted responsibly. These bylaws aim to create job and entrepreneurial opportunities within the informal trading sector while fostering a harmonious relationship between the informal and formal sectors (Golub, 2015).

Local municipalities play a critical role in creating a regulatory environment that facilitates informal trading (Mwasinga, 2013). Section 152(2) of the Constitution highlights the promotion of social and economic development as one of the objectives of municipalities (Jili et al., 2017).

The Business Act grants municipalities the authority to adopt bylaws tailored to their jurisdictions (Davidson, 2016). These bylaws, which must comply with the Constitution and the Business Act, regulate how informal trading is conducted (Frantzen, 2019). Kamete (2013) describes bylaws as written laws adopted by municipalities to manage activities within their jurisdictions, including informal trading. Samtani (2020) asserts that any law or Act not aligned with the Constitution is neither relevant nor legal.

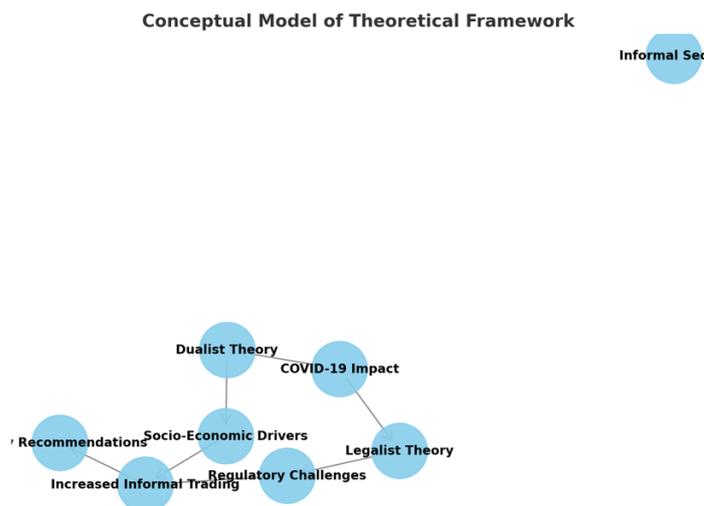


Figure 1: Conceptual Model of Theoretical Framework

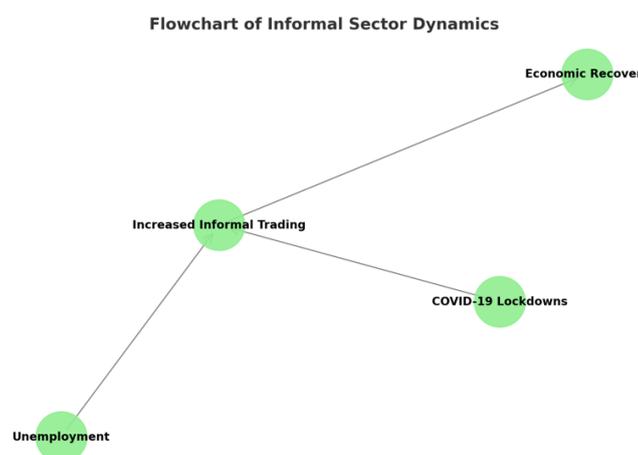


Figure 2: Flowchart of Informal Sector Dynamics

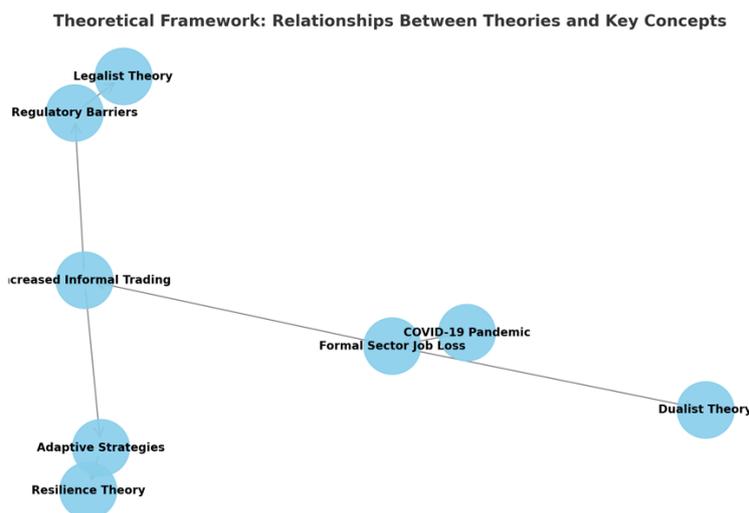


Figure 3: Theoretical Framework: Relationships Between Theories and Key Concepts

In Figure 3, This theoretical framework graph illustrates how the COVID-19 pandemic triggered formal sector job losses, leading to increased informal trading. Regulatory barriers are analyzed through Legalist Theory, socio-economic pressures through Dualist Theory, and adaptive strategies through Resilience Theory, demonstrating the interconnected dynamics shaping the informal sector.

3. Research Direction and Methodology

This paper adopts a systematic literature review as its primary methodological strategy. A systematic approach ensures the review is accurate, precise, and reliable, aligning with the study's objective of examining the impacts of COVID-19 on informal trading in South Africa.

Given the study's purpose, a semi-systematic review was chosen to explore not only the negative impacts of COVID-19 but also the lessons learned by informal traders during the pandemic. The semi-systematic review method was particularly suitable as it allowed the researchers to synthesize diverse perspectives from existing literature, providing a comprehensive understanding of the phenomenon.

While primary data collection was initially considered, secondary data was ultimately deemed more appropriate for several reasons:

1. **Availability of Rich Literature:** The existing body of literature on COVID-19's economic impacts, particularly on the informal sector, provided a robust foundation for the study.
2. **Time and Resource Constraints:** The use of secondary data facilitated timely analysis without the logistical challenges associated with collecting primary data during or after the pandemic.
3. **Broad Scope:** Secondary data allowed the researchers to analyze a wide range of contexts, policies, and trends, enriching the study's findings.

The literature used in this review was selected based on relevance, recency, and credibility. Sources included peer-reviewed journal articles, policy reports, and studies focusing on the informal sector, economic impacts, and lessons learned from the pandemic. By triangulating insights from these sources, the study aims to provide a well-rounded contribution to the discourse on the informal economy.

This methodological approach enables the identification of key trends, challenges, and opportunities, contributing to the development of practical policy recommendations for strengthening the informal sector in the face of future crises.

4. Discussion

4.1. Informal Sector: Genesis and Formation

The term "informal sector" was coined by Keith Hart in 1973 (Hart, 2015). The informal sector refers to unregistered and non-tax-compliant economic activities conducted in areas with high pedestrian traffic (Orlale, 2023). Bain et al. (2012) lament that such activities typically occur on streets, sidewalks, and transport ranks, relying on locally available resources. According to Bem et al. (2024), these activities are usually family-owned and lack fringe benefits such as medical aid or pensions.

Products sold in the informal sector typically include prepared food, vegetables, fruits, clothing, shoes, and electrical appliances (Roever, 2014). The informal sector is not homogeneous, as activities differ in size, scope, products sold, and pricing (Marjit & Kar, 2011). People operating within the informal sector are often referred to as hawkers, vendors, and street traders (Roever, 2014). According to Letaifa (2016), the informal sector often

emerges due to the government's inability to create sufficient formal job opportunities. The sector has grown in both developed and developing countries, particularly due to the outbreak of COVID-19 (Romanello, 2022).

4.2. Lessons From Covid-19 On Informal Trading.

This section presents lessons learned by those engaged in the informal sector as a result of the COVID-19 pandemic. While COVID-19 brought global misfortune, it also provided opportunities for informal traders to learn valuable lessons.

4.2.1. Informal Traders Practicing Sustainable Livelihoods

According to Chadambuka (2021), about 90% of informal traders operated hand-to-mouth without saving for future needs or unforeseen circumstances. Post-COVID-19, the focus for informal traders shifted to ensuring they could provide for their families (Ringson & Raniga, 2022). However, saving for the future was challenging since informal traders typically relied on a single livelihood strategy (Takaza & Chitereka, 2022).

Hlatshwayo (2022) notes that during South Africa's Level 5 lockdown, the informal economy was closed as it was not deemed an essential service. The restriction of informal trading highlighted the vulnerability of the sector, as traders had no income due to its "no work, no income" nature (Medani, 2022). This harsh lesson underscored the importance of sustainable livelihoods, which refer to income strategies that enable households to meet their needs even during unforeseen events like COVID-19.

Tanyanyiwa (2023) highlights that informal traders' unsustainable livelihoods became evident during the pandemic, as government handouts became their primary source of household support. The outbreak taught both formal and informal traders the importance of saving for the future, given the uncertainty of tomorrow (Mondal & Chakraborty, 2022). Over-reliance on government assistance revealed the lack of financial preparedness among informal traders (Meagher, 2010).

4.2.2. Introduction of traders to e-commerce

During the COVID-19 outbreak, informal traders were compelled to familiarize themselves with technology (Ru, 2020). Porter (2012) observes that informal trading is commonly practised by older individuals, many of whom are illiterate and lack access to the Internet. The absence of devices and poor internet connectivity further exacerbates the problem (Qin et al., 2016).

Businesses with technologically advanced owners thrived during the pandemic, as most operations shifted online (Mishrif & Khan, 2023). The outbreak highlighted the need for informal traders to regularly upgrade their livelihood strategies (Nanfuka & Kyaddondo, 2022). Leighton et al. (2022) argue that adopting e-commerce can help traders avoid marginalization during unforeseen events like COVID-19, which restrict physical movement.

Although the restrictions on informal trading were meant to curb the virus's spread, if informal traders had access to online platforms, they could have continued operating virtually (Luke et al., 2020). Governments might have suspended physical operations but allowed online trading (Shafi et al., 2020). As a result, informal traders were forced to learn about social media and online services (Nguimkeu & Okou, 2021). The pandemic taught them the value of online platforms, which played a significant role in ensuring business continuity (Johs-Artisensi et al., 2023). For example, local municipalities rendered services such as payments for tariffs and rates online, as physical presence was prohibited (Υφαντής, 2024).

4.2.3. Livelihood diversity

The COVID-19 outbreak taught informal traders the importance of adopting diverse livelihood strategies (Moyo & Ndlovu, 2023). Banu et al. (2023) argue that livelihood diversity has become a common strategy among informal traders in the post-COVID-19 era. However, for some traders, adopting additional livelihood strategies is difficult due to limited funds, as about 80% of informal traders are self-funded (Jorgensen, 2012).

Livelihood diversity is essential as it allows individuals to generate multiple streams of income (Cinner & Bodin, 2010). This lesson has become a critical takeaway for informal traders seeking financial resilience in uncertain times.

4.3. Challenges Brought By COVID-19 to Informal Traders

Informal traders face various challenges daily, many of which existed before the outbreak of COVID-19 and cannot solely be attributed to the pandemic. Dzawanda et al. (2021) postulate that approximately 80% of the challenges faced by informal traders in the post-COVID-19 era have long been present; however, the pandemic exacerbated these issues. Godfrey (2011) highlights that the informal sector provides job opportunities to almost everyone, irrespective of skills, knowledge, qualifications, or experience, unlike the formal sector, where such prerequisites are essential. Among other pre-existing challenges contributing to the vulnerability of informal traders is the lack of social protection and formal recognition by legal and official bodies.

4.3.1. Lack of Finance

The lack of funds and institutional credit significantly hinders the development of informal traders in South Africa (Abor & Quartey, 2010). Howard et al. (2020) state that registered financial institutions, such as banks, do not

offer financial assistance to informal traders. These institutions provide personal or business loans only when applicants meet specific requirements, including three months' bank statements, proof of residence, an identity document, and registered company details (Sriraman, 2018). The majority of informal traders fail to meet these requirements, as about 40% are undocumented migrants from other countries (Maroukis et al., 2011).

Furthermore, the income earned by informal traders is inconsistent, as some traders may go an entire day without making a sale (Roever, 2014). Consequently, many traders resort to borrowing from unregulated loan sharks, who charge exorbitant interest rates. Loan sharks operate outside formal regulations, enabling them to impose unfair interest rates (Hawkins, 2011). When clients fail to repay loans as agreed, loan sharks have no formal recourse, as their business operates within the informal sector (Alcock, 2018).

Takaza & Chitereka (2022) estimate that approximately 90% of informal traders are self-funded, which further impedes their development. Dolan & Rajak (2018) note that government institutions such as the Small Enterprise Development Agency (SEDA) and the National Youth Development Agency (NYDA) are mandated to assist small businesses, including informal traders. However, only a small number of these businesses receive financial support (Wong et al., 2018).

Accessing these institutions often requires significant resources, including transport costs, especially for traders operating in rural areas (Roever, 2016). Long queues and inadequate services at government offices discourage many traders from applying for assistance (Aliber, 2015). Additionally, nepotism and favoritism in these offices often result in opportunities being given to relatives and friends of officials (Abidah et al., 2020).

4.3.2. Lack of Access to Facilities

In South Africa, trading stalls and storage facilities are allocated only to individuals with trading permits. Informal traders, who typically lack such permits, are excluded from these allocations (Hill et al., 2019). Even before COVID-19, traders often occupied urban spaces without authorization, and this trend has persisted in the post-pandemic era (Honey-Rosés et al., 2021). According to Piven & Cloward (2012), the process of obtaining a permit is lengthy, while poverty and unemployment force individuals to start trading immediately to alleviate hunger. Many enter the informal sector out of necessity rather than choice.

Since stalls are reserved for registered traders, informal traders often rely on makeshift arrangements, using crates, boxes, umbrellas, and buckets to create workstations (Essajee, 2022). An unhealthy relationship between informal traders and officials, driven by the nature of informal activities, discourages traders from building permanent stalls (Kabonga et al., 2021). Consequently, traders rely on temporary setups, knowing their stalls could be removed or confiscated at any time (Kiaka et al., 2021).

Letsiri (2020) acknowledges that informal traders are aware that trading without a permit is illegal. However, poverty and a lack of formal job opportunities leave them with no alternative. The pandemic worsened this situation, as many people lost jobs during lockdowns (Wilson et al., 2020). Post-pandemic, the number of informal traders in South Africa has increased significantly due to widespread retrenchments during the outbreak (Mishi et al., 2023).

4.3.3. Increased Competition

The COVID-19 outbreak has intensified competition in the informal sector. Many companies were liquidated during the pandemic, resulting in widespread retrenchments. Fubah & Moos (2022) report that the unemployment rate in South Africa rose from 25.54% in 2019 to 29.81% in 2022. Hunger, unemployment, and poverty have driven more individuals into informal trading in the post-pandemic era, as opportunities in the formal sector remain scarce (Khambule, 2022).

The informal sector has become overcrowded, with many traders selling similar goods (Amoako, 2019). MacKenzie (2017) notes that supply often exceeds demand, causing some traders to go entire days without making a sale. The informal sector has traditionally provided employment opportunities for individuals unable to secure formal sector jobs (Magidi & Mahiya, 2021). However, the increase in unemployment caused by the pandemic has forced many South Africans to become self-employed, as numerous companies closed during this period (Khambule, 2022).

People retrenched from formal jobs have used unemployment insurance funds to start small businesses in the informal sector to support their families (Tesso, 2020). As a result, the informal sector is now overcrowded (Romanello, 2022). Competition is particularly fierce, as traders sell similar goods to the same target market while operating in close proximity to one another. Traders sell similar goods due to high demand; however, supply often surpasses demand, forcing traders to lower prices to attract customers (Vom Lehn, 2014).

The reduction in prices creates additional pressure on other traders to follow suit, ultimately reducing profit margins. highlights that informal traders not only compete with each other but also with Pakistani-owned shops, which sell similar goods at lower prices. These shops can maintain lower prices as they buy in bulk from wholesalers at discounted rates, unlike informal traders who lack the funds to do so (Roever, 2014).

Pakistani-owned shops further outcompete informal traders by operating longer hours, opening early in the morning and closing late at night (Mehta et al., 2021). Many Pakistani shop owners live within their business premises, while informal traders often rely on public transportation, which limits their operational hours.

4.4. Informal Sector Dynamics and Trends In South Africa.

Informal trading contributes 6% of the Gross Domestic Product (GDP) in South Africa (Etim & Daramola, 2020). According to Ogando et al. (2022), the informal sector has been a significant source of income even before the COVID-19 outbreak, with approximately 18% of the workforce employed in the informal sector. Before the pandemic, in 2013, there were about 1,517,000 informal traders; this number doubled to over 3,000,000 traders (Ringson, 2023).

The outbreak of COVID-19, combined with poverty, lack of income, and the absence of job opportunities in the formal sector, are the main reasons people turned to informal trading. The pandemic further exacerbated this situation. People who lost jobs in the formal sector during the pandemic contributed to the rising number of informal traders, which has since drawn the attention of policymakers (Dzawanda et al., 2021). In the post-COVID-19 era, the informal sector is seen as a major contributor to job creation and income generation (Khambule, 2022).

In 2018, approximately 1,101,000 people were engaged in informal trading in South Africa, accounting for 41% of those working in the informal sector (Musiyandaka, 2019). According to Wirba et al. (2021), women own 45.5% of informal sector businesses, while men own about 54.5%. Post-pandemic, informal trading has been viewed as an essential decentralized economic activity undertaken in response to economic crises (Awuni et al., 2023). By 2023, the number of people employed in the informal sector had risen to 7.8 million.

The informal sector provides job opportunities to everyone, helping to reduce South Africa's unemployment rate (Sparks & Barnett, 2010). According to Adhikari & Raut (2024), in 2019, the informal sector employed approximately 7,376,000 people, but the number declined to 7,185,000 in 2020. By 2021, the number of people employed in the informal sector further dropped to 7,166,000 due to the pandemic (Pribadi et al., 2023). This decline was attributed to informal traders' inability to afford personal protective equipment. However, in 2022, the number began to rise again, reaching 7,538,000 (Bossissi et al., 2022).

The increase in informal traders in 2022 was due to job losses in the formal sector, and as lockdown restrictions were lifted, more people turned to informal trading (Rogan & Skinner, 2022). By 2023, the number of people employed in the informal sector had risen by 291,000, totaling 7,829,000 (Van den Boogaard & Beach, 2023).

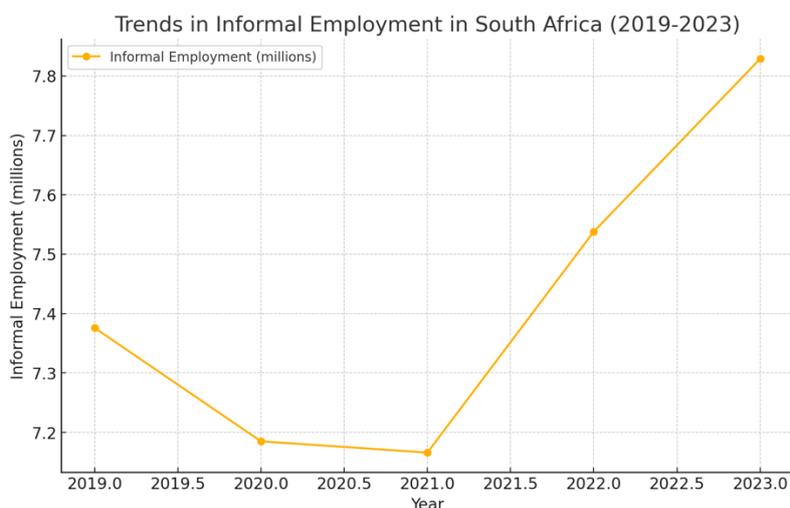


Figure 3: Trends in Informal Employment (2019-2023)

Figure 3 shows a decline in informal employment during the early stages of the COVID-19 pandemic (2020-2021) due to strict lockdown measures. However, a steady increase is observed from 2022 onwards, reflecting the informal sector's role in absorbing individuals retrenched from the formal economy.

4.5. The Rise On Informal Traders On City Planning: Implications And Lessons From Covid-19

The COVID-19 outbreak led to a significant increase in the number of informal traders in South Africa (Khambule, 2022). The rapid growth of informal traders disrupted city organization, as they occupied any available space with high pedestrian volumes (Essajee, 2022). Informal traders often operate without consulting authorities, creating a "cat and mouse" relationship with law enforcement officials (du Plessis, 2019).

The primary role of town planners is to organize and align activities within cities to avoid confusion and improper allocation of space. For instance, a food production company cannot be placed adjacent to a factory producing hazardous chemicals. Wegerif (2024) notes that trading without permits has become commonplace in

the post-COVID-19 period, with informal traders setting up operations in high-pedestrian areas regardless of potential dangers.

Currently, informal traders are often found in hazardous locations such as construction sites, mine dumps where *zama-zamas* operate, and train stations (Munakamwe, 2017). The increasing number of informal traders has made it challenging for city planners to organize urban spaces effectively (Jonathan, 2018). The designated trading areas often lack sufficient pedestrian traffic and informal traders see little incentive to operate in locations without customers.

4.6. Impact of Informal Trading on The Economy Of South Africa

Khambule (2022) postulates that against the backdrop of a high unemployment rate in the post-COVID-19 outbreak in South Africa, the informal sector creates job opportunities for nearly one-third of the national total and contributes 6% to the gross domestic product (GDP). Informal trading provides job opportunities for people who are unable to secure formal employment due to a lack of qualifications, skills, knowledge, and experience (Duncan, 2020).

Di Nola et al. (2023) state that the outbreak of COVID-19 led to the liquidation of various companies, resulting in widespread job losses. According to Chikovore & Maharaj (2023), self-employment through informal trading became a strategy to escape poverty in post-COVID-19 South Africa. Jamela (2013) notes that informal trading offered a second chance to individuals who lost jobs, enabling them to support their families. Through informal trading, poverty and high unemployment rates are mitigated (Manjokoto & Ranga, 2018).

Venter et al. (2024) argue that without informal trading, those who lost jobs during the COVID-19 outbreak would have relied heavily on government assistance, such as food parcels and the Social Relief of Distress (SRD) R350 grant, which is insufficient to meet basic needs. Participating in informal trading allows citizens to access essential services such as food, cosmetics, and funeral premium payments (Bewiadzi Akakpo, 2022).

South Africa's high crime rate is often exacerbated by unemployment, as people without income or direction may resort to criminal activities (Brantingham et al., 2017). Hager & Halliday (2007) highlight that informal trading is one of the most accessible forms of employment, as it does not require qualifications, skills, or prior experience. The availability of informal trading motivates individuals to work hard for themselves and reduces the likelihood of engaging in criminal behavior (Muchuweni-Chiumira, 2019).

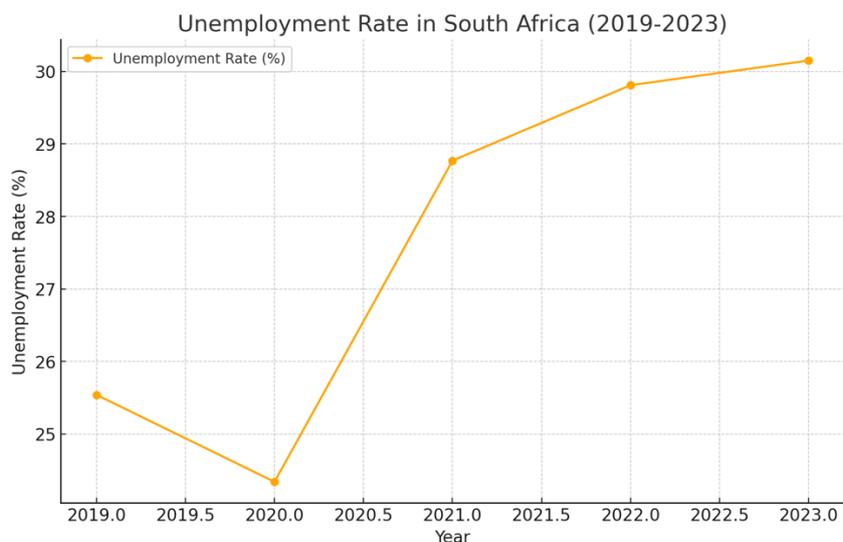


Figure 4: Unemployment Rate in South Africa (2019-2023)

In Figure 4, the unemployment rate shows a significant rise in 2021 and 2022, coinciding with the economic impact of the pandemic. The slight dip in 2020 suggests temporary government interventions, but the subsequent spike highlights the long-term effects of business closures and retrenchments.

5. Implications of COVID-19 on Informal Trading In South Africa

The outbreak of COVID-19 was first recorded in South Africa on March 5, 2020, and a three-week lockdown was introduced by the president starting March 26, 2020 (Djalante et al., 2020). Olivier et al. (2020) note that the main aim of the lockdown was to curb the spread of the virus. The lockdown was extended, leading to the implementation of five different lockdown levels (Benchrif et al., 2021). Level five was the strictest, allowing only essential services to operate, while level one relaxed most regulations (Holroyd et al., 2022).

The restriction of people's movement aimed to flatten the curve of infections, as increased mobility correlated with higher transmission rates (Arshed et al., 2020). While the lockdown achieved some positive outcomes, such as reducing infection and death rates, the negative impacts were far more significant, including job losses and the

suspension of informal trading activities (Tapia-Serrano et al., 2022). Chirisa et al. (2020) explain that although informal trading supports many households, it was not classified as an essential service during the lockdown.

The South African government implemented strategies such as distributing food parcels to support individuals who were not allowed to work (Mlambo & Khuzwayo, 2021). Informal traders were among the beneficiaries of these food parcels, as they had no income during this period (Kushitor et al., 2022). Aday & Aday (2020) highlight that the food parcel distribution strategy was intended to prevent people from leaving their homes in search of food and other essentials. Many companies, however, were forced to retrench workers due to liquidation (Jombe & Pretorius, 2022).

The operational costs for companies during the pandemic increased significantly as they had to purchase personal protective equipment (PPE) such as masks and sanitizers, which added to their financial strain (Cohen et al., 2020). Most South African companies were financially unprepared for the pandemic (Uctu & Eksteen, 2022). Mishi et al. (2023) argue that the pandemic had a severe impact on the unemployment rate in South Africa, as companies retrenched workers to stay afloat.

Akullian et al. (2021) report that South Africa's unemployment rate in 2019 stood at 25.54%, reflecting a 1.32% increase from 2018 (24.22%). During the pandemic, the unemployment rate decreased slightly to 24.34% in 2020, but this was short-lived, as the rate surged to 28.77% in 2021—an increase of 4.43% (Christodouloupoulou & Kouvavas, 2022). The rise in unemployment during 2021 was attributed to the liquidation of companies and mass retrenchments.

By 2022, South Africa's unemployment rate had risen further to 29.81%, marking a 1.04% increase from the previous year (Nguyen, 2022). The pandemic played a significant role in this rise (Altman, 2022). In the first quarter of 2020, the number of informal traders in South Africa decreased by 25%, from 1.6 million to 1.2 million, due to the implementation of level five lockdown restrictions (Kassa & Grace, 2020). Hlatswayo (2022) notes that the decrease occurred as informal trading activities were suspended.

The formal sector was also significantly affected by the pandemic, though the impact took longer to manifest (Olivia et al., 2020). South Africa experienced economic recessions driven by the pandemic (du Plessis et al., 2022). Prices of essential goods such as food and fuel increased repeatedly, while the repo rate also rose frequently (Subramanian & Felman, 2019).

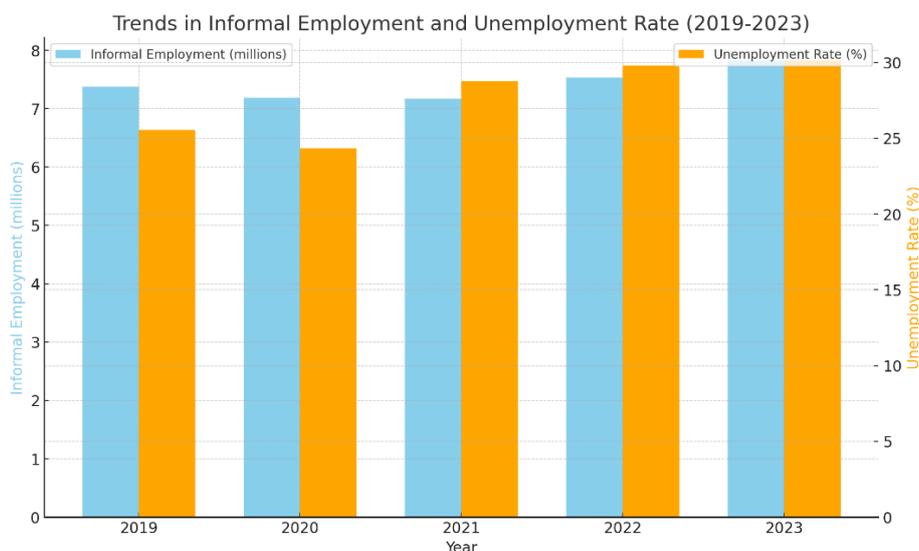


Figure 5: Combined Trends in Informal Employment and Unemployment Rate (2019-2023)

Figure 5 demonstrates an inverse relationship between informal employment and unemployment rates. As unemployment rises, more individuals turn to the informal sector for income, underscoring its critical role as a safety net during economic downturns.

6. Recommendations

South African municipalities should introduce a simple and efficient method that allows traders to apply for and renew trading permits electronically without the need for physical consultations.

The South African government should develop workable policies that remain effective even during unforeseen circumstances such as the COVID-19 pandemic. In essence, contingency plans must be in place and implemented promptly. Workable policies can only be achieved if informal traders are included in the planning, decision-making, and implementation processes during policy formulation.

Municipalities should avoid using a one-size-fits-all strategy when creating policies for formal and informal traders, as these two groups have different needs and dynamics.

The South African government should make business funding accessible to everyone by reducing application requirements and introducing an effective website where traders can apply without visiting departments or municipalities in person.

Trading permits should be affordable since most traders are self-funded. Making permits more accessible could also help reduce illegal trading.

Informal traders must have access to credit and other supporting resources to sustain their businesses and diversify their income streams, reducing reliance on a single livelihood strategy.

7. Conclusion

This paper reaffirms that informal trading plays a critical role in reducing South Africa's unemployment rate by offering job opportunities to individuals irrespective of their qualifications, skills, knowledge, or experience. While the COVID-19 outbreak was a global shock, resulting in the loss of lives and investments, it also demonstrated the resilience and adaptability of the informal sector. Despite the severe challenges posed by the pandemic, the informal sector emerged as a crucial economic safety net, offering both opportunities and lessons for the future.

The analysis highlights that the pandemic accelerated the adoption of e-commerce among informal traders, as restrictions on physical trading spaces forced them to explore online platforms. This shift underscored the potential for technology to enhance the resilience of the informal sector. Furthermore, the pandemic underscored the importance of having robust contingency plans. Traders are encouraged to prioritize savings, strengthen their social networks, and diversify their income sources to mitigate the impact of future crises.

This paper concludes that COVID-19's impact on the informal sector is a multifaceted subject that warrants deeper investigation. Future research should focus on policy frameworks that regulate and support the informal sector, ensuring inclusivity and sustainability. Special attention should be given to the sector's interaction with cross-border migrants and foreign nationals, as these groups often face additional vulnerabilities and barriers.

Ultimately, the lessons drawn from COVID-19 provide an opportunity to reimagine the informal sector as a more integrated and resilient component of South Africa's economy. Policymakers must recognize its value and take proactive steps to address its challenges while fostering its growth and sustainability.

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