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Unlocking Prosperity: Embracing the Potential of the South African Informal Economy for Inclusive Growth

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ABSTRACT

This study examines the South African informal economy, focusing on its significance, challenges, and potential to drive inclusive growth. Once viewed merely as a survivalist activity, the informal economy is increasingly recognised as a dynamic sector with the capacity to generate employment, reduce poverty, and contribute to national development. Using a qualitative methodology, the research drew on literature, policy reviews, and empirical studies to analyse the characteristics of the sector and the systemic barriers it faces. Findings highlight obstacles such as a lack of access to finance, skills shortages, inadequate infrastructure, and weak integration with formal markets. The discussion underscored the importance of policies that balance formalisation with targeted support. Recommendations include inclusive financing mechanisms, vocational skills development, infrastructure investment, and stronger market linkages, all within a supportive regulatory framework. The study contributes to scholarship by reframing the informal economy as an asset rather than a liability, offering a policy-oriented framework for harnessing its potential to build a more resilient, equitable, and prosperous South Africa.

Keywords: Informal Economy, Economic Growth, Policy Framework, Formalisation, Inclusive Development

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INTRODUCTION

South Africa's socio-economic landscape remains deeply fragmented, characterised by staggering levels of unemployment, entrenched poverty, and enduring structural inequality. With an official unemployment rate that surpassed 32% in early 2024, and youth unemployment exceeding 60%, the country continues to grapple with the legacies of apartheid-era spatial planning, exclusionary labour markets, and a formal sector that has proven incapable of absorbing the majority of the working-age population.[1] Amid this economic crisis, the informal economy has emerged as a vital, albeit underappreciated, arena of livelihood, survival, and innovation.

The informal economy, broadly defined as economic activities that are legal but not regulated or protected by the state, encompasses millions of workers in South Africa who operate without formal contracts, labour protections, or access to conventional financial services.[2] According to *Statistics South Africa*, over 5.2 million individuals were engaged in informal employment as of the first quarter of 2024, constituting nearly a quarter of the total employed population.[3] This sector includes a wide range of actors,

[1] Statistics South Africa, *Quarterly Labour Force Survey: Quarter 2 2024* (Pretoria: Statistical Release P0211, 2024). 5-6.
[2] Martha Alter Chen, "The Informal Economy: Definitions, Theories and Policies," 2012.
[3] Statistics South Africa, *Quarterly Labour Force Survey: Quarter 2 2024*. 7.

from street vendors and spaza shop operators to informal construction workers, home-based service providers, and digital gig economy participants.[4]

Yet despite its scale, economic contributions, and importance to household survival - particularly among women, youth, and the rural poor - the informal economy remains marginal in public policy, regulatory frameworks, and developmental discourse. Historically regarded as a "residual" space marked by illegality or inefficiency, informality has often been treated as a temporary aberration to be corrected through formalisation, rather than as an enduring structural feature of the South African economy.[5]

This misrecognition has serious consequences. Informal workers face routine harassment, regulatory exclusion, limited infrastructure, precarious incomes, and a general absence of social protection. [6] Gendered patterns further compound these challenges: women dominate low-income informal segments such as domestic work and caregiving, yet remain underrepresented in decision-making platforms.[7] Moreover, policies aimed at formalisation often adopt a top-down, punitive orientation that imposes rigid compliance standards without providing the necessary institutional support, legal security, or capacity development.[8]

In contrast to these narrow approaches, this article argues for a paradigm shift - one that acknowledges the informal economy not as a problem to be eradicated but as a developmental asset with untapped transformative potential. Anchored in rights-based development and informed by *ILO Recommendation No. 204*,[9] the study adopts a comprehensive analytical framework that integrates structural analysis, policy critique, and comparative case studies from India and Brazil. These comparative insights reveal the efficacy of inclusive strategies that combine legal recognition, collective organisation, financial innovation, and social protection as levers for empowerment and growth.

South Africa's informal economy, if adequately supported, could play a pivotal role in fostering inclusive economic growth, expanding employment opportunities, and reducing multidimensional poverty. The question is no longer whether to engage the informal economy, but *how* to do so in a way that preserves livelihoods, fosters dignity, and aligns with the constitutional promise of social and economic justice.[10]

To that end, this article sets out to (1) map the current structure and socio-economic contribution of the informal economy; (2) examine the legal, institutional, and infrastructural barriers to its development; (3) assess international and comparative frameworks for inclusive informality; and (4) propose coherent, rights-based, and context-sensitive policy strategies. Ultimately, the article advocates for a reimagined developmental state - one that embraces the informal economy not as a marginal residue but as a critical and legitimate site of transformation and resilience in South Africa's post-apartheid political economy.

METHODOLOGY

The methodology adopted in this study is primarily qualitative and exploratory, relying on secondary sources such as existing literature, policy documents, and empirical studies to analyse the South African informal economy. It employs a conceptual and descriptive approach to examine the characteristics, challenges, and opportunities within the sector, while also engaging in a policy-oriented analysis to propose strategies for formalisation, improved access to finance, skills development, and market integration. Rather than collecting primary data, the study synthesises diverse scholarly and policy insights to generate a holistic understanding of the informal economy and provide evidence-based recommendations aimed at fostering an inclusive economy.

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[4] Caroline Skinner, "Informality in South Africa: Understanding the Sector and Its Role in Employment," *Urban Policies Research Report* (Cape Town: SALDRU, 2021).

[5] H. De Soto, *The Other Path: The Invisible Revolution in the Third World* (Harper & Row, 1989).

[6] Francie Lund and Caroline Skinner, "Integrating the Informal Economy in Urban Planning and Governance: A Case Study of the Process of Policy Development in Durban, South Africa," *International Development Planning Review* 26, no. 4 (2004): 431–56.

[7] International Labour Organization (ILO), " Women and Men in the Informal Economy: A Statistical Picture," Geneva: ILO, 2018, https://www.ilo.org/global/publications/books/WCMS_626831/lang--en/index.html.

[8] Ravi Kanbur, "Formalization of Informal Economy: Concepts, Processes and Policy," *International Labour Review* 15 (2018): 501–12.

[9] South Africa and Juta Law (Firm)., *The Constitution of the Republic of South Africa* (Juta, 2009).s 1(c), s 9, and s 27.

[10] Skinner, "Informality in South Africa: Understanding the Sector and Its Role in Employment."

DISCUSSION

The Scope and Significance of the Informal Economy

The informal economy in South Africa is vast, complex, and dynamic. It comprises a wide spectrum of income-generating activities that occur outside of formal regulatory and tax frameworks, yet are crucial for the subsistence and economic resilience of millions. These include street vending, spaza shops, domestic work, waste picking, informal transport (such as minibus taxis), small-scale manufacturing, artisanal services, home-based childcare, and increasingly, digital gig work facilitated through mobile platforms.[11] These enterprises and occupations, while diverse in form and function, share a common feature: they exist beyond the reach of formal employment contracts, social security, and state regulation - though not necessarily outside of the state's gaze or influence.

As of the first quarter of 2024, approximately 5.2 million people were engaged in informal employment, comprising nearly 24.5% of the total employed labour force.[12] This includes both those working in informal enterprises and those engaged in informal jobs within formal firms or households.[13] Particularly significant is the informal sector's role in buffering the impacts of economic downturns: as formal employment contracts or stagnate, the informal economy absorbs displaced labour, acting as a vital shock absorber in an economy marked by volatility and exclusion.[14] It is no exaggeration to assert that, for many South Africans, especially in townships, peri-urban areas, and rural settlements, the informal economy *is* the economy.

However, the sector's significance is not only numerical or economic - it is profoundly social and spatial. Informal work sustains livelihoods where formal economic opportunities are either scarce, inaccessible, or exploitative. It represents a realm of necessity-driven entrepreneurship, adaptive ingenuity, and community-based economic exchange.[15] Informality is especially prevalent among historically marginalised groups: black South Africans, women, youth, migrants, and people living in informal settlements.[16] Women, for example, are overrepresented in low-income informal activities such as domestic work, informal retail, and caregiving, often operating in invisible or under-recognised spaces.[17] Informality, therefore, mirrors and reproduces the intersectional inequalities of South Africa's broader socio-economic landscape.

The sector is also characterised by significant heterogeneity. In urban centres like Johannesburg, Cape Town, and Durban, informal economies are embedded in central business districts and transport hubs, taking the form of dense networks of vendors, service providers, and informal markets. In rural areas, informal economies manifest through smallholder farming, livestock trading, and barter systems.[18] Digitalisation has added further complexity, with a growing number of informal workers participating in platform-mediated gig work - such as food delivery, ride-hailing, and freelance services - yet without formal employment status or labour protections.[19]

Despite these diverse contributions, the informal economy has been persistently misrecognised in policy and planning. Many government strategies continue to frame informal workers as non-compliant, illegal, or backwards. This stigma is rooted in South Africa's colonial and apartheid-era policies that criminalised black economic activity in urban areas through mechanisms such as influx control and trading permits.[20] Spatial apartheid, enforced through urban planning and racialised land dispossession, confined black South Africans to peripheral areas with limited infrastructure and formal employment opportunities.[21] The enduring legacies of this regulatory hostility are still visible in today's exclusionary

[11] Statistics South Africa, *Quarterly Labour Force Survey: Quarter 2 2024*.
[12] Chen, "The Informal Economy: Definitions, Theories and Policies."
[13] Statistics South Africa, *Quarterly Labour Force Survey: Quarter 2 2024*.
[14] Skinner, "Informality in South Africa: Understanding the Sector and Its Role in Employment."
[15] Lund and Skinner, "Integrating the Informal Economy in Urban Planning and Governance: A Case Study of the Process of Policy Development in Durban, South Africa."
[16] International Labour Organization (ILO), " Women and Men in the Informal Economy: A Statistical Picture."
[17] International Labour Organization (ILO), " Women and Men in the Informal Economy: A Statistical Picture."
[18] Kanbur, "Formalization of Informal Economy: Concepts, Processes and Policy."
[19] *The Constitution of the Republic of South Africa*,s 1(c), s 9, and s 27.
[20] *The Constitution of the Republic of South Africa,* s 1(c), s 9, and s 27.
[21] Martha Alter Chen, "Rethinking the Informal Economy: Linkages with the Formal Economy and the Formal Regulatory Environment," *UN DESA Working Paper No. 46* (New York: United Nations, 2007). 4-6.

urban zoning laws, fragmented licensing regimes, and the harassment of informal traders by municipal authorities.[22]

The consequences of such institutional neglect are profound. Informal workers lack legal status and occupational security, operate in unsafe or under-serviced environments, and have minimal access to public infrastructure or state support. Yet, paradoxically, they contribute significantly to local food systems, urban mobility, construction, childcare, waste recycling, and cultural production.[23] In short, they perform essential labour - often invisibly - without the benefits afforded to formal workers.

Recognising the informal economy's centrality to South Africa's socio-economic architecture requires a conceptual shift: from viewing it as a problem to be solved, towards engaging it as a potential site of transformation. It demands policy frameworks that account for its complexity and resilience, rather than relying on simplistic binary logics of formal versus informal, legal versus illegal. The informal economy is not a temporary aberration or a statistical anomaly - it is an enduring and indispensable component of the national economy. Acknowledging this is the first step toward inclusive development.

Structural and Institutional Challenges

Despite the informal economy's indispensable role in sustaining livelihoods, absorbing labour market shocks, and fostering micro-entrepreneurial activity in South Africa, it remains encumbered by a range of structural and institutional constraints. These are not merely technical obstacles, but rather the cumulative effect of historical exclusions, regulatory inertia, and enduring spatial injustice. Addressing these challenges requires a granular understanding of how informality is marginalised within South Africa's socio-economic architecture.

Legal and Regulatory Insecurity

A major challenge faced by informal workers is their tenuous legal status. Most operate in regulatory limbo, without access to enforceable rights, contracts, or protections under labour and commercial law.[24] South African municipal by-laws often criminalise informal economic activity, especially street trading, through rigid licensing regimes, zoning restrictions, and discretionary enforcement. This legal uncertainty leaves traders and informal service providers at constant risk of harassment, confiscation of goods, and displacement by local authorities.

These exclusionary practices are deeply rooted in the country's apartheid-era regulatory frameworks, which deployed urban planning and influx control to systematically suppress Black enterprise in urban centres.[25] Although the formal apparatus of apartheid has been dismantled, its spatial and legal legacies persist. Modern urban zoning continues to exclude informal trade from central business districts, treating informal economic actors not as contributors to urban vitality, but as nuisances to be controlled or removed.[26]

A lack of clear, accessible, and decentralised processes for informal business registration further entrenches exclusion. Without formal recognition, informal operators are unable to access public services, engage in contract enforcement, or secure government procurement opportunities.[27] This regulatory invisibility not only diminishes their economic agency but also strips them of the protections that legal formalisation could afford.

Financial Exclusion

The informal economy remains largely excluded from South Africa's formal financial system. Banks and financial institutions often view informal businesses as unbankable, citing irregular income streams, lack of collateral, informal employment status, and limited documentation as barriers to creditworthiness.[28]

[22] Chen, "The Informal Economy: Definitions, Theories and Policies."
[23] Statistics South Africa, *Quarterly Labour Force Survey: Q1 2024*, 6–7.
[24] C. Skinner and M. Rogan, " The Informal Economy: A Challenge to 'Inclusive' Growth in South Africa," in *Beyond GDP: Economics and Politics for a New Era* , ed. V. Padayachee and M Swilling (Jacana Media, 2019), 203–21.
[25] J. Seekings and N. Nattrass, *Class, Race, and Inequality in South Africa* (Yale University Press, 2005).
[26] A. Brown and M. Lyons, "Scaling up: The Formalisation of Informal Trade in Africa? ," *Urban Studies* 47, no. 3 (2010): 725–49.
[27] Chen, "The Informal Economy: Definitions, Theories and Policies."
[28] FinMark Trust. (2022). *FinScope South Africa 2022 Survey Highlights*. https://www.finmark.org.za

This financial invisibility stifles enterprise growth and limits the capacity of informal entrepreneurs to invest in productivity-enhancing technologies, tools, or training.

Women and youth are disproportionately affected by financial exclusion, as they often lack access to land titles or formal income documentation and face gendered biases in lending decisions.[29] Consequently, many resort to informal savings and lending mechanisms - such as stokvels, rotating credit associations, and burial societies - which provide crucial liquidity and mutual support but remain inadequately integrated into the broader financial policy framework.

Despite the proliferation of fintech solutions in Africa, including mobile banking and digital wallets, these innovations have not yet been widely scaled or institutionalised in the South African informal sector. Public-private partnerships that de-risk lending and expand access to microinsurance and savings products tailored for informal workers could significantly broaden financial inclusion.[30] However, such models require an enabling regulatory environment and deliberate investment.

Infrastructure and Spatial Constraints

The informal economy is shaped by and embedded within the spatial geographies of exclusion. Informal traders often operate without basic amenities such as electricity, clean water, sanitation, storage space, or shelter. These infrastructural deficits are particularly acute in township economies and informal settlements, which continue to suffer from apartheid's spatial legacy of racialised displacement and underinvestment.[31]

Informal markets are routinely excluded from urban development plans, and when they are accommodated, it is often through inadequate or ill-maintained infrastructure. For example, traders may be relocated to designated "hawking zones" that are isolated from foot traffic or denied access to waste removal and public toilets - conditions that impair both profitability and human dignity.[32] The absence of secure and serviced trading spaces renders informal businesses vulnerable to theft, weather disruptions, and health hazards, thereby compounding their precarity. Urban policies continue to prioritise formal commercial development and private capital interests, marginalising the needs of informal entrepreneurs. A developmental spatial strategy would require a reimagination of urban public space as inclusive and accessible, where informal economic activity is recognised as an integral part of the urban ecosystem rather than an illegal intrusion.

Gender Disparities

Gender remains a fundamental axis of inequality within the informal economy. Women constitute the majority of informal workers in South Africa, but their economic activities are typically located in the most precarious, low-paid, and unprotected segments of the sector such as domestic work, food vending, and home-based care. 23 These roles are not only under- regulated but also deeply undervalued, reflecting the systemic devaluation of "women's work" in both formal and informal spheres.

The burdens of unpaid care work, gender-based violence, and limited access to productive assets further compound the vulnerabilities faced by women in informal employment. Without maternity protection, childcare support, or social insurance, informal female workers must often choose between income and family responsibilities. 24 Gendered power dynamics also influence decision-making within informal enterprises, where women may be excluded from leadership or denied equitable access to earnings and opportunities. Existing policy frameworks have largely failed to address these structural inequalities, often treating informal workers as a homogenous group. Gender-responsive policies are essential -not as an afterthought but as a central pillar of inclusive development. This includes extending social protection to informal care workers, enforcing basic occupational health and safety standards, and enabling women's participation in economic governance structures.

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[29] Dumisani Chirambo, "Corporate Sector Policy Innovations for Sustainable Development Goals (SDGs) Implementation in the Global South: The Case of Sub-Saharan Africa," *Journal of Sustainability Research* 3, no. 2 (2021).

[30] L. Alfers, F. Lund, and R. Moussie, "Informal Workers and the Social Protection Response to COVID-19," *International Social Security Review* 71, no. 2 (2018): 95–11.

[31] Ivan Turok and Justin Visagie, *Inclusive Urban Development in South Africa: What Does It Mean and How Can It Be Measured?* (The Institute of Development Studies and Partner Organisations, 2018).

[32] Turok and Visagie, *Inclusive Urban Development in South Africa: What Does It Mean and How Can It Be Measured?*

Pathways Towards Inclusion: Policy Recommendations

Charting an inclusive economic future for South Africa necessitates a fundamental shift in the policy imagination surrounding informality. Rather than perceiving the informal economy as a temporary aberration or a problem to be eradicated, the state must reframe it as a permanent and vibrant component of the national economy. This requires a developmental and rights-based approach that moves beyond fragmented regulatory interventions and embraces structural transformation, participatory governance, and socio-economic justice.

The current policy landscape in South Africa has largely failed to integrate the informal sector meaningfully into the national economic strategy, often treating it with benign neglect or heavy-handed enforcement.[33] A developmental approach should begin with recognising the heterogeneity of informal economic actors - including street vendors, home-based workers, informal transport operators, and waste pickers - and crafting tailored interventions that respond to their specific needs and vulnerabilities.[34] This recognition implies not only tolerance but also investment in their productive potential.

A rights-based framework must also be central. Informal workers often lack basic social protections, tenure security, and access to financial services and infrastructure.[35] Policymakers should prioritise inclusive urban planning that safeguards informal traders' access to public space, extends labour rights to informal workers through legal reform and collective representation, and design social protection systems that are adaptive to the realities of non-standard work.[36] Additionally, state institutions should support capacity building, cooperative formation, and inclusive financing mechanisms to enable upward mobility within the informal economy. Crucially, policy reforms must be anchored in participatory mechanisms that empower informal economy actors to shape the decisions that affect them. This includes institutionalising consultative forums, co-producing regulatory frameworks, and decentralising economic governance to reflect local dynamics.[37] Such democratic inclusion fosters legitimacy, ensures policy responsiveness, and aligns with the constitutional vision of substantive equality and dignity for all South Africans.[38]

In sum, the pathway toward economic inclusion lies not in attempting to formalise informality out of existence, but in embedding it within a broader developmental strategy that promotes resilience, rights, and recognition. When supported appropriately, the informal economy can be a driver of innovation, employment, and community development.

Formalisation with Flexibility

Formalisation of the informal economy must move beyond rigid, top-down models that aim to compel conformity through punitive or bureaucratic means. In many cases, coercive formalisation exacerbates the vulnerability of informal workers, displacing them from economic activity rather than integrating them into supportive regulatory frameworks.[39] As such, formalisation should be reconceptualised as a gradual, participatory, and flexible process that reflects the lived realities of informal economic actors.

A central tenet of this approach is the promotion of *hybrid legal statuses*—intermediate regulatory categories that allow informal enterprises to incrementally adopt formal obligations without forfeiting their economic viability. These hybrid statuses may include simplified licensing schemes, partial registration, and tiered tax obligations that account for the variable scales and capacities of informal businesses.[40] For instance, Peru's *Régimen Único Simplificado* (RUS) provides a streamlined tax regime for microenterprises, enabling them to participate in the formal economy without facing the full weight of

[33] C. M. Rogerson and T. G. Hart, "Informal Economy and Spatial Development: Planning Implications for South African Cities," *Urban Forum* 31 (2020): 1–17.
[34] C. Skinner and M. Rogan, " The Informal Economy: A Lens for Inclusive Growth. In Inclusive Growth: From Concept to Action ," International Development Research Centre (IDRC), 2019, https://idl-bnc-idrc.dspacedirect.org/handle/10625/58541.
[35] Chen, "The Informal Economy: Definitions, Theories and Policies."
[36] S. Devereux and J. Waidler, "Why Does Malnutrition Persist in South Africa despite Social Grants? ," Food Security SA Working Paper Series, 002. Centre of Excellence in Food Security, 2017, https://foodsecurity.ac.za/publications/working-paper-002/.
[37] W. V. Mitullah, " Informal Economy Governance and the Role of Associations in Africa," *IDS Bulletin* 51, no. 1 (2020): 89–104.
[38] *The Constitution of the Republic of South Africa*.
[39] Skinner and Rogan, " The Informal Economy: A Challenge to 'Inclusive' Growth in South Africa."
[40] International Labour Organization, " Formalization of the Informal Economy: Good Practices in Building Innovative Pathways for Inclusion," *ILO*, 2021.

conventional corporate compliance requirements.[41] Similarly, India's digital MSME registration portal, *Udyam*, lowers entry barriers by offering online self-certification and access to credit and procurement schemes without requiring extensive documentation or fixed premises.[42]

In the South African context, such flexible frameworks could take the form of community-based licensing initiatives administered in partnership with local municipalities and informal worker associations. Moreover, the simplification of regulatory procedures - such as reducing the cost and complexity of obtaining permits and trading licenses - can foster an enabling environment for voluntary formalisation. This transition must be incentivised rather than enforced, with clear benefits such as access to social protection, credit facilities, and infrastructure upgrades.[43] In this way, formalisation becomes a pathway to empowerment rather than exclusion.

Skills and Capacity Development

Parallel to regulatory reform, a robust strategy for economic inclusion requires targeted investment in the skills and capacities of informal workers. Many informal enterprises operate at subsistence levels due in part to low levels of education, limited access to training, and weak integration into value chains.[44] Empowering these actors through accessible, context-specific, and demand-driven skills development initiatives is critical to enhancing their productivity and resilience.

Vocational education tailored to the informal economy must go beyond traditional training modalities to embrace innovations in delivery, content, and pedagogy. Mobile learning platforms offer one promising avenue. In Kenya, *M-Shule* uses SMS and AI-driven analytics to deliver personalised educational content to learners with limited internet access, while Nigeria's *ULesson* provides digital tutorials accessible via mobile phones, reaching informal learners with flexible and affordable content.[45] These platforms demonstrate the transformative potential of technology in bridging educational divides for informal workers.

In South Africa, the establishment of decentralised training ecosystems could be facilitated through strategic partnerships between Technical and Vocational Education and Training (TVET) colleges, non-governmental organisations (NGOs), and informal sector associations. Such collaborations can ensure that training programmes are both relevant and responsive to the needs of different informal subsectors, such as domestic work, waste picking, informal retail, and construction.[46] Integration of financial literacy, digital skills, and entrepreneurship education can further equip informal workers with the tools to grow their enterprises sustainably.

Importantly, skills development must be accompanied by institutional support - such as mentorship, incubation services, and access to micro-finance - that reinforces learning with practical application. This ecosystemic approach not only enhances individual capabilities but also contributes to the broader structural transformation of the informal economy.

Inclusive Financial Services

The promotion of financial inclusion within South Africa's informal economy must extend beyond the narrow metric of access to traditional bank accounts. While financial access is foundational, the depth, usability, and appropriateness of financial products are equally critical. Informal workers and microenterprises often require flexible, low-cost, and tailored financial services that align with irregular income patterns and low capital reserves.[47] A transformative approach involves leveraging financial technology (fintech) innovations to bridge these gaps.

[41] International Labour Organization, " Formalization of the Informal Economy: Good Practices in Building Innovative Pathways for Inclusion."
[42] International Labour Organization, " Formalization of the Informal Economy: Good Practices in Building Innovative Pathways for Inclusion."
[43] C. M. Rogerson, "Enabling Environments and the Informal Economy in South Africa," *Urban Forum* 32, no. 1 (2021): 23–41.
[44] F. C. V. N. Fourie, *The South African Informal Sector: Creating Jobs, Reducing Poverty* (Human Sciences Research Council, 2018).
[45] S. Gillespie, " EdTech's Potential in Africa's Informal Economy: A Spotlight on M-Shule and ULesson," EdTech Hub, 2020.
[46] Skinner and Rogan, " The Informal Economy: A Lens for Inclusive Growth. In Inclusive Growth: From Concept to Action."
[47] Asli Demirguc-Kunt et al., *The Global Findex Database 2017: Measuring Financial Inclusion and the Fintech Revolution* (World Bank Publications, 2018).

Mobile wallets, peer-to-peer lending platforms, and AI-powered credit scoring systems have emerged as effective tools for extending financial services to underserved populations. These platforms can circumvent the conventional banking sector's collateral and documentation requirements, making credit more accessible to informal traders and entrepreneurs.[48] For example, mobile money services such as M-Pesa in Kenya have demonstrated how mobile technology can revolutionise financial access for low-income individuals. In South Africa, scalable models could include public-private partnerships that incentivise fintech start-ups to develop services for informal workers, with regulatory support from the South African Reserve Bank (SARB).

Governmental actors can also play a catalytic role by de-risking lending to informal enterprises. This may include providing credit guarantees, co-financing arrangements, and establishing revolving funds in partnership with cooperatives and non-governmental organisations.[49] Furthermore, the expansion of micro-insurance products - covering health risks, asset loss, and climate-related shocks - can protect informal workers from economic precarity. The SARB's *National Financial Inclusion Strategy (NFIS)* provides a comprehensive roadmap, but its effective implementation requires greater political will, coordination, and accountability.[50]

Infrastructure Investment

The productivity and dignity of informal work are intimately tied to the availability and quality of physical infrastructure. Informal workers often operate in overcrowded, unsafe, or unsanitary conditions, with limited access to basic utilities, storage, or transportation hubs.[51] Addressing these challenges requires a reorientation of urban planning and municipal budgeting toward inclusive infrastructure investment. National and local governments should prioritise the development of designated trading zones, the refurbishment of informal markets, the construction of affordable storage units, and the improvement of pedestrian-friendly and accessible transport networks. Such interventions directly enhance the working conditions and earning potential of informal workers, while also contributing to public health and urban aesthetics.[52] Importantly, these investments should be guided by principles of participatory planning, where informal economic actors are treated as legitimate stakeholders rather than as nuisances to be controlled or displaced.

South Africa's *Integrated Development Plans (IDPs)* offer an institutional mechanism for embedding informal economy concerns into broader urban development strategies. However, informal workers are frequently excluded from IDP consultations, resulting in plans that overlook or undermine their needs. Positive examples from Durban's Warwick Junction, where traders and city officials co-designed improvements to market spaces, and Kigali's Nyabugogo Market, which integrated informal vendors into formal infrastructure, illustrate the potential of inclusive planning.[53] These models underscore the importance of co-production and spatial justice in advancing informal economy development.

Social Protection Floors

Despite South Africa's constitutional commitment to socio-economic rights, the vast majority of informal workers remain excluded from formal social protection systems. This exclusion not only deepens economic insecurity but also undermines the state's commitment to equality and dignity for all.[54] To correct this, South Africa must urgently establish a universal social protection floor that extends coverage to informal workers in a comprehensive and portable manner.

[48] P. K. Ozili, "Impact of Digital Finance on Financial Inclusion and Stability," *Borsa Istanbul Review* 18, no. 4 (2018): 329–40.
[49] International Labour Organization, " Formalization of the Informal Economy: Good Practices in Building Innovative Pathways for Inclusion."
[50] South African Reserve Bank, "National Financial Inclusion Strategy: A Roadmap to Inclusive Financial Sector Development in South Africa 2018–2023," 2018, https://www.resbank.co.za.
[51] C. Skinner, " Confronting the Contested Urban Commons: Street Trading in Warwick Junction, Durban, South Africa," *International Development Policy | Revue Internationale de Politique de Développement* 11 (2019): 161–85.
[52] Rogerson and Hart, "Informal Economy and Spatial Development: Planning Implications for South African Cities."
[53] Skinner, " Confronting the Contested Urban Commons: Street Trading in Warwick Junction, Durban, South Africa."
[54] *The Constitution of the Republic of South Africa*.

A social protection floor should encompass a basic package of income security and essential services, including child grants, old age pensions, maternity benefits, health coverage, and disability support. The International Labour Organization's *Recommendation 202 (2012)*[55] outlines a globally endorsed framework for achieving this goal, emphasising the principles of universality, adequacy, and sustainability.[56] For informal workers, portability and ease of access are crucial; contributory schemes must be designed with flexible payment arrangements and minimal administrative burdens.

Countries such as Thailand offer practical examples through their voluntary social insurance programmes tailored to informal workers. These schemes allow informal workers to opt into different benefit tiers according to their capacity to contribute, often with partial subsidies from the state.[57] In South Africa, pilot projects or sector-specific schemes - for example, for domestic workers, waste pickers, or street traders - could pave the way for broader implementation. Aligning these efforts with the National Social Security Fund reforms under consideration would ensure policy coherence and long-term sustainability. Ultimately, integrating informal workers into the social protection system is not merely a matter of equity, but a prerequisite for inclusive development and social cohesion.

Towards a Developmental State that Recognises Informality

For South Africa to unlock the full potential of its informal economy, it must embrace a developmental state paradigm that actively engages informal actors not as peripheral anomalies but as integral agents of economic transformation. This requires a fundamental departure from the entrenched binary of "formal" versus "informal" economic sectors - a dichotomy that has historically reinforced policy inertia, socio-economic exclusion, and epistemic erasure.[58] Rather than viewing informality as a symptom of underdevelopment or policy failure, it should be understood as a structurally embedded and socially adaptive response to long-standing inequalities, bureaucratic inaccessibility, and labour market segmentation.[59]

A developmental state in the South African context must reposition itself beyond conventional regulatory paradigms toward a proactive, inclusive, and enabling governance model. This means shifting from punitive and extractive approaches to one premised on partnership, co-creation, and mutual accountability. The state must act not only as a regulator but as a facilitator, co-investor, and capacity-builder for informal workers and enterprises.[60] Such a transformation necessitates the reconfiguration of state institutions and mandates across all tiers of government, ensuring that local, provincial, and national policies are aligned in their recognition and support of informality.

The *National Development Plan (NDP) 2030* provides a robust normative framework for inclusive development, emphasising job creation, poverty reduction, and social cohesion.[61] However, the NDP's implementation has often treated the informal economy as a marginal or residual concern. To fully realise the developmental objectives outlined in the NDP, informal economic actors must be integrated into its operational architecture as central contributors to economic dynamism, labour absorption, and grassroots innovation. This requires not merely rhetorical inclusion, but institutional mechanisms that incorporate informality into planning, budgeting, and monitoring systems.[62]

Policy fragmentation remains a significant barrier. Currently, initiatives from entities such as the Department of Small Business Development, the National Treasury, the Department of Labour, and metropolitan municipalities often operate in silos or in tension with one another.[63] A coherent and cross-

[55] International Labour Organization (ILO), "Recommendation No. 204: Transition from the Informal to the Formal Economy," 2015, https://www.ilo.org/global/topics/employment-promotion/informal-economy/publications/WCMS_377774/lang--en/index.htm.
[56] International Labour Organization, "Social Protection Floors Recommendation, 2012 (No. 202)," 2012, https://www.ilo.org/global/standards/recommendations/WCMS_183326/lang--en/index.htm.
[57] International Labour Organization, "Extending Social Security to Workers in the Informal Economy: Lessons from International Experience," 2017.
[58] Chen, "The Informal Economy: Definitions, Theories and Policies."
[59] De Soto, *The Other Path: The Invisible Revolution in the Third World*.
[60] De Soto, *The Other Path: The Invisible Revolution in the Third World*.
[61] M. Fakude, "Towards a Developmental State in South Africa: Institutions, Governance, and the Political Economy," *South African Journal of Political Science and Public Administration* 40, no. 2 (2021): 65–84.
[62] Fourie, *The South African Informal Sector: Creating Jobs, Reducing Poverty*.
[63] C. M. Rogerson, "Rethinking the Informal Economy in South Africa: Emerging Policy Debates," *GeoJournal of Tourism and Geosites* 26 (2019): 821–29.

cutting national informal economy strategy must be developed to harmonise economic, spatial, labour, and social protection policies. This strategy should explicitly designate the informal economy as a legitimate and strategic development domain, not as a temporary anomaly awaiting formalisation.

Moreover, governance must be participatory, democratic, and accountable. Informal worker associations, civil society organisations, academic institutions, and community leaders must be engaged not as passive consultees but as co-designers and evaluators of policy. Drawing on international models such as Brazil's *National Council on the Solidarity Economy* or Ghana's *StreetNet Ghana Alliance*, South Africa could institutionalise participatory bodies - such as Informal Economy Advisory Panels - to ensure continuous dialogue and accountability.[64] These bodies would enable grounded and inclusive policy design, reflect the lived realities of informal actors, and promote social justice through democratic co-production. By recasting informal work as a site of policy innovation and human potential, South Africa can redefine the contours of inclusive development. The informal economy is not an afterthought; it is a developmental frontier rich in entrepreneurial ingenuity, cultural vibrancy, and economic resilience. A developmental state that recognises, protects, and invests in this frontier is not only possible - it is necessary for realising the constitutional promise of equality, dignity, and shared prosperity.

To fully harness the transformative potential of the informal economy, South Africa must cultivate a developmental state that actively engages and legitimises informal economic actors as co-architects of inclusive growth. This requires jettisoning the outdated binary between the "formal" and "informal" economies - a dichotomy that reinforces exclusion and perpetuates institutional blind spots. Instead, informality must be recognised as an enduring and adaptive feature of South Africa's socio-economic landscape, shaped by structural inequalities and collective resilience.

A developmental state approach involves a paradigm shift: from punitive regulation to enabling governance. The state should reposition itself not merely as a regulator but as a partner, facilitator, and co-investor in the informal economy. This calls for a multi-level governance model where national, provincial, and local governments coordinate to ensure policy coherence and resource alignment. The National Development Plan (NDP) 2030 provides a strategic foundation for inclusive growth, but its realisation depends on embedding informality into its implementation architecture—not as a marginal appendix, but as a central developmental frontier.

Crucially, policy coherence must replace fragmented and siloed approaches. Presently, interventions from entities such as the National Treasury, the Department of Small Business Development, municipal governments, and labour institutions often operate in parallel or in contradiction. An integrated national strategy must be developed that harmonises economic planning, labour regulation, spatial development, and social protection policies. This strategy should explicitly recognise the informal economy as a legitimate site of value creation, labour absorption, and innovation.

Moreover, participatory governance is essential. Informal worker organisations, civil society groups, trade unions, academic institutions, and community-based organisations must be included not only as consultation bodies but as co-designers and co-evaluators of policy. Structures such as Social and Economic Councils or Informal Economy Advisory Panels—similar to models in Brazil and Ghana - could institutionalise participatory decision-making and accountability. The informal economy must no longer be treated as a policy afterthought. It is a vibrant developmental frontier, rich with human capital, entrepreneurial energy, and socio-cultural vitality. Recognising this frontier - and investing in it through inclusive, coordinated, and participatory policy - offers a powerful pathway towards realising the inclusion. South Africa's future prosperity constitutional promise of dignity, equality, and social justice for all South Africans.

CONCLUSION

In a society still grappling with the legacies of colonial dispossession, apartheid spatiality, and neoliberal restructuring, the informal economy should not be seen as a deviant or residual domain, but rather as a vital locus of economic activity, social resilience, and human ingenuity. For millions of South Africans, informal work is not merely a fallback—it is the principal source of livelihood, autonomy, and survival.

[64] Z. E. Horn, " Coping with Crises: Women Street Traders in Durban, South Africa.," *International Journal of Politics, Culture, and Society* 23, no. 1 (2011): 123–34.

The informal economy is, in many ways, the people's economy: it reflects their capacity to adapt, innovate, and thrive in the face of systemic exclusion.

Harnessing this potential requires more than technical reforms—it necessitates a paradigmatic shift in how the state conceptualises and engages informality. The dominant paradigm, rooted in control, criminalisation, and marginalisation, must give way to one grounded in dignity, collaboration, and developmental inclusion. This means recognising informal workers as rights-bearing economic agents and co-architects of South Africa's developmental future.

Inclusive growth, as envisioned in the National Development Plan and the Constitution's transformative ethos, cannot be achieved without integrating the informal economy into national economic planning. That integration must be comprehensive: extending infrastructure, financial access, legal protections, social security, and skills development to those historically left out of formal systems. As ILO Recommendation 204 emphasises, transitioning to formality must be voluntary, enabling, and participatory - not punitive or extractive.

Ultimately, the informal economy must be understood not as a failure of the formal system, but as a repository of resilience, community solidarity, and untapped economic dynamism. The task ahead is clear: to shift from a narrow fixation on formalisation towards an expansive vision of economic hinges on its ability to build an economy that works for all - and that project cannot succeed without centering and supporting those who have long laboured in the shadows of informality.

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