



**Quarterly  
Economic Bulletin  
2018/19 Q 3**

## Foreword

The third quarter Economic Bulletin presents the most topical and complex topics that can determine sustainable development in the province and the world at large. It was necessary that the bulletin provide fundamental overview to the informal economy and its impact. Limpopo is characterized by large number of people living in poverty, high income inequality and unemployment. Therefore, many people resort to informal sectors for sustenance.

It is imperative that the provincial administration understand the dynamics in the informal sector so as to be able to assist many of the citizens in developing their businesses and graduating to be part of the formal sector. Some of the informal businesses prefer not to graduate to the formal sector and should be supported in the informal sector to thrive.

In the development of the Sustainable Development Goals, the nourishing of the environment has been placed among other development agenda items. The world and the country in particular has been experiencing weather pattern changes, a classical illustration was the El-Nino phenomenon which left many farmers devastated risking food security in the country.

The insights shared by the bulletin should instigate policy debate around the subject matter. Drought relieve initiatives are a consequence of environment unfriendly practices that are costing government a lot of money. These are resources that could have been employed in alternative uses. This should lead to evidence based and solution orientated planning in the province as the provincial government works towards sustainable development.

  
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Date

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## 1 Introduction

The South African economy is currently recovering from a technical recession after two consecutive quarters of negative growth. As will be indicated the economy recovered in positive territory during the third quarter of 2018. The current difficult economic situation is further made more challenging with Eskom struggling to provide electricity on a constant basis.

The informal economy does not feature prominently in official policy documentation as a possible solution to the challenges of poverty and unemployment but is rather seen as a challenge. Workers and businesses in the informal sector should be assisted to become part of the formal sector. Research has however indicated that approximately 30 percent of the unemployed is part of the informal sector. The sector has great potential to contribute to solving the challenge of unemployment in South Africa. It is therefore important to discuss the characteristics of the informal economy in South Africa and the Limpopo province and to further look at the impact of the sector on employment.

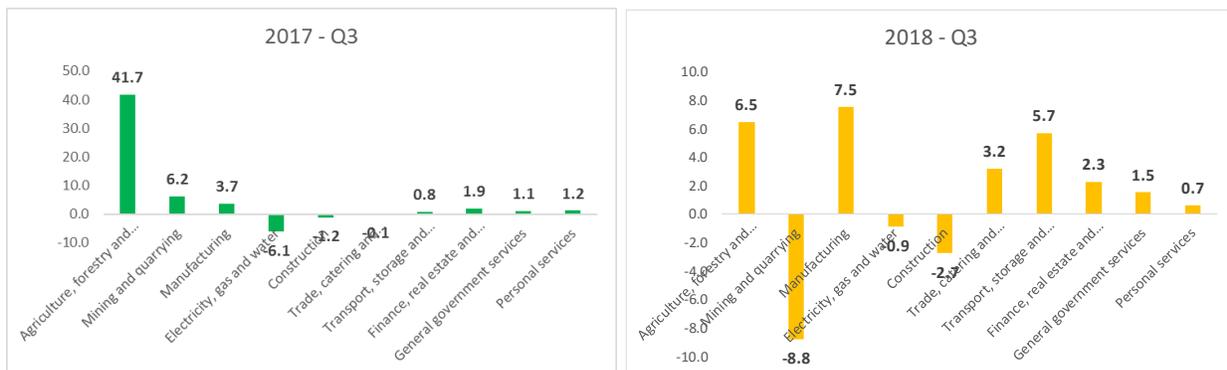
South Africa and Limpopo are regions that have a natural scarcity of water due to low normal rainfall patterns. The key industries in Limpopo, namely mining and agriculture, is both water intensive and the lack of available water is a barrier to higher levels of economic growth. With climate change a reality, it is important that the possible impact of climate change on the Limpopo province and its economy be determined.

The second half of the document will provide an overview to the important topic of climate change and its effects; taking cues from a vast body of knowledge in the subject matter.

## 1.1 South African Economic Overview

Economic activity in South Africa increased in the third quarter of 2018, following two consecutive quarters of contraction. Gross domestic product (GDP) grew by an annualised rate of 2,2 percent.

**Figure 1: GDP % change quarter-on-quarter, annualised**



Source: STATSSA GDP 2018Q3

The largest positive contributors to growth in GDP in the third quarter were the manufacturing, finance, transport and trade industries. The manufacturing industry increased by 7,5 percent and contributed 0,9 of a percentage point to GDP growth, Production in 7 of the 10 manufacturing subsectors increased in the third quarter of 2018, with food and beverages; basic iron and steel; wood and wood products; as well as motor vehicles, parts and accessories contributing the most. Financial intermediation, insurance and real estate activity all contributed to the expansion. The increase in the financial intermediation and insurance subsectors reflected improved trading activity in the equity market. The finance, real estate and business services industry increased by 2,3 percent and contributed 0,5 of a percentage point. The transport, storage and communication industry increased by 5,7 percent and contributed 0,5 of a percentage point. Negative contributions to GDP growth came from the mining, electricity and construction industries.

## 1.2 Overview of informal economy

Research indicates that the informal sector is often seen as having no meaningful role to play in generating employment or reducing poverty. This is a policy oversight since current research highlights the potential of the sector to play an important role in the challenge of addressing unemployment, but also to poverty reduction and the economy as a whole.

Characteristics of an informal enterprises are enterprises, with or without employees, that are not incorporated and not registered for taxation. The informal sector comprises all informal enterprises, their owner-operators/employers and all employees, paid and unpaid, in all economic sectors. The informal sector mostly comprises very small enterprises that often are based in poor neighborhoods and generates quite low earnings for the owners.

Statistics on the informal economy remain unreliable by virtue of the subject. Yet they provide a tentative picture of the relevance of the sector. That is to say, the increased interest in the informal sector is partly driven by an observed increase in the size of informal economies. A study conducted by LEDET (2013) found that the Limpopo Province has the biggest informal sector estimated at 35 percent of total economic activity. In Limpopo the number of informal traders have been estimated to be 118 660. These informal trader's employs 273 000 persons as paid employees. The economy of the informal sector absorbs a large number of people in the form of employment and business activities. In other provinces informal trading is estimated at about 20 percent of total economic activity. According to Statistics SA (2018) Limpopo had 1.4 million workers in the third quarter of 2018. If the assumption is made that the same percentage of people is working the informal sector in Limpopo than nationally, approximately 250 000 workers were working in the informal sector in Limpopo in 2018.

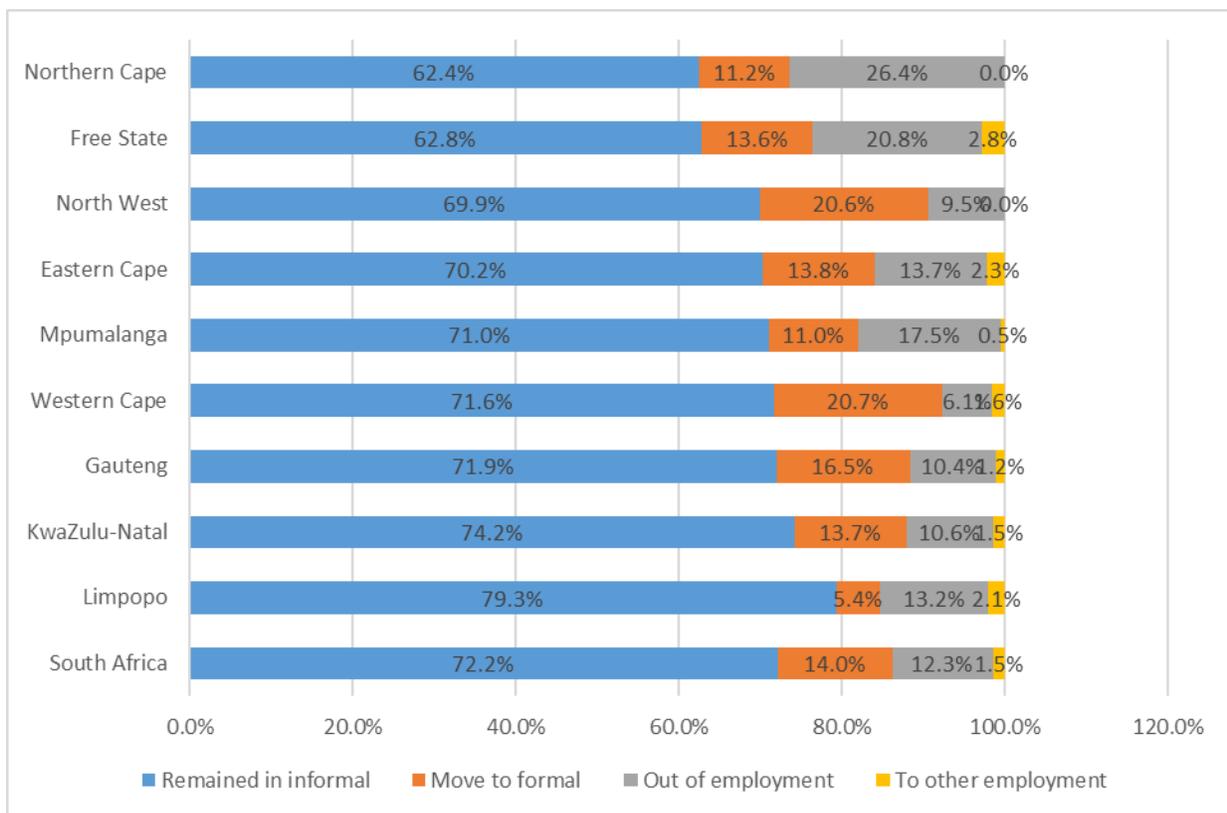
In terms of more recent numbers the number of people working in the informal sector increased nationally from 2.3 million people working in the non-agricultural informal sector

in 2013 to 2.9 million in 2018. At about 17 percent of total employment, one in every six South Africans who work, work in the informal sector. In the NDP (National Development Plan) the sector (together with domestic work) is projected to generate almost two million new jobs by 2030

It is also important to note how many informal businesses actually transition into the formal economy.

Research by Statistics SA (2018) indicated that Limpopo is the province with the highest rate of retention of businesses in the informal sector.

**Figure 2: Retention and transition in the informal sector \***



\*Based on OFLS panel Q3:2016 to Q4:2016

Source: StatsSA (2018)

### **1.3 Impact of informal economies**

The impact of the informal sector on job creation will now be discussed.

#### **1.3.1 Employment**

The informal sector plays a very important role in terms of job creation and employment. According to the GEM report (2017) the percentage of early-stage entrepreneurs who expect to generate no jobs within the next five years has decreased considerably since 2015 (from 30 percent to 14 percent). This differs substantially from the average for the Africa region (35 percent). The report indicated that around 60 percent of early stage-entrepreneurs expect to create between one and five new jobs before 2022. The improvement in job growth aspirations may be linked to the increase in opportunity-driven entrepreneurial activity. More than a quarter of early-stage entrepreneurs anticipated generating 6 or more jobs. The main challenge that however exists is the low level of entrepreneurial activity in South Africa.

Despite the important role that the informal sector can play in alleviating unemployment it is still challenging to operate in the informal sector because both the mean and median earnings for the informal sector are less than half that of the formal sector. In 2014 the typical worker in the formal sector earned about R4 300 per month (mean earnings), while the typical informal-sector worker earned only R2 000. Earnings of the self-employed in the informal sector are higher than those of employees, particularly for men (whose average earnings as self-employed workers are more than R6 700 per month)

It is also important to note that the structure of the informal economy changed over the last decade to a higher employment intensity and employment orientation.

Research by Fourie indicates that the percentage of multi-person enterprises has been increasing from 15 percent in 2001 to 21 percent of in 2013. The informal businesses also increased their propensity to employ by increasing the average size of these firms has to 3.5. The average number of employees as well as the average number of paid employees

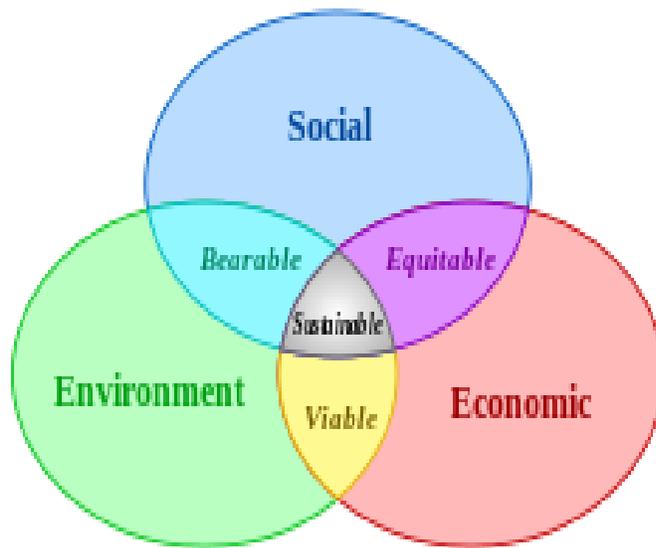
has also increased. These changes improve the possible contribution that the informal sector can make to job creation in the local economy.

## **2 Overview of climate change and the economy**

It is very important to discuss the link between climate change and the economy in Limpopo since the province is a water scarce region. Various industries like agriculture and mining is placing increased pressure on the available water resources. The water needed for industry should be balanced with the demand for water for the social demand for water for personal use.

The impact of climate change is discussed from a sustainable development paradigm. Sustainable development is the organizing principle for meeting human development goals while at the same time sustaining the ability of natural systems to provide the natural resources and ecosystem services upon which the economy and society depend. The desired result is a state of society where living conditions and resource use continue to meet human needs without undermining the integrity and stability of the natural system. Sustainable development can be classified as development that meets the needs of the present generation without compromising the ability of future generations. The concept of sustainable development is thus a balance between the social, environmental and economic factors.

**Figure 3: Sustainable development paradigm**



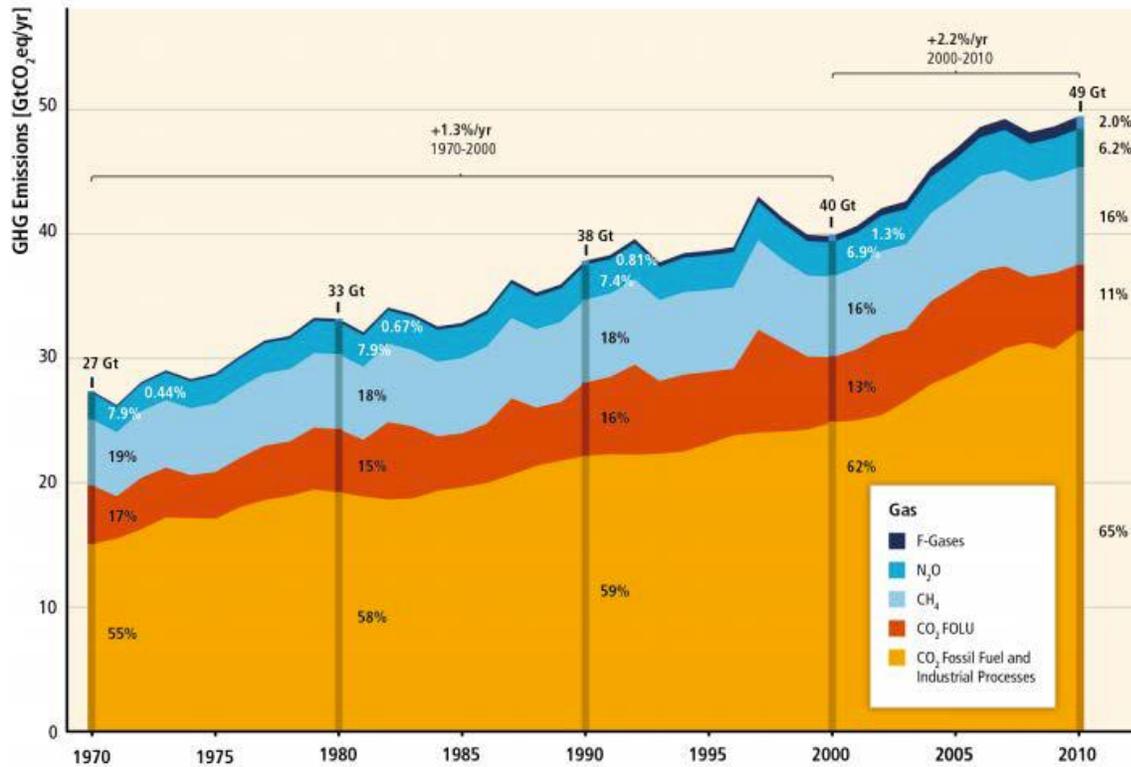
Source: Wikipedia, 2018

According to research rising fossil fuel burning and land use changes have emitted, and are continuing to emit, increasing quantities of greenhouse gases into the Earth's atmosphere. These greenhouse gases include carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>) and nitrogen dioxide (N<sub>2</sub>O), and a rise in these gases has caused a rise in the amount of heat from the sun withheld in the Earth's atmosphere, heat that would normally be radiated back into space. This increase in heat has led to the greenhouse effect, resulting in climate change. The main characteristics of climate change are increases in average global temperature (global warming); changes in cloud cover and precipitation particularly over land; melting of ice caps and glaciers and reduced snow cover; and increases in ocean temperatures and ocean acidity, due to seawater absorbing heat and carbon dioxide from the atmosphere. As a result of global warming, and intensity of extreme events, such as tropical cyclones (including hurricanes and typhoons), floods, droughts and heavy precipitation events, are expected to rise even with relatively small average temperature increases.

Average rates of emissions differ considerably between the developed and the developing regions. CO<sub>2</sub> is the largest contributor to the GHG emissions and it continues

to grow year after year. Addressing the unabated rise in greenhouse gas emissions and the resulting likely impacts of climate change remains an urgent, critical challenge for the global community.

**Figure 4: Historical Annual Anthropogenic GHG emissions, 1970–2010 (Gt CO<sub>2</sub>e/yr)**



Source: Canadian Institute of Actuaries

## 2.1 Impact of climate change

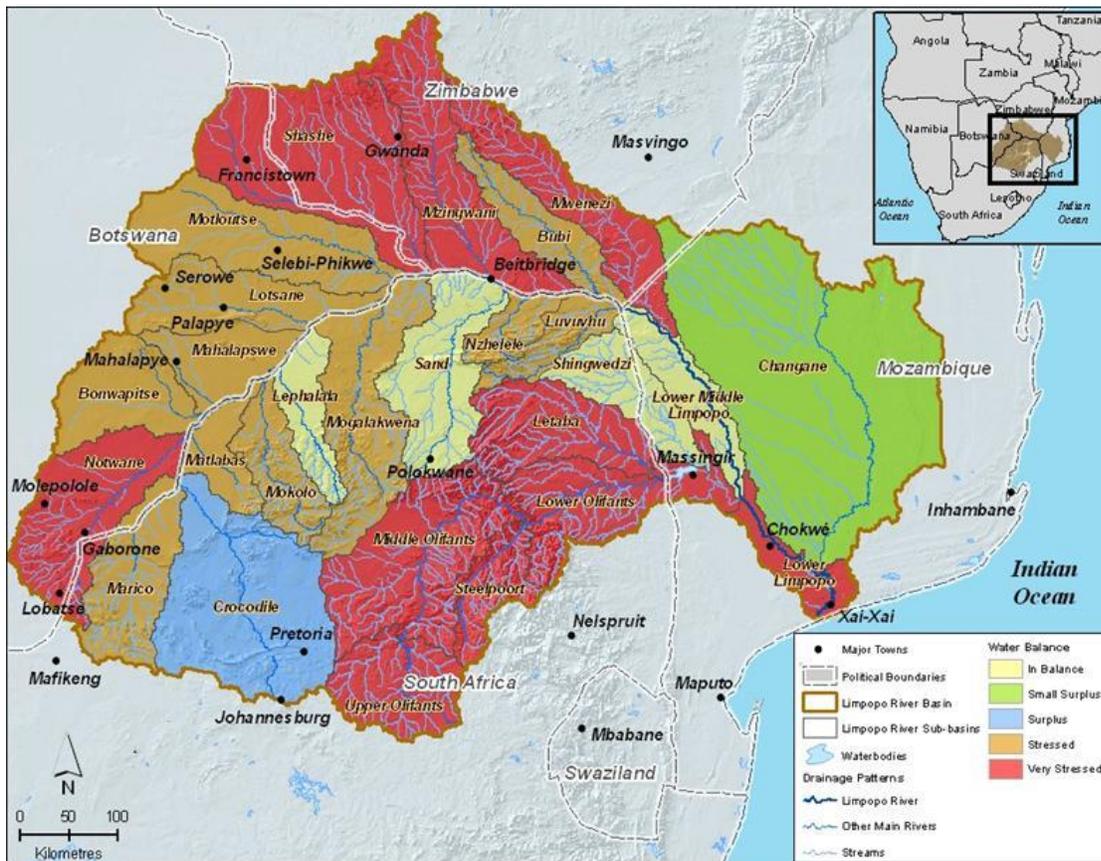
### 2.1.1 Water

Climate change has the potential to being weaken the relatively stable climate in which communities have been built and jeopardize the security of water, food and energy systems. Changes in temperature and precipitation influence the hydrological cycle and will affect evaporation, and the amount of water stored in lakes, wetlands and

groundwater. These impacts in turn result in changes in the quantity and quality of water; the magnitude and timing of river flows, and the time required for water resource renewal. These changes will both influence the availability of water for human use and impact upon freshwater habitats and ecosystems. Since Limpopo is considered a water scarce province, it is imperative to integrate water resource planning in development plans in the medium to long run. While a significant portion of Southern Africa is physically water scarce, water scarcity in the region is primarily an economic factor, stemming from inadequate financial and human capital to tackle the problem and the governance structures necessary to support sustainable water resources development.

Proportions of the province are currently experiencing high risks of water shortage, illustrated by the red colour in figure 5.

**Figure 5: Estimated general water balance for the Limpopo River basin**



Source: LBPTC 2010

### **2.1.2 Agriculture**

Agriculture is highly dependent on climate. The projected changes in climate present both opportunity and risk. The opportunity to extend the growing season and grow higher value crops is balanced against the risk of increased frequency of extreme events which may damage crops and or infrastructure, impacts on the environment, uncertainty in global markets, and potential changes in pest spectrum and incidence of disease. The marketable yield of many horticultural crops, e.g., tomatoes, onions, fruits – is very likely to be more sensitive to climate change than grain and oilseed crops. Higher temperatures will very likely reduce livestock production during the summer season, but these losses will very likely be partially offset by warmer temperatures during the winter season. The hotter areas in the province will be more negatively impacted than the areas that are currently experiencing lower temperatures.

### **2.1.3 Energy**

The increased pressure towards the use of clean energy is supported by the fact that the cost of renewable energy sources like solar decreased by 80 percent in the last decade supporting. IRENA further expects a halving of typical costs of solar energy by 2020.

Wind generation represents the fastest growing renewable energy supply in developed economies. Wind and hybrid energy projects have been developed or proposed for several regions based primarily on the strength and character of existing wind regimes. Literature suggested that wind patterns may change due to global warming. If wind speeds are reduced in certain regions, this may render wind energy plants useless. Furthermore, distribution of power requires transmission lines, which are vulnerable to damage during ice storms accompanied by strong winds. In South Africa, wild summer fires risk the efficient distribution of energy.

## **2.2 Fiscal impact of climate change**

The burden of the general impacts of climate change ultimately gravitates towards the government to correct for the general welfare of the citizens and ensure economic development. This is because climate change does not exclusively affect only those parties who are responsible for the emissions. All countries, developed and developing, need to adapt to climate change, which has financial implications. Developing countries, already the hardest hit by climate change, have little capacity (both in terms of human capacity and financial resources) to adapt.

Fiscal instruments, affecting both revenue and expenditure, has an important role to mitigate and adapt to climate change. Taxes and public spending are key to getting the incentives right for households and firms, as well as ensuring a fair distribution of the associated costs and benefits. By adapting the market price for carbon emissions by means of carbon taxes, it creates an incentive to reduce emissions and develop alternative technologies that is more climate friendly. Government expenditure should be aligned to the needs of the citizens to have better protection against climate change in terms of resilience.

It is important to take note of the distributional impacts of carbon-pricing measures. These distributional impacts effects both countries and different generations. The impact depends on the use of the revenue from carbon taxes. According to Fried the expected non environmental welfare cost are minimized when the revenue from the carbon tax is used to offset an existing distortionary tax.

The implications for fiscal policy in Limpopo is that projects that have negative environmental consequences should in terms of prioritization be swapped with more environmental neutral or environmental positive projects. Although the province does not levy taxes it can influence national tax policy to take climate change into account. If the funded projects are revenue generating, the revenue should be channeled back into environmental positive expenditure to limit the welfare impact on society.

### **3 Conclusion**

Given the high levels of unemployment and poverty, an informal sector with more dynamic, self-reliant informal enterprises and, better-quality employment is an important objective for South Africa to be pursued. The appropriate policy objective is not to shrink or eliminate the informal sector, but to enable and strengthen it.

The exact nature of climate change impacts in South Africa at the local level is not certain. However, appropriate response options should be exploited to support effective adaptation and long run sustainability. While the general characteristics of climate change are relatively well understood at the global scale changes in climate at the local level are not yet fully determined. Given the interconnection of the effects of climate change further research must be conducted to localize the impact of climate change and quantify the economic and social consequences thereof.

### **4 Recommendations- Informal sector**

To generate better employment opportunities and economic growth from the informal economy, fiscal policy must encourage investment in productive assets, facilitate the development of markets, and maintain macroeconomic stability. Inappropriate fiscal policy will constrain economic growth and investment, and, as a result, will hinder efforts to create better employment opportunities. Therefore, it is important to consider what fiscal policy regime would best serve the developmental objectives of improving employment and reducing poverty.

Taking a sectoral and sub-sectoral approach to encouraging the move out of informality can help clearly identify those sectors and sub-sectors where informality is particularly prevalent, for example in agriculture and services, and develop appropriate policy responses. Many countries for example, particularly in Latin America, have been

developing measures to bring the domestic services sub-sector under the protection of the law, and hence promoting the transition to formality.

It should be noted that not all participants in the informal economy has the opportunity or willingness to move to the formal sector. Government should provide relevant policy support for them as part of the informal sector not with the aim to formalize their activities.

The informal sector is currently not part of the formal policy debate in government around solving the triple challenge of inequality, poverty and unemployment. It is important that this situation should be corrected.

According to Fourie (2018) the overall policy goals must be to retain existing employment, increase the livelihoods, security and income of those already in the informal sector, and to address barriers to entry and growth to create scope for newcomers and employment expansion. Practically this means that both enterprises that is already creating jobs and one man businesses should be supported. The support should be tailor made for the specific stage of development of the informal enterprise because the needs and aspirations of a survivalist enterprise is different from a more mature enterprise.

Some of the practical support measures highlighted includes issues like access to financial services and credit; skills training; basic utility services (water, electricity, Internet); permit and licensing requirements, assistance to deal with harassment by police or local authorities and to appreciate the importance of institutional differentiation and self-reliance- separating the enterprise from the household.

The current SMME support measures in Limpopo should be refined by moving away from a one-size-fits-all approach to a more refined approached addressing the specific needs identified by each enterprise.

## 5 Recommendations- Climate change

Regardless of the uncertainties at local level, available information is good enough to guide policy in developing appropriate response strategies to reduce the negative consequences of climate change at a national and global level. Policy responses can be a mixture of development of technologies to monitor the effects of climate change and the development of tools that are geared towards behavioral change from the household, industry and government side.

Developing adequate low- or zero-carbon energy sources will require massive amounts of research and capital expenditure. There are widely differing views on how to share these costs. The current situation has been caused by past emissions by regions with high per-capita emissions. The countries that will be most affected by the impacts of climate change will be those who had played no role in creating the problem. If the emerging economies are not to be held back in their GDP growth, ways have to be found to enable them to generate adequate low-carbon energy supplies.

The relative cost advantage of fossil fuels versus renewable energy declined lately. A level playing field can be created by removing fossil fuel subsidies and putting a price on carbon. This process will be assisted by the fact that the cost of renewable energy decreased dramatically in the last few years. This would give an economic signal that will make fossil fuels' costs reflect the externalized costs for climate pollution, and make low-carbon energy more attractive. This will promote research in developing technologies in fields such as renewable energy generation and storage. This debate is relevant for South Africa since the majority of electricity generation is still based on burning coal. The debate also has a possible impact on the coal mines in Lephalale, which is to a large extent, dependent on the demand for electricity generation for their existence.

LEDET has developed a climate change response strategy that highlights some of the key issues also mentioned in this discussion on climate change. The next step would be to determine the actual practical impact on rainfall and industries like agriculture. The

current climate response strategy is still focusing on the conceptual level not addressing the real practical concerns. The Department of Agriculture and Rural Development should, for instance, indicate what an increase of 2 °C in temperature will have changing the specific natural conditions in the province and on agricultural production. It must for instance be determined whether the area around Tzaneen will continue to be sub-tropical in nature and suited for the productions of citrus, mango's and tomatoes.