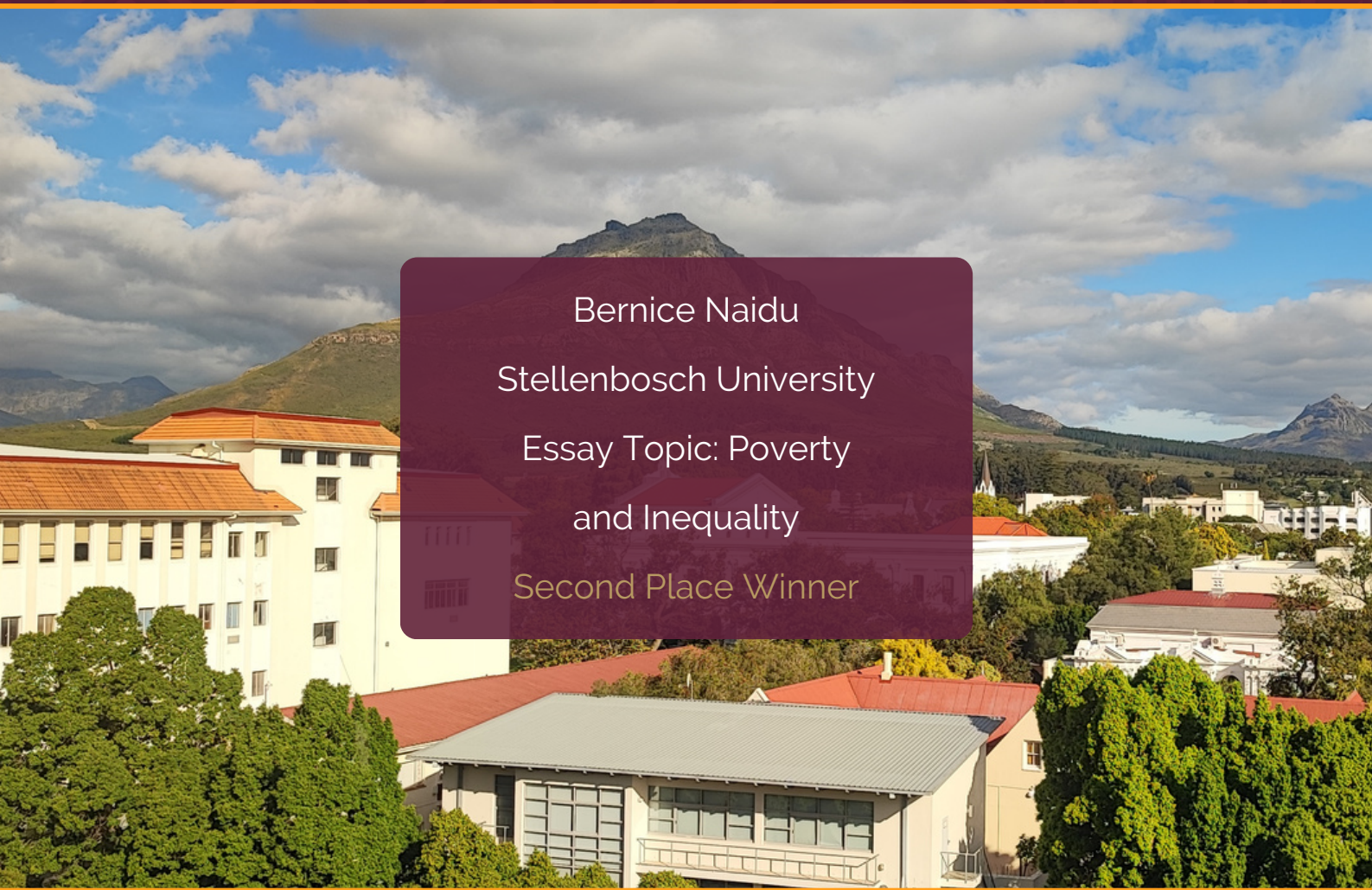


African Democracy Essay Award 2023



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Essay Topic: Poverty
and Inequality
Second Place Winner



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1. Introduction

Across the world the informal economy has been overshadowed by the formal economy due to its lack of modern-day business characteristics. Yet the informal economy has the ability to be innovative and creative. The informal economy is underestimated as a tool for alleviating poverty and inequality through unconventional methods particularly on the African continent. This essay discusses the influence of the informal sector on decreasing levels of poverty and inequality and examines the existing limitations and strategies that can be used to help the informal sector to grow.

2. Ramifications of Poverty and Inequality on the African Democracy

One of the overriding imperative components of the new South Africa was that it would be "ruled by the people." The ANC took pains to ask the people how they envisioned their New South Africa and in what ways it should be different. Many changes have been subsequently implemented, however by and large they have failed to achieve the desired outcomes.

As a result, there are rising levels of poverty and inequality in the country. After almost two decades of improvements, levels of poverty started to rise from 2011, as found in the study by Francis & Webster (2019). Poverty translates into inaccessibility to basic resources needed for survival, with negative effects on democracy in South Africa and across the continent

One of the outcomes of poverty is malnutrition, which inhibits a child's ability to think, focus and learn, resulting in lesser productivity later in life. Adults who are malnourished cannot work productively enough to boost the GDP per capita of the economy. When the economy is unstable, citizens, especially those in the low-income households, suffer the most as they are not financially equipped to combat the resultant instability. As the economy weakens, inflation rises while household expenses increase in price impacting especially hard the low-income households (Francis & Webster, 2019).

One major source of frustration in South Africa has to do with transport problems. People assume that when the government promises them to develop a network of rural roads their transport problems would automatically be solved as well. Unfortunately, this is not so.

It is true that many roads leading into the rural areas have been constructed as part of the Millennium Development Goals, but lower income households that can barely provide for their basic needs are often unable to utilise them. Most have no cars,

cannot afford to a carpool or travel by public transport due to the increasing petrol price.

Millennium Development Goals are accomplished with the help of international bodies, which goes to show how limited African democracies are at developing a country (Porter, 2014). The inability to deliver on the promises made by government leads to loss of trust in the institutions that are meant to advance and improve the lives of Africans. Evidence to that effect has been provided by Afrobarometer who conducted interviews with 1600 South Africans. The collected data showed that only 27% of South Africans trusted in the ANC (the current ruling party), while trust in the parliament was at a staggeringly low 24% (Hofmeyr & Moosa, 2021).

Besides the inability to travel from rural to urban areas in search of work, transport limitations also have a more direct adverse effect on democracy. Many citizens cannot vote for the government they would like to see in power for the next four years because they cannot get to the polling stations, which robs them of their right to elect a government of their choice (Simelane, 2021).

Poverty can move people from lower income households to retaliate against the government. This reaction has been witnessed in the July 2021 riots in South Africa when looting citizens vented their frustrations about the lack of economic opportunities and public services that should have been provided to them by the government (Vhumbunu, 2021). When government and the people are not aligned in their goals and are instead on opposing sides, African democracy suffers.

3. The Informal Economy's Role on Poverty Alleviation

Even though lower income households struggle compared to the middle- and upper-class households, they are not completely helpless. Africans have always been taken advantage off and were exploited by colonisation and slavery. Yet they have also found a workable way to cope with their financial struggles and survival on a daily basis by engaging in the informal sector, which helps to ease poverty and inequality levels to a considerable extent.

The informal sector can be described as self-employed employers who are not officially registered as well as informal employees who work for a wage but without enjoying any social benefits. Examples of these include industrial, contract, paid domestic and unregistered workers, home-based businesses and small-scale entrepreneurs (Chen, 2012). It is estimated by the National Development Plan that the informal sector will produce about two million jobs in 2030 (Fourie, 2018).

Non-agricultural informal employment comprises 53% of workers in the sub-Saharan Africa compared to 33% in East and Southeast Asia (Vanek, et al., 2014), underscoring the fact that against other developing countries sub-Saharan Africa has one of the

highest number of citizens employed in the informal sector. Women are the most disadvantaged when it comes to acquiring and securing job offers in the formal economy but they fare better than men in the informal sector. In sub-Saharan Africa women employed informally in the non-agricultural sector represent 74% compared to men at 61% (Vanek, et al., 2014). Street vending, a popular form of informal employment, seen throughout Africa stands at 80.7 % with women making up to 75% (Verick, 2006). This shows that people, especially women, have created their own opportunities when faced with inequality and poverty in Africa.

In addition to creating more job opportunities, the informal sector is boosting the economy's GDP (Gross Domestic Product). According to Skinner, the informal sector made up about 41 % of the sub-Saharan GDP (2006). As informal work opportunities arise, the unemployment rate decreases and households bring in more income, making poorer Africans able to live a little more comfortably, while also contributing positively to the GDP. This, in theory, should allow the government to provide better public services to the people.

The informal sector has proved a testing-ground for small businesses to experiment with their ideas on how to grow into more established enterprises. This holds the potential of attracting Foreign Direct Investment when investors from overseas scout for small up-coming businesses that can grow and contributes to formal job creation with social benefits (My courses, 2023).

The informal sector also alleviates inequality by providing skills development for people who cannot afford formal education for lack of funds. Therefore, increasing the experience of both informal employers and employees, increasing their chances of becoming managers of other more established businesses. It is an escape route for citizens from the informal sector with its cyclical day-to-day survival strategy of informal employment to safer positions that come with employees' social benefits (My courses, 2023).

4. Limitations of the Informal Sector and Strategies to Aid them in Alleviating Poverty and Inequality

But the informal economy can only go as far as alleviate the situation of those unfortunate enough to have been thrown into it. It is up to the government to work with the people and allow them to step up and by so doing rectify past wrongdoings and avoid future problems. There are several ways in which the government can aid the informal sector in order to minimize poverty and inequality in Africa.

One limitation of the informal sector is that it cannot provide the same protection and benefits to workers and businesses as the private/formal sector can because of inexperience and low capital. This is where the private sector should step in and aid

informal businesses through CSR (Corporate Social Responsibility). This can be done in the form of capital injections, providing medical aid funds, and contributing to the informal sector's unemployment funds. Such support could help informal businesses grow into more formal businesses. Another way the private sector can help is through skills development and instructing informal entrepreneurs on how to effectively run a business.

As discussed above, the increase in work opportunities in the informal sector leads to an increase in income and therefore contributes to the GDP. But government policies make it difficult for informal employers and employees to operate. One of the policies includes not allowing waste-pickers and street vendors the public space to trade and conduct their business activities. NEDLAC (National Economic Development and Labour Council) has advocated the formalisation of the informal sector by negotiating, for instance, a free use of public space.

On the other hand, one of the main reasons why the people prefer to stay in the informal sector is to avoid registering their businesses and paying taxes. With the help of COSATU (Congress of South African Trade Unions), the government and the informal sector could bargain for better policies, considering the number of job opportunities that would come about with adjusting the laws and policies of South Africa (Etim & Daramola, 2020) The informal sector also needs clear policies on how they should conduct business activities. Some informal businesses are only informal to pay low wages and avoid providing their employees with benefits. Whereas the informal sector helps creating job opportunities, people employed in that sector are often uneducated about the proper conduct of a formal business and are unaware of their rights as an employee. They may therefore be exploited (Diofasi , et al., 2017).

There may be challenges that the informal sector faces, but these problems can be minimised through the aid of trade unions, government and the private sector.

5. Conclusion

The informal sector plays an imperative role in the alleviation of inequality and poverty in Africa. By taking into their own hands the responsibility for survival in a continent full of corruption and lack of job opportunities, the informal sector is a key player in African democracy. It contributes towards a better life for families and communities through job creation, skills development and improving the GDP. For these reasons and for the sake of greater economic stability the informal sector must be aided by governments, the private sector and trade unions to enable it to grow.

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