

## **Notes on the Informal Sector and Employment Creation in Botswana**

*B Moffat\* and SM Kapunda†*

### **Abstract**

It is increasingly becoming clear that the role of Small and Medium-scale Enterprises (SMEs) in employment creation, and income generation cannot be over-emphasized especially in Botswana and possibly in other African countries. However, SMEs face many challenges which hinder them from attain their objectives. Despite the challenges, according to the 1999 and 2007 nation-wide informal sector surveys the number of informal businesses increased between. The percentage of informal businesses operated by women increased during those years. Also, the female population in the informal businesses was more than the male population in 1999 and 2007. Self-employment also increased between the two surveys. This paper advises that review of the SME Policy of 1998 should identify strategies for transforming the informal sector businesses to growth and expansion oriented as they are capable of generating employment and income. Also special attention should be on women who dominate the sector.

### **Introduction**

There is an increasing attention on the role of SMEs as engines of growth and catalysts of socio-economic transformation in Africa. However, they face a host of problems and this paper demonstrates such problems in Botswana and makes policy recommendations towards the formulation of the National Entrepreneurship Policy that shall include the informal sector.

The 2011 and 2012 SMEs pitsos have identified traditional challenges facing small businesses in Botswana. (Pitso in this context is a national gathering of entrepreneurs whose aim is to voice the various challenges that hamper the growth of enterprises and hinder economic diversification).

Most of the entrepreneurs operate informally due to the various challenges they face. Besides the informal nature of the business, the activities of the informal sector which include employment and income generation have increased significantly in many countries especially in Africa despite the globalization and fierce competition. It has also been underscored that the informal sector is particularly important in poverty eradication especially among the youth and women who tend to dominate the sector.

### **Overview of the Informal Sector in Botswana**

The government of Botswana has long recognized the critical role of the informal sector in its economy. For instance, the National Development Plan 5 (NDP5) spelt out the role of informal employment. It states that 'In the long run higher incomes for Botswana will depend on the availability of more productive work for Botswana. This means that not only formal employment must be expanded, but also that new opportunities for non-formal employment and self-employment must be provided' (Republic of Botswana NDP5 1980:67). The issue of the informal sector is also highlighted in NDP10 (2009/2010-2015/2016). Here the government recognizes the informal sector as one of the sectors that provides the much-needed self-employment though the conditions of work are unsatisfactory (NDP 10 2010: 156).

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\* B Moffat, Department of Economics, University of Botswana. Email: Boitumelo.moffat@mopipi.ub.bw

† SM Kapunda, Department of Economics, University of Botswana. Email: kapunda@mopipi.ub.bw

Today, unemployment and poverty among the youth are endemic problems. Considering the Millennium Development Goal number one of eradicating absolute poverty and attaining full employment by the year 2015( NDP 10:354), there is a great need to find a solution to these problems. Thus, the informal sector can contribute significantly to the solution. Hence, there is a need to harness the potential of SMEs by creating an environment that will facilitate their operation.

The ownership of informal SMEs is mainly concentrated in the hands of individuals with low educational attainment in Botswana. For instance, Sunny and Babikanyisa (1994:49) found that the distribution of owners of informal SMEs was managed by people with low education (about 80 percent) in Botswana. Their study also indicated that women with no formal education and those with low education (primary or lower) tended to dominate ownership of the enterprises. Male entrepreneurs with technical education outnumbered women entrepreneurs with the same level of education. This shows that the informal sector is not confined to people with low levels of education only; the educated, with tertiary education certificates are also joining the informal sector. Given the low level of formal education attained by women in the sector, their enterprises' performance is generally relatively lower than that of men in terms of employment generation and profits/incomes (Sunny and Babikanyisa, 1994:9). Mosotho (2003:5) also found that men-owned enterprises did much better than women enterprises.

### **Basic Changes of the Informal Sector in Botswana**

As mentioned above two national surveys on the informal sector in Botswana were carried out in 1999 and 2007. Table 1 below shows that the number of informal businesses increased by 72.3 per cent between the two nation-wide informal sector surveys.

**Table 1: Basic Statistics of the Informal Sector in Botswana**

<b>Items</b>	<b>1999</b>	<b>2007</b>	<b>% increase</b>
Number of informal businesses	23454	40421	72.3
Percentage of informal businesses operated by women	48.2	67.6	19.4
Percentage of female population in business to total business population	55.3	54.0	-1.3
Own saving as percentage of initial capital	68.3	80.8	12.5

**Source:** Calculated by the authors using the 1999 and 2007 informal sector survey data

The percentage of informal businesses operated by women increased by about 19 per cent between 1999 and 2007. Also, the female population in the informal businesses was more than the male population in both years. In both surveys, the main source of initial capital for informal businesses was own saving which increased by 12.5 per cent between the surveys.

Table 2 illustrates the picture for some changes regarding employment status in the informal sector. The salient feature is the only increase of self-employment by almost 36 per cent. Other employment status showed some decrease between the two surveys.

**Table 2: Employment Status in Informal Business Households (percentage)**

Employment status	1999	2007	Changes (%)
Employees	55.6	43.8	-2.1
Self-employed	37.0	50.2	35.7
Employment in Family business	3.1	2.4	-22.6
Employment in land/cattle post	4.1	3.5	-14.6
Not stated	0.2	0.1	-50.0
Total	100	100	

*Source:* Calculated by the authors using the 1999 and 2007 informal survey data

### Results from Authors' Own Survey

Kapunda and Moffat carried out a study in 2010 on 'The Dynamics of the Informal Sector in Botswana'. 200 informal activities were randomly selected in Gaborone, Lobatse, and Ramotswa (Kapunda and Moffat 2010:231). The results of this study are used here to complement the nation-wide informal sector surveys. Kapunda and Moffat's study covered basic information which was not explicit in the nation-wide surveys. These included reasons for joining the informal sector, changes of income or welfare after joining the informal sector, future employment plans, and others. Examples of informal activities under the services included hair cutting, car washing, plumbing, and others while trading was mainly food venture, and airtime selling. Producers or manufacturers dealt with brick making, door/window frame welding, knitting, and wood works.

### Perceived Reasons for Joining the Informal Sector

The first reason given by 40 per cent of the respondents was that they joined the informal sector because they were unemployed, and had to take to the informal business as the last resort. 35 per cent had a keen interest in self-employment and wanted to be their own bosses. Before that, they were formally employed or they were students. 25 per cent stated that they needed a better income than what they previous received as well as supplementing their monthly salaries. Just like in national survey, there is an indication that the informal sector is no longer dominated by uneducated persons because the educated are also joining the sector.

### Employment Creation

From Table 3 below, about 56 per cent of the respondents were self-employed, and were sole workers who did not employ anyone in their businesses. This was also indicated in the national survey where the number of people being employed in these businesses dropped between the two surveys while the number of those who were self-employed increased (see Table 2). This reason may be that the businesses are just too small to be run by more than one person. However, there is possibility of the businesses employing other people. For instance, 44 per cent of the respondents indicated that they employed one or more people.

**Table 3: Employment Generation**

Location	Number of Employees								
	0			1			More than 1		
	M	F	Total	M	F	Total	M	F	Total
Gaborone	40	25	65	2	10	12	7	16	23
Lobatse	18	9	27	10	7	17	3	3	6
Ramotswa	15	8	23	8	8	16	5	6	11
Total	73	42	115	20	25	45	15	25	40

**Source: Kapunda and Moffat (2010:231)**

Respondents were also requested to estimate their incomes before joining the informal sector and their current income. The findings are as shown in Table 4.

**Table 4: Monthly Income Before and after Joining the Informal Activities**

Location	Income Before			Income After			Change in Average (%)
	M	F	Average	M	F	Average	
Gaborone	P3000	P1500	P2250	P5000	P3000	P4000	78
Lobatse	P2000	P2000	P2000	P3500	P3000	P3250	63
Ramotswa	P1000	P1100	P1050	P2500	P2000	P2250	114

**Source: Kapunda and Moffat (2010:232)**

On average, those who joined the informal business improved their income by an average of at least 63 per cent in any of the locations. Overall, they increased their incomes by 85 per cent in all the locations. These impressive outcome may explain why on average, about 60 per cent are planning to remain in their businesses in the future as explicitly shown in Table 5.

**Table 5: Intentions to Remain in Business in the Future**

Location	Remain in business	Look for paid employment
Gaborone	60%	40%
Lobatse	60%	40%
Ramotswa	50%	50%

**Source: Kapunda and Moffat (2010:232).**

### Conclusion

This paper highlights the importance of the informal sector in Botswana by paying attention to employment creation and income generation. The 1999 and 2007 informal sector surveys showed that the number of informal businesses increased between the survey periods. The percentage of informal businesses operated by women increased between 1999 and 2007. Also, the female population in the informal businesses was more than the male population in both years.

According to Kapunda and Moffat (2010:232), the majority of the respondents indicated that they joined the informal sector because they were unemployed and had to take the informal business as the last resort. This was also indicated in the national survey where the number of people being employed in these businesses dropped between the two surveys while the number of those who are self-employed increased. Most of the respondents indicated that their income improved after joining the informal sector, and the majority would remain in their businesses in the future.

It is obvious that informal businesses are not employing many people but the main reason might be that they are just too small to employ more than one person. Therefore, in the review of the SME policy, strategies should be established to bring about more growth and expansion of businesses in this sector. Also special attention should be on women who dominate the sector. The review of the SME Policy of 1998 should indeed identify strategies for transforming the informal sector businesses to growth and expansion oriented as they are capable of generating employment and income.

### References

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