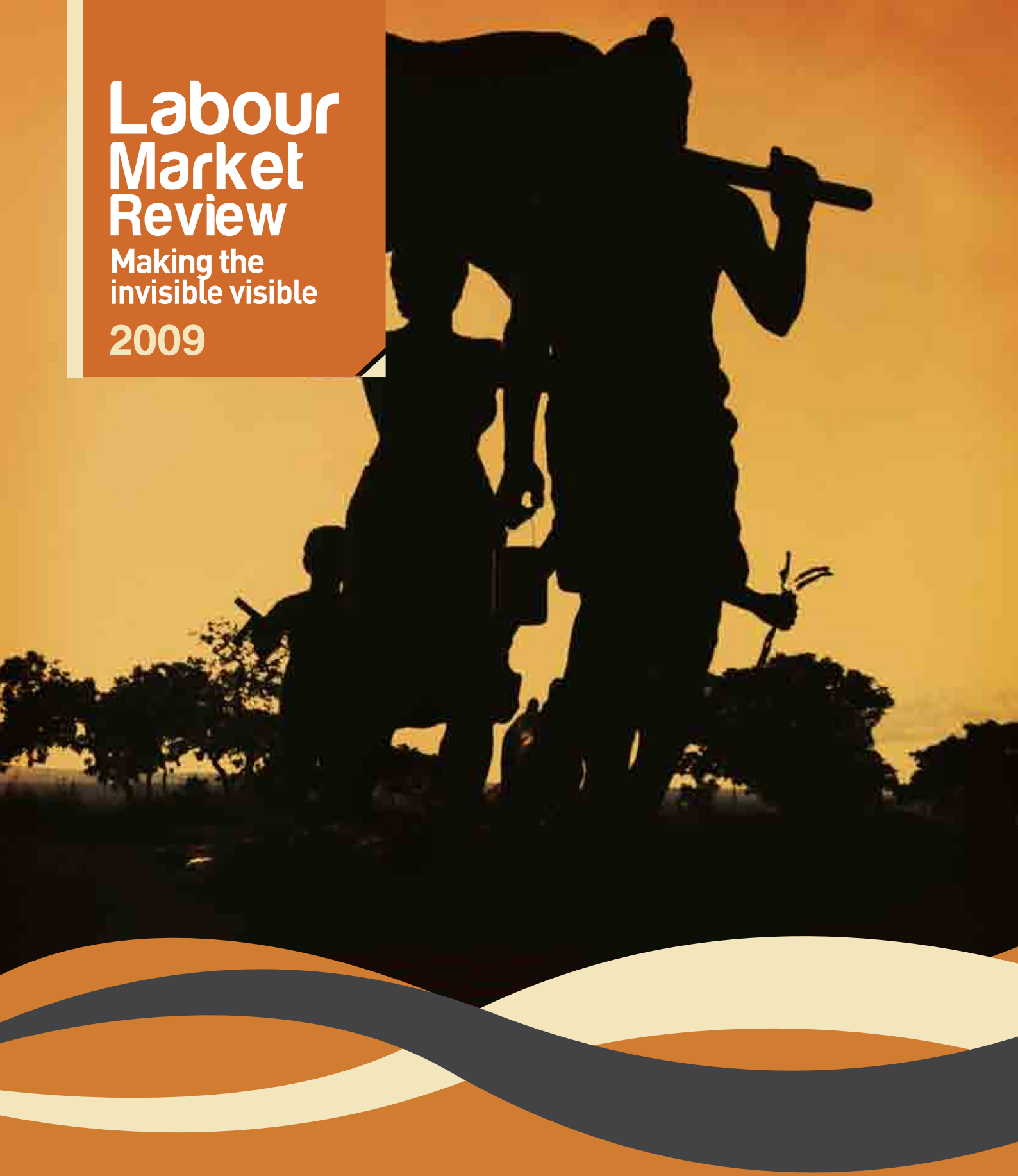
Labour Market Review

Making the invisible visible

2009



Confronting the work deficit in South Africa

labour

Department:
Labour
REPUBLIC OF SOUTH AFRICA

Labour Market review

Making the invisible visible

Confronting the work deficit in South Africa

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Labour Market Review

In the past a series of Labour Market Reviews have been published by the Department of Labour. These Labour Market Reviews focused on different labour market issues that were topical at the time. The latest publication, the 2006/07 issue, was titled Labour Migration and South Africa: Towards a Fairer Deal for Migrants in the South African Economy. This issue focused on labour migration and its impact on the economy of the receiving country.

The current Labour Market Review summarizes the research report, Making the Invisible Visible: Confronting the Decent Work Deficit in South Africa. The Study was commissioned by the Department of Labour, and conducted in 2007/08 by a consortium of research and academic institutions led by the Human Science Research Council (HSRC). The study was conducted by a team of researchers from the University of Witwatersrand under the leadership of Professor Edward Webster. Using five case studies, research examines the linkages between the formal and informal economy and tentatively measures the decent work deficit in formal and informal employment using a Decent Work Deficit Index.

Section One: Introduction

Introduction

In 2003 the South African policy discourse shifted from a narrow focus on global integration and competitiveness to acknowledge that the State would have to redistribute resources actively in an effort to overcome the social crisis caused by poverty. The new thinking was organised around the concept of 'two economies'. In his February 2003 State of the Nation address, former President Thabo Mbeki described the division between these as a 'structural fault': "The one is modern and relatively well developed. The other is characterised by under-development and an entrenched crisis of poverty." The second economy, he suggested, is structurally disconnected from the first economy and is incapable of self-generating growth and development. What is required, it is suggested, is State intervention through a series of programmes such as micro-credit for the poor, agrarian reform, intensified skills development, the extension of public services and "a massive public works programme".

In other words, there is a need to transfer resources to the second economy and to empower the working poor and those in the informal economy. Through these programmes, it is believed that the marginalisation of the second economy will end and it will be integrated into the first economy.

This shift in discourse provided an important rationale for shifts in government strategy – the adoption of a National Spatial Development Perspective (NSDP) to alleviate the distortions of the inherited apartheid space economy; a focus on public works programmes, with the launch of an Extended Public Works Programme (EPWP); and small business development initiatives, including micro-finance interventions (Development Bank of Southern Africa, 2005). These initiatives, and others, were accompanied by a shift in emphasis from privatisation to acknowledging the State's role in stimulating economic activity, leading to the re-emergence of a debate in South Africa around the developmental State.

The idea of two economies provided a dramatic and accessible image to describe the deep divisions in South African society that are the legacy of apartheid, and to explain the necessity for large-scale redistribution of resources in order to tackle poverty and inequality. The elusiveness of the concept allowed for very different responses to it. Clearly the concept of a second economy is a metaphor that should not be taken literally to mean that there are two geographically separate economies. Instead, the notion of a second economy is best seen as a form of short-hand to describe the deeply segmented nature of an extremely unequal economy.

Von Holdt and Webster (2005) described the labour market as divided into three zones of work – the core, the non-core and the periphery. These zones, they argued, were asymmetrically interdependent, with the third zone increasingly marginalised under the impact of marketization. They went on to demonstrate that the formal economy increasingly makes use of informal employment through subcontracting, outsourcing and casual labour. In other words, when talking about the second economy or the informal economy, we should not only look at the type and size of the enterprise but include the type of employment. By looking at formal enterprises that have informal employment, one can begin to describe and understand levels of insecurity that exist within these enterprises.

Table 1 helps to illustrate this point.

Table 1: Dimensions of informality

Production units	Type of employment	
	Formal	Informal
Formal enterprises	1	2
Informal enterprises	3	4

Source: Devey, Skinner and Valodia (2006:312)

In Cell 1 are employees in Standard Employment Relationships (SERs). These are workers who are employed on a full-time and indefinite basis; there is a direct relationship between employer and employee, and the employee works at the workplace provided by the employer. Subcontracted workers are in Cell 2 and they have different degrees of informality; they work for a formal enterprise where the work is either casualised or has been externalised[1] to a third party such as a labour broker. Cell 3 consists of formal employees that are hired by an informal enterprise. Finally, Cell 4 represents what has traditionally been understood as the informal sector: micro and small unregistered enterprises such as spaza shops, shebeens, sweat shops and street traders, as well as fly-by-night subcontractors and illegal workers who work inside these enterprises.

The growing informalisation of employment in the formal economy through sub-contracting and casualisation has far-reaching policy implications for our system of labour relations. The assumption underlying the new labour relations regime introduced in 1995 was that it would bring all employees into one industrial relations system with the SER as the foundation. The growing informalisation of work has undermined this foundational idea as many workers do not have regular full-time, indefinite contracts and may, as a result, be excluded in practice from the operation of many labour laws and the new regulatory framework.

This research uses value chain analysis to demonstrate the connections between the two economies. Five sectors were chosen to illustrate the heterogeneous nature of economic activities in the informal economy: small clothing factories in the Fashion District in the inner city of Johannesburg, sub-contracted workers in two platinum mines in North West, collectors of scrap metal and waste paper, and those who work in shebeens and taverns in Soweto.

The five case studies demonstrate that informality is best seen as a continuum where economic activities are connected in a hierarchical value or supply chain. Although the chains are closely connected, they express very unequal power relations. Put differently, the 'two economies' are asymmetrically interdependent. The producers (for example, those recycling paper or scrap metal) and those providing a service (for example, the owner-drivers and those working in shebeens) are captive to the product specifications of the buyers of these products and services. Although they purport to be self-employed, these workers are actually 'self-employed proletarians' working, for example, for the large paper and metal factories (Mondi and Scaw Metals) or, in the case of the owner-drivers, for South African Breweries (SAB).

The research makes 'visible the invisible' by describing this 'world underneath' and by developing a Decent Work Deficit Index (DWDI) for the five case studies.

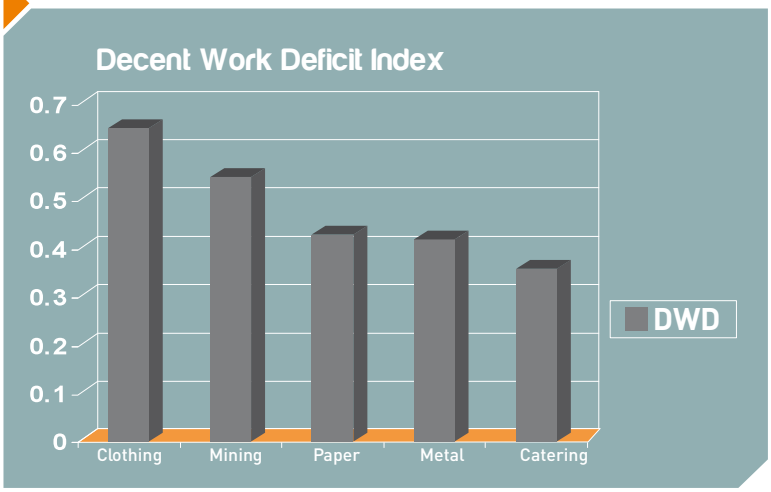
Seven indicators of security are used as variables to define decent work. A nine-page questionnaire was implemented by the researchers in these five low-wage sectors. The questionnaire covered employment history, labour market security, employment security, job security, work security, skills security, representation security and income security. A composite index was then developed and the indicators placed on a range from 0 (absolute insecurity) to 1 (absolute security).

The index reveals that at the formal end of the value chain are employees with high levels of security and at the bottom are employees with low levels of security. We call this an informality continuum. At one end of this continuum we identify the existence of greater workplace security for [some – not all] clothing workers and mineworkers. At the other end of the continuum are those workers in shebeens and taverns, with the collectors in the recycling industry placed close to catering but slightly higher. The nature of these variations is illustrated below.

There are two key determinants of this informality continuum: the degree of representational security, and the location of the workers in the value chain. In terms of the degree of representational security, this research confirms that those sectors with representational security (such as mining and clothing) have higher levels of security in the workplace than those that do not have a collective voice (such as recycling and catering). The representational gap, therefore, is a key determinant of insecurity in the workplace.

[1] "Externalisation is when employment is taking place via an intermediary or contractor who has a commercial contract with the employer" (Theron, 2005:298).

Figure 1: Decent work deficit



However, there are two factors within mining and clothing that affect the degree of unionisation:

- The size of the enterprise. Small clothing enterprises – Cut-Make-and-Trim (CMT) enterprises – are less likely to be unionised than medium-sized enterprises. When it comes to union density, the size of the enterprise counts
- The nature of the employment relationship. Employees in standard employment relationships enjoy considerably better conditions than those employed by labour brokers.

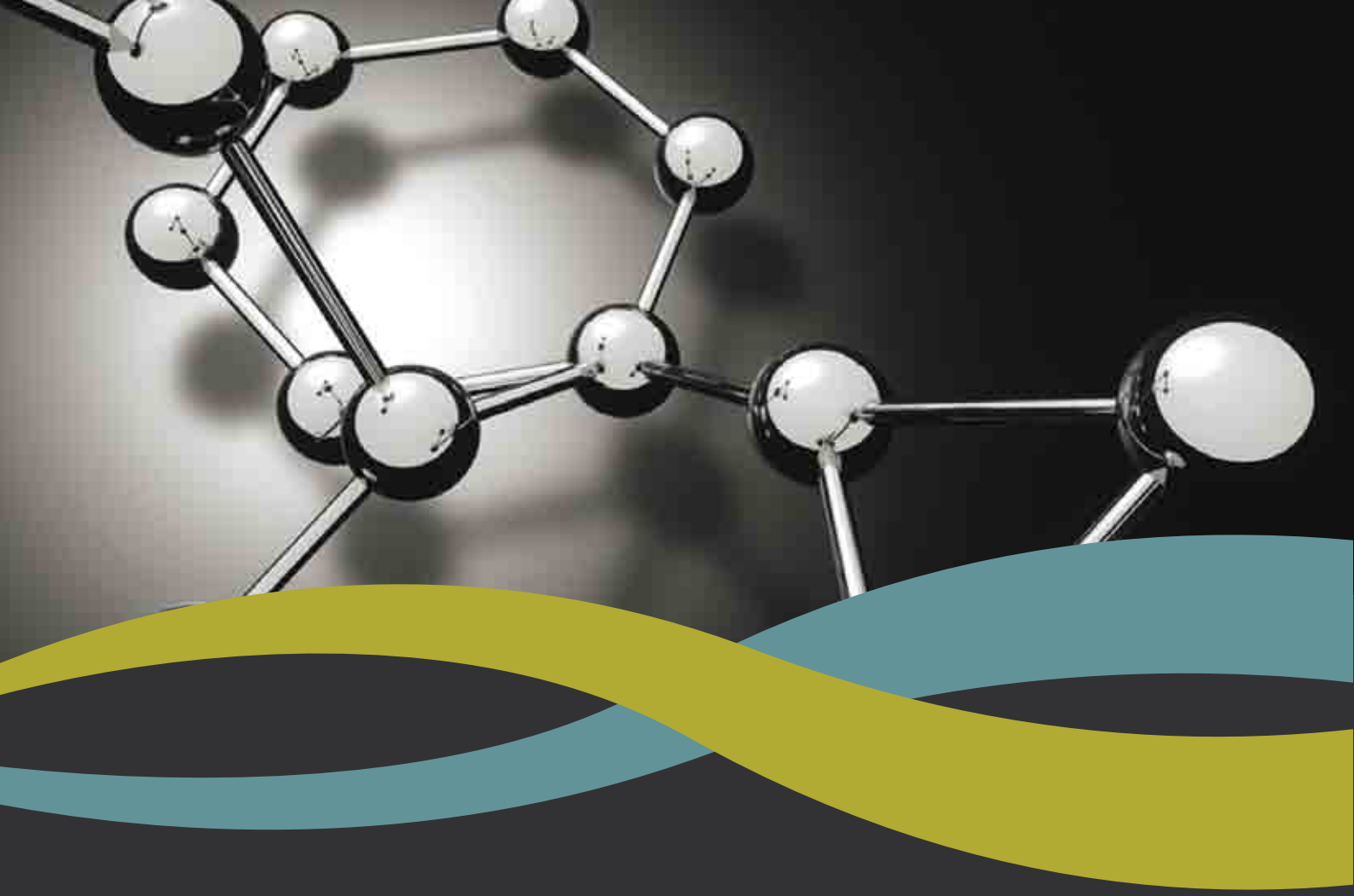
In terms of the location of the workers in the value chain, those producers at the bottom end of the chain are captive to the product specifications of the buyers who are driving the value chain. Conventional trade union strategies of workplace bargaining are very difficult to implement in situations where workers are self-employed proletarians working on the street or where they are engaged in family labour from home.

Workers in the informal economy tend to have a set of very specific characteristics that can best be summed up as insecurity or as a decent work deficit. These social characteristics are not randomly produced; they facilitate workers' involvement in this form of work. The most striking social characteristic in these five case studies is the presence of immigrant workers, particularly undocumented, working in the clothing industry in the Fashion District and the platinum industry in Rustenburg and Brits. These include ethnic minorities, such as the Somalis in the Fashion District, older women, such as the waste paper collectors, and children working in the shebeens.

The research discusses the need for a new regulatory framework to overcome the economic and social dualism which exists in South African labour markets. The current system of labour market governance was designed to meet the needs of the former situation. The second type of workers needs to develop new forms of organisation that can improve their influence at various points in the value or supply chain. This requires that as the Department of Labour, we develop a more active labour market policy by exploring ways of intervening in supply chains to construct a different set of relationships.

This regulatory mix can be done in three distinct ways:

1. By exploring the possibilities of regulating labour standards via supply chains by disrupting the flow of goods or services from those buyers who do not comply with decent work standards.
2. By exploring the possibility of outlawing labour brokers that merely act as employers of sub-contracted labour.
3. By exploring the possibility of facilitating the introduction of labour market intermediaries who do not replace employers through a commercial contract but, instead, recruit among the unemployed, especially the youth, train them, and then place them in decent jobs. This involves the creation of labour market institutions that are more active and aggressive in their relations to both sides of the labour market.



Section Two: Methodology

Methodology

This research used two main methods. Firstly, the nature of the links between the formal/first and informal/second economies is central to an understanding of how inequality is reproduced. In order to understand these unequal power dynamics in a single economy, commodity chain, supply chain or value chain analysis is used. However, the conventional chain analysis is broadened to include what may be called a labour benefit approach by examining wages and work conditions at different points in the chain (Lund and Nicholson, 2003).

Secondly, although it is a unitary economy, the forms of informal economic activity and self-employment are very heterogeneous. In order to identify this heterogeneity and the vulnerability of these forms of work, a Decent Work Deficit Index (DWDI) is developed. The concept of 'decent work' was developed by the International Labour Organisation as a way of promoting opportunities for women and men to obtain productive work, in conditions of freedom, equality, security and human dignity (Ghai, 2003). It applies not only to workers in the formal economy but also to unregulated wage workers, the self-employed and home-workers. Decent work emphasises the importance of workers engaging in social dialogue, where they can present their views, defend their interests and negotiate over income and working conditions with employers and authorities (Ghai, 2003:113).

In order to develop a Decent Work Deficit Index, Standing's (1997:8-9) seven variables of security in the workplace were adapted:

- *Labour market security*: employment opportunities in the sector
- *Employment security*: protection against arbitrary dismissals
- *Job security*: opportunities to build a career and increase income
- *Work security*: protection against accidents and illness at work, and limits to working time
- *Skills reproduction security*: opportunities to gain and retain skills
- *Representation security*: protection of collective voice in the labour market through independent unions and employers' associations
- *Income security*: regular minimum income and comprehensive non-wage benefits.

Based on the above seven variables of security in the workplace, a standardised Decent Work Deficit Index was developed in order to quantify the level of security in various jobs. Each variable was placed on a range from 0 to 1, with 0 equal to absolute insecurity and 1 equal to absolute security. The Index was constructed from quantitative (objective) and qualitative (subjective) indicators in order to establish the individual components of work and the level of decent work more broadly in the sector (Bonnet, Figueiredo and Standing, 2003:236; Ghai, 2003:135). A nine-page standardised questionnaire consisting of 54 questions was implemented during September and October 2007. Ninety-seven respondents, chosen through a purposive sample in each of the five sectors, were interviewed.

Given the impossibility of using a sampling frame in a study such as this, too great a weight should not be placed on the statistics, particularly as the sample is so small. The strength of the questionnaire is that it provides a basis for comparative analysis between and within the five sectors, and it demonstrates how a Decent-Work-Deficit-Index (DWDI) could be used on a broader scale to identify where a decent work deficit lies in sector specific employment. Such points of weakness can then be targeted through policy interventions. At this stage, only micro-dynamics are measured, mainly based on information supplied by the workers who were interviewed. The advantage of this is that one can obtain a sense of how workers subjectively experience their work at various points along commodity chains. A disadvantage, however, is that the subjective experience of workers can constrain comparisons between sectors. While a person involved in the recycling of scrap metal, for instance, may subjectively feel that he or she has high levels of skill (compared to a friend or family member who is unemployed), this subjective self-assessment may be the same as that of a worker in a textile factory, a sector where there is formal skills training that is regulated by a SETA. This implies that the micro-analysis (individual employees) in this pilot study has to be supplemented by meso (workplace) and macro (national) analyses, based on objective factors such as the presence of unions, gender equality, formal training programmes, minimum wage regulations, and so on. To address this limitation, information was gathered through direct non-participant observation at the respective work sites in addition to the implementation of the questionnaire.



Section Three: Case studies





3.1 Case study 1: Mining

Platinum mines are situated in Cell 2 of **Table 1**, where there is informal employment within formal enterprises. It is common for mines to externalise both core and non-core activities to third parties in order to lower labour costs. Subcontracting is one of the many ways used by employers to make the labour market more flexible. Subcontracting involves a shift away from the standard employment relationship where there is one employer and one employee, towards externalisation where there are many intermediaries and employees work in places that are not owned by their immediate employer. Traditionally subcontracting involves taking a specific but limited function that a company used to do in-house, hiring another company to perform that same function and then reintegrating their work into the overall operation (Friedman, 2005). However, work in the flexible economy has introduced a number of variations to the notion of subcontracting (see **Table 2**).

Table 2: Variations in subcontracting

Type	Function	Example
1. Specialised subcontracting	Provides skilled expertise to employers	Shaft sinkers
2. Labour subcontracting	General labour broking: • temporary employment services (TES) • time-based	JIC Labour Brokers
3. Job subcontracting	Providing task-based employees	Construction companies such as Murray & Roberts
4. Gang subcontracting	Time-based	Early craft unions in the South African mining industry

Subcontracted workers differ from SER workers in that they do not enjoy the same security and regularity, with the exception of those with high-level skills such as in the specialised subcontracting category (Type 1). Their earnings are usually lower and irregular, and they do not have benefits and contracts of employment. There is uncertainty as to whether the labour broker or the client company is responsible for the labour standards of the contract workers. This ambiguous employment relationship allows both companies to evade labour law regulations. These workers are unlikely to be protected by labour legislation. They are also excluded from contributory schemes since such schemes are premised on an employment relationship (Theron, 2005).

The increase in subcontracting has been followed by an increase in labour broking. The 1983 amendments to the Labour Relations Act (LRA) deemed labour brokers to be employers of the employees they procure or provide. The International Labour Organisation (ILO) in 1997 also accepted the notion that a private employment agency may be an employer. The 1995 LRA (Section 198) retained the notion of brokers as employers. Section 198 states:

(2) A person whose services have been procured for or provided to a client by a temporary employment service is the employee of that temporary employment service, and the temporary employment service is that person's employer.
(3) Despite the above, a person who is an independent contractor is not an employee of a temporary employment service, nor is the temporary employment service the employer.

As a result, labour brokers view subcontracted workers as independent contractors who no longer have the protection of the statute. Without this employment relationship social protection is eroded. Section 198 states:

(4) The temporary employment service and the client are jointly and severally liable if the temporary employment service, in respect of any of its employees, contravenes:

(a) A collective agreement concluded in a bargaining council that regulates terms and conditions of employment.
(b) A binding arbitration award that regulates terms and conditions of employment.
(c) The Basic Conditions of Employment Act.
(d) A determination made in terms of the Wage Act.

The 1995 LRA enabled nominal employers to evade labour laws and pass the responsibility to labour brokers since they, too, were regarded as employers. This observation is borne out in the mining industry where there has been a shift from subcontracting non-core jobs towards subcontracting of core mining operations. This shows that subcontracting is not new; rather the trend of the neo-liberal era is that companies are now outsourcing core duties. **Figure 2** show the growth of these **different types of workers in the mining industry** from 2003 to 2005. It should be made clear that workers are not, at any stage, confined to one region. Workers always move from the SER towards the outer rims where employment is precarious or non-existent.



Figure 2.1: Mining Labour Market in 2003
(Statistics from Department. of Minerals and Energy Data, 2005, unemployed figures not available).

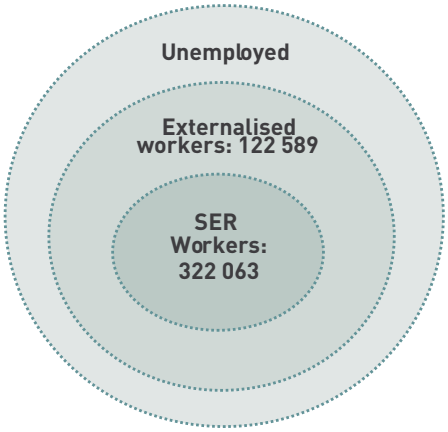


Figure 2.2: Mining Labour Market in 2005
(Statistics from Bezuidenhout: 2006, unemployed figures not available).

The latest statistics reveal that 28% of the mining industry has been subcontracted, with platinum having the largest number of subcontracted workers at 36% (Bezuidenhout, 2006). **Table 3** further illustrates the extent of subcontracting in various mining sectors.

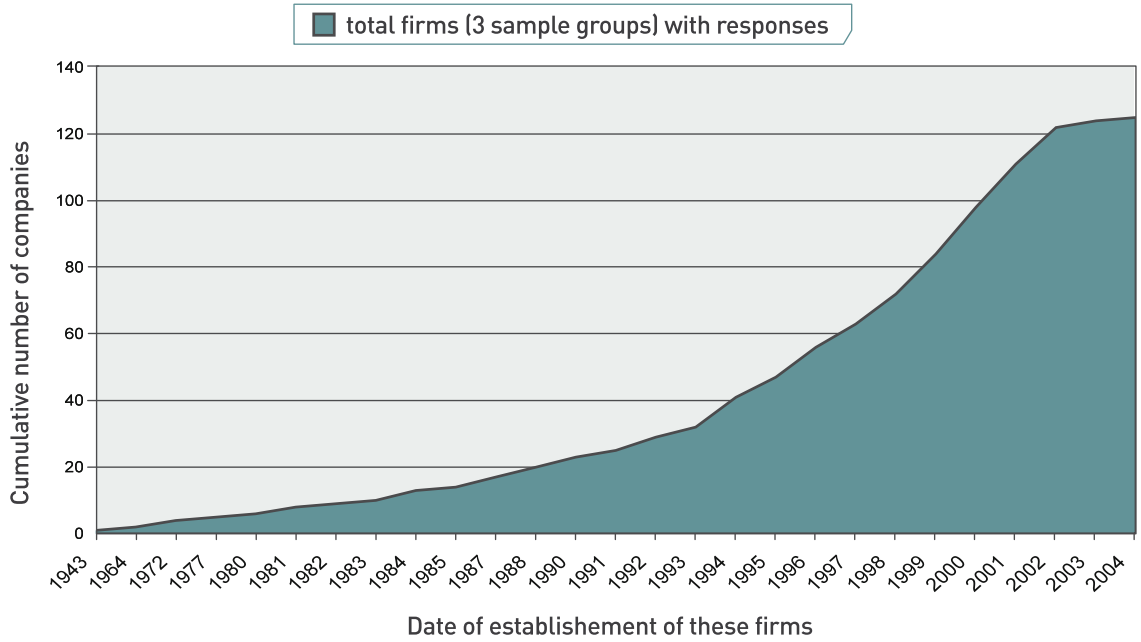
Table 3: Externalisation in the South African mining industry by sector, 2005

Mining sector	Average total workforce	Average number of SER employees	Average number of externalised workers	Externalised percentage of total %
Gold	160 620	137 234	23 386	14.6
Platinum	155 769	100 136	55 633	36
Diamond	21 968	15 808	6 160	28
Iron	7 528	4 903	2 625	35
Copper	3 746	2 004	1 742	47
Coal	56 859	35 843	21 016	37

Note: Not all mining sectors have been included in this table; a few industries have been chosen as examples. Figures represent the averages for 2005.
Source: Department of Minerals and Energy.

Theron et al. (2005) argue that, since the new LRA significantly increased the contingent costs of employment, many employers have opted for labour brokers instead of directly hiring workers. As a result, there has been an increase in the number of labour brokers. **Figure 3** illustrates the rapid growth of labour brokers.

Figure 3: Rapid growth of labour brokers



Source: Theron et al., 2005

Figure 3 clearly indicates that the number of labour brokers has increased from around 40 in 1994 to over 120 in 2004. This leads one to ask, why the rapid growth? Redford, who is a director at R & J, stated in a symposium organised by the South African Institute of Mining and Metallurgy (1999) that subcontracting is beneficial to employers because it transfers employee risks to the subcontractor, thus reducing direct exposure to labour legislation. Unlike gold and coal, which have centralised bargaining, the Chamber of Mines has never conducted collective bargaining on behalf of its platinum members. Instead, platinum mines have decentralised bargaining, and agreements are company-specific.

The agreements between employers and the union usually exclude externalised workers. Unions have to negotiate separately for externalised workers. Depending on how many labour brokers the mine uses, unions often have to negotiate with multiple labour brokers (employers) in order to cover all the employees. In some cases, externalisation of work can leave externalised workers without any wage agreements. Furthermore, externalised workers do not get the same wage increments as SER employees, precisely because they are hired by third parties and not by the mines. This renders them vulnerable to low wages, and thus income insecurity. The lowest amount reported in the research was R350 a week and the highest was R1 050 a week. Some payslips showed that workers had been paid as little as R10.80 per month after exorbitant deductions. As expected those hired by the mines earned the highest, followed by larger contractors, and lastly smaller contractors.

Bezuidenhout (2006) also argues that in gold mining, mines use labour brokers to dodge paying the amount agreed upon by the Chamber of Mines. Crush, J., Ulicki, T., Tseane, T., van Veuren, E., (2001) also noted that subcontracted workers in the gold mines are paid much less than SER workers, and work under very poor conditions. Furthermore, the easy cancellation of contracts with labour brokers by mines can leave workers destitute with no income, thus adding to their vulnerability.

While SER employees have a guaranteed amount of money every month as well as a yearly increment, externalised workers are paid irregularly and they have no social benefits. Overall, in our study it was evident that externalised workers are much more vulnerable to income insecurity compared to their SER counterparts.

Most externalised workers do not have contracts of employment like SER workers; for those few that have them, the employers do not always abide by them. It was clear during the research that a contract of employment offers some degree of protection and security to employees. When an employee has a contract that clearly stipulates conditions, remuneration and duration of employment, it becomes difficult for the employer to arbitrarily fire that employee. It is much easier to fire externalised workers, resulting in a lack of employment security. Workers hired by small labour brokers had verbal contracts, and those hired by larger brokers and directly by the mine had written contracts. Even though the larger brokers had given their employees contracts, workers reported that they did not abide by the contracts.

The contravention of contracts is not the worst that happens to externalised workers. A local government official reported:

> *Labour brokers are now hiring illegal foreigners. At the end of the month the broker meets the workers on a street corner and 'pays' them. Before meeting the workers, he calls the police and they arrive shortly after he has started paying them. Because the workers are not legal, when they see cops approaching, they run away. So the labour broker gets away with hiring illegal migrants, with exploiting them and not paying them (Benya, 2008).*

National Union of Mineworker (NUM) officials maintain that the above conduct happens mostly with small fly-by-night labour brokers.

One respondent reported that his contract had been terminated because he could no longer hear. He said, "They have fired me because I'm sick, I'm of no use to them now, and they are done with me." The easy dismissal of injured workers further marks the lack of employment security for subcontracted workers. This is even more pronounced for cross-border migrants since some of them are illegal.

Sikakane (2003) asserts that insecurity affects not only externalised workers but also SER employees. As a result of the rise in retrenchments and subcontracting, full-time employees are no longer secure in their jobs. They feel threatened by their employers' preference for externalised workers. Some workers believed that the presence of contractors was a threat to their jobs and could lead to their dismissal: "I'm easily replaceable here. They can just call the contractors and replace me within a day." Insecurity, therefore, does not only exist within the informal economy, but also within the formal economy.

Taking the case of Personal Protective Equipment (PPE), for example, there were divisions among workers. SER employees had free access to protective equipment while externalised workers had to contribute to purchasing the equipment. An externalised employee said, "I have never been given gloves and I work with chemicals every day; if I get burned or injured it's my responsibility. They told me that if I want gloves I must bring them from home." This shows clearly that workers are not treated equally when it comes to PPE provision.

Externalised workers reported that they did not have a choice where they worked, even though the Mine Health and Safety Act of 1996 seeks to entrench the right of mine employees to refuse to work in dangerous conditions. One worker said, "We are sometimes forced to work in dangerous conditions or forfeit our jobs." In addition, externalised workers are not paid for any illnesses caused by their work or injuries sustained at work. This contributes to their lack of work security. Mines are evading health and safety standards and shifting the responsibility to labour brokers, who in turn shift it to workers.

Moreover, externalised workers in some mines reported that they are told to blast while there are people working underground. Externalised workers also reported that their employers (labour brokers) did not take responsibility if they were injured at work. During the research almost all the externalised workers mentioned that they were taken to a State hospital in Rustenburg (Paul Kruger Hospital), so the company could avoid medical costs, leaving their employees to the care of the government. If a worker demands injury compensation, the company threatens to fire him: "You dare not ask for injury compensation unless you want to go home and rest. They will fire you on the spot if you ask for compensation." Another worker said, "I'm not even sure if we are entitled to compensation; we are contract workers and most of us are foreigners."

Most scholars of subcontracting in mines argue that there is no career advancement for externalised workers. Subcontracting not only undermines the opportunity of advancing in one's career but also undermines one of the goals of the National Union of Mineworkers (NUM) – "same job, same pay".

Initially, employers trained SER employees because they saw this as a good investment for the future. However, with the trend towards subcontracting core jobs, employers are now retrenching their trained SER employees and hiring cheap externalised workers. Due to this preference for externalised workers by employers, SER employees feel insecure.

With informalisation of work it is hard to organise workers into unions, and for unions to negotiate better wages and conditions for employees. The main reason is that the number of employers has increased from one (the mine) to several (various labour brokers). Because many workers are not unionised, their lack of voice results in a lack of power, which makes it easy for them to be exploited.

Most of the workers at the mines in this study were unionised; however, for externalised workers, especially at JIC, their union is not independent from management. What is more interesting about this union, according to workers, is that it constitutes "active leadership over inactive members". What they mean by this is that it only comprises of leaders because all its 'members' were forced to join it or forfeit their jobs.[2]

Most of the security indicators for externalised workers are lower than for SER employees. From the above findings it is evident that within formal enterprises there is an indecent work situation. Informalisation of work due to externalisation and casualisation has led to most workers in the non-standard employment relationship experiencing exploitation.

[2] "All potential employees are required to fill out union forms or they will not be employed. As workers get work application forms, right at the back of them are union forms and all soon-to-be employees MUST fill them in or they will not be hired.

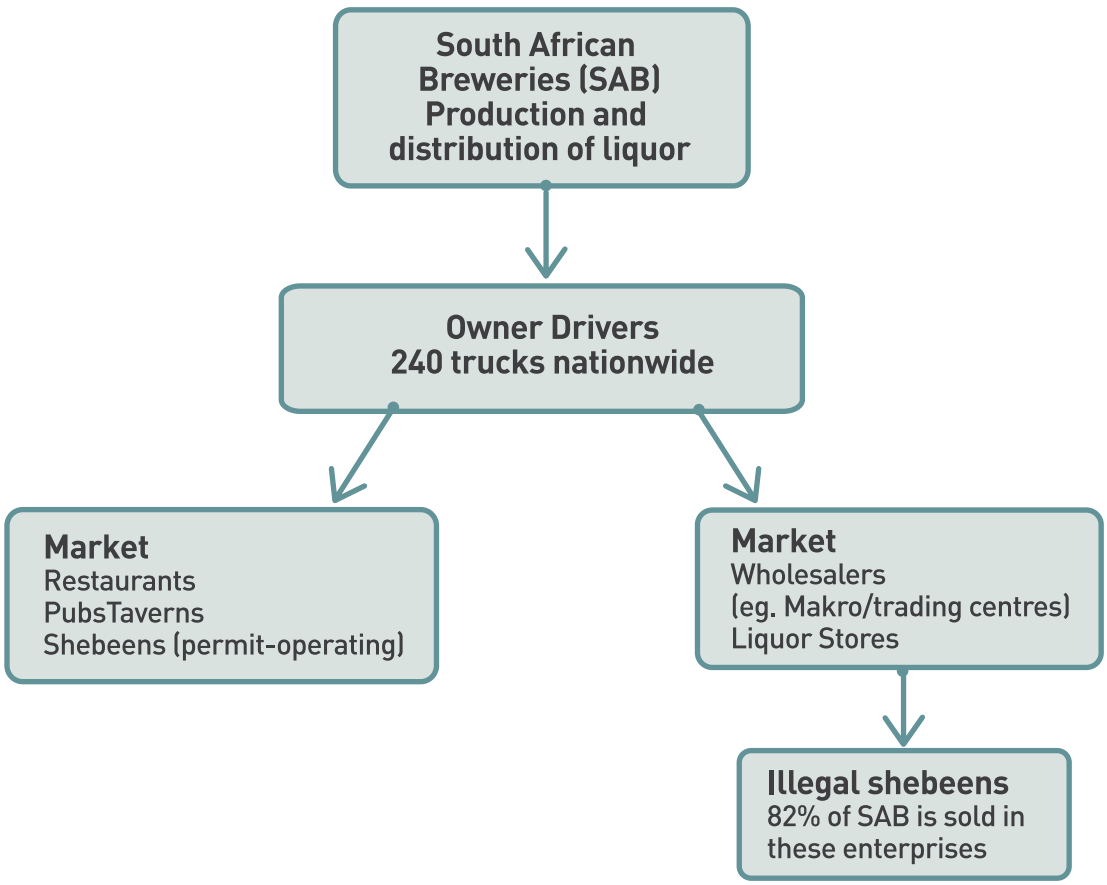




3.2 Case study 2: Production and distribution of liquor

The South African Breweries (SAB) and Taverns/Shebeen chain is producer-driven. South African Breweries (SAB) is the lead company which drives, controls and sustains the chain. SAB produces an estimated 2.6 billion litres of beer per year (SAB, 2007b; SAB Interviews 7 and 8, 26 November 2007). This beer is then distributed to depots by SAB's trucks. SAB uses 650 trucks a day during peak season to deliver beer to depots (SAB, 2007b). From the depots, the product is then delivered to licensed and permit-operating retailing clients by owner-drivers and SAB's own trucks (**Figure 4**). Beer-selling clients include restaurants, pubs, hotels, liquor stores, wholesalers and taverns. SAB's liquor is bought from licensed wholesalers such as Makro or trading centres and liquor stores by individuals who buy in bulk to illegally trade it in shebeens. It is estimated that 82% of SAB's liquor is sold illegally if permit-operating shebeens are included.

Figure 4: Liquor value chain



South African Breweries Limited was founded in 1895. Today it is the largest brewer in Africa. In 2002, it merged with Miller, an American company, to form SABMiller (SAB, 2007a). SABMiller is the second largest brewing company in the world and has breweries in 60 countries across the world indicating the kind of power SABMiller possesses as a multinational company within the liquor sector.

All the breweries operate the same way – the SABMiller 'Manufacturing Way', which is the group's centrally developed set of tools and processes established to increase standards and quality of the end product (SAB, 2007a). Nonetheless, in each country SABMiller has subsidiaries that cater for different markets: "Unlike manufacturing, this activity [marketing] varies widely from market to market because local conditions are so different" (SAB, 2007a:14).

In South Africa, the major point of sale of just over 80% volume of SAB's beer is in illegal shebeens in townships, a less exciting and unsophisticated environment. In response, SAB is attempting to bring most of these businesses under its wing so they are able to control the "environment at the point of sale". All this information regarding SABMiller is important in looking at how SAB operates in South Africa with regard to taverns and shebeens. South African Breweries Ltd. – hereafter referred to as South African Breweries and SAB – is the South African subsidiary of SABMiller.

South African Breweries plays a crucial role in the chain because it produces the product – the beer. SAB operates seven breweries nationally. The production of the products, the conception, the branding and the introduction of new brands are completely controlled by SAB. SAB produces some of the ingredients while purchasing others. SAB is closely linked to farmers who produce other raw materials such as maize (SAB Interviews 7 and 8, 26 November 2007). According to Interviewee 8 (26 November 2007), SAB thoroughly checks the quality of its ingredients and products at every level. For instance, farmers that are subcontracted by SAB to produce for the company are given precise directions on how to grow their products, and which insecticides and other materials may be used in production. The farmers are especially trained by SAB on how to grow their ingredients in order to ensure it is of a certain quality for beer production. The main point here is that SAB has significant control over its suppliers. The company literally controls the running of these subcontractors and tender companies.

The brewing process is highly mechanised. The quantity and quality of the product is completely determined by SAB. Each brewery is specialised to brew a particular beer. Breweries are also specialised according to packaging (SAB Interviews 7 and 8, 26 November 2007). For instance, some breweries produce canned beer, others only dumpies (250 ml bottles) and others only 750 ml bottles. It is more convenient and faster to do this. Moreover, different lines pay differently.

SAB is thus a highly specialised machine. There is high differentiation within the company in order to manage the collective goals of the company within the country and internationally. Conceptualising, forecasting, branding and brewing are processes that need labour that is highly specialised, knowledgeable and skillful.

3.2.1 South African breweries and labour

Deloitte & Touche and the Financial Mail voted SAB in the top three of Best Companies to Work For, for three consecutive years from 2001 to 2004. SAB ranked sixth and 11th of 127 companies in the country in 2005 and 2006 respectively.

Furthermore, sources in SAB argued that it is hard to enter employment in the company: "The minimum requirement for most jobs in SAB is a basic degree or diploma" (SAB Interview 7, 26 November 2007). The minimum for an unskilled job in the company is Grade 12. As one source at Alrode argued,

> *Imagine, a forklift driver has to have a minimum of a matric. Even drivers, these are low-skill jobs here [at Alrode]. Other than that, other employees are artisans such as operators at the conveyor belts, diploma and degree holders such as your brewers ... because everything here is techonology-intensive (SAB Interview 7, 26 November 2007).*

Another source at SAB argued that Grade 12 has to be the minimum so that it is possible to train these individuals for other positions within the company if new technology is introduced or if there is a need for restructuring (SAB Interview 8, 26 November 2007). Job security and skills reproduction security of low-skilled employees is fairly high; as the company expands they are given the opportunity to upgrade their skills and achieve better positions within the company. The largest brewery has less than 500 employees, most with diplomas and university degrees (SAB Interviews 7 and 8, 26 November 2007).

South African Breweries invests a significant amount of money in human capital development. It has a pupose-built Training Institute which opened in 1992. The institute is an accredited training provider with the Food and Beverages SETA. The institute offers Corporate University programmes, and short-term programmes for operational expertise. From this point of view, one can argue that SAB's productivity and profitability lies in upgrading the skills of its employees. Upgrading skills can also serve to retain skill within the company and to increase employee morale. Either way, both parties benefit. Thus, workers in SAB have high skills reproduction security.

Taking the above information, employment security is high as there are rationalised hiring criteria for individuals. Since SAB is a registered company, every employee has a contract and cannot be unfairly dismissed by the organisation. The sources at Alrode further said that some of their workers are organised by the Food and Allied Workers Union (FAWU) (SAB Interview 7, 26 November 2007). Thus, workers have high representation security because they are free to join a union. So far, the brewery has not experienced a major strike because salary negotiations with the union have been successful (SAB Interview 8, 26 November 2007). Representation security is adding decency to the working conditions of the workers.

Workers are insured against physical harm and negative health hazards at work, and receive instruction on how to guard agains accidents (SAB Interview 8, 26 November 2007). This means that work security is high.

3.2.2 Owner-driver programme

The Owner-driver Programme was initiated in 1987 in the Western Cape. Initially candidates were recruited from SAB drivers. Presently, non-SAB workers can apply to become owner-drivers. The programme comprises three phases.

The first phase – the development stage – lasts from 12 to 24 months. The owner-driver goes through training modules such as Business Skills and Numerical Skills to prepare him to run his own business. Next, the owner-driver rents a truck which he will use while completing his training. Part of transitioning requires the candidate to resign as an employee of SAB and to form a closed corporation (CC) (SAB Interview 5, 14 November 2007).

The owner-driver can then hire a crew consisting of four non-related workers, which he has to register as his employees. In hiring labour, the owner-driver is advised against hiring family or relational labour. The driver has to hire labour through legal means, check credentials and conduct interviews. Crew members are paid the necessary minimum wage required by law, given benefits and covered against accidents at work. The loaders do not need great skill for their jobs; however, they are secure in that they have written contracts and they are registered as employees for UIF and other benefits.

The crew is financially insured against work-related injury, and thus have work security (SAB Interview 3, 2 November 2007). The SAB strongly states that, if the need arises, the crew should complain about their working conditions to their employer and not to SAB. This point is significant – the owner driver is their employer, and their employment contracts bind the owner-driver but not SAB. This distinction has to be emphasised, as there can be confusion as to who their employer is. SAB provides their uniforms and tools (gloves, trolleys) for working. Further, the truck is branded by SAB despite the fact that it is owned by the driver. The confusion is further perpetuated by the strong relationship between SAB and the owner-driver due to their binding contract (SAB Interview 5, 14 November 2007).

The second phase of the Owner-Driver Programme is the Asset Acquisition Phase, which lasts for 10 years. The owner-driver signs a ten-year contract, whereby he is given the opportunity to buy his own truck during this period. The vehicle is registered in the owner-driver's name; it becomes his own personal property. An economic rental allowance is paid to the owner-driver on a regular basis. This allowance covers all the owner-driver's expenses, "... including running, operating, labour and breakage costs, according to predetermined standards, as well as to cover his truck repayments" (SAB Interview 5, 14 November 2007).

Phase three of the Programme is called the Multiple Vehicle Contract. This is also a ten-year contract with similar principles as phase two. High-calibre owner-drivers are allowed to purchase two more trucks, thus operating three vehicles at a time. In this phase, the distribution operators are not required to drive their own vehicles. Instead they are required to personally supervise 15% of all deliveries. At this stage the owner-driver becomes independent. SAB 'gives up' significant control over the owner-driver in terms of giving precise directions on how to run his trucks. The distribution operator is now an independent businessman (SAB Interview 5, 14 November 2007).

With growth of the owner-driver's assets, the structure of his business becomes more complex. More labour is necessary to run the business at an optimum level. Division of labour takes place. The owner-driver must hire drivers and crews for each truck. A hierarchy begins to form. The owner-driver moves up a level, drivers for his truck form the second layer and the crew the last layer. Despite the fact that the owner-driver is a subcontractor he is not free to deliver the beer or products of other companies. He is a subcontractor servicing SAB only and there are penalties if the contract is breached.

SAB controlled 98% of the sector in 2006 and early 2007. However, with the emergence of Brandhouse, SAB's control over the sector is being challenged. Brandhouse is the company that took back Amstel Lager from SAB in March 2007, and is the producer of Heineken and other Western beers. Within a short period of time, Brandhouse has compromised SAB's control over the liquor sector. SAB now controls close to 93% of the liquor sector (SAB Interview 3, 2 November 2007). This may make it possible for owner-drivers to advertise their services to Brandhouse.

Most of the taverners interviewed argued that it is convenient to work with SAB, as it delivers their products to their businesses; Brandhouse does not have this service. This statement is confirmed by an SAB source, who argued that SAB has the advantage mainly because it offers delivery (SAB Interview 3, 2007). If Brandhouse can offer this service to its taverners by utilising subcontractors such as owner-drivers, their market share will increase. This could also increase the incomes of owner-drivers, and it might even raise the competition for their services, which may mean more profit. Indeed, Brandhouse offers a ripe opportunity for owner-drivers. However, because they are barred by SAB from delivering other companies' products, owner-drivers are never able to pursue such oppportunities like other free businesses.

3.2.3 Taverns and shebeens

The owner-drivers are responsible for the delivery of the liquor to licensed and permit-operating businesses countrywide. This market consists of licensed restaurants, wholesalers, liquor stores, taverns and shebeens with permits (see **Figure 4**). Wholesalers and liquor stores sell liquor in large quantities to individuals. Some of these individuals operate illegal shebeens which actually retail 82% of SAB's products. The Soweto depot supplies Soweto, Eldorado, Kliptown, Lolli and surrounding suburbs. These townships consume about 62 222 cases per day (12 bottles in each case) (SAB Interview 2, 26 October 2007).

Philip (2007) argues that small-scale producers have to compete in relation to price, quality and brand recognition. However, the integration of shebeens into SAB's commodity chain decreases such risks and costs for these enterprises. Licensed taverns and shebeens operating with permits are assisted by SAB to brand their enterprises, with names imprinted on the background of one of SAB's alcohol beverages. For instance, SAB places a board outside each client's enterprise, displaying the name of the shebeen or tavern on the background of one of SAB's beers such as Carling Black Label or Castle Lager.

These enterprises are also given fridges, chairs and other materials to facilitate their growth. By giving the taverners fridges, the quality of the product is assured and enhanced, as their liquor is served cold. The provision of chairs and glasses enhances the quality of the tavern or shebeen, as customers are able to enjoy their favourite beer sitting comfortably on chairs and drinking out of branded beer glasses. There are, however, conditions that come with SAB's 'free' gifts.

Taverners and shebeeners are told that the fridges are only to be used for SAB's products. If any other company's brand is found in the fridge, SAB will immediately confiscate the fridge. There are other rules attached to these fridges. They have to be packed according to a particular order. For example, a Black Label branded fridge should feature that beer on the top shelf, followed by other brands on the other shelves (Tavern 8 Interview, 21 September 2007; SAB Interview 3, 2 November 2007).

The shebeeners are assigned a sales representative by SAB, who teaches them how to pack the fridge and other business skills necessary for running a successful operation. The fridge has to be placed where customers can see the beers in the fridge. Thus, the fridge has to face the customer. These rules on how to display and pack the fridge have to do with the power of advertising:

> *I have sat in many shebeens and taverns I service and I can tell you that 35% of the time customers point at the product they want to buy rather than say which brand they would like to buy. That is the function of the fridge and the rules attached to it (SAB Interview 3, 2 November 2007).*

This statement is very much in line with De Soto's (1989) assertion that 65% of customers in Western businesses are brought in through advertising outside one's establishment, illustrating the use of branding one's product. Thus, branded shebeens and taverns are able to capture a larger share of the market compared to those that do not have any form of branding.

The provision of services to taverns is advantageous for South African Breweries as it helps to secure the trust and confidence of their clients. Most importantly, SAB is securing access to a market in the townships which trade and consume most of its products. As value trickles down within the chain, some of these businesses have grown to the extent that they are able to provide employment in their neighbourhoods. For example, the owner of Tavern 3 in this study is able to provide employment to unemployed neighbours and friends. As De Soto (1989) delineated in his book, The Other Path, informal – or in this case formalising – enterprises have the capacity to absorb more labour than formal enterprises as work in the informal economy is more labour-intensive.

Philip (2007:207) further argues that attempting to integrate individuals from disadvantaged backgounds into the value chain is problematic as they do not understand several critical points of running a business and developing products. SAB is very aware of these problems, and thus their initiave – the Mahlasedi Programme (SAB Interview 6, 20 November 2007). This programme upgrades the knowledge and business skills of shebeen owners so that they can become better integrated into the value chain. Additionally, SAB has committed R100 million over the next five years to train more taverners (SAB, 2007b:5).

SAB realises that in order to be able to work well with taverners and shebeeners there has to be a foundation which permits communication between them. Thus, taverns and shebeens are assigned marketing sales representatives from the Soweto Depot. Each rep services approximately 200 taverns and shebeens. The rep decides which customers need training and which ones do not (SAB Interview 3, 2 November 2007). The sales rep also decides through his professional analysis which taverns will be more profitable for SAB. The rep will then invest in growing those particular enterprises (SAB Interview 3, 2 November 2007).

3.3 Case Study 3: Clothing production – A buyer-driven value chain

The value chain for the production of clothing is a buyer-driven value chain, because it is headed by large retailers and branding agencies, and involves a decentralised network consisting of (often outsourced) design houses and manufacturers. The chain begins with either the harvesting of raw materials such as cotton or wool, or with the production of synthetic polyester or acrylic fibres.





Textile manufacturing using these materials is the next link in the chain, followed by the design and manufacture of clothing. This step can either be outsourced to informal enterprises or can be made in formal, regulated factories. The branding of the product is the next stage, with marketing agencies playing a central role. It is at this stage that the most commercial value is added to the product. Finally, the product is sold, either through formal retailers or through informal traders.

Initially, however, these retailers release tenders for the production of a certain type of clothing. Manufacturers compete with each other for these tenders by trying to provide the tender to the retailer for the lowest price.

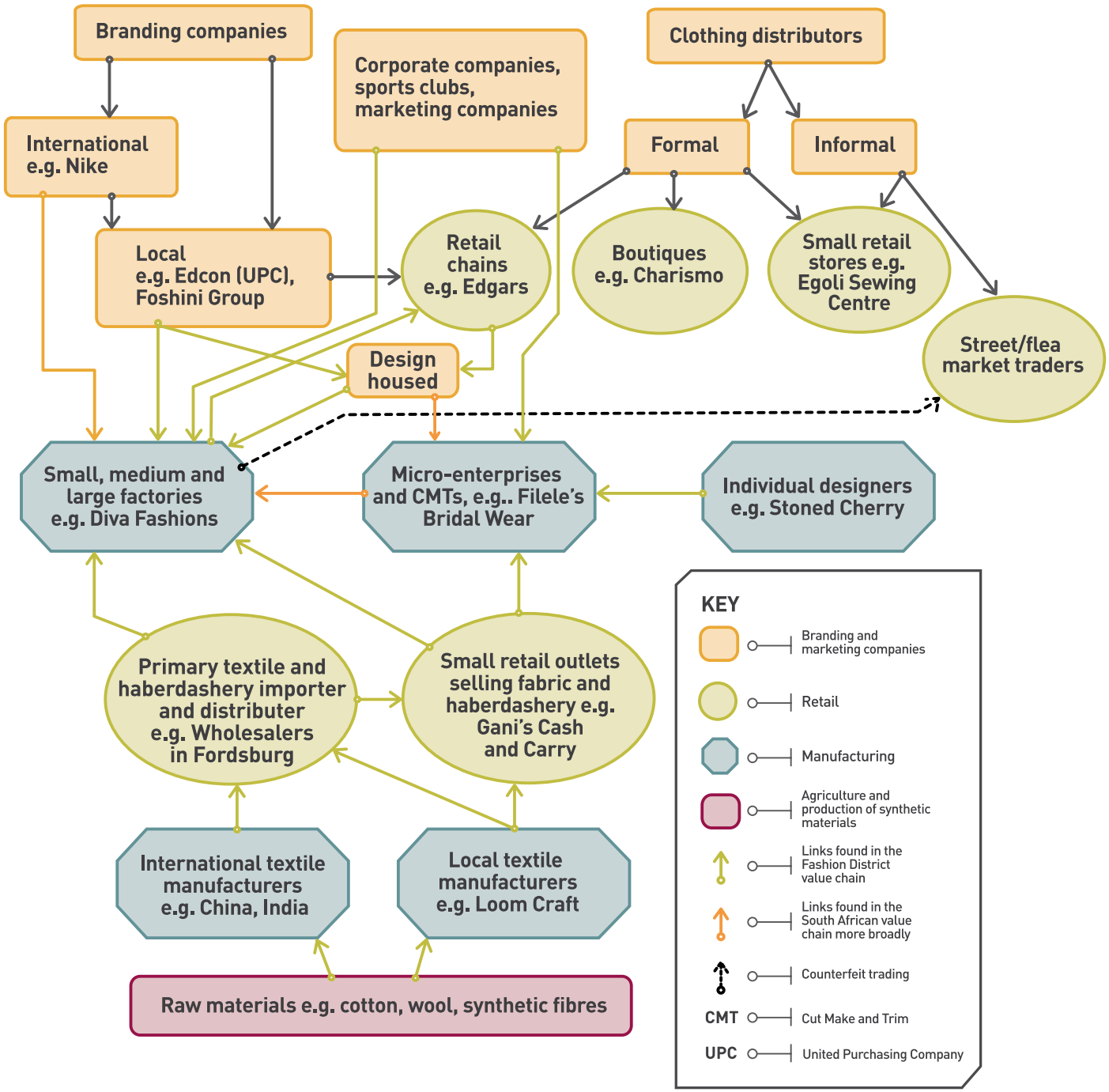
According to one of the factory owners interviewed, "No factory sells clothes. The chain stores buy them. These factories work on selling labour. They are labour brokers, not factories" (Interview, Factory Owner A, 5 September 2007). This point to the power that the branding chains have over the production of clothing. If manufacturers are granted tenders, the branding chains tell them exactly what to make, how to make it and which design to use.

This means that the structural bargaining power[3] of clothing factory workers is very low, because there is so much competition between factories and because the industry is flooded (Silver, 2003:13). Most of the big international branding houses are located in the global North. The clothing factories, on the other hand, tend to be located in the global South, inducing South-South competition between factories and emphasising the North-South divide (Anner, M. Greer, I., Hauptmeier, M., Lillie, N. and Winchester, N., 2006:23).

Figure 5 illustrates the links in the buyer-driven value chain for the production of clothing in South Africa. The value chain for the production of clothing in the Fashion District in Johannesburg is a small value chain which differs slightly from the clothing production value chains found in other parts of South Africa. The coloured arrows in **Figure 5** indicate this difference. The green arrows indicate links which exist in both the Fashion District and the larger South African clothing production value chain. The orange arrows indicate links which usually exist in the South African clothing production value chain but which do not exist in clothing production in the Fashion District.

[3] Erik Olin Wright (2000:962) makes the distinction between the associational and structural power of workers. Associational power is defined as "various forms of power that result from the formation of collective organisation of workers (trade unions and political parties)". Structural power is the power that accrues to workers "simply as a result of their location in the economic system". Wright distinguishes two subtypes of structural power: market bargaining power which results directly from tight labour markets, and workplace bargaining power resulting from "the strategic location of a particular group of workers within a key industrial sector".

Figure 5: Production of clothing in the Fashion District



The reason for this difference is that the factories in the Fashion District are generally linked to small, primarily domestic value chains, and there are few production links from larger factories in the district to the micro-enterprises in surrounding areas. For the most part, factories in the Fashion District are neither export-oriented, nor are they linked to international brand names. Only two of the factory owners interviewed have ever produced clothing for international export, supplying clothes to Botswana and Angola (Interviews, Factory Owners C and F, September 2007). One of the Cut-Make-and-Trim (CMT) owners has customers in England who occasionally buy traditional African outfits for their boutiques in London (Interview, Sewing Shop Owner A, September 2007).

Of the seven factories visited, three were producing clothing for corporate and marketing companies, two were producing clothing and ties for large South African retail chains, and one had secured a niche market by producing scuba diving outfits (Interviews, Factory Owners A-F, August-October 2007). The only factory which outsourced part of its production was Factory B, the largest factory in Gauteng. When they outsourced, it was to a medium-sized registered factory with 100 workers who performed the tasks of pattern cutting, aligning pattern pieces for sewing, and washing the final garments made by workers in Factory B (Interview, Factory Owner B, September 2007).

The three sewing shops visited were producing traditional African clothing and bridal wear for their own small retail outlets which were attached to the CMTs (Interviews, Sewing Shop Owners A-C, September and October 2007). Finally, the two clothing designers who ran their own CMTs had secured their own niche markets, supplying garments to high-end fashion boutiques in and around Johannesburg (Interviews, Clothing Designers A and B, August- October 2007).

Although the sample of factories and CMTs may not be representative of the whole Fashion District, the list of factories in Gauteng which we obtained from the South African Clothing and Textile Workers' Union (SACTWU) specifies what the factories specialise in. The majority of these factories manufacture clothes for local corporate and marketing companies.

Much research has been conducted on the linkages between informal home-based CMTs and formal, small-to-large factories. In these networks, work given to the home-based CMTs is outsourced either by design houses, retail chains or larger factories. Theron (1996), Godfrey, S., Clarke, M., Theron, J. and Greenburg, J. (2005) and Van der Westhuizen (2005) have conducted extensive research in this field in Durban and Cape Town. What has emerged is that there are clear dependency relations between the informal home-based operations (which are often survivalist by nature) and the rest of the production chain involving formal design houses, retail chains and other factories.

Design houses are a relatively new phenomenon in which manufacturers shut down the production portion of their business and "retain only their design and sampling functions" (Godfrey et al., 2005:11). Manufacturing is outsourced to factories or home-based operations (often informal) which compete for tenders from the design houses. To restructure one's business in this way is beneficial to factory owners as they evade the responsibilities of hiring a large workforce and manage to cut costs by outsourcing production to low-paid workers. There was one design house in the Fashion District that had begun to outsource production to a factory in Botswana at much cheaper rates than he had paid when he managed a factory in Gauteng (Interview, Design House Owner A, 5 September 2007).

3.4 Case Study 4: Recycling waste paper

In South Africa, the waste management sector is dominated by the private sector, with private companies initiating their own recycling projects. These private companies run their recycling initiatives by using businesses and schools to participate in their recycling initiatives. To these private companies the recycling is more about managing and sustaining the environment rather than creating employment and alleviating poverty. To the informal waste collectors, waste collection and recycling is about earning a living rather than recycling in order to save the environment. Mondi and Sappi have buy-back centres (financed by Mondi and Sappi) that are responsible for collecting their own waste; independent individuals can also go to these companies and sell the waste that they have collected. Remade Recycling in Newtown is an example of such a buy-back centre; they sell their paper to Sappi. Another buy-back centre is Robertville recycling; this buy-back centre sells its paper to Mondi.

In waste recycling, paper and cardboard offer the buy-back centres more revenue because they are the bulkiest commodities that are bought from collectors. It is also in paper and in cardboard that most of the competition amongst collectors is found. This is because these two commodities are easily available and are in abundance. The high levels of competition also drive prices down for the collectors because many people are offering the same commodity to the buy-back centres. Supply is higher than demand.

Dyssel & Langenhoven (2007) reported that currently in South Africa, thousands of recycling- related jobs already exist. It is estimated that there are 37 000 people earning a living "by picking up waste for recycling. These statistics are found in the South African Yearbook 2000/2005. The Durban Metro has reported that at the Bisasar Road landfill site, over R66 000 worth of recyclables, totaling about 260 000 kilograms, are retrieved each month by about 300 to 400 waste pickers who each earn approximately R300 per month. Waste picking at the landfills has provided many people with means to survive and take care of their families. Waste pickers are however not properly recognised for the important service that they are offering for the government. In some ways the recycling companies also depend on the waste pickers in the landfills to retrieve the waste that lands up in the landfills.

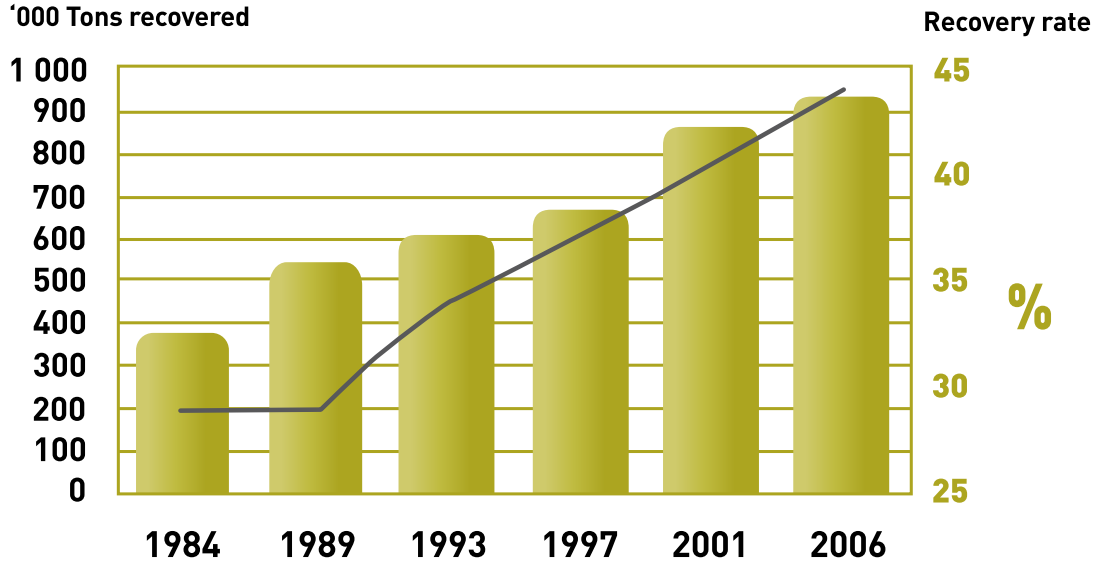




The Paper Recycling Association of South Africa has reported that there has been an increase in paper recycling in South Africa for 2005. Their studies reveal that there has been an increase in the amount of recycled waste in South Africa, in particular paper recycling.

South African paper recycling tons and rate[4]

Figure 6: Waste paper recovery rates



$$\text{2005 Recovery rate} = \frac{\text{Recovery}}{\text{Paper consumption}} = \frac{935}{2144} = 44\%$$

The diagram shows that currently only 44% of all the paper that is consumed is recovered for recycling, this is still a low percentage; however, from looking at the diagram we can see an upward trend which can lead us to speculate that in the coming years the recovery rate will increase. This shows the growth in the recycling industry, and with more regulation from government the recycling industry could offer decent work employment to a large number of people without education or any form of formal skills.

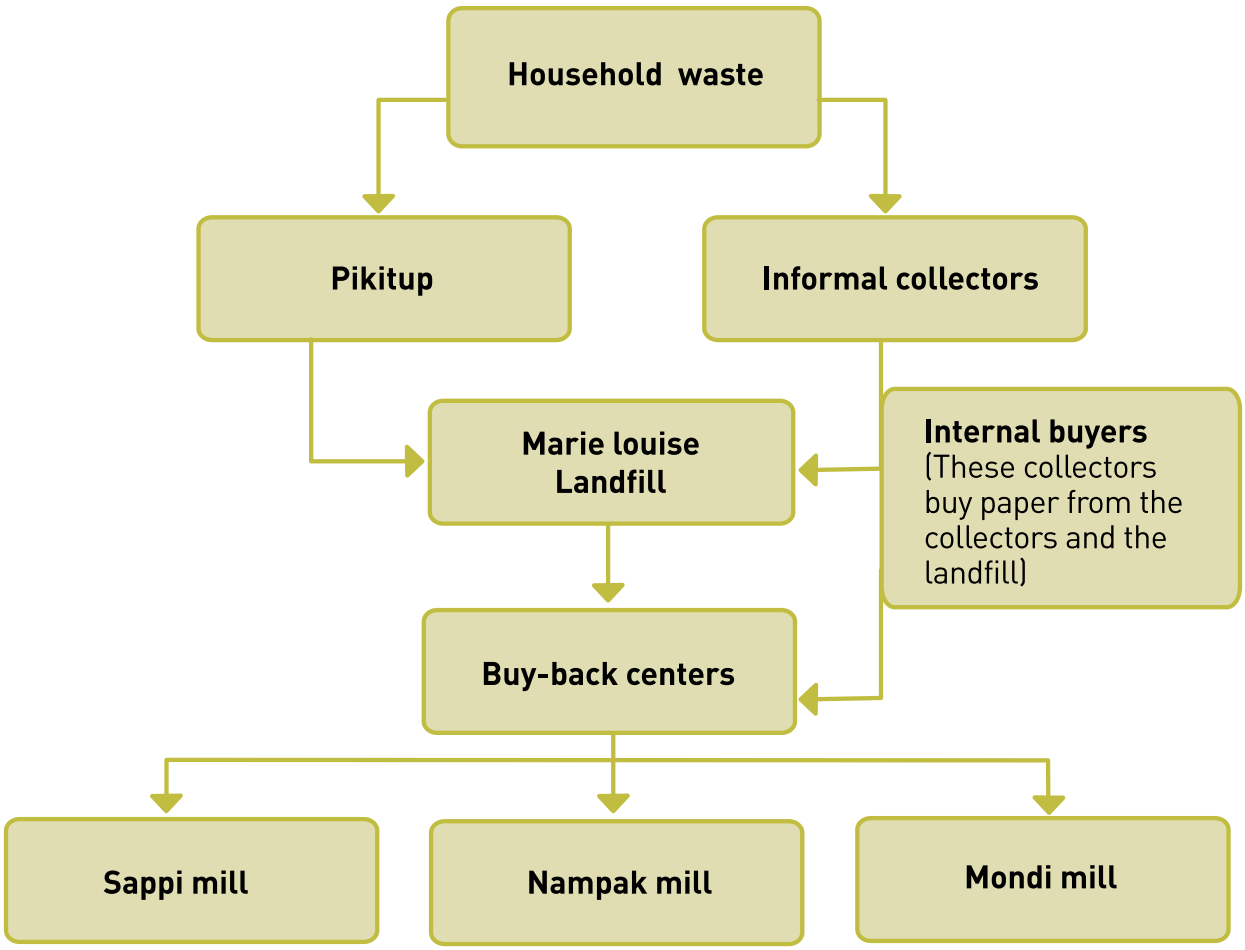
With the increase in unemployment in South Africa, many people are moving into the informal economy in order to earn a living. This study looked at the waste paper collectors, who earn a living from collecting waste at landfills. The waste produced by South Africans is estimated to be around 566 million tons per year and approximately 90% of that waste ends up in landfills[5]. The landfills have allowed many people to earn a living by picking up waste for recycling. Waste pickers are however not recognised for the important service that they are offering. The waste collectors are increasingly forming part of the invisible labour.

[4] Paper recycling in South Africa available at http://www.prasa.co.za/statistics.html
[5] *Waste Not Want Not* : Mail and Guardian; 27 July- 2 August 2007

The aim of this study was to examine the levels of insecurity of the waste paper collectors, using the value chain analysis. The chain that was used in the study starts at households, then moves to landfills; buy-back centres and end at recycling companies such as Mondi, Sappi and Nampak. The collector levels of insecurity were calculated using Standing's decent work index. The findings of the report revealed that the collectors work under harsh conditions, earning as little as R150 per week. This study also reveals the power dynamics that exist, with the owners of the buy-back centres holding more power and influence over the earnings of the collectors, by controlling the prices. The findings also revealed that the waste collectors see what they are doing as a real job, and at the same time try to deal with the negative attitudes from the public associated with the work that they do. The report concludes by suggesting that municipal and governmental recognition of the waste collectors need to be encouraged. Waste collectors could be trained and offered funding to open up their own by-back centres, as that would increase their income and help them move up the chain.

The value chain for this study runs from the individual collectors who either collect waste paper directly from households, businesses or factories or who collect it from Marie Louise (which is a landfill site). The waste at Marie Louise is dumped by PIKITUP. The waste paper that is collected is sold to agents at the buy-back centres and from there the paper gets sorted out according to grades and types (newspaper, white paper/ office paper and magazines), and is later transported and sold to either Mondi mills, Sappi mills or Nampak mills.

Figure 7: Commodity chain for recycling waste paper



Starting at the top with the households, this is where the value chain begins with the household members throwing their waste in the bin. Both Pikitup and paper collectors go to the same source. Pikitup collects waste from households once a week. Pikitup simply picks up the bins and throw the waste in the trucks, while the paper collectors will go through the bin looking for paper (newspapers, magazine and white paper) only. The waste that is collected by Pikitup from households is taken to the landfill and the waste is collected once a week. Pikitup is a registered private company that was launched in 2001. Pikitup is contracted by the City of Johannesburg Metropolitan Municipality to provide waste collection services for the municipality. The contract includes the collection and disposal of household and business waste, cleaning of streets and collection of waste that is illegally dumped (Samson, 2004:117).

The second part is when the waste is at the landfill. This is where most collectors are found and it is where they collect most of the paper that they sell. At the landfills there are collectors who work there everyday and these collectors have an option of selling their paper to agents (other collectors in the landfill who not only collect the paper themselves but also buy the paper from other collectors in the landfill) or the collectors can sell their paper directly to buy-back centres. Selling to the agents adds an additional step to the chain because the agents act as middlemen between the collectors and the buy-back centres. The buy-back centres are usually responsible for sorting the paper into different grades and bailing the paper into bulks. From the buy-back centre the paper moves to its final stage, where it is send directly to the recycling companies.

From looking at the chain we could expect to find the paper collectors with bad working conditions and earning the lowest wages, although the agents in the landfill will be better in terms of wages since they will earn higher wages than the collectors. As we move higher to the buy-back and Pikitup workers could expect the working conditions to improve.

The respondents in this study were divided into three categories (Waste collectors, Buyback centre workers and Pikitup workers). The reason for this was so that we could be able to compare the levels of security for different workers along the value chain. The findings revealed that the collectors have the lowest security level, they are at the bottom of the chain as their work involves working in a dirty environment that is not good for their health, the collectors also receive little and irregular income, external factors such as the weather affect their work because the buy-back centres refuse to buy paper or cardboard that is wet. The workers also face stigma and ridicule from the public because of the type of work that they do. The workers at the buy-back centres have overall security levels that are higher than the collectors. They are in between and they are not completely secure and at the same time they are not completely insecure, even though they have zero representation security. The buy-back centre workers have the highest work security; they did not have problems with health and safety. The workers at Pikitup have secure employment; they are high up on the chain. The decent work deficit is most clear to the collectors. The worker at Pikitup scored the highest in representational security; these workers have an option of belonging to one of the three unions in this sector.

This study was conducted as part of a bigger research that is looking at the heterogeneous nature of the informal economy. The focus of this study was to examine the levels of insecurity of waste paper collectors using the value chain analyses. Standings decent work index was used in order to calculate the decent work deficit of the workers in the waste management sector. The study showed the dependency of the formal economy for the recovered waste paper that is collected by collectors in the informal economy. The findings also revealed the challenges and experiences of the collectors. The insecurity levels of the collectors were compared with the security levels of the workers in the formal economy. When compared with these workers the waste collectors showed low levels in all seven forms of security. The vulnerability of the collectors was due to their invisibility as workers. The study also revealed the power dynamics that exist in this sector, the buy-back centres hold more power and influence over the earnings of the collectors, this is because the buy-back centers control prices. The lack of regulation makes the collectors vulnerable to the exploitation by buy-back centres.

3.5 Case Study 5: Recycling scrap metal

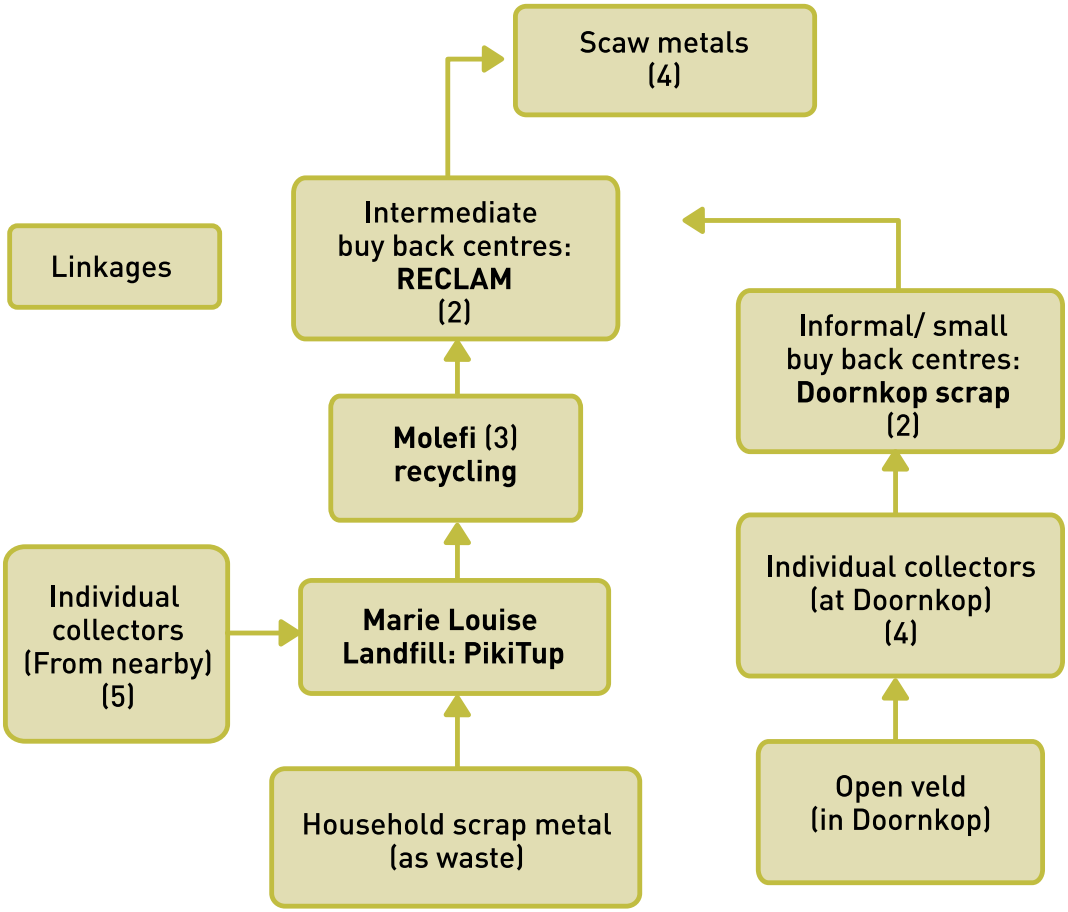
The purpose of this research study was to identify the linkages between the formal and the informal sector of the metal recycling industry in Scaw Metals, Molefe Metal Recycling CC and Doornkop Metal. This research aimed to investigate the conditions of work of employees in all these enterprises and plot them on a continuum whereby on the one end is the full characteristics of Standard Employment Relations (SER) and on the other end is the characteristics of informal and more insecure nature of work.

In South Africa the manufacturing sector is dominated by the metal and engineering sector, which represents approximately one-third of all manufacturing activities. In 2000, the International Iron and Steel Institute (IISI) ranked South Africa as the 21st largest steel producing country in the world and the largest steel producing country in Africa, producing 62% of the total steel crude production on the continent during this year. This industry is hugely supported by the increased recycling of scrap metal from both individual collectors predominantly in the informal economy as well as from small to medium factories in the formal economy. Multinationals such as Arcelor-Mittal South Africa, currently makes use of 20% of scrap steel in its processes to produce crude steel. Similarly, the annual reports from a huge steel company named Scaw Metals showed that 85 % of all its steel produced is from scrap metal (Scaw Metals Group Sustainable Development Report 2005). It is evident that there is a link between the formal side (Arcelor-Mittal, Scaw etc.) of recycling scrap metal and the informal side (being collectors). However, as has been earlier emphasized, this does not imply a clear distinction between the formal and informal economy. Instead it suggests an asymmetrical relationship between the formal and informal economy.





Figure 8: Scrap metal value chain



In order to understand the relationship between the formal and informal side of the value chain of scrap metal in this particular case study, **Figure 7 or 8.** demonstrates where scrap metal is sourced through to its final destination. On the informal (right-hand) side of the chain, the first phase begins with the collection of scrap metal from either an open veld or landfills such as the Marie Louise site. This material is then sold to the local buy-back centres, which are often small to medium enterprises, both registered and unregistered. It is then sold to the bigger buy-back intermediaries such as Molefi Recycling. On the formal side of the chain, recycling begins with the collection of scrap metal by waste trucks that dump this waste at the landfill site. Individual collectors come to the site from nearby locations to sort the material that is recyclable. They then sell this to the buy-back intermediaries within the landfill, who later transport this scrap metal (along with other recyclable goods) to the bigger buy-back intermediaries. The bigger intermediaries clean and sort the scrap metal and sell it to multinational steel corporations such as Mittal Steel and Scaw Metals. The corporations process the scrap and prepare it to be used in the production of new steel products.

Devey, Skinner & Valodia (Draft Paper), explain this interconnectedness using three theoretical views. The first view argues that the informal 'economy is a set of marginal activities that provide incomes for the poor who are unable to access employment in the formal economy. The argument here is that these incomes that are generated through the informal economy go back to buy goods and services in the formal sector. Second, the legalistic school views the informal economy as being made up of a set of entrepreneurs who chose to operate in the informal economy so as to reduce costs by bypassing regulations.

The argument here is that as entrepreneurs, they too employ workers and their salaries contribute to the larger economy in the form of paying rent, electricity, clothes, food and so forth. This particular argument was predominant in this study as many of the owners of the buy-back centres employed approximately 7 to 10 people in their buy-back centres. More importantly, the enterprise linkages between these informal buy-back centres such as scrap yards, sold their material to the larger and more formalized steel companies such as Reclam and Scaw. The third is the structuralist view, which sees the informal economy as a set of subordinated economic units who serve to reduce the input and labour costs of the large, formal enterprises. Whereby, the formal economy is dependent upon the growth of the informal enterprises. This means that the formal economy is being fed by the informal such that its collapse or compression would directly affect the formal economy. At the same time, the informal economy itself is also dependent upon the formal but the difference here is that the informal economy is at the lower end of the value chain, is unregulated and unprotected from unfair competition.

The research findings of this study confirm the above arguments; however it uncovered various unexpected similarities between workers in the informal and formal economy. For instance; in terms of employment security which is concerned with protection against arbitrary dismissals, the study found that, a relationship of trust between employer and employee in the small-to-medium enterprises (in the informal sectors) is important and can be equivalent to that of a written contract. This is because this relationship is more than work related, it is personal. As one respondent stated, 'my employer is my neighbour, even when I come late on Mondays, she won't chase me away, she understands my situation'. Similarly, in terms of income security which was concerned with the consistency of ones income, the collectors felt they did not want to become formalised or necessarily have an employer that would control their workplace, work time and wages. They said that they enjoyed the freedom of being self-employed. As one respondent stated 'Aaah, these employers of today sometimes they pay you and sometimes they don't. So you see they just waste time'.

Overall, the workers in the formal enterprises that were registered were relatively satisfied with their wages and working conditions. Nevertheless, they felt strongly about improving their health and safety conditions of work especially those in the Scrap Processing Department as it involved a lot of dust that would later have health risks to their lives. On the other hand, collectors wanted a formal organisation to protect their rights as workers and some form of legislation that can protect them as collectors and ensure that the bigger buy-back centres sell at appropriate prices and so forth. The workers at Molefi and Doornkop recycling wanted to improve their working conditions by being formally registered as permanent employees and receive employee benefits. They also shared a similar concern about improving their conditions of work by getting equipment to handle the scrap metal, the safety clothes as well as a safer and secure environment in which they could work.



Section Four: Underworld of work

Underworld of work

The five case studies have demonstrated that the discourse that implies that South Africa has two geographically separate economies is misleading. Indeed, the so-called second economy is an integral component of total national economic activity, rather than a marginal or peripheral appendage to it. The globally successful South African Breweries would not be able to distribute its product were it not for the thriving 'second economy' of shebeens. Neither would the clothing industry be able to produce goods for the local niche Afrochic market without the informal enterprises operating in the Fashion District of Johannesburg. The waste collectors, largely invisible and stigmatised, play a central role in ensuring that the successful export of metal and paper industries continue to benefit from supplies of waste paper and scrap metal.

It is wrong to see the informal economy merely as a set of survival activities performed by the poor and destitute. Mondi Paper would not have established Mondi Recycling, which gives wheelbarrows to waste paper collectors, unless it benefited them. Mondi Recycling has also funded buy-back centres as part of its small business entrepreneur's initiative. Currently it has 117 buy-back centres, some managed by past collectors. It is reported that buy-back centres employ approximately 3 000 people (Dilata, 2008:25-6).



Illustration 1 *- An example of the paper barrows that Mondi Recycling gives to collectors in order to make pushing their paper easier.*[6]



Illustration 2 *-The physical conditions of working in paper recycling. The face of the woman in this picture was 'blacked out' to preserve her anonymity.*

These collectors are an integral part of South Africa's paper industry. They work normal hours – either from 08:00 to16:00 or from 09:00 to 17:00 – and on average, have been employed in the same job for six years (Dilata, 2007:36,52). However, they are denied a standard employment relationship. While some are willing to accept the stigma attached to their work in order to feed their families and pay their children's school fees, others feel ashamed of what they are doing. For example, when one informant was asked if we could take her picture she said:

> *You want a picture of me? What if my kids do not know that I work at a landfill? They think I work in a factory, and the next thing they see a picture of me in the landfill (Dilata, 2007:62).*

[6] Available at http://www.wbcsd.org/web/publications/case/mondi_recycling_full_case_final_web.pdf



Section Five: Need for a new regulatory framework to overcome economic and social dualism

Need for a new regulatory framework to overcome economic and social dualism

The five case studies in this report demonstrate that informality is best seen as a continuum where economic activities are connected in a hierarchical value chain. While the chains are closely connected, they express very unequal power relations. In other words, the 'two economies' are asymmetrically interdependent. The producers (those recycling paper or scrap metal) and those providing a service (the owner drivers and those working in shebeens) are captive to the product specifications of the buyers of these products and services such as Mondi, Scaw Metals and South African Breweries. Although they purport to be self-employed, these workers are actually 'self-employed proletarians' working for the large paper and metal factories or, in the case of the owner-drivers, for SAB.

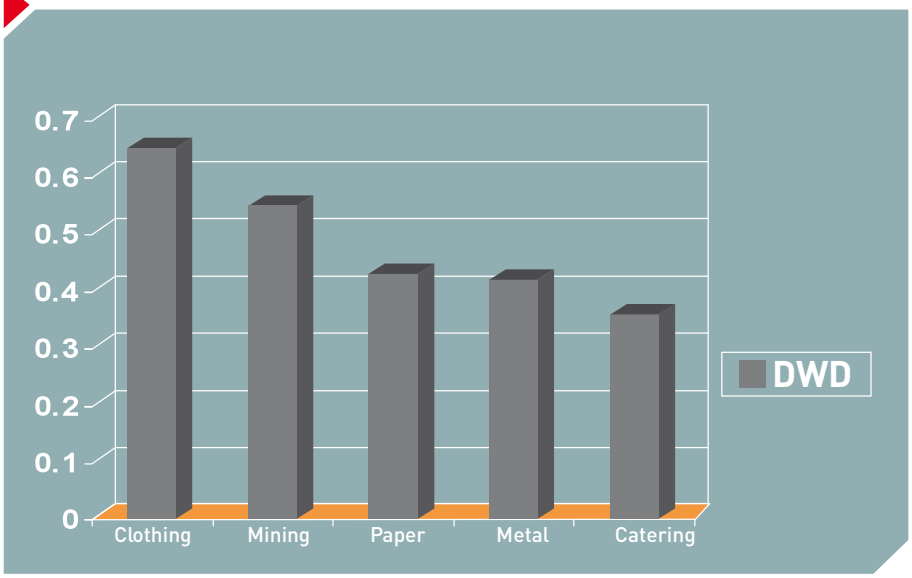
The vulnerability of those at the bottom of the chain has been made visible in this report through the researchers entering these worlds of work through ethnographic research methods. This involved on-site observations, in-depth interviews, photographs and the implementation of a semi-structured questionnaire that culminated in the development of a Decent Work Deficit Index for each sector. This index reveals that at the formal end of the value chains are employees with high levels of security and at the informal end are employees with low levels of security.

Both the clothing and mining sectors are at the high end of the formality-informality continuum with relatively high employment, job, work, skill reproduction, representation and income security. Although there is some variation within these two sectors, especially because of the lack of implementation of mining health and safety regulations, workers benefit from unions and a framework that attempts to regulate employment relations in spite of the attempt by employers to by-pass the new workplace regime through the use and abuse of labour brokers. Where unions do not exist and a regulatory framework is not implemented, as in recycling and catering, the decent work deficit is higher. In these sectors:

- employment security is lower as workers have no formal protection against arbitrary treatment
- job security is lower because there are virtually no opportunities to build a career
- work security is lower because of a lack of protection against accidents and illness
- skill reproduction security is lower because there are no opportunities to gain skills
- representation security is lower because workers have no collective voice in the labour market through independent unions
- income security is lower because incomes are irregular and there are no non-wage benefits.

Figure 9 illustrates the existence of what is called an informality continuum. At one end of the continuum the existence of greater workplace security for clothing workers and mineworkers is identified. At the other end of the continuum are those workers in shebeens and taverns, with the collectors in the recycling industry placed close to catering but slightly higher.

Figure 9: Decent Work Deficit Index

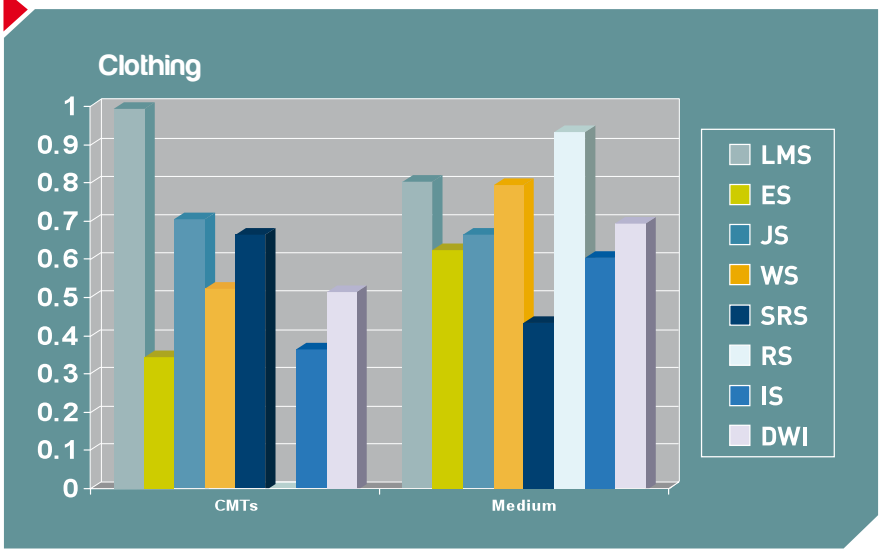


5.1 Variations in specific sectors

An important finding of the research is that there are not only important variations between sectors in the informal economy, but also sharp variations within each sector that are not captured if sectors are the only unit of analysis. This can be illustrated by disaggregating each sector around variables in the Decent Work Deficit Index and their location in the value chain. We will first analyse each sector individually and then offer an explanation for this variation.

The key distinction in the clothing sector is size. On the one hand are small to medium enterprises (SMEs) with up to 200 employees, and on the other hand micro- enterprises with less than 10 employees. In **Figure 10** the first type is referred to as Medium and the second type as CMTs – Cut-Make-and-Trim outfits.

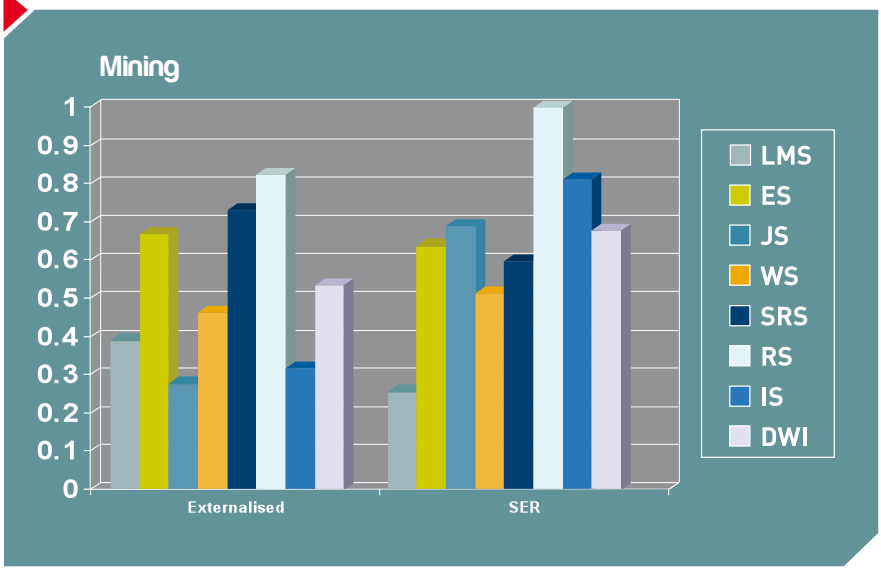
Figure 10: Security in the clothing sector



As can be seen from **Figure 10**, the medium-sized enterprises have higher levels of security than the smaller-sized and often unregistered CMTs. The reason for this difference is that the level of unionisation is lower in CMTs.

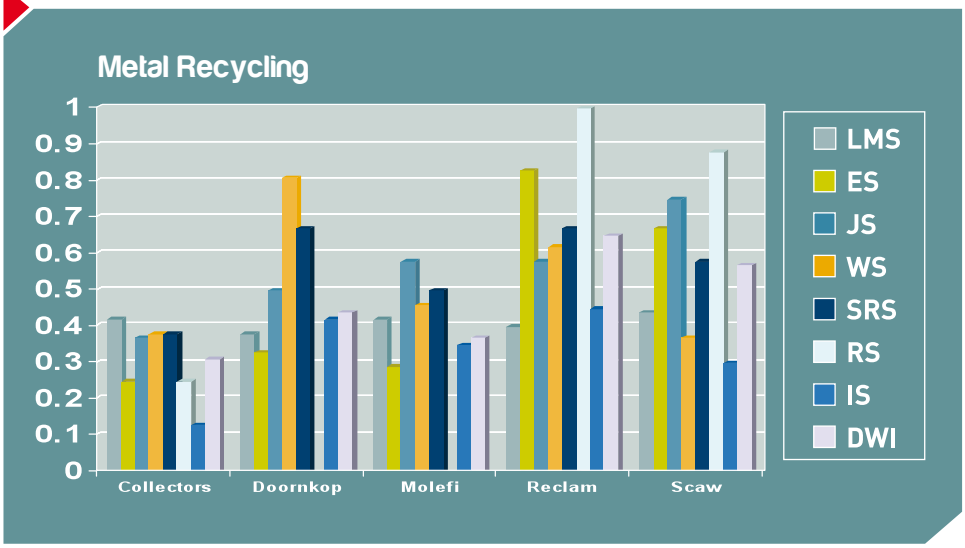
In mining the key distinction lies between those workers who are in standard employment relationships and those who have been sub-contracted to work on the mines by labour brokers (see **Figure 11**). There are differences between labour brokers, but the greater degree of insecurity of subcontracted workers is sufficient to warrant treating the contract of employment as the decisive explanation.

Figure 11: Security in the mining sector



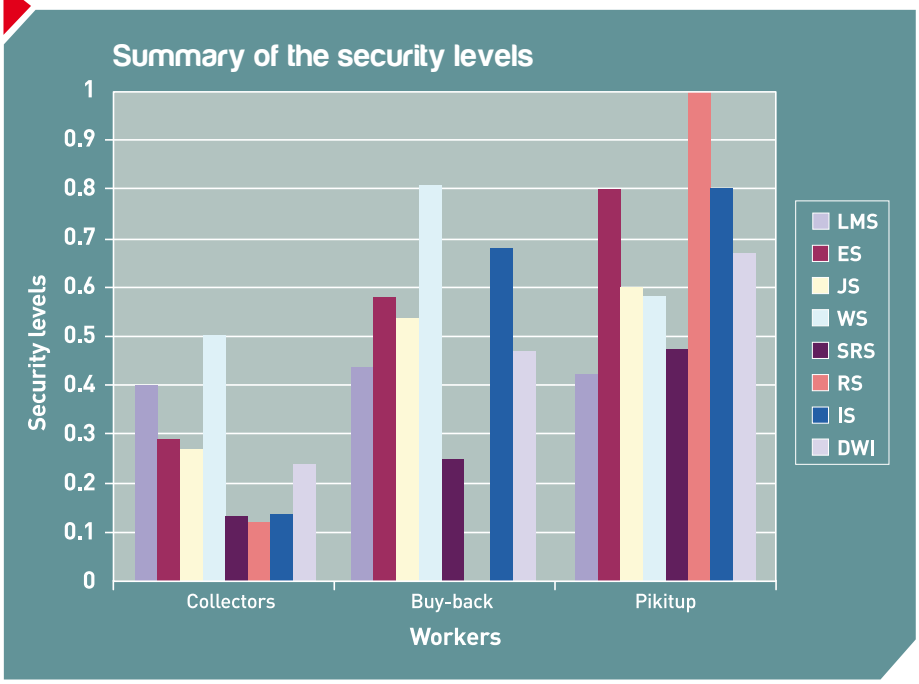
In the case of recycling, the key distinction lies in the location of workers within the value chain. In the case of scrap metal workers, each link of the chain performs different tasks – those who collect the scrap (the collectors), those who sort the different grades of metal at the landfill centres (Molefi and Doornkop), those who cut and clean (Reclam), and those who process and smelt the metal and are in a standard employment relationship (Scaw Metals). What is striking in **Figure 12** is that levels of security increase as one goes up the chain, with the levels of insecurity lowest where the collectors try to create a living for themselves.

Figure 12: Security in metal recycling



A similar pattern emerges in the paper recycling chain, where three nodes along the chain were identified – the informal collectors of waste paper, the collectors at the two buy-back centres (Remade Recycling and Robertville Recycling), and the street cleaners and truck drivers who are employed by Pikitup. Workers from Pikitup have the highest level of security as they are organised by the South African Municipal Workers Union (SAMWU). As a result, they have significantly higher security than the informal collectors even though they perform much the same tasks. (See **figure 3**).

Figure 13: Security in paper recycling



Whereas in clothing and mining we used the size and the nature of the contract of employment as the key distinction, and in recycling we used location in the value chain, in the case of catering we did not disaggregate the Decent Work Deficit Index. Instead the relationship of workers to the market as a way of distinguishing between those enterprises where labour is paid solely in money – capitalist commodity production – and those where it is a combination of paid and unpaid labour – petty commodity production (Wield and Chattaway, 2000). The relationship is shown in **Figure 12** and in **Table 4.**

Figure 14: Security in catering

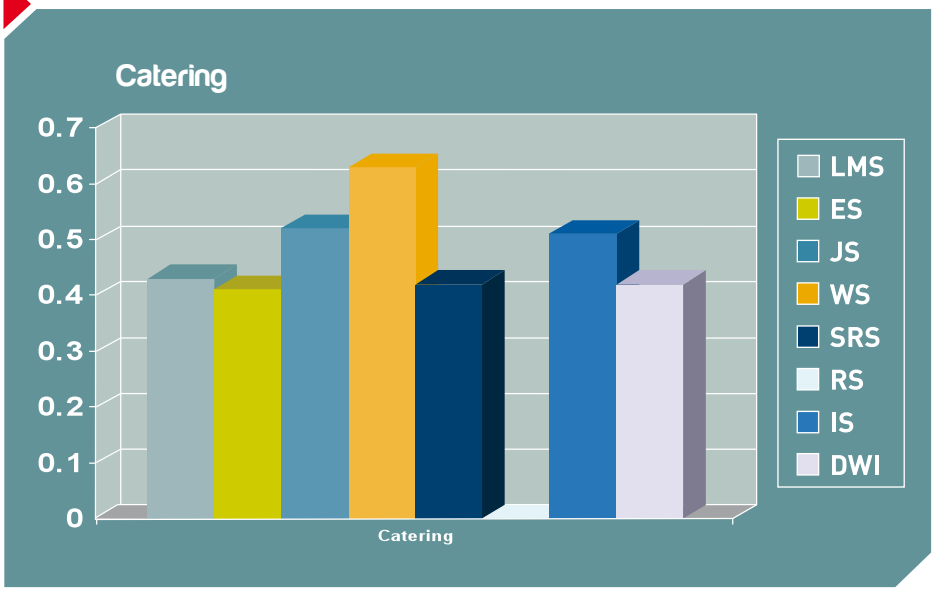


Table 4: Petty commodity production and capitalist commodity chain

Form of Work	Remuneration	Principles/Relations	Examples
Petty commodity production	Unpaid but remunerated through the market	Market principles. Self-employment and employer-employee relations.	Informal economy (legal and illegal) Taverns 2, 4, 5, 7, 8
Capitalist commodity production	Paid and remunerated through a wage	Market principles. Employer-employee relations (family labour remains present)	Full-time employment, casual labour Tavern 1 (all 11 employees are family members). Tavern 3 (all employees except one are friends). Tavern 6 (1 employee out of 5 employees is a family member).

Adapted from Wield and Chattaway (2000: 119)

In the case of petty commodity production, the shebeens operate according to market principles in that they are open for customers every day at set times and make money from the services they provide. However, the nature of the employment relations are distinctive in that the owner draws mostly on unpaid family or household labour The operation is usually on a small scale, and the business is integrated into the home.

In the case of capitalist commodity production, there is a clear demarcation between the business and the household, and business takes place in a separate building. The owners use paid non-family labour either on a part-time or full-time basis. They are required to operate as formal businesses if they are to benefit from SAB deliveries and other accessories such as fridges. As a result, this type of enterprise invoices, orders and keeps receipts, has bank accounts, an address and a phone number where the owner can be contacted, and signs enforceable contracts (Tsoeu, 2008:51-2).

Two key determinants of workplace security have been identified in this study:

- The first is the degree of representational security. Our research confirms that those sectors with representational security, such as clothing and mining, have higher levels of workplace security than those that do not have a collective voice, such as recycling and catering. This is called the representational gap. However, there are two key variables within mining and catering that effect unionisation: the size of the enterprise and the nature of the employment relationship. Small clothing enterprises are less likely to be unionised than medium-sized enterprises. Employees in standard employment relationships enjoy considerably better conditions than those employed by labour brokers
- The second is the location of workers in the value chain. Producers at the bottom end of the value chain are captive to the product specifications of the buyers of their products or services. Conventional trade union strategies of workplace bargaining are very difficult to implement where workers are 'self-employed proletarians' working on the street or engaged in family labour from home.

What emerges from this distinction is that the current form of labour market governance is designed for the first situation but not the second where workers' bargaining leverage is determined by their location in the value chain. Recent research on attempts at organising in the periphery suggests there is potential for organisation and mobilisation although there are major difficulties and obstacles to achieving this (Von Holdt and Webster, 2008).

Significant progress will only be made if there is a concerted effort to commit resources and, above all, develop innovative new associational strategies that recognise the potential of symbolic power or moral power as an alternative to the erosion of structural power (power that results either from the location of workers in the workplace or in the marketplace through the skills they have). Building symbolic power requires an emphasis on contesting the public arena – both physically in streets and neighbourhoods and cities, as well as in the media – and constructing a new discourse drawing on symbolic meanings that resonate in communities as well as with the broader public. It has to deal with the injustice of poverty, the right to make a living, the discrimination suffered by street traders and waste collectors, and so on (Von Holdt and Webster, 2008:37-8).

However, to make markets work for the poor requires recognising the centrality of power in creating markets and building organisations that give the poor the economic power to influence the labour market. Trade unions are the best example of an organisation that has successfully influenced the conditions under which workers sell their labour. Their success lies in their ability to identify the source of their bargaining power in the workplace and the market, as well as creating membership-based organisations that are permanent. The challenge for the working poor, as consumers and producers, is to develop new forms of organisation that can extend their power at various points in the value or supply chain.



Section Six: A new regulatory framework

A new regulatory framework

The research findings have identified the need for a different regulatory framework to overcome the decent work deficit arising from economic and social dualism. The main recommendation for bridging this gap lies with us as the Department of Labour to explore ways of intervening in supply chains to construct a new set of relationships. This can be done in three distinct ways:

1. Regulate labour standards via supply chains by disrupting the flow of goods or services from buyers who do not comply with decent work standards.

The report recommends that, as the Department of Labour, we should explore a successful system of regulating labour standards via supply chains. This system, introduced in the garment industry in Los Angeles and New York, involves combining public enforcement of labour standards via private market leverage to impose workplace compliance (Weil and Mallo, 2007).

Currently the system operates through the ability of the US Department of Labor's Wage and Hour Division (WHD) to disrupt the flow of goods from those manufacturers who do not comply with minimum standards in the retail sector. The innovative component in this system is that the monitoring is done by the manufacturers themselves, who are required to subcontract only to those suppliers who conform to the labour standards. The system has a negative sanction via the Department of Labour, and a positive incentive in that it prevents competitors from outsourcing to sweatshops who pay below minimum wage and work excessive hours. This innovative system to regulate labour standards could be extended to include regulation of global labour standards by including non- governmental agencies such as the US-based Fair Labour Standards to regulate the garment industry globally.

Another way of influencing the supply chain is to incorporate labour clauses regulating working conditions in government procurement contracts. In Chile, for example, a new law requires compliance with labour law to all enterprises that operate as suppliers under government contracts. (Fenwick, Howe and Summerbell, 2006).Global unions have been campaigning and pressurising for years to attach core labour standards to lending programmes of the international financial institutions. South Africa's development financial institutions, such as the Land Bank and the Development Bank of South Africa, could also attach such requirements to their lending policy.

2. Outlaw labour brokers that merely act as employers of subcontracted labour.

The research further proposed that the Department of Labour should outlaw labour brokers who merely act as employers of subcontracted labour, except for those labour brokers at the higher end of the labour market who provide a specialised skill such as shaft sinkers. Before amending the law, it is necessary to examine the response of employers to the ban on labour brokers in Namibia. In 2008 Namibia amended its Labour Act to prohibit all forms of 'labour hire'. Clause 128 states, "No person may, for reward, employ any person with a view to making that person available to a third party to perform work for the third party" (Jauch, 2007).

3. The Department of Labour should facilitate the introduction of labour market intermediaries (LMIs) who do not replace employers through a commercial contract but, instead, recruit among the unemployed, especially the youth, train them and then place them in decent jobs. This involves the creation of labour market institutions that are more active and aggressive in their relations to both sides of the labour market.

In a study of such institutions in the United States, Chris Benner (2002:88) reports,

> *These 'customized' programmes recruit employers to their service, design efforts – recruitment, training and placement – to be responsive to the needs of those employers and also reach out and recruit a labour force to match these job requirements ... they also bargain with firms or deploy power in order to alter firms' behaviour. These intermediaries see themselves as not only providing a service but also changing the terms of trade in the labour market.*

Table 5: Relational structure of labour market intermediaries

Relationship with worker	Relationship with employer	
	Weak	**Strong**
Weak	Internet job search engines	Temporary agencies such as Kelly
Strong	Professional and membership-based organisations such as Graphic Artists in the US	Union hiring halls

Source: Benner (2002:89)

Table 5 illustrates how such an alternative could be conceptualised. The two-by-two matrix illustrates the relationship of the intermediary to workers and employers. As Benner (2002:90) argues:

> *The relationship can be considered either strong or weak. On the worker side, a weak relationship might consist of a visit to an employment centre or job-board website, or taking a one-time course on résumé writing. By contrast, a strong relationship would involve a more intensive and longer-term interaction, such as for skills development or access to health benefits and professional networks. The same logic could be used on he employer side. A weak relationship would consist of simply listing a firm's job openings with a placement agency. A strong relationship would entail repeated use of an agency or a commitment to hire workers from the intermediary.*

Section Seven: Conclusion

Conclusion

The 2008/09 Labour Market Review addresses the major challenge facing the South African economy, the informal economy. The informal economy plays a major role in growing the economy but is difficult for the State to regulate. The case studies above demonstrate that informality is best seen as a continuum where economic activities are connected in a hierarchical value or supply chain. Although the chains are integrally connected, they express very unequal power relations. It is this inequality that brings in reduced levels of employment security, particularly for the workers in the informal economy, who can usually be found at the bottom of the value chain. Additionally, these case studies demonstrate the potential for the implementation of a sector-based Decent Work Deficit Index in order to identify weaknesses in employees working conditions. These weaknesses can then be targeted through policy interventions in order to advance decent work.

This report shows that it is imperative for labour market policy makers to prioritise intervention strategies aimed at ensuring that the informal economy, as the backbone of South Arica's economy, is not neglected. Along with employment creation, a long-term strategy to reduce and eventually eliminate decent work deficits has the potential to drastically improve South Africa's economic and social spheres.

Appendix 1

List of abbreviations and acronyms

BCEA	Basic Conditions of Employment Act
BCOE	Basic conditions of employment
BER	Bureau for Economic Research [Stellenbosch University]
BRPM	Bafekong Rasimone Platinum Mine
CC	Closed corporation
CMT	Cut, make and trim
COSATU	Congress of South African Trade Unions
CSP	Customised Sector Programme
DBSA	Development Bank of Southern Africa
DTI	Department of Trade and Industry
DWDI	Decent Work Deficit Index
EU	European Union
FAWU	Food and Allied Workers Union
FMU	Federated Miners' Union
GDP	Gross Domestic Product
ILO	International Labour Organisation
IMF	International Monetary Fund
LFS	Labour Force Survey [of Statistics South Africa]
LMI	Labour market intermediary
LRA	Labour Relations Act
NBC	National Bargaining Council for the Clothing Manufacturing Industry
NICLI	National Bargaining Council of the Leather Industry of South Africa
NSDP	National Spatial Development Perspective
NTBC	National Textile Bargaining Council
NUM	National Union of Mineworkers
PPE	Personal Protective Equipment
SAB	South African Breweries
SACCAWU	South African Commercial, Catering and Allied Workers Union
SACTWU	South African Clothing and Textile Workers' Union
SAMWU	South African Municipal Workers Union
SER	Standard employment relationships
SETA	Sector Education and Training Authority
SWOP	Sociology of Work Unit
TEBA	The Employment Bureau of Africa
TES	Temporary employment services
TETA	Tourism and Hospitality SETA
UIF	Unemployment Insurance Fund
US	United States
WHD	Wage and Hour Division [of the US Department of Labor]
WTO	World Trade Organisation

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