

Temporary Employment Services in South Africa: Assessing the Industry's Economic Contribution

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EXECUTIVE SUMMARY

Whilst post-Apartheid South Africa has witnessed steady albeit unspectacular economic growth, we remain an economy with extraordinarily high unemployment rates. Employment has however grown, at a similarly low rate to economic growth. The nature of employment growth has importantly though, adapted to the structural changes of the South African economy through utilising an ever-increasing employing number of temporary workers. Despite the growth in temporary employment services (TES), colloquially known as the “labour broker” sector, this sector has been thoroughly under-researched in South Africa.

The paper takes as its general focus, an assessment of the role played by the TES sector in contributing to employment and output growth in post-apartheid South Africa. We consider in turn the characteristics of TES workers and the potential welfare consequences of this type of employment. Data for most of the analysis is drawn from representative labour force surveys.

Data

TES employment is not easily identified using South African survey data. This is because national labour force and household survey data do not specifically list TES providers as a separate sector of choice in the questionnaire. This probably, in part, explains the dearth of research in this area. With some careful data work, we find that the sector is possible to capture – albeit in a far more statistically circuitous and complicated manner – when compared against other sectors. Ultimately, there is a case of ‘statistical hidden identity’ as the TES sector is coded explicitly within the financial and business services sector. We find the sub-category defined as ‘Business Services Not Elsewhere Classified’ is dominated by labour recruitment, activities of employment agencies and hiring out of workers amongst other activities that are part of this sector to a lesser extent. The paper therefore uses ‘Business Activities NEC’ as a proxy for the TES industry category.

Is it notable that the majority of jobs that have been created within the finance and business sector since 1995 have been in the ‘Business Services Not Elsewhere Classified’ sub-category. Specifically, the data indicates that over the 1995-2014 period 66% of all the jobs

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created within Financial & Business Services were created in this 'Business NEC' or 'Other' sub-sector amounting to around 1.3 million of 2 million jobs created since 1995 within the finance and business sector.

Aggregate and Sectoral Employment Trends

Although there has been an expansion in aggregate employment, the bulk of this improvement was reserved for people with higher levels of education as the labour force consists of a large contingent of less-educated, new labour market entrants with minimal levels of skills and experience suited for work. As such, economic gains have been uneven perpetuating high levels of inequality. On the face of it TES however, appear to have absorbed a lower skill set of workers and thus provides a potentially interesting case study of a sector whose employment expansion is explicitly focused on semi-and unskilled workers. To better understand this, section two explores the nature of TES employment growth in the context of broad sectoral employment growth.

Between 1995 and 2014, the structure of the economy has resulted in employment taking on a very specific trend. The tertiary sectors accounted for the highest share of employment created since democracy, at 71.7 percent in 2014, followed by the secondary sectors (20.8 percent). The primary sectors employed only 7.5 percent of workers in that year. From this, it is clear that employment growth in the post-apartheid era has been unevenly distributed across the various sectors of the economy, with most of the growth concentrated in the tertiary sector. Crucially, we find that of the 5.6 million net new jobs created since 1995 in South Africa, close to 5 million of these were in the tertiary sectors.

Considered at a sector level, our results suggest that aggregate employment growth in post-apartheid South Africa has been driven by the Financial and Business Services sector on the one hand, and the Wholesale and Retail Trade sector on the other hand. If we take the Business Activities N.E.C/Other category to be representative of TES or labour broking employment, it is worth noting that annual average employment growth of employment within this sub-sector at 8.7 percent exceeded Finance and Business services sector employment growth, the national employment growth rate and indeed the growth of every single other main sector of the economy. Wholesale and Retail, wherein the informal sector is dominant, has thus been also been a key job generator within the domestic economy. The data shows that these two main sectors alone accounted for close to 3 million new jobs created in South Africa over the 19-year period between 1995 and 2014, 25 percent of which were from the TES sub-sector. In terms of employment created over the period 1994-2001, the TES sector alone accounted about 14 percent of all jobs created in the South African economy in this period. It is evident that the Business Services N.E.C sub-sector accounted for a significant share in total employment growth since 1995 and is considered to be a key driver of job creation in the South African labour market in the post-apartheid period.

Characteristics of TES workers

The perception generally, is that labour brokers employ low skilled workers who are then employed under poor working conditions without an employment contract. This however, has not been tested using national survey data and we examine this further in the report. Section three uses various sources of data to examine the existing perceptions of this industry.

We find that more than half of the 784 434 workers employed in the TES sub-sector in 2014 were sales and service workers, while about 26 percent were elementary workers. This result suggests that semi-skilled sales and services workers are over-represented in the TES sector and elementary workers under-represented when compared with the occupational breakdown at a national level. The notion that this sector is dominated by unskilled workers is therefore not borne out in the data.

South Africa's exceptionally high levels of youth unemployment, reaching 36 percent in 2014, suggests that the labour market is excluding a large cohort of young people. The data suggests that the TES sector is absorbing young people at a far greater rate than the Finance and Business sector as well as the overall labour market. Put differently, this sector is disproportionately employing more young people than the national economy or other sectors. It is notable that 70 percent of young people employed by TES are absorbed either in to medium or low skilled occupations. The bulk of TES workers thus have either secondary education with, or without, a matric. This qualification and occupation data for young people suggests that the sector is a vital first port of entry into the labour market for young people, with either incomplete schooling or a Matric. For a society where youth unemployment rates regularly exceed 50 percent, this role played by the sector in absorbing young people into productive employment is fundamentally important to both the labour market and the economy as a whole.

Another commonly held view of labour broking services is that temporary workers (indirectly employed) are unlikely to be made permanent workers and as such, are vulnerable to fluctuating and inconsistent earnings, and other forms of vulnerability. Labour force data suggests that around 60 percent of TES employees are permanent and 22 percent on a limited contract. Amongst non-TES employment, we see an increase in limited contracts whilst permanent contracts have stayed at relatively the same proportion since 2008, and 3 percent higher than those in TES employment. The increase in limited contracts for non-TES employment in post-recession South Africa suggests that the nature of labour demand in this period was more risk averse given the volatility of the business environment. As such, both non-TES and TES employment saw an increase in limited contracts but the majority of employment remained permanent and as such, the data suggests that the majority of workers were afforded some protection through their employment contract.

Public discourse suggests that the TES industry is dominated by large firms. Inspection of various data sources, will suggest that the TES industry is split into two distinct types of firms: A few large corporate players and number of small and medium sized firms with 20-60 full time staff members. We find that the number of firms with under 20 workers dominate the industry. Small business is a key employer in South Africa and the National Development Plan has pushed support for small business as part of its agenda to facilitate employment creation.

TES and Household Welfare

In section four of the paper we examine the impact and contribution of the TES sector employment on household welfare. In order to understand the impact of TES on household poverty, we estimate whether the earnings received by a TES worker results in any significant change in the poverty status of households. The key conclusion drawn from this analysis is that at each of the poverty estimates, and the corresponding poverty lines, the removal of TES earnings results in more households being worse off either through an increasing poverty headcount or poverty gap ratio. It is estimated that as a result of the loss of TES earnings, between 280 000 and 362 000 more households would be below the poverty line.

Impending regulation through the Labour Relations Amendment Bill (2013) aims to curtail labour broking activities as well as to change the nature of the temporary employment relationship whereby the indirect employer becomes jointly or severally liable for the employee. We consider the potential employment losses that could result because of these amendments and how this would impact household welfare. We find that employment losses would result in sharply rising levels of household poverty. An important backdrop to this analysis is that it illustrates that this sector employs semi- and unskilled workers who are in households close to the poverty line. As a result TES earnings, have an indirect role in the welfare of their relevant households.

Contribution to the Economy

The TES sector has been useful to the South African economy in that it has allowed firms to adjust to the structural changes of the economy by adjusting their cost base and staffing needs in response to the business cycle. TES are used across a wide range of sectors including clothing and textile industry, the chemical sector, the health sector and local government and essentially, have allowed these sectors to expand their employment base. Further, TES employment has been concentrated in provincial economic hubs such as Gauteng, Western Cape and KwaZulu Natal suggestive of their role in the South African economy. Section five aims to quantify the contribution of TES to the economy.

The value of output in the Business Activities NEC/Other (or TES) sub-sector is not easily accessible through public data but given that total employment number have been estimated, we use an output employment elasticity² to backward engineer an estimate of the impact of employment through TES on output. Using the most recent and robust estimated employment elasticity for South Africa, it follows that a 6.9 percent increase in employment results in a 8.85% contribution to output or GDP. TES employment therefore contributed R256 157 million to GDP in 2013. To put this into context, the TES contribution was greater than that of Agriculture (2.1 percent), Utilities (2.7 percent) and Construction (3.5 percent) in 2013.

We examine the interaction of growth and employment further and find that the finance and business sector was one of the few sectors that experienced labour neutral growth suggesting that gross value add and employment grew at a similar rate. Whilst it is not possible to distinguish value add from the TES sub-sector as opposed to the Finance and Business Services sector, given the notable growth of both employment and output it is very probable that value add too is driven by the TES sub-sector. Indeed, employment growth of 8.7 percent for the 1995 to 2014 period, was higher than employment growth observed for all sectors. Put simply, the data suggests that apart possibly from the Community Services sector, the TES industry was over this period, the only labour-intensive sector in the South African economy.

The relative lack of research on this TES industry has left the public as well as policy makers under-informed about the characteristics as well as economic and welfare contribution of TES employment to the South African economy. The evidence found in terms of employment trends and characteristics in the TES sector, would suggest that the sector firstly has been the single highest creator of jobs in the economy – going at a rate faster than all other main sectors of the economy. Secondly, the majority of these jobs are concentrated in semi-skilled, service-orientated occupations, so countering the perception of the sector being an unskilled-intensive employer. Thirdly, and perhaps most crucially, the industry is very clearly biased towards providing employment for young people and in particular ensuring that a significant share of these workers move into permanent positions. Fourthly, the fact that this channel of employment is also provided through a fair number of small businesses reinforces the importance of this sector to employment creation in South Africa since 1994. Fifthly, we've found a significant number of households would be worse off if TES earnings are removed and therefore the industry contributes to household welfare. Finally, the flexible nature of employment has contributed to expansion of industry, tax income to the fiscus and through this, economic growth. These are key considerations for policy makers to take forward when engaging in the debate around the labour broking industry.

(End of Executive Summary)

² We use the elasticity of 0.78 from the 2012 Kemp study. See Table A3 in the Appendix.