Temporary Employment Services in South Africa

Assessing the industry's economic contribution

Haroon Bhorat, Aalia Cassim & Derek Yu
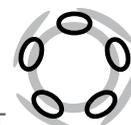
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ABBREVIATIONS AND ACRONYMS

AAG	average annual growth
APSO	African Professional Staffing Organisation
CSP	Community, Social and Personal Services
DPRU	Development Policy Research Unit
FGT	Foster-Greer-Thorbecke
GDP	gross domestic product
ILO	International Labour Organization
LFS	Labour Force Survey
LMD	Labour Market Dynamics
NABC	National Association of Bargaining Councils
NDP	National Development Plan
NEC	not elsewhere classified
OHS	October Household Survey
QLFS	Quarterly Labour Force Survey
SARB	South African Reserve Bank
SSETA	Services Sector Education and Training Authority
TES	temporary employment services

INTRODUCTION

Despite experiencing one of the longest periods of uninterrupted economic growth since the 1960s, South Africa in the democratic era faces possibly one of its most intractable policy challenges, namely that of an extraordinarily high rate of unemployment. By any reasonable assumption with regard to country comparisons, South Africa thus has one of the highest International Labour Organization-defined unemployment rates in the world. In this upper middle-income country, the data show that, on average over a 20-year period, one out of every four members of the labour force is jobless. In the period since 1994, though, employment has steadily increased at a rate consistent with economic growth. Of particular importance, however, and the focus of this paper, is to try to understand the nature of employment changes and their impact in one particular sector, namely the temporary employment services (TES) industry. The sector, colloquially known in South Africa as the 'labour broker' sector, has grown rapidly and is now a key feature of the South African economy and its labour market.

Yet, surprisingly little academic research has been undertaken concerning the sector, be it simple 'bean-counting' exercises or more serious modelling work. We attempt, in this paper, to go some way towards closing this gap. 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 go on to consider the characteristics of TES workers and the potential welfare consequences of this type of employment. Data for most of the analysis are drawn from representative labour force surveys.

The paper is structured as follows: Following this introduction, Section 1 presents aggregate and sectoral employment trends relative to the TES sector for South Africa over the past 19 years (1995–2014). Of particular interest is the growth of the tertiary sector through the finance and business service sector that encompasses TES provider employment. Section 2 then examines the characteristics of TES workers by occupation, age, and the nature of their contracts. Section 2 also uses various data sources to examine TES firm size and whether there is a small-business bias. Thereafter, Section 3 considers the effect that TES employment has on household welfare and poverty status, including the potential welfare effect given potential employment loss in the sector. Finally, Section 4 examines the contribution of TES employment to gross domestic product (GDP) in comparison with other sectors of employment. The paper then concludes with Section 5.

1. AGGREGATE EMPLOYMENT TRENDS: THE TES SECTOR IN CONTEXT

Table 1 shows the broad trends in the South African labour force in terms of employment and unemployment between 1995 and 2014. Over the past 19 years, there has been a considerable increase in employment from 9.6 million in 1995 to 15.1 million in 2014. Employment growth increased significantly over the period at an average rate of 2.4% per annum. The data in Table 1 suggest that, in the first 19 years of post-apartheid South Africa, the economy generated approximately 5.4 million jobs. Over the same period, though, some 8.5 million individuals entered the labour market in search of jobs. The consequence of the latter was an increase in the number of narrowly defined unemployed by 3 million, resulting in an unemployment rate of 25.2%. While this rate has declined since 2001, when the unemployment rate stood at 29.4%, it has increased significantly since 1995, when the unemployment rate was 17.6%.

Persistently high levels of unemployment in the post-apartheid period have meant that the gains from economic growth have been unevenly distributed, thus generating higher levels of income inequality (Bhorat & Van der Westhuizen, 2013; Woolard & Leibbrandt, 2006). 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. On the face of it, the TES, however, appears 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-skilled and unskilled workers. To better understand this, we explore the nature of TES employment growth in the context of broad sectoral employment growth.

Table 1: The South African labour force, 1995 to 2014

Category	1995	2001	2014Q1	Change		AAG 1995–2014
	'000s	'000s	'000s	'000s	% Change	% Change
Official definition estimates						
Labour force	11 676	15 836	20 153	8 477	72.6	2.9
Employment	9 645	11 181	15 084	5 439	56.4	2.4
Unemployment	2 032	4 655	5 069	3 037	149.5	4.9
Unemployment rate	17.6%	29.4%	25.2%			

Source: OHS, 1995; LFS, September 2001; QLFS Quarter 1, 2014 (Statistics South Africa).

Notes:

1. The 1995 data have been reweighted according to the 1996 Census. Data for the period 2000–2007 have been reweighted according to the 2001 Census, while data from 2008 onwards have been reweighted according to the 2011 Census.

2. The change in definitions of the broad unemployment rate renders the 2014 estimate incomparable with those for 1995 and 2001.

The advent of TES providers

The rise of labour broking, or the TES industry as it is known globally, has become the fulcrum around which a series of debates on decent work and labour regulation in South Africa has taken place. Benjamin, Bhorat & Van Der Westhuizen (2009) indicates that the number of TES agencies registered with the Services Sector Education and Training Authority (SSETA) alone rose from 1 076 in 2000 to 3 140 in 2006, while the National Association of Bargaining Councils (NABC) estimated that almost 1 million workers were employed through labour brokers in 2010 (SABPP 2012). In many senses, then, these debates may be strangely correlated with the rapid rise and prevalence of the industry.

It is not possible to ascertain directly the number of workers employed through labour brokers in the South African economy, since the nationally representative household surveys do not probe whether workers are employed through such brokers. We attempt, however, through using these surveys, a nuanced approach to examining the advent of labour broking.

A case of statistical hidden identity

The problem with the labour force and household survey data was that TES providers were not listed as a separate sector of choice in the questionnaire. However, it turns out, upon careful examination, that the sector is possible to capture – albeit in a far more statistically circuitous and complicated manner than other sectors.

Essentially, statistical hidden identity with regard to the TES sector manifests itself clearly in respect of the financial and business services sector.

Figure 1 presents the change in employment, in absolute terms, for those activities coded by sectors within the financial and business services sector. The data suggest a key result: of the total number of jobs created within this sector since 1995, the overwhelming majority have been in the subcategory defined simply as 'Business services not elsewhere classified'. Specifically, the data indicate that, in the 1995–2014 period, 55% of all the jobs created within the financial and business services sector were created in the 'Business NEC' or 'Other' subsector. Put differently, of the close to

Figure 1: Change in employment (1 000s), 1995–2014 – financial and business services by subsector

1: financial intermediation   2: pension and insurance
3: auxiliary intermediation   4 real estate
5: renting of equipment & person   6: computer
7: research & development   8: others
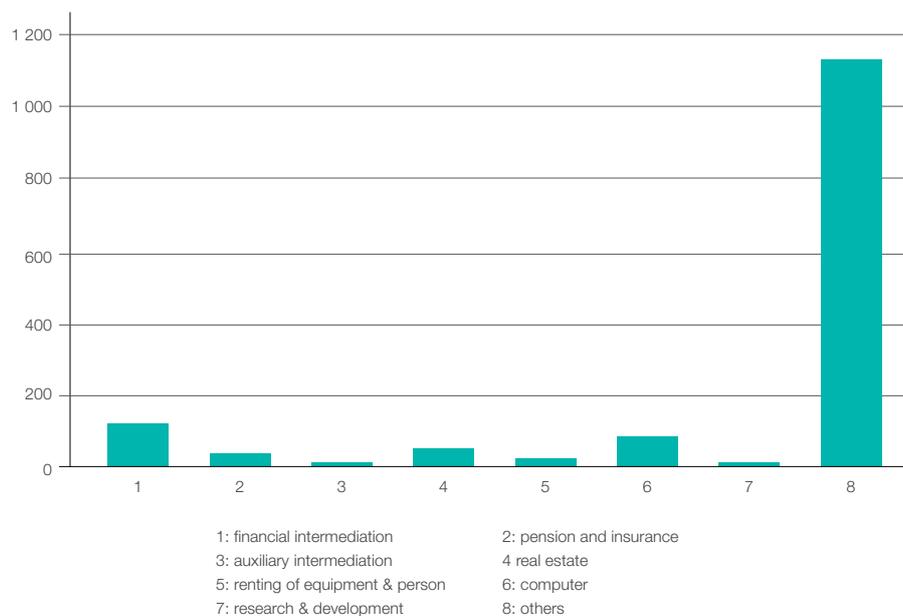
Source: OHS, 1995; QLFS Quarter 1, 2014 (Statistics South Africa).

2 million jobs generated in this sector, about 1.1 million emanated from 'Other financial and business services'.

Closer inspection of the 'Business services NEC' category reveals that it consists in the main of activities noted officially in the QLFS metadata as:

> labour recruitment and provision of staff; activities of employment agencies and recruiting organisations; hiring out of workers (labour broking activities); disinfecting and exterminating activities in buildings; investigation and security activities; building and industrial plant activities; photographic activities; packaging activities; other business activities; credit rating agency activities; debt collecting; agency activities; stenographic, duplicating, addressing, mailing list or similar activities; other business activities.

We would argue, here, that, despite the detailed list in this category, the dominant forms of activity and therefore employment have mainly been within the sphere of employment agency, labour broking and security services activities. Based on the estimates above, then, this result would suggest that job growth within the main financial and business services sector has effectively been driven by the rapid rise in two nodes of economic activity, namely security services and labour broking. This is critical, as it suggests, on the one hand, that the high incidence of crime in South Africa has in fact resulted in rapid employment expansion within the subsector providing crime-prevention services. In addition, on the other hand, the rise in the use of employment agencies, for long noted in public debates in South Africa, is now powerfully evident in these official labour force statistics estimates. There are, however, two important caveats here. Firstly, apart from employment agencies and security services, other activities within this subsector have clearly generated employment; hence the approximately 1.3 million jobs within this subsector will not all be representative of security workers and labour broker (or TES) employees. Secondly, given the fact that sector of employment is self-reported by individuals in the survey, the growth in labour-broker employment in particular may be an

underestimate of the true growth in jobs within the labour-broker subsector.[1]

In order to understand where employment is actually created within the 'Business activities not elsewhere classified' (NEC) sector, Table 2 presents the changes in the three main occupation groups[2] within this sector for the periods 1999 to 2014 and 2001 to 2014.[3]

'Protective services workers not elsewhere classified'[4] accounted for the relatively largest share of the employed in all three years, at between 42 and 47%. Helpers and cleaners in establishments such as offices and hotels accounted for the second-largest share, which is a reflection of the increase in the use of contract cleaning services during the period. Finally, in 2014, over 55 000 of the employed in this subsector were classified as farmhands and labourers, in contrast to zero in 2001 and only 131 in 1999. While the absolute number of these workers in 2014 was small, the enormous growth rate can be seen as evidence of the increased number of labour-broker workers employed as farmhands and labourers.

Employment trends by main sector

Given that it is now possible empirically and robustly to establish employment in the TES sector, this section proceeds to examine labour-broking employment relative to the remaining main sectors of the economy. The section also more closely considers the structure of the economy and its

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1   For example, one would expect that a respondent employed through an employment agency to work on a construction site, or on a mine, would note his or her sector of employment to the fieldworker as 'Construction or mining' rather than 'Financial and business services'.

2   These were the main occupations in the first quarter of 2014.

3   The detailed occupations were not recorded in the 1995 OHS.

4   The category specifically includes security guards, security patrolmen, security patrolwomen, bodyguards, coastguards, beach guards, lifeguards, beach patrolmen, beach patrolwomen, traffic wardens, game wardens, bird sanctuary wardens, wildlife wardens, taxi guards, and traffic coordinators.

Table 2: Change in employment – 'Business activities not elsewhere classified' ('Other')

Year/activity	1999	2001	2014	Average annual growth rates	
				1999–2014	2001–2014
Business activities NEC/other	312 401	398 022	970 783	7.9	7.1
Selected occupations					
Protective services workers NEC	147 165	169 360	419 176	7.2	7.2
Helpers, cleaners in offices, hotels, etc.	40 715	58 774	143 771	8.8	7.1
Farmhands and labourers	131	0	55 710	49.7	

Source: OHS, 1999; LFS, September 2001; QLFS Quarter 1, 2014 (Statistics South Africa).

Note: The aggregate employment numbers in the table are different from the values in Table 1, because Table 2 does not include the employed in the 'Other' or 'Unspecified' industry category.

impact on trends in employment between 1995 and 2014, taking into account the TES sector. Based on the discussion above, we assume the 'Business activities NEC' is a proxy for the TES industry category. Table 3 examines the sectoral distribution of employment change in South Africa during the period. Tertiary sectors accounted for the highest share of employment created since democracy, at 71.7% in 2014, followed by the secondary sectors (20.8%). The primary sectors employed only 7.5% of workers in that year. It is clear from the results

below 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.

A particularly worrying result has been the significant reduction in employment in the economy's primary sectors. Collectively, then, mining and agriculture have shed 561 000 jobs over a 19-year period. For two sectors that are both export-oriented and unskilled-intensive, this is a

Table 3: Sectoral distribution of employment change

Year/ sector	1995		2001		2014Q1		AAG 1995 to 2014	Change	
	'000s	Share	'000s	Share	'000s	Share		'000s	Share
Primary	1 696	17.9	1 732	15.5	1 135	7.5	–2.1	–561	–10.0
Agriculture	1 247	13.2	1 178	10.5	710	4.7	–2.9	–537	–9.5
Mining	449	4.8	554	5.0	424	2.8	–0.3	–25	–0.4
Secondary	1 988	21.0	2 348	21.0	3 138	20.8	2.4	1 150	20.4
Manufacturing	1 452	15.4	1 620	14.5	1 808	12.0	1.2	356	6.3
Utilities	86	0.9	94	0.8	130	0.9	2.2	44	0.8
Construction	449	4.8	634	5.7	1 200	8.0	5.3	751	13.4
Tertiary	5 774	61.0	7 058	63.1	10 808	71.7	3.4	5 034	89.5
Retail	1 684	17.8	2 454	22.0	3 195	21.2	3.4	1 511	26.9
Transport	483	5.1	546	4.9	897	5.9	3.3	414	7.4
Finance	592	6.3	1 035	9.3	2 050	13.6	6.8	1 458	25.9
CSP	2 205	23.3	1 989	17.8	3 433	22.8	2.4	1 228	21.8
Private household	809	8.6	1 034	9.2	1 234	8.2	2.2	425	7.6
Total	9 458	100	11 179	100	15 081	100.0	2.5	5 623	100.0
TES	199	2.1%	398	2.6%	970	6.4%	8.7	771	13.7

Source: OHS, 1995; LFS, September 2001; QLFS Quarter 1, 2014 (Statistics South Africa).

Notes:

1. 'AAG' is the average annual growth rate, estimated as the average of the growth rates from 1995 to 2014. 'Other' and 'Unspecified' categories are not shown here.

2. The aggregate employment numbers in the table are different from the values in Table 1 because Table 2 does not include the employed in the 'Other' or 'Unspecified' industry category.

3. The numbers provided in the '1995' column for TES are actually for 1996, as it was not possible to disaggregate TES employment in 1995.

4. TES is a subcategory within 'Finance and business' and, for the purpose of highlighting this category, we have included it in a separate row.

startling result. It should be noted that this large erosion of jobs took place at a time of both a boom in global economic growth and fairly positive commodity-price movements. One factor contributing to the sharp decline in agricultural employment was the promulgation in March 2004 of a minimum wage for the sector (Bhorat, Kanbur & Stanwix 2011).

The secondary sectors also experienced employment expansion over the 19-year period, with manufacturing and construction adding about 356 000 and 751 000 jobs, respectively, while employment in the utilities sector, which is the smallest sector, barely changed. The poor performance of manufacturing, though, reflects a wider concern around both the lost opportunities in manufacturing since the 1960s (Rodrik 2008) and the sector's ongoing lack of dynamism and competitiveness in the post-apartheid period.

Employment in the tertiary sector grew by 5 million, representing 89% of the increase in employment over the period and constituting the highest relative growth among all the sectors (as shown in Table A1 of the Appendix). This is a crucial result. It suggests 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. In particular, 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 by the wholesale and retail trade sector, on the other. If we take the 'Business activities NEC'/'Other' category to be representative of TES or labour-broking employment, it is worth noting that the annual average employment growth within this subsector of 8.7% exceeded employment growth in the finance and business services sector, exceeded the national employment growth rate and, indeed, exceeded the growth of every other main sector of the economy. The increased share of TES employment in the past decade, which has more than doubled since 2001, is also strongly indicative of the rapid growth of this sector. Wholesale and retail, in which the informal sector is dominant, has thus also been a key job generator within the domestic economy. The data show 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, 771 000 or 25% of which were from the TES subsector. Put differently, half of the employment created within the financial and business services sector was from the TES subsector.

However, caution should be exercised in regarding the 'Business activities NEC'/'Other' category as representative of TES. It is highly likely that the category described above may include workers involved in outsourcing and therefore overestimate TES workers. Moreover, there are TES workers who would be classified in other sectors (such as retail and manufacturing) and who would thus not be classified in 'Business activities NEC'. For this reason, TES workers in 'Business activities NEC' may be understated. On balance, this category is more likely to be representative of TES.

To contextualise the rapid growth of TES, we consider the growth of this subsector relative to the finance and business services sector and overall employment growth in Figure 2. TES employment as a percentage of finance industry employment increased rapidly from 26.64% in 1996 to 47.36% in 2014. As a proportion of total employment, TES employment nearly trebled from 2.22% to 6.44% during the same period.

While there was a sharp reduction in TES employment following the recession in 2008, the long-run upward trajectory and growth of this industry are notable. The levelling off of this growth rate since 2010 may be due to two possible factors: that the recession had a general attenuating impact on employment; and that pending legislation to ban or curtail TES employment may also have influenced this tapering off of employment in the sector, as suggested by the industry.

From the data presented thus far, it is evident that employment growth of TES has been far more rapid than that of all broad industry categories; hence it accounts for an increasing share of finance employment, as well as an increasing share of total employment. It is also worth noting that there are

Figure 2: TES employment as a proportion of total employment and finance employment, 1996–2014
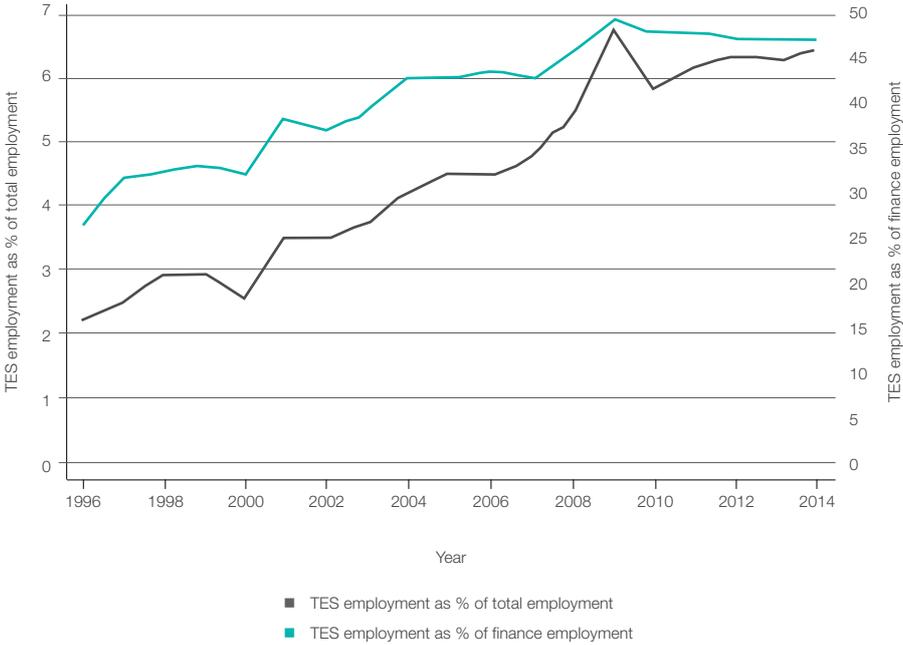
Source: OHS, 1996–1999; LFS, September 2001–2007; QLFS Quarter 4, 2008–2013, and QLFS Quarter 1, 2014 (Statistics South Africa).

certain key sectors where TES workers would be classified in, for example, manufacturing and retail, yet we would not be able to separate this out from sector employees – suggesting that TES employment may be understated. Similarly, it is possible that some of the decline in certain sectors may reflect an increased reliance on TES workers or on outsourcing of non-core activities. Whereas the contribution to employment creation has certainly been significant in the past two decades, it is also important to examine the characteristics of those employed in TES in order to assess fully the value of this sector to the South African economy.

2. EMPLOYMENT WITHIN THE TES SECTOR

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, something that we consider in the subsection that follows.

Occupational trends within the TES sector

Table 4 compares the occupational composition of the formally employed in the 'Business services ...' subsector with the occupational composition of aggregate formal employment (excluding 'Business services ...'). In the subsector, which includes TES, just under 50% of workers were classified as sales and services workers, with almost 26% being classified as elementary workers. Clerical workers accounted for just 10% of employment in this sub-sector. In total, these three occupations represented around 80% of total employment recorded in the 'Business services NEC' category within the financial and business services sector. Unskilled workers and service-related occupations would, therefore, seem to dominate employment distribution within the labour broking sub-sector.

The occupational composition of this subsector differed significantly from the occupational composition of aggregate employment in the same year. Sales and services workers only accounted for approximately 13% of total formal employment (excluding TES), while elementary workers accounted for about a fifth of the remainder of the formally employed when TES are excluded. The

share of services and sales workers in TES is almost four times greater than their share in total formal employment, whereas the share of elementary workers in formal employment is almost three-quarters of the share of elementary workers in TES. The evidence therefore suggests that sales and services workers are over-represented in the 'Business services NEC' category (or TES) within the financial and business services sector in comparison with the aggregate level and, in addition, that elementary workers are slightly under-represented in comparison with their share in aggregate formal employment (exclusive of TES).

There is a generic, almost dominant, view that the most vulnerable workers in triangular employment relationships are those employed or supplied by unregistered labour brokers (also colloquially known in South Africa as the 'bakkie brigade'). These workers would typically be unskilled and therefore classified as elementary workers in the labour force survey. However, Figure 3 graphically presents the under-representation of elementary workers in the subsector, including TES, relative to services and sales workers. The proportion of services and sales workers is almost double that of the proportion of elementary workers in TES. This result would seem to suggest that one of the key characteristics of the TES sector is an over-representation of services and sales workers relative to unskilled workers when examining national shares of employment by occupation. The notion that the sector is dominated by unskilled, 'bakkie brigade' employment is therefore not statistically verifiable.

Table 4: TES and formal-sector employment – a comparison of occupational distributions

	Other (Formal employment)		TES (Formal employment)		Ratio of share (%) : TES/other
	Number	Share (%)	Number	Share (%)	
Managers	792 534	8.0	35 005	4.1	0.51
Professionals	2 127 612	21.5	75 780	8.9	0.41
Clerical workers	1 399 841	14.2	87 847	10.4	0.73
Services & sales workers	1 263 910	12.8	390 433	46.1	3.60
Agr. & fishing workers	26 500	0.3	404	0.0	0.00
Craft & trade workers	1 160 077	11.7	15 277	1.8	0.15
Operators & assemblers	1 042 171	10.5	24 339	2.9	0.28
Elementary workers	2 076 654	21.0	218 209	25.8	1.23
Total	9 889 299	100.0	847 294	100	1.00

Source: QLFS Quarter 1, 2014 (Statistics South Africa; own calculations).

Note: The ratio is based on the share of formal, non-TES employment to TES employment.

Figure 3: Share of formal employment and TES sectors by occupation
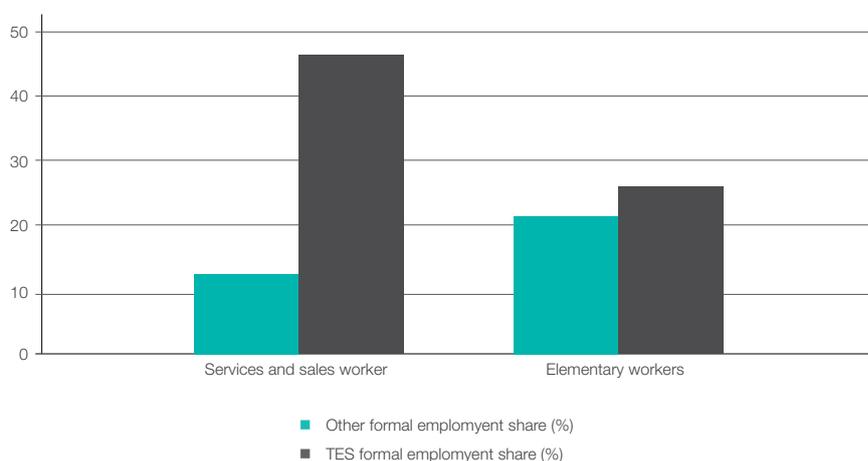
Source: QLFS Quarter 1, 2014 (Statistics South Africa; own calculations).

It is evident that the 'Business services NEC' subsector accounted for a significant share of 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. In addition, more than half of the 784 434 workers employed in this subsector in 2014 were sales and services workers, while about 26% were elementary workers. This result suggests that semi-skilled sales and services workers are over-represented in the TES sector and that elementary workers are under-represented in comparison with the occupational breakdown at a national level. To reiterate, then, the notion that this sector is dominated by unskilled workers is not borne out by the data.

TES sector employment by age

South Africa's exceptionally high levels of youth unemployment, reaching 36% in 2014, suggest that the labour market is excluding a large cohort of young people. There are at least, in the first instance, two obvious reasons why this may be the case. Firstly, an inadequate quantity of education, together with the low quality of such education, would render many young people unemployable. Secondly, the labour market does not have the capacity to absorb the sheer number of young people who are endeavouring to enter the labour market annually. Figure 4 suggests that the average growth in the number of young people between the ages of 15 and 29 years seeking to enter the labour

Figure 4: Youth total employment: AAG rates, 1996–2014
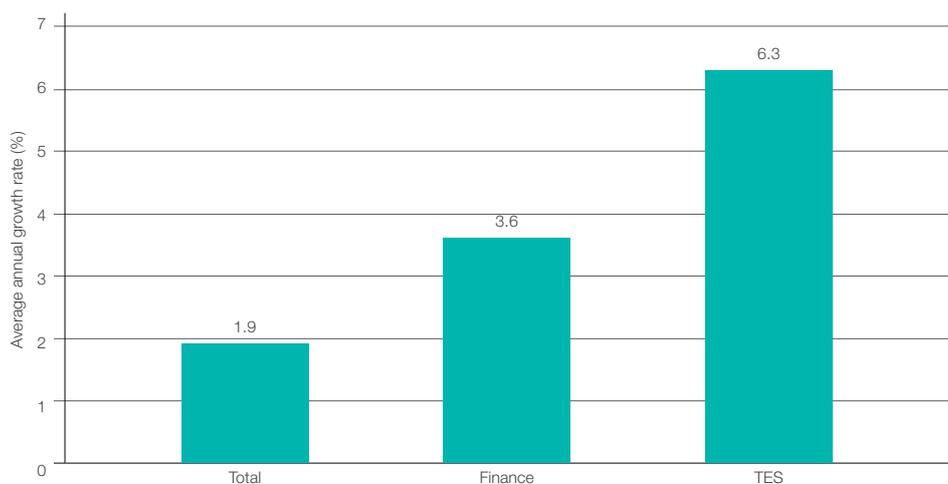
Table 5: TES and formal-sector employment – youths by occupation

	Other formal employment		TES (formal employment)		
	Number	Share (%)	Number	Share (%)	Ratio
Managers	110 565	4.6	3 305	1.6	33.5
Professionals	417 008	17.2	24 788	11.6	16.8
Clerical workers	431 583	17.8	34 510	16	12.5
Services & sales workers	357 011	14.7	74 384	35	4.8
Agr. & fishing workers	5 196	0.2	0	0.0	N/A
Craft & trade workers	337 580	13.9	8 433	4.0	40.0
Operators & assemblers	191 294	7.9	4 985	2.3	38.0
Elementary workers	578 472	23.8	62 853	29.5	9.2
Total	2 428 709	100.0	213 258	100.0	11.4

Note: The ratio is based on the share of formal non-TES employment to TES employment.

market is 1.9% annually. In 2014, 15% of finance and business services sector employment was made up of young people, while 7% of the TES sector was made up of youths (as shown in greater detail in Appendix A2.1 and A2.2).

However, the TES sector has absorbed youths at a faster rate than finance and business services. We find that the average annual growth rate of young people in TES employment between 1996 and 2014 was 6.3% compared with 3.6% of youth employment in the finance and business services sector and more than three times the total employment rate.

In examining youth employment in greater detail through a breakdown of occupations, we find that the share of the youth employed in services and sales through TES is about 20% greater than the share of the youth employed in services and sales through other formal employment. However, broader formal employment employs 9% more young people in high-skilled occupations through managers and professionals.

The TES industry does also employ a larger proportion of youths in elementary occupations, which can be seen at an aggregate level. From this, it is evident that the bulk of TES employment in respect of youths is made up of services and sales

and elementary workers, whereas the bulk of the youth in formal employment is to be found in professional, clerical worker and elementary occupations. If we exclude graduates employed in high-skilled occupations, we see that medium-skilled young people employed in the TES sector have a greater probability of being employed in services and sales than other formal employment, which seems to have a bias towards clerical and craft workers.

From the data presented, it is very clear 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, in many senses, a youth-based industry. It is notable that 70% of young people employed by TES are absorbed either in medium- or low-skilled occupations. The bulk of TES workers thus have secondary education either with, or without, a matric. This qualification and occupation data for young people thus suggest that the sector is a vital port of entry for young people with incomplete schooling or a matric who are hoping to gain entry into the labour market. For a society where youth unemployment rates regularly exceed 50%, 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.

Are TES workers less likely to be permanent employees?

A commonly held view of labour-broking services is that temporary workers (i.e. the indirectly employed) are unlikely to be made permanent workers and, as such, are vulnerable to fluctuating and inconsistent earnings and other forms of vulnerability. Data from the industry suggest that the temporary-to-permanent-placements conversion rate between July 2013 and June 2014 was 19.9% (APSO, 2014). This means that 19.9% of TES workers who were initially employed on a temporary basis were permanently employed as at June 2014. However, this result is in contrast to the findings using QLFS data, which show that more than half of TES employees were actually permanently employed.

While the number of permanent workers in TES has declined by 6% and the number of those on a limited contract has increased by 7% since 2008, about 60% of TES employees are still permanent and just 22% are on a limited contract. Even among

Table 6: TES and formal-sector employment – duration of contract

TES formal-sector employees			
	Limited	Permanent	Unspecified
2008	15.9*	65.7*	18.4*
2009	19.5*	63.5	17.0*
2010	18.3*	64.5	17.3*
2011	20.5*	63.2	16.2*
2012	21.5*	59.9*	18.7*
2013	21.2*	59.0	19.9*
2014	22.2*	59.7	18.2*
Other (non-TES) formal-sector employees			
	Limited	Permanent	Unspecified
2008	11.8	62.2	26.0
2009	11.4	64.5	24.1
2010	11.1	65.6	23.3
2011	12.1	65.2	22.7
2012	12.6	64.7	22.7
2013	14.7	61.9	23.4
2014	14.4	62.9	22.8

Source: QLFS Quarter 4, 2008–2013 and QLFS Quarter 1, 2014 (Statistics South Africa).

* The proportion in the TES sector is significantly different from the proportion in the non-TES sector at α = 5%.

non-TES employment, we see an increase of about 3% for limited contracts, whereas permanent contracts have stayed at relatively the same proportion since 2008, and at just 3% higher than TES employment. The increase in limited contracts for non-TES employment in post-recession South Africa suggests that the nature of employment demand has been more temporary, 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 was still on a permanent contractual basis. Thus, the majority of workers were afforded some protection through their employment contract. This section has used labour force data to characterise the TES subsector and has shown that existing perceptions are, in fact, not valid if we consider what the data tell us. We also find that the bulk of TES workers is in medium-skilled occupations, and this is true overall and for the youth employed through TES.

Employment and firm size

Public discourse suggests that the TES industry is dominated by large firms. An examination of various data sources indicates that the TES industry is split into two distinct types of firms: a few large corporate players, and a number of small and medium-sized firms with 20 to 60 full-time staff members. The African Professional Staffing

Organisation (APSO) and Career Junction carried out a survey in 2010 with a sample of 197 recruitment companies from across South Africa. The data collected by APSO suggest that 66.5% of recruitment companies have fewer than ten employees. Further, the data suggest that, of those surveyed, 90% of recruitment companies have fewer than 50 employees and 86% have up to 25 employees. Such data seem to suggest that the bulk of this TES industry is made up of small and medium enterprises.

Whereas the sample in Table 7 is small, this trend is further corroborated by data representing 611 labour-recruitment firms that were levy-paying members of the SSETA in 2013, as shown in Table 8. SSETA's member database suggests that 12% of labour-recruitment firms employed between one and 19 employees, while 58% of firms employed fewer than 50 employees. This means that about 70% of the 611 levy-paying members operating as labour-recruitment service firms were small and micro-business in 2013.

The National Development Plan (NDP) has expressed support for small business in the form of credit and market access, as well as in terms of more business-friendly regulation. Since the primary focus of the NDP is employment creation, it has recognised the potential of small business to

Table 7: Firm-size distribution of the TES sector, 2010

Firm size	% firms
0–10 employees	66.5%
11–25 employees	19.8%
26–50 employees	4.1%
51–100 employees	2.0%
More than 100 employees	8.1%

Source: APSO survey data.

Table 8: SSETA labour-recruitment service members, by firm size

Firm size	Number of firms	Proportion
Micro (1–19)	73	12.0%
Small (20–49)	354	57.9%
Medium (50–150)	89	14.6%
Large (150+)	95	15.6%
Total	611	100.0%

Source: SSETA member database for 2014.

generate jobs. Furthermore, in 2014, a new Ministry of Small Business Development was created which, to some extent, recognises the challenges of small-business development in South Africa and also maintains that such development is indeed a priority of the national government. In 2013, it was established that about half of South Africans had found work in businesses with fewer than ten people, and that about 80% had found work in firms with fewer than 50 workers, which suggests that small business does, in fact, generate employment. Whereas small and micro-TES firms may not be typical small businesses, the evidence presented thus far has shown that the industry has grown exponentially, and employment along with it. It would, at first glance, appear to be counterintuitive in terms of South Africa's development goals to implement regulation that suppresses small businesses in the TES industry.

Ultimately, then, our overview of employment trends and characteristics in the TES sector would suggest, firstly, that the sector has been the single-highest creator of jobs in the economy – and doing so at a rate faster than all other main sectors of the economy. Secondly, the majority of these jobs are concentrated in semi-skilled, service-oriented occupations, thereby 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. Finally, 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.

3. THE HOUSEHOLD POVERTY IMPACT OF THE TES SECTOR

A crucial exercise in attempting to understand the impact and contribution of the TES sector is to examine the impact that these firms have on household welfare. Analytically, we consider the extent to which TES earnings have resulted in household-welfare gains. We also consider the potential welfare loss in the event of declining TES employment.

TES earnings and household welfare

In order to understand the impact of TES on household poverty, we estimate whether the earnings received by a TES worker result in any significant change in the poverty status of households. In order to estimate this, we use the 2012 Labour Market Dynamics (LMD) data on industry category and earnings of the employed. However, questions on non-wage income and total household income are not asked in any labour surveys, including the LMD survey; hence total household income is estimated by adding wage income to child-grant income and old-age grant income.[5]

The most commonly used poverty measures are those proposed by Foster, Greer and Thorbecke

(1984).[6] For the purpose of this analysis, we used the Foster-Greer-Thorbecke (FGT) class of poverty estimates, including the poverty-headcount ratio, poverty-gap ratio, and squared poverty-gap ratio. Firstly, we identify the households where TES earnings are available and then define the sample as 'TES households' in order to examine their current poverty status in the three poverty lines proposed by Woolard and Leibbrandt (2006). To examine the poverty-reducing impact of the sector, we simulate an impact on household poverty if such employment (or earnings) were to be removed from the household. Table 9 presents the estimated poverty-headcount ratio and poverty-gap ratio before and after TES earnings of households were removed at the three poverty lines. The key conclusion drawn from Table 9 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. However, we should keep in mind that we are unable to accurately predict what would happen in the absence of TES employment, and, in particular, whether employers would take on workers directly. The latter would have a different welfare outcome.

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5   These two amounts are proxied by using the following assumptions:

- Individuals aged 0–17 years all receive child grants, and the monthly amount is R280 (according to the 2012/2013 Budget Review).
- Males aged 65+ years and females aged 60+ years all receive an old-age pension, with a maximum amount of R1 200 per month (according to the 2012/2013 Budget Review).

6   The FGT is as follows:

$$P_\alpha = \frac{1}{n} \sum_{i=1}^{q} \left(\frac{z - y_i}{z} \right)^\alpha \Bigg| (y_i \leq z)$$

Where P_α = measure of poverty; q = number of poor people; n = total number of people; z = poverty line; and y_i = income of the i-th person in the population.

Table 9: Household poverty – increasing impact of TES worker removal

Type of household	Poverty-headcount ratio	Poverty-gap ratio	Squared poverty-gap ratio
Poverty line: R2 532[#]			
TES worker households	0.3547	0.1716	0.1091
TES worker households – exclusion	0.3795	0.1883	0.1216
Difference	−0.0248	−0.0167	−0.0125
Poverty line: R3 864[#]			
TES worker households	0.4798	0.2578	0.1720
TES worker households – exclusion	0.5032	0.2771	0.1879
Difference	−0.0234	−0.0193	−0.0159
Poverty line: R7 116#			
TES worker households	0.6389	0.3997	0.2918
TES worker households – exclusion	0.6581	0.4200	0.3107
Difference	−0.0192	−0.0203	−0.0189

Source: LMD, 2012 (Statistics South Africa; own calculations).

[#] Per capita per annum in 2000 prices.

There are between approximately 5 and 9 million households in the economy (depending on the definition used) living below the poverty line. For households where TES workers reside, our data suggest that, at the lowest poverty line (R2 532), approximately 35.5% of these households are poor. This increases to 63.9% at the highest poverty line (R7 116). In turn, though, our estimates show that, without such earnings from the TES sector, the first-round poverty-reducing impact would see household poverty levels increasing to somewhere between 38.0% and 65.8%, depending on the poverty line used. Put differently, without the operation of the sector, as an approximation of first-round effects, between 280 067 and 362 528 more households would be in poverty, as can be seen in Figure 5.

Figure 5: Households in increased poverty – TES earnings removal
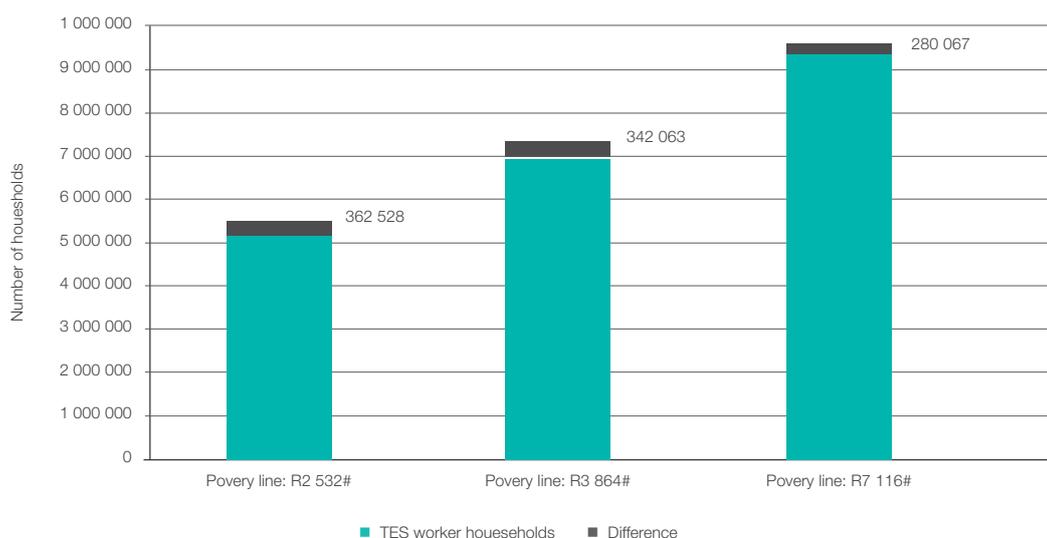
Source LMD, 2012 (Statistics South Africa; own calculations).

Note: 'Difference' refers to the increased number of households that would be below the poverty line if TES earnings were removed from households.

 # Per capita per annum in 2000 prices.

Figure 6: Household per capita income – with and without TES workers

Source: LMD, 2012 (Statistics South Africa; own calculations).

To contextualise this, the loss in earnings for TES households results in a 7% increase in household poverty at the R2 532 poverty line; a 5% increase at the R3 864 poverty line; and a 3% increase at the R7 116 poverty line.

Relative poverty, as measured by the poverty gap, estimates the depth of poverty by estimating, on average, how far the poor are from the poverty line. The squared poverty gap similarly measures the severity of poverty and assigns more weight the further a person's observed income is below the povert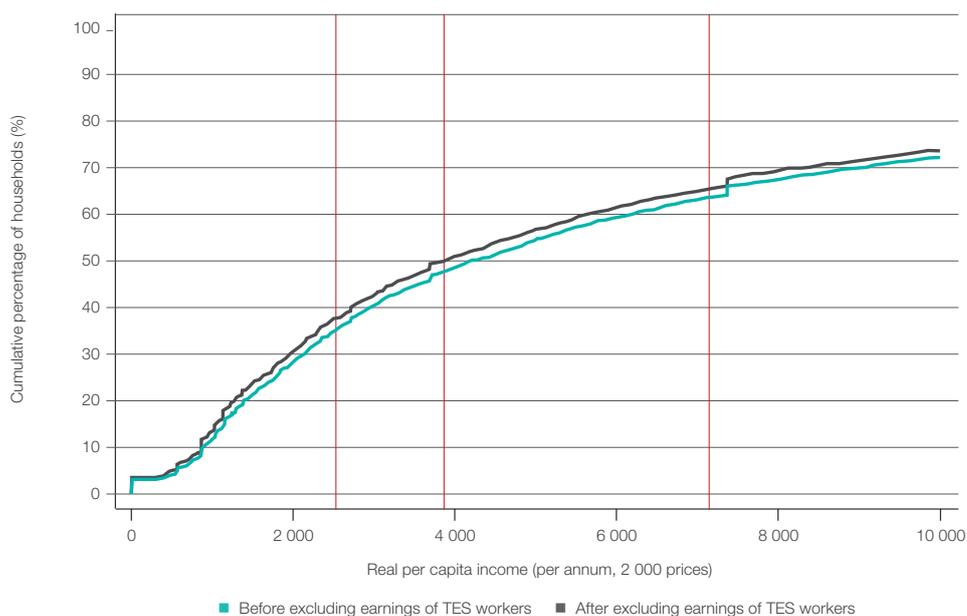y line. The poverty gap suggests households with TES earnings have a lower depth of poverty and are about 1 to 2% closer to the poverty line than those households without TES earnings, which are further below the poverty line, as shown in Table 9. At the upper bound, the poverty gap declined by 2% to 40.0% for households with TES earnings. At the lower bound, the poverty gap declined by 1.7% to 17.1% for households with TES earnings. A similar pattern is observed for the squared poverty-gap estimates, where we also see a decline of closer to 2.0% for households with TES earnings at the upper bound, with those at the lower bound experiencing a change of closer to 1.0%. Overall, these results suggest that the poorest households within which TES earnings are available experienced a marginally lower improvement than those households that were better off (namely at

the upper-bound poverty line). However, the difference between improvement at the upper bound and lower bound was generally less than 1%. Ultimately, the poverty-gap and squared poverty-gap ratio suggest that TES earnings reduce the severity of poverty.

The cumulative-density functions measure the cumulative percentage of households over the income distribution when TES earning are included in, and then subsequently excluded from, main earnings. Examining this over the income distribution (up to ZAR10 000) allows us to consider whether the above findings, namely that households are better off when TES earnings are included, are isolated to a specific level of income or chosen set of poverty lines. Figure 6 indeed indicates that, across the distribution, fewer households are found at lower levels of income before TES earnings are excluded from main earnings.

Specifically, at all poverty lines, when TES earnings are excluded, the proportion of households below each of the three poverty lines is greater than when TES earnings are included. Whereas this does not consider other forms of income available to households should TES income be removed, the point of the analysis is purely to look at the impact of TES earnings on a household. Ultimately, the evidence suggests, then, that TES earnings play a role in household poverty reduction in the economy.

TES employment loss and household welfare

The Labour Relations Amendment Act passed in the second half of 2014 curtails labour broking but stops short of an outright ban. The Act has resulted in the TES sector becoming far more regulated, with the client or indirect employer being jointly and severally liable for the employee. In addition, there are further restrictions on the utilisation of TES. This has a number of implications for businesses wanting to size up or down on a project basis or in response to the business climate. In turn, the new legislation may create a disincentive for employers previously making use of TES for the purpose of flexible employment. The importance of flexible employment arrangements has been recognised elsewhere, including by the International Labour Organization (ILO). Moreover, in 2008, the European Union, in collaboration with the confederation of trade unions across Europe, legitimised the TES industry across 28 countries while strengthening the regulatory framework with regard to worker benefits.

Figure 7 considers the potential welfare effects of TES workers losing their jobs on the level of household poverty. It should be noted that transition mechanisms, or, indeed, first-and second-round employment effects on job losses, are not considered in this analysis. At both poverty lines, the number of households below the poverty line increased sharply as the extent of employment declined. If half of TES workers lost their jobs, 100 000 (at the R2 532 poverty line) or 150 000 (at the R3 864 poverty line) more households would be in poverty. If all TES workers lost their jobs, at both poverty lines we find that 350 000 more households would be in poverty.

In summary, we find that not only does TES employment contribute to household earnings in a way that reduces poverty, but that employment losses within the TES subsector are also likely to result in sharply rising levels of household poverty. One important backdrop to these results is that they illustrate that the sector employs workers who are in households relatively close to the poverty line. Ultimately, the semi-skilled and unskilled bias of employment in the sector means that it plays a central, indirect role in the welfare levels of the relevant households.

Figure 7: Impact of TES employment loss on household poverty levels
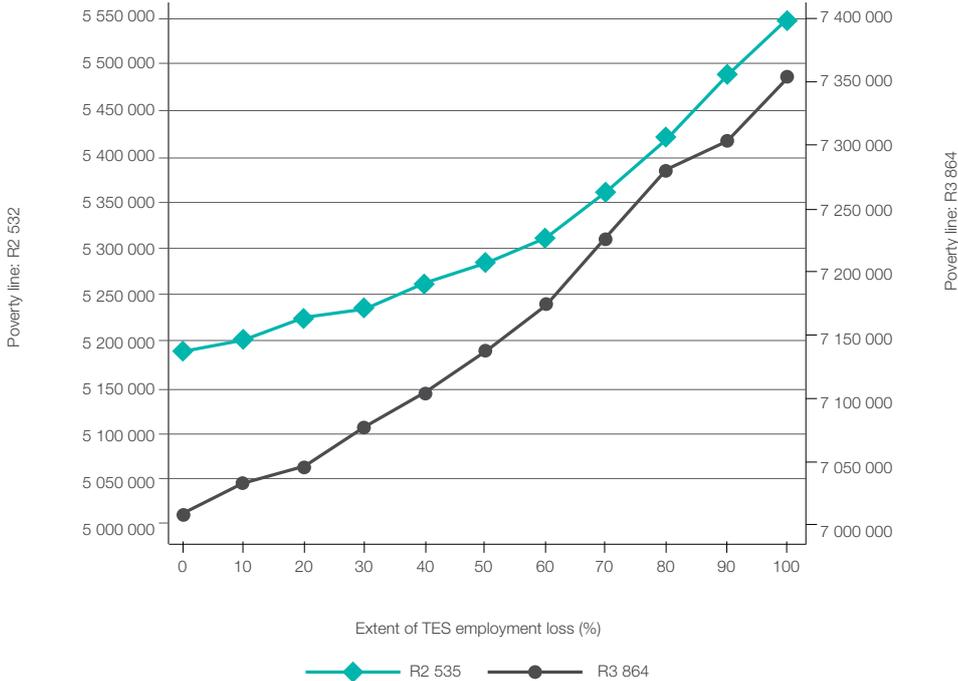
Source: LMD, 2012 (Statistics South Africa; own calculations).

4. THE ECONOMIC CONTRIBUTION OF THE TES PROVIDER SECTOR

The analysis thus far has shown the extent to which atypical employment in the form of the TES industry has contributed to, and acted as a driver of, national employment growth since 1994. The nature of the South African economy and the structural changes that have occurred over the past 20 years have lent themselves to this type of employment relationship. Market research has found that private employment services offered uniquely placed support to government and other organisations to manage structural changes and the pace of changing dynamics within the labour market (CAPES 2014). It was further indicated that TES allowed stakeholders to leverage the changing business environment to their advantage by adjusting their cost base and staffing needs. Infrastructure development, for example, which has been a key feature of post-apartheid South Africa, employed a significant number of temporary workers on a project basis (Budlender 2013). Similarly, the clothing and textile industry, the chemical sector, and the health sector, through nursing and local government, have also increased employment as a result of TES (Budlender 2013). TES providers are therefore well established, with a number of the larger providers having existed for more than ten years.

Given the scope and scale of TES usage in industry, this sector is inevitably contributing to the economy, although little research on measuring its contribution has been undertaken. Indicative of the sector's economic contribution is the concentration of TES coverage across key industries and in provincial economic hubs, including Gauteng, KwaZulu-Natal and the Western Cape. This section examines the relative economic contribution of the sector, as well as the broader relationship between employment and economic growth and the potential role of TES within this context.

Relative GDP contribution of the TES sector

The value of output in the 'Business activities NEC'/'Other' (or TES) subsector is not easily accessible in public data, but, given that we have estimated employment above, we use an output employment elasticity[7] to reverse-engineer an estimate of the impact of employment through TES on output. A recent study by Kemp (2011: 16) suggests that, between 1994 and 2011, the average output elasticity of formal-sector employment was 0.78%. This means that a 1% increase in output (GDP) was associated with a 0.78% increase in formal-sector employment. By using this elasticity estimated through the Cobb–Douglas production function, the multiplier impact on output and hence GDP in the economy through the TES sector can be calculated.

In 2014, there were 970 783 workers in the 'Business NEC' subsector, without which employment would have been 6.9% lower. Using the Kemp elasticity above, it follows that a 6.9% increase in employment results in an 8.85% contribution to output or GDP. If we put a value to this using GDP in 2013 of R3 385 369 million, and if TES employment had been absent, GDP in total rand-value terms in 2013 would have been 8.85% lower, amounting to approximately R3 129 212

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

Figure 8: Share of GDP by sector, 2001 and 2013

2001

- Community, social and personal services — 23%
- Agriculture, forestry and fishing — 3%
- Mining and quarrying — 8%
- Financial and business services: TES sector — 3%
- Manufacturing — 20%
- Financial and business services: non-TES sectors — 16%
- Electricity, gas and water — 2%
- Transport, storage and communication — 9%
- Construction — 2%
- Wholesale and retail trade — 14%

2013

- Community, social and personal services — 21%
- Agriculture, forestry and fishing — 3%
- Mining and quarrying — 5%
- Financial and business services: TES sector — 10%
- Manufacturing — 17%
- Financial and business services: non-TES sectors — 14%
- Electricity, gas and water — 2%
- Transport, storage and communication — 10%
- Construction — 4%
- Wholesale and retail trade — 14%

Source: SARB; authors' calculations.

million. TES employment therefore contributed R256 157 million to GDP in 2013. Considered at a sectoral level, the R256 157 million that came from the business services subsector made up 39.27% of financial and business services sector output. It should be noted that what we have used here is a simple elasticity, and not a calibrated volume model, and therefore our estimates do not, and cannot, capture the direct and indirect effects of the TES sector on the economy. Further, we have also not used an elasticity that has been calculated specifically for the TES sector, and therefore TES may contribute differently to productivity relative to other sectors.

In a unique attempt to understand the relative economic contribution of the TES industry as against other industries, Figure 8 uses the estimation above to compare the growth in GDP by sector between 2001 and 2013. Firstly, the primary sectors exhibited little to no growth, with agriculture falling by 1% and mining increasing its share of GDP by 3%. Secondly, the secondary sector yielded mixed results, with the manufacturing sector declining dramatically by 2% and the construction sector increasing from a 2 to 3% share of GDP. Thirdly, the tertiary sector grew from 51% of GDP in 2001 to 56% of GDP in 2013. In part, this growth was driven by the TES sector, which grew from 3%

in 2001 to 10% in 2013[8]. Financial and business services also realised a 5% increase in GDP, whilst community and social services declined by 2%.

Figure 8 is unique, as aggregate data normally disguise the growth of TES within finance and business services, but, here, it is possible to see the role of TES within the growing tertiary sector. It is important to note, then, that amidst a declining primary manufacturing sector in the economy, the TES industry increased its contribution to GDP share in the 12-year period under review.

While in the previous section, we considered employment loss at the microeconomic level on household welfare, we now investigate the potential impact of employment losses on GDP. Using the 2013 estimates, and if we assume that TES employment reduced by half, GDP in 2013 would have been approximately 2.6% lower, amounting to a R3 299 792 million loss. This is estimated on the

8   Using the elasticity of 0.78 from the 2012 Kemp study and the same methodology as adopted in Table A3 in the Appendix, the GDP of the financial services sector, excluding TES workers, is estimated for the two years. The TES sector's contribution to GDP is then derived as the difference between the GDP contribution by the financial services sector (as published in the SARB Quarterly Bulletin) and the estimated GDP of the financial services sector excluding TES workers.

Figure 9: Share of employment and output, 2013

Legend:
- ■ Emplomyent Share
- ■ TES formal emplomyent share (%)
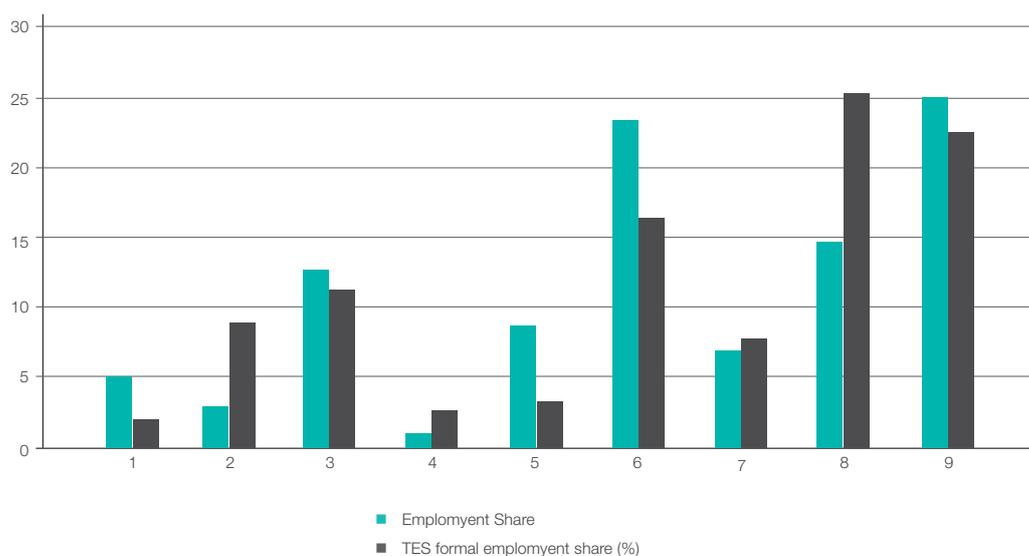
Source: QLFS Quarter 4, 2013; SARB

Key:

1: Agriculture, forestry and fishing

2: Mining and quarrying

3: Manufacturing

4: Electricity, gas and water

5: Construction

6: Wholesale and retail trade

7: Transport, storage and communication

8 Financial and business services

9: Community, social and personal services

basis of the assumption that there is no capital substitution for employment loss and that the employment loss has only led to a pure loss of economic activity. The estimated loss in GDP, however, does suggest that the subsector is a key driver of both output and employment in the finance and business services sector and, in turn, total GDP and employment. Interestingly, this subsector has grown in terms of output and employment despite the lack of access to external government support through investment incentives from which a number of key sectors such as manufacturing benefit.

Comparing shares of employment and output by sector for 2013 similarly suggests that TES has become a relatively significant contributor to the economy in a short space of time. To put this into context, as Figure 9 shows, the 5.4% contribution to GDP from the TES subsector was greater than the contribution to output by agriculture (2.1%), utilities (2.7%) and construction (3.5%).

The TES subsector also contributes a larger share of employment (6.4%) than utilities (0.9%), agriculture (5.1%) and mining (3.1%). If the TES subsector is excluded from the finance and

business services sector, we find that the share of finance and business of GDP is 5% lower and the employment share 6% lower.

A common misconception regarding the TES industry is that it does not contribute to the economy, but, once again, the data presented suggest otherwise. In addition, the economic contribution of this industry stems from particular and unique trends that have characterised the TES industry, such as absorbing unemployed youths, providing training through learnerships and apprenticeships to upskill workers, facilitating sector transitions depending on the economic environment, and allowing firms to take advantage of business opportunities such as medium-term infrastructure projects. Whereas the data presented have provided evidence of TES as a driver of the finance and business services sector, the subsection that follows considers broader sectoral interactions of gross value-add, employment and gross capital formation.

Gross value-add, employment and capital formation in the TES industry

Figure 10 explores the interaction between GDP and employment growth by sector between 2001 and 2012. We expect that sectors in which there was positive output growth in the period would have been more likely to create jobs in the economy, while declining sectors would have shed jobs. Each of the bubbles in Figure 10 represents a sector, while the size of the bubbles indicates the relative size of employment in that sector in the base year, 2001. The vertical axis measures average annual employment growth, while the horizontal axis shows the annual growth in gross value added, both in percentage terms. Thus, the coordinates for the centre of each of the bubbles are the relevant sector's employment and gross value-added growth for the period. The 45-degree line divides the figure into two sections: bubbles below the line show sectors in which employment growth was lower than gross value-added growth, while bubbles above the line show sectors in which employment growth exceeded output growth.

Figure 10 firstly shows that the primary sectors of the economy fared particularly badly in the period between 2001 and 2012: output growth was negative for mining (–0.3%) and the lowest among

positive-growth sectors for agriculture (2.2%). Furthermore, these were the only two sectors that experienced a contraction in employment in the period concerned, with employment growth in agriculture and mining contracting by 5.1% and 4.1%, respectively. The discrepancy between output and employment was highest in the two primary sectors.

For mining, employment decreases outstripped the decreases in growth. The poor performance of the mining sector can be attributed to a range of factors, including a strongly appreciating rand in the mid 2000s, infrastructural constraints (such as rail transport), the energy crisis in South Africa, and the application of new mining laws (OECD 2008), while damaging and widespread strike action in the mining sector in 2010 and 2011 would have further exacerbated the problem.[9]

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9   We note that the employment numbers for the mining industry from the household surveys (LFS and QLFS) are lower than the numbers from firm-based data. Furthermore, the underestimation of employment within the mining and quarrying sector in the QLFS relative to the firm-based data is substantially larger than in the LFS. The QLFS thus seems less able to capture mining employment than the LFS (DPRU 2013).

Figure 10: Gross value added and employment growth by sector, 2001–2012
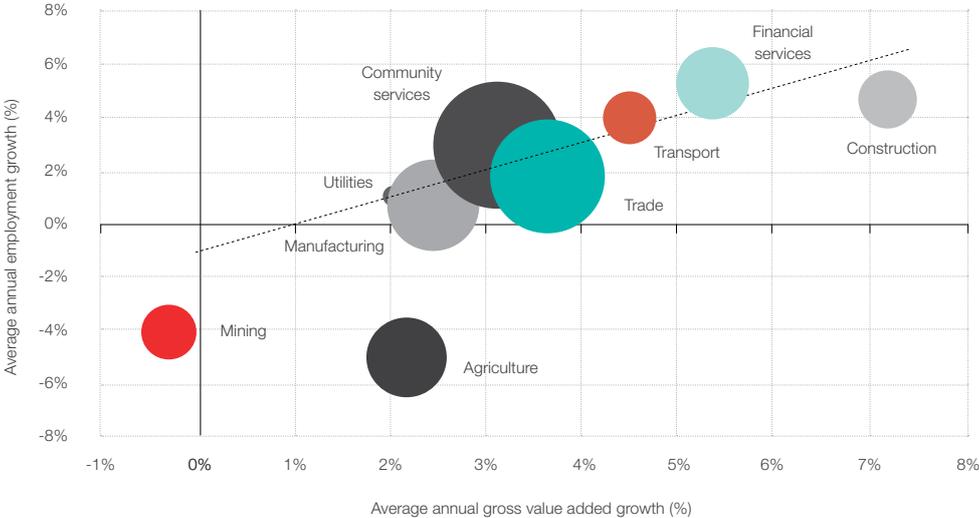
Source: SARB & Statistics South Africa (LFS, 2001 and QLFS, 2012); authors' calculations.

Note: Employment and GVA figures for 2012 were used because the 2013 QLFS used 2011 Census weights for the 2013 data that 'inflate' the 2013 figures in comparison with 2012. Using the 2013 data would, therefore, incorrectly represent the annual employment growth.

Among the secondary sectors, output growth in construction was high at 7.2%, but employment growth in this sector was much lower at 4.7%. The construction boom can be attributed to, among other factors, infrastructure projects related to the 2010 FIFA World Cup, the construction of the Gautrain rapid-rail system, and several other public- and private-sector investment initiatives, including those undertaken by Eskom and Transnet (Hanival & Maia, 2008). In contrast, neither the manufacturing nor utilities sectors saw a significant increase in employment over the period. The relatively poor employment results for manufacturing can, in part, be linked to the impact of the recession on the South African economy, during which the manufacturing sector, together with construction, experienced the largest job losses. Semi-skilled workers, in particular, were negatively affected. Furthermore, informal-sector workers were also particularly hard hit during the recession and accounted for a disproportionate share of jobs lost.

As discussed in the previous section, the tertiary sectors achieved relatively high output growth.

Nonetheless, employment growth did not exceed output growth and only the finance and community services sectors experienced employment growth that was close to gross value-added growth. Specifically, gross value-added growth for the finance and community services sectors stood at 5.4 and 3.1%, respectively, for the period, while employment growth was 5.3 and 3.0%, respectively. These two tertiary sectors thus experienced labour-neutral growth, while all other sectors experienced output growth that was faster than employment growth. Whereas it is not possible to discern value-add from the TES subsector in the finance and business services sector given the notable growth of both employment and output, it is very probable that value-add, too, was driven by the TES subsector. Indeed, the employment growth of 8.7% noted earlier for the period 1995 to 2014 was higher than the employment growth observed in Figure 10 for all sectors. Put simply, the data suggest that, apart, possibly, from the CSP sector, the TES industry was, over this period, the only labour-intensive sector in the South African economy.

5. CONCLUSION

The findings in this paper suggest, in the first instance, that the post-1994 labour market environment in South Africa has been marked by a sharp rise in the use of TES. Indeed, the results of research about South Africa's labour regulatory regime, the strength of the union-wage premiums and so on remain relatively unimportant when compared with the rapid rise in the use of TES. Put differently, employers in South Africa have voted with their feet and have opted at an increasing rate not to employ workers directly but rather to do so through TES providers. Examining the employment growth in the finance and business services subsector gives an indication of the high levels of employment growth that arise from the TES industry.

The lack of research on the TES industry has left the public discourse uninformed and misleading with regard to the characteristics of TES workers. It is clear, however, that, contrary to perceptions, workers in TES are medium-skilled and largely in services and sales-type occupations and not simply unskilled workers in elementary occupations. Further, as the TES field has grown, it has absorbed young people at a rate faster than that observed for overall levels of employment and within the finance and business services sector. In addition, labour force data suggest that TES workers are more likely to be permanent than to work on a limited contractual basis. As a result of this empirical profile of a fast-growing, semi-skilled and youth-intensive employer, the notion of the industry being dominated by the 'bakkie brigade' is erroneous in the extreme. The predominance of small to medium firms as well as the statistically meaningless difference in forms of employment further reinforce the need to re-centre economic policy and labour debates around the sector.

In terms of the impact of TES more broadly, we find that TES contributes to both household welfare and economic growth. We find, for instance, that TES earnings have kept between 3 and 7% of households above the poverty line, constituting over 300 000 households in the economy. Households with TES earnings were found to be better off than households without TES earnings, suggesting the pro-poor impact of TES employment. Furthermore, the TES sector contributed about 9% to GDP in 2013, which is significant in the context of South Africa's low levels of economic growth. The TES industry, through offering flexible employment arrangements, has become an important driver of employment and output growth, and this should remain a key consideration in any debate about regulation, or about altering the nature of the sector through exogenous policy interventions.

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APPENDIX

Table A1: Growth in employment by sector, 1995–2014

	Growth		Employment share (%)		Share of relative change (%)
	Absolute (number)	Relative (%)	1995	2014	
Primary	−561	−33.1	17.9	15.5	−10.0
Agriculture	−537	−43.1	13.2	10.5	−9.6
Mining	−25	−5.6	4.8	5.0	−0.4
Secondary	1 150	57.9	21.0	21.0	20.5
Manufacturing	356	24.5	15.4	14.5	6.3
Utilities	44	51.2	0.9	0.8	0.8
Construction	751	167.3	4.8	5.7	13.4
Tertiary	5 034	87.2	61.0	63.1	89.5
Retail	1 511	89.7	17.8	22.0	26.9
Transport	414	85.7	5.1	4.9	7.4
Finance	1 458	246.3	6.3	9.3	25.9
CSP	1 228	55.7	23.3	17.8	21.8
Private household	425	52.5	8.6	9.2	7.6
Total	5 623	59.5	100.0	100.0	100.0
TES	771	387.4	2.1	2.6	13.7

Source: OHS, 1995; QLFS Quarter 1, 2014 (Statistics South Africa).

Table A2.1: Youth (15–29 years) employment by age cohort, 1996–2014

Year	Total employment	Finance and business services employment	TES employment
1996	2 473 459	278 110	81 959
1997	2 438 980	239 195	81 875
1998	2 590 502	299 273	112 773
1999	2 966 618	367 220	128 686
2000	3 620 656	372 211	144 537
2001	3 162 977	390 596	172 102
2002	3 146 847	398 272	135 580
2003	3 161 328	380 067	152 075
2004	3 183 101	386 419	197 927
2005	3 312 330	408 833	193 404
2006	3 542 094	415 689	206 983
2007	3 733 624	470 187	220 703
2008	3 978 179	539 286	246 613
2009	3 512 359	590 991	314 705
2010	3 357 454	473 075	253 918
2011	3 464 524	513 390	253 010
2012	3 415 867	529 963	267 998
2013	3 650 475	519 661	251 443
2014	3 497 684	530 034	247 833
Average annual growth rate (%): 1996–2014	1.9	3.6	6.3

Source: OHS, 1996–1999; LFS, September 2001–2007; QLFS Quarter 4, 2008–2013 and QLFS Quarter 1, 2014 (Statistics South Africa).

Table A2.2: Youth employment broken down, 1996–2014

Year	15–19 years [I]	15–19 years [II]	15–19 years [III]	20–24 years [I]	20–24 years [II]	20–24 years [III]	25–29 years [I]	25–29 years [II]	25–29 years [III]
1996	154 973	12 185	3 262	943 579	126 471	38 996	1 374 907	139 454	39 701
1997	139 880	9 578	4 925	849 369	98 444	27 645	1 449 731	131 173	49 305
1998	151 542	12 226	3 113	944 894	121 068	40 254	1 494 066	165 979	69 406
1999	221 269	12 081	4 047	1 078 320	140 441	44 174	1 667 029	214 698	80 465
2000	348 907	7 900	3 979	1 218 209	131 688	40 520	2 053 540	232 623	100 038
2001	233 018	11 873	6 334	1 081 046	127 384	52 695	1 848 913	251 339	113 073
2002	224 604	9 907	3 454	1 060 606	127 540	37 114	1 861 637	260 825	95 012
2003	181 826	8 322	4 205	1 045 421	121 883	35 845	1 934 081	249 862	112 025
2004	193 549	8 082	2 682	1 093 514	122 981	56 710	1 896 038	255 356	138 535
2005	229 480	8 937	6 334	1 185 394	148 695	74 612	1 897 456	251 201	112 458
2006	223 515	11 098	2 742	1 233 564	134 346	61 499	2 085 015	270 245	142 742
2007	196 344	7 629	5 320	1 325 550	169 269	62 518	2 211 730	293 289	152 865
2008	181 531	12 802	8 194	1 414 811	180 116	75 397	2 381 837	346 368	163 022
2009	131 985	15 867	9 208	1 236 256	202 716	103 529	2 144 118	372 408	201 968
2010	98 655	12 393	9 818	1 130 623	147 362	78 561	2 128 176	313 320	165 539
2011	119 841	14 376	5 424	1 154 061	154 780	80 226	2 190 622	344 234	167 360
2012	102 866	12 814	4 071	1 139 945	163 069	79 324	2 173 056	354 080	184 603
2013	130 895	9 318	5 040	1 198 490	148 160	72 174	2 321 090	362 183	174 229
2014	107 426	6 862	2 657	1 117 406	144 774	74 229	2 272 852	378 398	170 947
Average annual growth rate (%): 1996–2014	–2.0	–3.1	–1.1	0.9	0.8	3.6	2.8	5.7	8.4

Source: OHS, 1996–1999; LFS, September 2001–2007; QLFS Quarter 4, 2008–2013 and QLFS Quarter 1, 2014 (Statistics South Africa).

Note: [I]: Total; [II]: Finance; [III]: TES

Table A2.3: Demographic characteristics of TES and non-TES formal-sector employees, 2014

	Other formal employment	TES formal employment
Race		
African	68.9	77.2
Coloured	12.5	9.8
Indian	3.7	3.1
White	14.9	9.9
	100.0	100.0
Gender		
Male	57.6	61.6
Female	42.4	38.4
	100.0	100.0
Area type		
Urban	81.1	87.6
Rural	18.9	12.4
	100.0	100.0
Age		
15–24 years	8.6	8.2
25–34 years	33.0	38.6
35–44 years	30.7	36.9
45–54 years	19.3	12.4
55–65 years	8.4	3.9
	100.0	100.0
Educational attainment		
No education	1.7	0.6
Grades 0–7	5.4	2.9
Grades 8–11	32.4	44.2
Grade 12	34.6	40.3
Diploma/certificate	13.1	8.4
Degree	12.9	3.7
	100.0	100.0

Source: QLFS Quarter 1, 2014 (Statistics South Africa).

Table A3: Estimation of the increase in GDP due to TES employment

	2014Q1
Step 1: Find out total employment with and without TES employment.	TES workers: 970 783 Total employment, including TES workers: 15 084 089 Total employment, excluding TES workers: 14 113 306
Step 2: Calculate the percentage change in employment.	$\dfrac{15\ 084\ 089 - 14\ 113\ 306}{14\ 113\ 306}$ = 6.8785%
Step 3: Calculate the percentage change in output.	6.8785%/0.78 = 8.8186%
Step 4: Find out the 2013 GDP (R million) from the SARB Bulletin.	3 385 369 million (2013 prices)
Step 5: Calculate GDP had TES employment been zero (assume it to be x).	$\dfrac{(3\ 385\ 369 - x)}{x}$ 3 385 369 - x - 1.08186x 1.08186 x = 3 385 369 ∴ x = 3 129 212
Step 6: Increase in GDP as a result of TES employment.	3 385 369 – 3 129 212 = 256 157 million (2013 prices)

Table A4: Before and after excluding earnings of TES workers, LMD 2012

	Poverty line: R2 532[#]	Poverty line: R3 864[#]	Poverty line: R7 116[#]
TES worker households	5 185 039	7 013 763	9 339 502
TES worker households – exclusion	5 547 567	7 355 826	9 620 169
Difference	362 528	342 063	280 667

Source: LMD, 2012 (Statistics South Africa; own calculations).
 # Per capita per annum in 2000 prices.

Table A5: FGT poverty indices for potential losses in employment

% of TES employment losses	Poverty-headcount ratio	Poverty-gap ratio	Squared poverty-gap ratio
Poverty line: R2 532			
0%	0.3547	0.1716	0.1091
10%	0.3561	0.1719	0.1092
20%	0.3575	0.1723	0.1093
30%	0.3584	0.1727	0.1095
40%	0.3599	0.1733	0.1098
50%	0.3616	0.1740	0.1101
60%	0.3638	0.1749	0.1106
70%	0.3668	0.1762	0.1113
80%	0.3707	0.1784	0.1125
90%	0.3757	0.1820	0.1150
100%	0.3795	0.1883	0.1216
Poverty line: R3 864			
0%	0.4798	0.2578	0.1720
10%	0.4810	0.2584	0.1723
20%	0.4819	0.2590	0.1727
30%	0.4836	0.2598	0.1731
40%	0.4857	0.2608	0.1737
50%	0.4878	0.2619	0.1744
60%	0.4908	0.2634	0.1753
70%	0.4943	0.2654	0.1766
80%	0.4975	0.2681	0.1786
90%	0.5001	0.2718	0.1817
100%	0.5032	0.2771	0.1879
Poverty line: R7 116			
0%	0.6389	0.3997	0.2918
10%	0.6408	0.4007	0.2925
20%	0.6422	0.4018	0.2932
30%	0.6443	0.4030	0.2941
40%	0.6464	0.4045	0.2952
50%	0.6484	0.4062	0.2965
60%	0.6504	0.4081	0.2980
70%	0.6521	0.4103	0.2999
80%	0.6542	0.4128	0.3024
90%	0.6564	0.4160	0.3057
100%	0.6581	0.4200	0.3107

Source: LMD, 2012 (Statistics South Africa; own calculations).
 # Per capita per annum in 2000 prices.

LABOUR MARKET INTELLIGENCE PARTNERSHIP

Temporary employment services in South Africa: Assessing the industry's economic contribution

What is the contribution of the temporary employment services (TES) industry, also known as the labour broker sector, to employment and output growth in post-apartheid South Africa? Since labour surveys do not directly probe whether workers were hired through labour brokers, the industry category 'business services not elsewhere classified' was used as a proxy for the TES industry. It was found that the TES employment increased from 0.2 million in 1995 to 0.97 million in 2014, accounting for 6.4% of total employment. More than 70% of TES workers worked in the tertiary sector, but unskilled occupations dominated the employment distribution. The TES industry contributed to an approximate 0.02% reduction in the poverty headcount ratio in 2012, and 7.6% of the country's GDP in 2014. The TES industry has obviously become an important employment and output growth driver in South Africa.

About the LMIP

The Labour Market Intelligence Partnership (LMIP) is a collaboration between the Department of Higher Education and Training, and a Human Sciences Research Council-led national research consortium. It aims to provide research to support the development of a credible institutional mechanism for skills plannning in South Africa. For further information and resources on skills planning and the South African post-school sector and labour market, visit http://www.lmip.org.za.