



THE INFORMAL ECONOMY IN AFRICA: IMPLICATIONS FOR EMPLOYMENT AND SOCIAL POLICY

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Working poor in the informal economy

Around the world, the working poor in the informal economy includes those who work:



In Unregulated Factories:

- garment makers
- shoe makers



In Small Workshops:

- scrap metal recyclers
- shoe makers
- weavers
- garment makers and embroiderers
- paper-bag makers



On Streets or In Open Spaces:

- street vendors
- push-cart vendors
- garbage collectors
- roadside barbers
- construction workers



In Fields, Pastures, and Forests:

- small farmers
- agricultural labourers
- shepherds
- forest gatherers



At Home:

- garment workers
- embroiderers
- shoemakers
- artisans or craft producers
- assemblers of electronic parts



Impact of global financial crisis on employment trends (ILO 2009)

- Newly unemployed: projected increase of up to 50 million worldwide
- New working poor: projected increase of 200 million, earning less than 2 dollars a day, mostly in the informal economy

(cited in SEWA/ WIEGO/ Realizing Rights Initiative flyer)

Expanded definition of the informal economy

- The informal economy is the diversified set of economic activities, enterprises, and workers that are not regulated or protected by the state.
- The informal economy - or informal employment - is comprised of:
 - **Self-employment in informal enterprises:** self-employed persons in small unregistered or unincorporated enterprises, including:
 - employers
 - own account operators
 - unpaid contributing family workers
 - **Wage employment in informal jobs:** wage workers without legal protection for formal or informal firms, for contractors, for households, or with no fixed employer, including:
 - non-standard employees of informal enterprises
 - non-standard employees of formal enterprises
 - casual or day labourers
 - industrial outworkers (also called homeworkers)

Informal labour markets: Global comparisons

- **Developed vs. Developing Countries**
 - **developed countries:**
 - 25-40% of total employment is *non-standard*
 - 12% of non-agricultural employment is self-employment
 - **developing countries:**
 - 50-90% of total employment is *informal*
 - 31-53% of non-agricultural employment is self-employment
- **Developing Regions:** share of informal employment in non-agricultural employment
 - **South Asia and Sub-Saharan Africa:** largest share (75%)
 - **other regions:**
 - South East and East Asia (65%)
 - Latin America (51%)
 - Middle East and North Africa (48%)

Sources: ILO 2002

Informal employment in Africa – regional patterns

- Under-employment in low-end economic activities may be a greater problem in Sub Saharan Africa than open unemployment (Heintz and Valodia 2008)
- Sub Saharan Africa has high rates of informal employment, especially among women
- North Africa has lower incidence of informal employment, especially among women, compared to other regions of developing world
- South Africa has high rates of unemployment. But of those who work, more are in formal, not informal, employment.

Formal employment in Africa

Kenya	14	percent
Mali	11	percent
Madagascar	7	percent
Ghana	9	percent
South Africa	60	percent

(Heintz and Valodia 2008)

**Formal work is not the norm for most countries,
and for hardly any in SSA**

Gender and informal employment in Africa

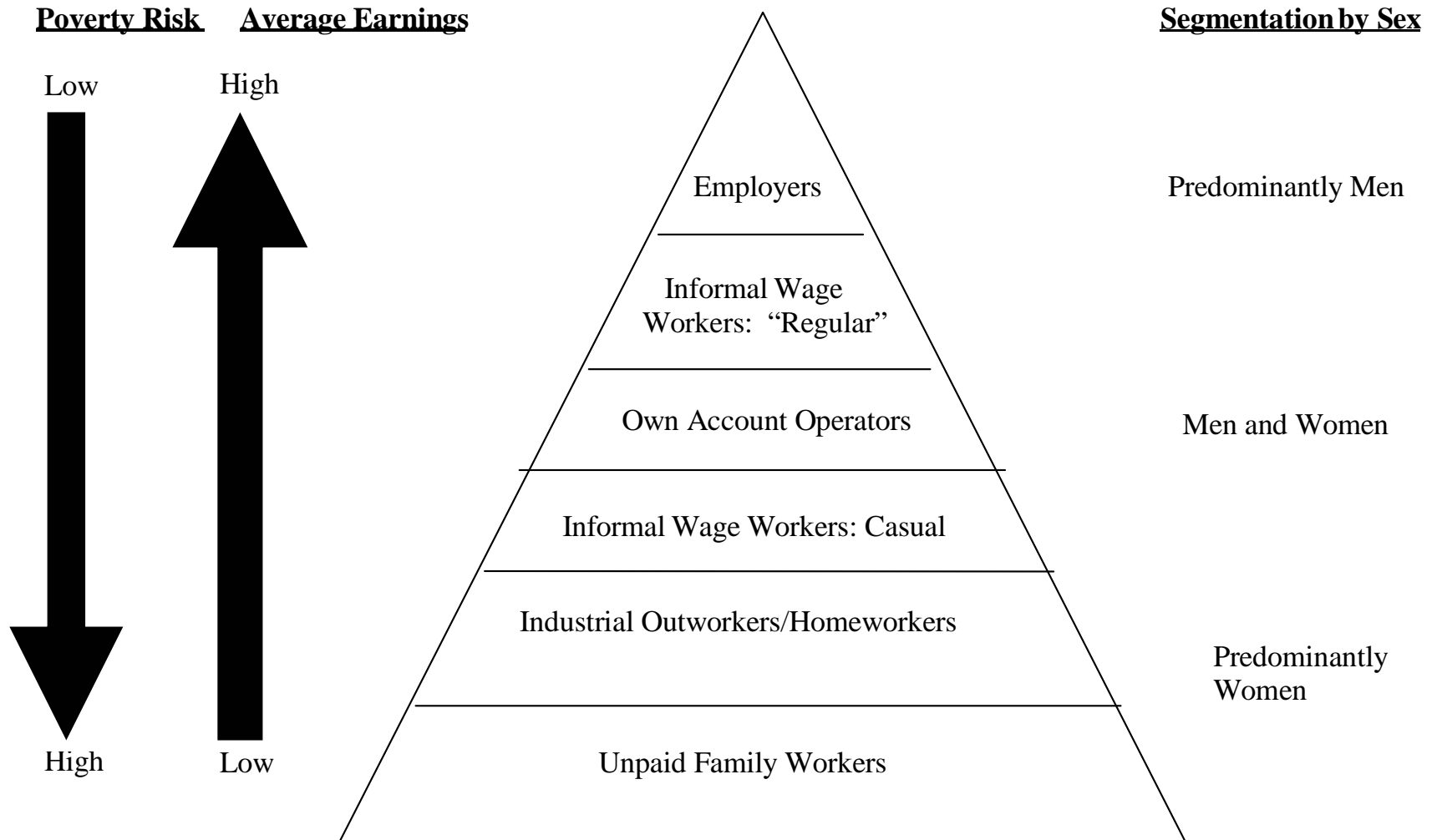
- Most women in Africa are engaged in informal *self-employment*, especially in provision of services including informal retail trade
- Relatively few are micro-entrepreneurs, hiring others
- In North Africa, high rates of women work as unpaid family workers
- Gender gap in earnings – women earn lower even when doing similar work
- Women work fewer hours per day than men in paid work, and longer hours per day in household or unpaid care work
- Many women are involved in cross-border trade

Street traders as an example of sector in which poorer women are concentrated

- Informal traders in African countries (where data is available) constitute between 85 and 99 percent of total employment in trade (ILO 2002: 53)
- Except for North African countries, women are half and more of all street traders (Skinner 2008)
- In general women tend to sell food products, and men non-food products and services (Skinner 2008)

Different segments, different consequences

(Chen, 2008)



Key points of departure

- The informal economy makes a valuable contribution to GDP, savings, exports.
- More and better employment opportunities are needed.
- More jobs are created in the informal sector than the formal – a direct way to address poverty is to address the constraints faced by working poor

Policy framework

1. Expand **formal employment opportunities**.
2. Create **incentives** for informal enterprises to formalize.
3. Create incentives for socially responsible **employment practices** + regulate **labour markets** to provide basic worker benefits/rights to informal wage workers.
4. Create an appropriate mix of interventions - statutory/voluntary, contributor/non-contributory, and universal/means-tested - to provide **social protection** to the informal workforce.
5. Promote **participatory policy processes** and **inclusive rule-setting institutions** that include representatives of informal entrepreneurs and informal wage workers.
6. Promote a **fair policy and regulatory environment** that is not biased against and is inclusive of informal businesses and informal workers.



A granny in Durban, looking after her grandchild, working in a street market in the traditional herbs and medicines sector

Policy implications: HIV&AIDS and labour market interventions

- HIV&AIDS is also an economic issue.
- How to reconcile the need for more and better care, with the need for more opportunities for informal work, and more income generation?
- Women are much more involved in care than men are.
- How to get men more involved in paid and unpaid care work?

Policy implications: trade agreements

- Look for consistency across the economic and social policies – are both working in same direction, with compatible goals?
- Based on analysis of diversity within sectors – will trade agreements lead to less decent work, outright job loss (Oxfam 2008) ?
- Or could they (as in Lesotho garments intervention, modeled on ILO 2007) lead to higher incomes (though still low), regulated maximum working hours, minimum leave, no child or forced labour (Weston et al 2008)?

Incentives to formalization

- For waged informal workers,/ industrial outworkers, it is most often the owners of capital/ employers who avoid formalisation.
- When the barriers to becoming formalized are lowered, many informal enterprises and workers choose to formalise/ be recognised/ be regulated (World Development Report 2005 for summary of initiatives – good examples from Africa).

Policy implications for labour administration: labour and occupational health inspectorates

Evidence-based approach:

- Situation Analysis based on statistics re informal employment, including economic sector, occupation status, gender segmentation, *place of work*
- Situation Analysis of available and future resources for administration
- And then ask: What is feasible, from extending regulation, to incentives to self-regulation?
- And how to strengthen and support organisations of informal workers who will be *necessary* partners in sustainable regulation and administration

Policy implications:

Rule-setting institutions need to include women in informal worker organisations

- Representatives of informal worker organisations need to be part of policy formulation and implementation.
- The most visible are not necessarily the most representative.
- Women frequently comprise the rank and file of organisations, but are not in leadership positions.

Policy implications: cash transfers as a response to informal employment?

- Widespread international campaign for universal cash transfers
- *Good* examples in SADC countries of programmes emerging from within countries, not externally imposed by donors
- Evidence from SSA of *positive* impact on all household members, and in enabling attempts at informal employment creation
- But cash transfers are targeted at those *outside* the labour market (typically, children, people with disabilities, elderly people)
- There is little experience with and evidence about cash transfers as integrated part of employment-creation policy (outside of public works, wage subsidies)

Policy implications: linking formal and informal social protection

- The study by AIM and the ILO under the auspices of Geneva International Alliance for the Extension of Social Protection (Coheur et al 2008): Understand the possibilities and the limits in specific situations.
- How can incentives (carrots and sticks) can be given to formal financial and insurance institutions to integrate informal workers on terms which informal workers can manage?

Policy implications: infrastructural provision for poorer working people

- Informal workers and their enterprises need the same things as formal firms need – affordable and secure place in which to work, water, sanitation, storage, electricity (lighting, production, refrigeration), waste disposal, and safety at the work place.
- These are usually local government functions.
- What is the role of international institutions in enabling more dialogue between national and local government levels around the direct productivity benefits of infrastructural provision for poorer working people in ‘atypical’ workplaces?

What's new from Africa?

- Better labour standards under Fair Trade Agreements? - Horticulture sector
- Ghana TUC incorporating informal workers
- Inclusion of domestic workers in unemployment insurance and other statutory social protection – South Africa.
- Cash transfers:
 - Indigenous, home-grown examples
 - Livingstone Call for Action campaign

Concluding remarks

- Economic and social policies impact on each other.
- Social policies cannot remediate the effects of economic policies which make poor people even more vulnerable. For example, trade policies which erode existing social protection, or that increase precarious work.
- Sectoral analyses help in making a large policy problem manageable.