The informal economy in Africa: Promoting transition to formality: Challenges and strategies
Preface

In June 2002, the International Labour Conference (ILC) adopted the resolution and conclusions concerning decent work and the informal economy, which provide a new framework for action. The conclusions define the informal economy broadly as referring to “all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements”. The broadened term – informal economy rather than informal sector – took account of the considerable diversity of workers and economic units, in different sectors of the economy and across rural and urban contexts that are particularly vulnerable and insecure.

In Africa, the majority of the labour force is in the informal economy. It is estimated that as many as nine in ten rural and urban workers have informal jobs. Most are women and young people who have no other choice than the informal economy for their survival and livelihood. While some activities in the informal economy offer reasonable livelihoods and incomes, most people engaged in informal activities face a wide range of decent work deficits and often remain trapped in poverty and low productivity. Improving the productivity of and market access for workers and producers in the informal economy and facilitating their access to mainstream economic resources and social protection is at the heart of many poverty reduction strategies in the continent.

Formalization and transition to the mainstream economy are desired goals. However, different views exist about what is meant by formalization and how to achieve it. From a policy perspective, transition to formality calls for the development of a comprehensive and integrated strategy cutting across a range of policy areas that eliminates the negative aspects of informality while preserving the significant job-creation and income-generation potential of the informal economy, and at the same time promotes the protection and incorporation of informal economy workers and economic units into the mainstream economy.

The fact that informality is gaining ground and remains a crucial development challenge does not mean absence of an innovative policy implemented to fight vulnerable employment and working poverty. African countries are searching for new policies and practical responses in order to promote decent work for a significant proportion of the working population who are engaged in the informal economy. In this context, the ILO Tripartite Interregional Symposium on the Informal Economy organized in November 2007 highlighted a number of good practices that are emerging in different regions, including Africa, enabling transition to formalization.¹

The current international financial and economic crisis poses additional challenges to reduce decent work deficits in the informal economy and to promote transition to the mainstream economy. First, most of those that will lose their jobs in the formal sector will have no other choice than to move into informal activities, leading to a rise in informal employment. Second, informal economy activities, like others, are strongly affected by changes in domestic aggregate demand, by reductions in the flow of credit, by the downside of international trade and by other dimensions of the economic crisis. Third, informal economy workers have very few means to cope with the decline in household income generated by the crisis, and need urgent support and social protection benefits.

Considering the importance of the informal economy in Africa, the African Union, in collaboration with the ILO and the Ministry of Public Administration, Employment, Labour and Professional Organizations of Senegal, organized an Expert Workshop in

Dakar on 20-22 October 2008 on the informal economy in Africa. The principal objectives of the Workshop were to review and strengthen the African Union draft “Study on the informal economy in Africa”, to review and draw practical policy lessons from the national “good practices” for successful policies and programmes and to identify key policy recommendations for an action plan integrating the informal economy into development policy priorities. The ILO contribution was based on a background paper entitled “Strategies to promote transition to formality in Africa”.

The present report is a revised and extended version of this background paper. It is the result of a collective effort by staff at the Employment and Social Protection Sectors of ILO; Frédéric Lapeyre and Philippe Marcadent coordinated this effort. The report responds to the goals of the 11th ILO African Regional Meeting, held in April 2007, which underscored the necessity of implementing a range of integrated and coherent policies aimed at moving economic units into the mainstream economy. It examines six key policy areas for enabling transition to formality in Africa, namely pro-poor and job-rich growth; the legal framework; entrepreneurship and enterprise upgrading; microfinance; skills and vocational training; and social protection.

The report seeks to provide readers with a useful reference on current policy debates and good practices to promote decent work and transition to formality.

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# Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preface</td>
<td>iii</td>
</tr>
<tr>
<td>Introduction</td>
<td>1</td>
</tr>
<tr>
<td>1. Informal economy, decent work deficits and poverty in Africa</td>
<td>3</td>
</tr>
<tr>
<td>1.1. Growth and poverty in Africa: Recent trends</td>
<td>3</td>
</tr>
<tr>
<td>1.2. Employment and the informal economy in Africa</td>
<td>5</td>
</tr>
<tr>
<td>1.3. Informal economy and decent work deficits in Africa</td>
<td>11</td>
</tr>
<tr>
<td>2. The ILO and the informal economy</td>
<td>17</td>
</tr>
<tr>
<td>2.1. Recent ILO policy discussions dealing with the informal economy</td>
<td>17</td>
</tr>
<tr>
<td>2.2. The informal economy and the Decent Work Agenda</td>
<td>18</td>
</tr>
<tr>
<td>3. Enabling the transition to formality: Key policy areas</td>
<td>21</td>
</tr>
<tr>
<td>3.1. Growth and decent work: Towards a new policy agenda</td>
<td>21</td>
</tr>
<tr>
<td>3.2. Legal framework and informality</td>
<td>23</td>
</tr>
<tr>
<td>3.3. Entrepreneurship and enterprise upgrading in the informal economy</td>
<td>30</td>
</tr>
<tr>
<td>3.4. Microfinance and the informal economy</td>
<td>34</td>
</tr>
<tr>
<td>3.5. Skills, vocational training and the informal economy</td>
<td>36</td>
</tr>
<tr>
<td>3.6. Social protection and the informal economy</td>
<td>41</td>
</tr>
<tr>
<td>4. Conclusions</td>
<td>54</td>
</tr>
<tr>
<td>Bibliography</td>
<td>55</td>
</tr>
<tr>
<td>Appendix</td>
<td>59</td>
</tr>
</tbody>
</table>
Introduction

It is now three decades since the ILO launched the concept of the “informal sector” (latterly, “informal economy”). The ILO’s pioneering work on informality began in Africa with the Kenyan multidisciplinary employment mission in 1972. This was the first ever comprehensive ILO employment mission to Africa, and one of its most lasting legacies is the notion of the “informal sector”, a term coined in the report which followed, entitled “Employment, incomes and equality”. The Kenya report played a seminal part, not only in being the first to define the informal sector, but also in the analysis that it provided of the broader employment situation. Since that time, the ILO has played a leading role in analysing both the conceptual and the underlying social and economic problems related to this important sector.

In the context of the global decent work deficit, breaking out of informality is increasingly seen as one of the main development challenges. While some activities in the informal economy offer reasonable livelihoods and incomes, most people engaged in informal activities face insecure incomes and a wide range of decent work deficits. The informal economy is the main and often only source of livelihood for many groups of workers who accumulate multiple layers of disadvantage based on gender, ethnic origin, migrant status and other factors. These disadvantaged groups, in turn, represent the majority of informal workers and entrepreneurs. Moreover, gender inequality is more prevalent in the informal economy, where women are concentrated in the lower-quality jobs. It is also in the informal economy that child labour and bonded labour are most prevalent and most difficult to address.

The persistence and depth of poverty in Africa, and especially sub-Saharan Africa (SSA), appears to be strongly related to both the structure of employment and the very low level of productivity. It is a fact that the larger part of the world’s working population earns its livelihood under the vulnerable and insecure conditions of the informal economy, but it is in SSA where the share of informal employment is the highest. It is estimated that informal employment comprises about 65 per cent of non-agricultural employment in developing Asia, 51 per cent in Latin America, 48 per cent in North Africa and 72 per cent in sub-Saharan Africa. This share would be significantly larger in some countries if informal employment in agriculture were included.

If economic growth is not associated with a movement into better employment opportunities or an improvement in the conditions of employment in informal activities, then the impact of growth on poverty will be minimal. This issue is central to realizing decent work, as a global goal and for all workers; to achieving the Millennium Development Goals; and to promoting a fair globalization. It is against this background that the informal economy debate and possible strategies towards formalization are gaining new momentum at all levels and in all regions of the world.

But transition to formality has now to face new challenges related to the impact of the global financial crisis on domestic economies. Indeed, the global financial crisis is now spilling over to advanced economies as well as emerging and developing economies. The world economy is slowing markedly, and world growth is expected to fall to its lowest level since the Second World War. Global growth estimates for 2009 dropped from 3.9 per

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This worsening global economy picture is increasing the stress on developing countries, as they will also suffer serious setbacks. Latest IMF projections now indicate a 3.4 per cent growth rate for Africa, compared with 5.2 per cent in 2008 and 6.2 per cent in 2007. \(^4\) The present crisis will be much deeper and broader and will last much longer than forecast initially. African economies will be seriously hit by slowing trade flows, lower commodity prices, the credit crunch, reduced remittances, declining aid and a drop in foreign investments followed by exchange rate depreciation and higher interest rates on capital markets.

In view of the fact that the informal economy concerns a significant majority of workers in developing countries, especially in Africa, addressing decent work deficits in the informal economy, especially during a major global crisis, remains central to realizing decent work as a global goal.

1. Informal economy, decent work deficits and poverty in Africa

1.1. Growth and poverty in Africa: Recent trends

In the past ten years, African economies have experienced faster and steadier economic growth than in the preceding two decades. Africa’s growth performance between 1995 and 2005 reversed the collapses of 1975–85, as well as the stagnation of 1985–95. The average rate of economic growth for 2007 was 5.3 per cent and, prior to the currently developing world financial crisis, it was predicted to reach 5.4 per cent for 2008; this implies that, for the first time in three decades, African economies were, on average, growing at a similar pace to the rest of the world.  

Seventeen African countries, though still in the low-income group, have experienced sustained annual growth rates exceeding 5 per cent for more than a decade. Among the most successful growing African economies have been the oil- and mineral-exporting countries, which have benefited from high prices, as well as 18 non-mineral economies, representing more than a third of the sub-Saharan African population. Some African countries have also been able to expand non-traditional manufacturing exports and diversify export destinations, especially to new destinations in Asia where there is strong demand for resource-based products.

Table 1. Average growth rates of African regions (annual percentage change)

<table>
<thead>
<tr>
<th>Region</th>
<th>2000–05</th>
<th>2006</th>
<th>2007</th>
<th>2008(e)</th>
<th>2009(p)</th>
<th>2010(p)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central</td>
<td>5.7</td>
<td>3.4</td>
<td>4.0</td>
<td>5.0</td>
<td>2.8</td>
<td>3.6</td>
</tr>
<tr>
<td>East</td>
<td>4.9</td>
<td>7.6</td>
<td>8.8</td>
<td>7.3</td>
<td>5.5</td>
<td>5.7</td>
</tr>
<tr>
<td>North</td>
<td>4.1</td>
<td>5.6</td>
<td>5.3</td>
<td>5.8</td>
<td>3.3</td>
<td>4.1</td>
</tr>
<tr>
<td>South</td>
<td>4.1</td>
<td>6.8</td>
<td>7.0</td>
<td>5.2</td>
<td>0.2</td>
<td>4.6</td>
</tr>
<tr>
<td>West</td>
<td>7.1</td>
<td>5.1</td>
<td>5.4</td>
<td>5.4</td>
<td>4.2</td>
<td>6.6</td>
</tr>
<tr>
<td><strong>Africa</strong></td>
<td>4.8</td>
<td>6.0</td>
<td>6.1</td>
<td>5.7</td>
<td>2.8</td>
<td>4.5</td>
</tr>
</tbody>
</table>

| Memorandum items        |         |      |      |         |         |         |
| North Africa (including Sudan) | 4.2 | 6.1  | 5.7  | 6.0     | 3.5     | 4.2     |
| Sub-Saharan Africa      | 5.2     | 5.9  | 6.4  | 5.5     | 2.4     | 4.7     |
| Oil-exporting countries | 5.4     | 6.1  | 6.8  | 6.6     | 2.4     | 4.5     |
| Oil-importing countries | 4.1     | 5.8  | 5.4  | 4.6     | 3.3     | 4.5     |

Source: Various domestic authorities; IMF World Economic Outlook and authors’ estimates (e) and projections (p).


These good growth results have been reached despite the strong impact and high prevalence of HIV/AIDS in Africa. For Africa as a whole, the decline in life expectancy caused by AIDS is estimated to be responsible for an annual reduction in economic growth of about 1.7 per cent. This impact is much stronger for countries with high prevalence. For example, it is estimated that in 2010 South Africa’s GDP per capita will be around 8 per cent lower while consumption per capita will be about 12 per cent lower than would have been the case without the AIDS pandemic.

Moreover, the pattern of growth highlighted above is affected by the current intensification of the financial and economic crisis and its rapid spread worldwide. It has already dramatically changed growth projections in all regions. According to the IMF estimates, expected growth in emerging markets and developing countries should be marked down from 8.3 per cent in 2007 to 3.4 per cent in 2009. The Bank predicts that the low-income countries, including many in Africa, will be significantly affected by the crisis through slower export growth, reduced remittances, lower commodity prices (which will reduce incomes for commodity exporters), and a reduction in private foreign and domestic investment flows, making those economies even less able to cope with poverty reduction and decent work objectives.

The current world economic recession should not, nevertheless, distract from the fact that the economic recovery experienced so far in Africa has not resulted in evidence of significant increases in decent work or falls in poverty. As a consequence, sub-Saharan Africa is the only region of the world where progress towards meeting poverty reduction and human development targets – such as those enshrined in the Millennium Development Goals – has fallen far short of expectations. This is especially the case with regard to the goal of reducing poverty by half by 2015. Regrettably, the pattern of growth of African economies has failed to generate better living and working conditions for the large number of unemployed and underemployed people, particularly young people.

According to the latest updated World Bank estimates of poverty, the incidence of poverty in sub-Saharan Africa in 2005 was virtually unchanged, at about 50 per cent, from the level in 1981. Within this period, the numbers increased until the mid-1990s, with an encouraging downward trend thereafter. By the new World Bank standard of US$1.25 a day, the number of poor almost doubled in SSA between 1981 and 2005, from 200 million to over 380 million. By this measure, the share of the world’s poor living in Africa rose from 11 per cent in 1981 to 27 per cent in 2005. The trend for increases in SSA’s share of

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poverty, if it continues, will have the result that this region will be home to one third of the world’s poor by 2015. In terms of consumption levels, the mean consumption of Africa’s poor is not only lower than in any other region; it has also shown very little increase. The mean daily consumption of those living with under US$1.25 a day in Africa was US$0.74 per person in 1981, falling to US$0.73 in 2005.  

Poverty incidence is worsened by the food and fuel price crisis. In 2008, through to July, world market prices for rice rose by 111 per cent, for wheat 89 per cent and for maize 48 per cent, and world market prices for fuel products rose by 64–82 per cent. These increases are quite damaging considering that average households in Africa spend about half of their income on food. The direct impact of the fuel price crisis is expected to be smaller given that households spend on average one tenth of their income on fuel products, but the overall effects may be larger because fuel is an intermediate input into most other goods. However, energy prices are projected to decline by 27 per cent between 2008 and 2010 while food prices are projected to decline by about 26 per cent over the same period. The decline in food world prices could have a positive impact on the poor but food prices will remain at a relatively high level and the positive impact of this trend could be more or less compensated by domestic currency devaluation.

The UNCTAD Report on Least Developed Countries (LDCs) emphasizes the fact that the correlation between GDP growth and poverty reduction in its sample of LDCs has been weakening since the early 1990s. Moreover, economic growth has only translated into falling poverty rates for those people living on less than US$1 a day. It has not had an impact on the poverty incidence of those living on between $1 and $2 a day. The report finds that the period of rapid economic growth in LDCs which preceded the report, especially in SSA, was associated with a slow rate of poverty reduction and slow progress towards the Millennium Development Goals. This is because of the type of economic growth occurring and the development model in place in the LDCs. From 2000, economic growth accelerated sharply in the LDCs but, contrary to expectations, this was accompanied by only a marginal increase in the pace of poverty reduction (see next section).

1.2. Employment and the informal economy in Africa

The annual labour force estimates produced by the ILO show an African labour force totalling 368.8 million persons in 2006, representing a participation rate of 68.6 per cent. The estimated labour force for the world was 3,090 million (a little over 3 billion), suggesting that Africa accounted for 11.9 per cent of the world’s economically active population. Africa’s participation rate exceeded that of the world by some 3.1 percentage


The participation rate for sub-Saharan Africa is estimated to have been even higher, at 74.2 per cent, whereas for North Africa it was fairly low at 50.9 per cent.\footnote{ILO (2007): “African Employment Trends”, retrieved December 2008 from www.iло.org/public/english/employment/strat/download/getaf07.pdf}

In Africa, it is estimated that as many as nine in ten rural and urban workers have informal jobs, and this is especially the case for women and young people, who have no other choice than the informal economy for their survival and livelihood. The highest prevalence of informal employment is generally found in low-income countries. Figure 1 below illustrates this situation, considering employment in the informal economy (including agriculture).

**Figure 1. Employment in the informal economy as percentage of total employment (including agriculture)**

Informal employment is generally a larger source of employment for women than for men in the developing world. Outside of North Africa, where 43 per cent of women workers are in informal employment, 60 per cent or more of women workers in the developing world are in informal employment (outside agriculture). In sub-Saharan Africa, 84 per cent of women non-agricultural workers are informally employed compared with 63 per cent of male non-agricultural workers.\footnote{ibid.}

In all developing regions, self-employment constitutes a greater share of informal employment (outside of agriculture) than wage employment: specifically, self-employment represents 70 per cent of informal employment in sub-Saharan Africa, 62 per cent in North Africa, 60 per cent in Latin America, and 59 per cent in Asia. If one excludes South Africa, where black-owned businesses were prohibited during the apartheid era and have only recently begun to be recognized and reported, the share of self-employment in informal employment increases to 81 per cent in sub-Saharan Africa. Self-employment represents nearly one third of total non-agricultural employment worldwide and constitutes as much as 53 per cent of non-agricultural employment in sub-Saharan Africa, 44 per cent in Latin
America, 32 per cent in Asia and 31 per cent in North Africa. These aggregate data should not overshadow disparities of employment by status among African countries, as illustrated by figure 2.

**Figure 2.** Distribution of employment by status and informal/type of employment in selected African countries (percentage of total non-agricultural employment/total employment)

![Distribution of employment by status and informal/type of employment in selected African countries](image)

Source: ILO-STAT estimates, data on distribution of male and female employment by status in employment and informality.

In addition to the status in employment, the diversity of informal employment among countries can also be captured through a set of characteristics related to activity (type and size of enterprise, location of activity), social protection (contribution to social security), employment protection (type and duration of contract, annual leave protection) that can be considered to define a “scale of informality”. Figures 3, 4 and 5 provide a distribution of total employment by “level of informality” in three countries.

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18 ibid.


20 The number of “informality levels” (which can differ from one country to another) depends on the number of criteria used to define the scale according to data availability. Whatever the number of categories, the selected set of criteria reflects the three main dimensions indicated above: type of activity, social protection and employment protection.
Figure 3. Mozambique: Distribution of employment along the scale of informality, by sex (percentage of persons in employment)


Figure 4. Zambia: Distribution of employment along the scale of informality, by sex (percentage of persons in employment)


Another very important characteristic of SSA economies affects their performance in fighting poverty: an agricultural sector marked by a very low level of productivity. Indeed, in SSA, 64.7 per cent of all people employed work in agriculture, but only 32 per cent of GDP growth is created in this sector (see figure 6).

Taking agriculture into account also influences the overall share of the different forms of employment status, as illustrated by box 1 for the United Republic of Tanzania.

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Not only do most people in employment work in informal economy enterprises – and women appear to be more exposed than men – but also all the forms of employment status are represented in informal economy enterprises, including a significant proportion of paid employees.


It is commonly noted that the primary problem in African countries is not open unemployment per se, but underemployment and individuals working very long hours in low-productivity activities in which earnings are extremely low. The gap between sub-Saharan Africa and other regions remains large and is increasing in most cases. Today,
the value added of a worker in sub-Saharan Africa is 13 times lower than that of a worker in the developed world.  

Figure 7. Labour productivity by region (1997 and 2007)

1.3. Informal economy and decent work deficits in Africa

Most informal workers, both self-employed and wage earners, are deprived of secure work, workers’ benefits, social protection and representation. As a result of these and other factors, there is a significant, but not complete, overlap between working informally and being poor. Poverty trends mirror this pattern. In countries where informality is retreating, the numbers of working poor are also declining. Conversely, in countries where informality is on the rise, the numbers of working poor are increasing or remain the same.

As an example, the 1–2–3 surveys carried out in seven capitals in francophone West Africa in 2001–03 indicated that the average income of workers in private formal enterprises is three times higher than in informal units. The average wage in public administration is five times higher than in the informal economy. The relationship between working informally and earning low income is also confirmed when using a scale of informality levels, as indicated in figure 8 for Zambia.

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25 Surveys carried out by Afristat with the technical assistance of DIAL and the financial support of the EU.
Figure 8. Zambia: Average monthly earnings including salary and allowances, by degree of informality of employment and by gender (Kwacha)


As well as being low, levels of incomes in the informal economy are more unstable than in formal employment.

Figure 9. United Republic of Tanzania (PSS, 2001): Income variability (ratio between the highest and the lowest individual monthly income over the past 12 months) according to degree of employment formality


Following the widespread conviction that poverty can only be reduced if people have a decent and productive job, in 2006 a new target was added under the first Millennium Development Goal (MDG 1): “Achieve full and productive employment and decent work for all, including women and young people”. Four indicators have been selected to monitor the new target. These are: (i) employment-to-population ratios; (ii) vulnerable employment; (iii) the share of working poor (US$1 a day) in total employment; and (iv) growth in labour productivity.

In SSA, the combination of a continuing very high level of vulnerable employment with slow productivity changes that cannot pay for increases in income is reflected in the trend shares of working poor (see figure 10). Despite a decrease of 4.3 percentage points in
the share of working poor at the US$1 a day level from 1997 to 2007, more than half of those employed still do not earn enough to lift themselves and their families out of poverty.\textsuperscript{26}

In 2007, 85.4 per cent of those employed still lived on less than US$2 a day, and this share has remained almost unchanged since 1997. Both rates are the highest of all regions, and the gap with the other regions continues to increase. The total number of working poor on both levels has increased over the ten-year period. In 2007 there were 20.4 per cent (or 26.6 million) more working poor at the US$1 a day level and 28.1 per cent (or 55.5 million) more at the US$2 a day level than in 1997.

A greater cause for concern is that, despite the positive economic trend in more recent years, these numbers have continued to grow. Between 2006 and 2007 alone, there were an additional 2.9 million working poor at the US$1 a day level and 6.2 million at the US$2 a day level.

**Figure 10. Working poverty (US$1 a day level) (487 million in 2007)**

![Graph showing working poverty by region](image.png)

Lack of social security coverage is also a characteristic of informal employment. Tables 1 and 2 below illustrate this situation for Mozambique. While exclusion from formal contributory social security schemes is directly linked with the definition of informal employment (table 1), it should also be noted that persons with informal employment are often not aware of the existence of tax-financed social assistance programmes targeting poor and vulnerable groups (table 2).

Table 2. Mozambique: Among paid employees, employment benefits according to the degree of employment formality (percentage of paid employees)

<table>
<thead>
<tr>
<th>Level of employment formality</th>
<th>Group 1</th>
<th>Group 2</th>
<th>Group 3</th>
<th>Group 4</th>
<th>Group 5</th>
<th>Group 6</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reimbursement of medical expenses*</td>
<td>2.9</td>
<td>10.3</td>
<td>29.7</td>
<td>29.7</td>
<td>56.3</td>
<td>70.4</td>
<td>34.0</td>
</tr>
<tr>
<td>Remunerated sick leave*</td>
<td>11.8</td>
<td>34.5</td>
<td>38.9</td>
<td>69.4</td>
<td>89.6</td>
<td>92.6</td>
<td>57.6</td>
</tr>
<tr>
<td>Retirement pension or retirement compensation</td>
<td>3.4</td>
<td>27.8</td>
<td>37.8</td>
<td>70.8</td>
<td>76.9</td>
<td>76.9</td>
<td>37.6</td>
</tr>
<tr>
<td>Remunerated annual leave</td>
<td>6.1</td>
<td>20.7</td>
<td>35.1</td>
<td>67.6</td>
<td>89.6</td>
<td>96.2</td>
<td>54.3</td>
</tr>
<tr>
<td>Remunerated maternity leave</td>
<td>6.9</td>
<td>16.7</td>
<td>28.6</td>
<td>57.4</td>
<td>69.2</td>
<td>30.4</td>
<td></td>
</tr>
<tr>
<td>Severance payments*</td>
<td>3.4</td>
<td>19.4</td>
<td>40.5</td>
<td>63.8</td>
<td>69.2</td>
<td>34.0</td>
<td></td>
</tr>
</tbody>
</table>

Advantages associated with employment

<table>
<thead>
<tr>
<th></th>
<th>Group 1</th>
<th>Group 2</th>
<th>Group 3</th>
<th>Group 4</th>
<th>Group 5</th>
<th>Group 6</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Free or subsidized food</td>
<td>21.2</td>
<td>20.7</td>
<td>24.3</td>
<td>10.8</td>
<td>35.4</td>
<td>38.5</td>
<td>25.2</td>
</tr>
<tr>
<td>Free or subsidized transport</td>
<td>5.9</td>
<td>13.8</td>
<td>27.8</td>
<td>21.6</td>
<td>37.5</td>
<td>30.8</td>
<td>23.8</td>
</tr>
<tr>
<td>Scholarship/support for children’s education</td>
<td>10.8</td>
<td>10.8</td>
<td>10.4</td>
<td>11.1</td>
<td>7.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Base: employees (staff)</td>
<td>(72)</td>
<td>(30)</td>
<td>(38)</td>
<td>(38)</td>
<td>(48)</td>
<td>(26)</td>
<td>(252)</td>
</tr>
<tr>
<td>Percentage of total employment</td>
<td>8.6</td>
<td>24.4</td>
<td>69.1</td>
<td>88.4</td>
<td>98.0</td>
<td>100.0</td>
<td>22.2</td>
</tr>
</tbody>
</table>

Base: Paid employees (22.2 per cent of the employed population).
* Retained criteria for definition of different levels of formality.

Table 3. Mozambique: Awareness of government-financed assistance programmes, according to level of employment formality (percentage of employed workers)

<table>
<thead>
<tr>
<th>Level of employment formality</th>
<th>Group 1</th>
<th>Group 2</th>
<th>Group 3</th>
<th>Group 4</th>
<th>Group 5</th>
<th>Group 6</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assistance – disability</td>
<td>18.6</td>
<td>35.0</td>
<td>33.3</td>
<td>27.9</td>
<td>34.7</td>
<td>44.4</td>
<td>22.8</td>
</tr>
<tr>
<td>Assistance – retirement</td>
<td>22.8</td>
<td>52.0</td>
<td>43.6</td>
<td>59.5</td>
<td>61.2</td>
<td>88.5</td>
<td>31.5</td>
</tr>
<tr>
<td>Assistance – combating poverty</td>
<td>22.6</td>
<td>38.2</td>
<td>40.7</td>
<td>32.6</td>
<td>53.1</td>
<td>74.1</td>
<td>28.0</td>
</tr>
<tr>
<td>Assistance – veterans</td>
<td>26.6</td>
<td>48.0</td>
<td>56.4</td>
<td>58.1</td>
<td>65.3</td>
<td>80.8</td>
<td>34.5</td>
</tr>
<tr>
<td>Labour-intensive public programmes</td>
<td>15.9</td>
<td>30.1</td>
<td>29.6</td>
<td>39.5</td>
<td>42.9</td>
<td>57.7</td>
<td>21.1</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Base: Total employed population
The regulation of working conditions such as wages, working time, maternity protection and work–family balance is generally missing in the informal economy. The 1–2–3 surveys carried out in seven capitals in francophone West Africa in 2001–03 indicated that only 9 per cent of informal employees have a written contract.

The impact of the absence of decent working conditions on the health, economic status and quality of life of workers and their families should not be underestimated (see for example figure 11). A brief examination of the working conditions deficits faced by pregnant workers, and the risks they create for the health of the worker and her baby, provides a telling example of the devastating effect a lack of protection can have.

Many pregnant workers, particularly those working in the informal economy, feel unable to speak out, or to ask for any allowance to be made for their condition, for fear of being dismissed. The lack of employment security in the informal economy is a critical factor that prevents pregnant workers from taking essential steps to protect their health and that of their future child.

The consequences of the lack of maternity protection described above are a reality for millions of women, particularly in developing countries. In 2000, 95 per cent of maternal deaths occurred in Africa and Asia. 27 According to WHO, UNICEF and UNFPA, 28 women in sub-Saharan Africa have a 1-in-16 chance of dying during pregnancy or childbirth, compared with a 1-in-2,800 risk in developed regions, and the region accounts for 85 per cent of all maternity-related deaths. 29 (See further discussion in section 3.6.2.)

Informal economy workers, and in particular women (who are overrepresented in the informal economy), are generally exposed to the most hazardous jobs and at high risk of accidents as, in most cases, they have no access to occupational safety and health measures. When one considers that women supply the main financial support for 30 per cent of the world’s homes, it can be appreciated that improving working conditions has a significant and direct role to play, not only in providing a decent working environment but also in poverty reduction.

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28 ibid.

Figure 11. Zambia: Use of protective clothing when working, by degree of informality of employment
(percentage of workers who suffer from any injury due to work in the past 12 months)

2. The ILO and the informal economy

2.1. Recent ILO policy discussions dealing with the informal economy

In 2002 the International Labour Conference (ILC), composed of governments and employers’ and workers’ organizations from some 179 countries, held a major debate on decent work and the informal economy. Although it was not the first time that the ILC had addressed this issue, it still remains a landmark in considering the informal economy from all angles of decent work: rights at work, protection and vulnerability, work–family balance, employment and productivity, organization, representation and voice.

The ILC held an in-depth tripartite review and discussion of trends and developments in labour markets; the root causes of informality; and the challenge of redressing the decent work deficits that are most severe for workers and entrepreneurs in the informal segment of the economy. The term “informal economy” was proposed in place of “informal sector”, to accommodate all economic activities that are in law or practice not covered or insufficiently covered by formal arrangements. The broadened expression takes account of the considerable diversity of workers and economic units, in different sectors of the economy and across rural and urban contexts. The ILC highlighted the need to give priority to enabling the transition to formality. It adopted a resolution on decent work and the informal economy and a broad range of conclusions and directions for action. The conclusions provide a new and comprehensive framework and reflect the most recent and broadest global consensus in addressing the challenges of the informal economy.

Since 2002, addressing the informal economy has been given prominence in commitments reached at meetings such as the 2004 African Union Extraordinary Summit of Heads of State and Government on Employment and Poverty Alleviation, the ILO African Regional Meeting in 2007, the ILO Asian Regional Meeting in 2006, the Summit of the Americas in 2005, the OECD Job Strategy 2005 and the ECOSOC Ministerial Declaration 2006.

In March 2007, the ILO Governing Body’s Committee on Economic and Social Policy reviewed the progress made in operationalizing the framework since 2002. The rich discussion showed that while informality is gaining ground and remains an important development challenge, many countries are searching for new policies, innovative solutions and practical responses in order to promote decent work for a significant proportion of the working population.

The informal economy was a central focus at the 11th ILO African Regional Meeting in Addis Ababa, held in April 2007. The meeting underscored the necessity of implementing a range of integrated and coherent policies aimed at moving economic units into the mainstream economy: policies for employment generation, the extension of social protection, a favourable regulatory environment, promotion of labour rights, entrepreneurial and skill support, local development and strengthened social dialogue were needed to break out of informality. It found that specific policy agendas should consider a reorientation of growth and investment, and Poverty Reduction Strategies targeting the informal economy. Fiscal space should also be created to provide social protection coverage, with measures to prevent discrimination and promote equality.

The meeting provided the platform for governments and social partners to provide updates on the policies and programmes addressing the informal economy in their countries. Niger and the United Republic of Tanzania highlighted efforts in extending social protection. Zimbabwe emphasized the need to create employment and support
micro-enterprises, particularly in the informal economy. Ghana shared its experience of the Decent Work Pilot Programme, which targeted the macroeconomic framework as well as the informal economy, with priority given to youth employment, gender equality, the elimination of child labour, and social protection. South Africa indicated that its informal economy workers were covered by the Unemployment Insurance Fund, and that more than half a million domestic workers had access to unemployment benefits that included sickness, maternity and adoption benefits.

In this context, an ILO tripartite interregional symposium on the informal economy was organized in November 2007 with the aim of examining a number of good practices that are emerging in different regions, enabling the transition to formalization, and to share knowledge and experience among participants. Several examples of policies and practices to extend social security coverage were presented, notably two different approaches to extend social health protection in the informal economy (Ghana and Thailand), experiences in self-employed workers (Argentina, Chile and Uruguay) and providing minimum social security coverage to all informal economy workers (India).  

2.2. The informal economy and the Decent Work Agenda

The four equally important strategic objectives of the ILO, through which the Decent Work Agenda is expressed, are: (1) rights at work; (2) employment promotion; (3) social protection; and (4) social dialogue. These four strategic objectives are inseparable, interrelated and mutually supportive. The failure to promote any one of them would harm progress towards the others.

These objectives hold for all workers, women and men, in both formal and informal economies; in wage employment or working on their own account; in fields, factories or offices; in their home or in the community. Thus, the Decent Work Agenda helps build a common framework to address the diversity of the informal economy.

The informal economy is clearly an important target for the Decent Work Agenda because of the glaring decent work deficits which dominate within it. Typically, though not in all cases, informal workers are exposed to inadequate and unsafe working conditions, and have high illiteracy levels, low skill levels and inadequate training opportunities. They have more uncertain, less regular and lower incomes than those in the formal economy, suffer longer working hours and an absence of collective bargaining and representation rights, and often have ambiguous or disguised employment status. Their physical and financial vulnerability is increased by the very fact of working in the informal economy, which is either excluded from or effectively beyond the reach of social security schemes or safety and health, maternity and other labour protection legislation.  

Formalization and transition to the mainstream economy are desired goals; however, different views exist about what is meant by formalization and how to achieve it. The policy debate often places undue emphasis on the issue of the regulatory framework and its impact on informality, in a rather narrow definition of both. Empirical evidence to underpin the policy prescriptions is limited. It would seem that the developmental goal


should be equally based on how to make labour markets work more efficiently and more equitably for both workers and small businesses. The main benefit of formalization should be considered in terms of the increased social and economic security which it facilitates by both extending social and labour protection to previously excluded workers and, at the same time, offering increased opportunities for enterprise development support to be delivered. Formalization builds a platform for investment and enables informal operators to take a longer perspective on their future than day-to-day survival allows.

In avenues towards formalization, diagnoses and proposals vary on whether enabling the transition to formality is about expanding the capacity and outreach systems of institutions that were primarily and historically designed to address larger and formal-sector wage employment situations, or whether reform should go much further in rethinking or reinventing the frameworks, instruments and culture of outreach to suit the specific conditions of the informal economy. Reviewing the relative weight of coercive actions against policies that favour incentives and supporting measures, and recognizing the need and role for extended education, information and advocacy campaigns, are both part of the debate on formalization.

From a decent work perspective, the transition to formality is cast within each of the four pillars but its intrinsic value is essentially in the integration and interaction among the policy actions covered under each pillar. The 2002 ILC provides probably a unique integrated global framework that recognizes and promotes the twin objectives of preserving and expanding employment, income generation and the poverty reduction potential of the informal economy, while extending social protection and rights to the vast majority of those working in the informal economy.

International experience shows that strategies for transition to formality need to be developed in seven interconnected policy areas (see figure 12).

Figure 12. Decent work strategies for the informal economy

Adapted to local conditions, integrated policies that address:

- Growth strategies and quality employment generation
- Regulatory environment, including ILS and core rights
- Organization, representation and social dialogue
- Gender equality and the informal economy
- Entrepreneurship, skills, finance, management, access to markets
- Extending social protection, including social security
- Local (rural and urban) development strategies
Adopted in June 2008, the ILO Declaration on Social Justice for a Fair Globalization reaffirms the commitment of the ILO and its Members to the four strategic objectives of the Decent Work Agenda. Through the Declaration, governments, employers and workers from all member States call for a new strategy to sustain open economies and open societies based on social justice, full and productive employment, sustainable enterprises and social cohesion. From this perspective, the informal economy is more than ever at the top of the ILO’s policy priorities.
3. Enabling the transition to formality: Key policy areas

This section examines key policy areas for enabling the transition to formality in Africa. However, they are not the only relevant ones. In particular, strengthening the organization and representation of workers and entrepreneurs in the informal economy is an essential element of a strategy towards formalization, and the gateway towards realizing rights or accessing resources.

3.1. Growth and decent work: Towards a new policy agenda

The type of growth dynamic experienced by many African economies during the past decade has often been concentrated within externally oriented enclaves, such as capital-intensive natural resource extraction sites or export-processing zones, with few linkages with the rest of the economy. Such a pattern of growth is not generally inclusive and pro-poor as it has very low employment and income multipliers. It benefits only limited segments of the population (those somehow linked to export activities), while leaving the majority excluded from the benefits of growth. The failure of export-led economic growth to translate into significant poverty reduction is particularly evident in those LDCs where growth has been propelled by investment in the capital-intensive mining and oil industries. The UNCTAD 2008 report on LDCs shows that, in the oil-exporting LDCs of their sample, growth in private consumption per capita accelerated sharply between 1995–2000 and 2000–05, from 0.4 to 9.6 per cent a year, while the rhythm of expansion of the number of people living in extreme poverty only changed from an annual rate of 2.1 to 1.9 per cent during the same periods. 32

At the root of the problem of the informal economy is the inability of economies to create sufficient numbers of formal jobs to absorb the labour force. In recent years, the pattern of development and growth in Africa – but not only there – has not met the global demand for jobs. Research and analysis of data, undertaken by the ILO especially, show that employment growth in the formal segment of the economy in most countries has lagged behind the growth of the labour force, and these trends are likely to continue in future. Even in countries such as China, where the rates of economic growth and poverty reduction have been remarkable, there is an emerging problem of the informal economy. Moreover, retrenched workers from restructured industries and migrants from rural areas find themselves in situations of underemployment and casual labour. Widespread underemployment and informality have therefore become structural characteristics of the developing countries’ economies, especially in SSA, and not a peripheral problem that can be addressed in isolation from the mainstream development strategies.

More than in any other region, trends in employment in SSA have also been strongly affected by the AIDS pandemic. The pandemic has for the past decade been destroying human capital and interrupting the transfer of skills to the next generation. It has a measurable effect on labour supply and productivity, including the survival of enterprises – and this affects not only the creation of jobs but the maintenance of existing employment, thus limiting the absorption capacity of the formal economy.

Curbing the spread of informality means first and foremost making employment a central concern of economic and social policies, promoting employment-friendly

macroeconomic frameworks and making the productive sectors of the economy a priority target of poverty reduction strategies (PRSs), including Poverty Reduction Strategy Papers (PRSPs). Channelling appropriate levels of investments, domestic and foreign, into those sectors of the economy that increase labour absorption and improve productivity in the rural and urban informal economy is a significant part of the response to reducing the growth of informality. Specific policy agendas should consider a reorientation of growth and investment and PRSs targeting the informal economy.

To address the issue of the informal economy, macroeconomic policy should be oriented towards achieving growth and poverty reduction targets together with macroeconomic stability. In other words, decent employment generation should be targeted along with macroeconomic stability. The explicit goal of the new macroeconomic framework should be to raise productivity, facilitate economic transformation, and increase the availability of decent jobs, while improving the ability of African workers to do those jobs.

Thus, macroeconomic policy must be focused not only on macroeconomic stability, but also on creating a supportive environment for employment generation, resource mobilization and allocation, and economic transformation. This has important implications for Central Bank policy and institutional structure, financial policy and regulation, industrial policy, and fiscal policy. It means that Central Bank policy, for example, must remain part of the overall coordinated governmental development effort rather than a completely isolated entity, while having sufficient autonomy to ensure its stabilization function. Moreover, the financial sector must become much more supportive of economic development and growth than it is at present. This means that new financial institutions should be created, including, for example, a Development Bank and related financial entities, and that the financial regulators should take a more active role in stimulating financial mobilization and decent employment-oriented lending.

Macroeconomic tools, such as asset-based reserve requirements, development banking, and loan guarantees, should be made available to support priority sectors with a high employment multiplier, both to direct investments to and mobilize resources for high-value-added, high-employment sectors. From this perspective, to increase the mining and oil sector’s contribution to sustainable, poverty-reducing development, it is crucial to (1) increase its positive linkages to the national economy, (2) address the potential negative environmental impacts and (3) increase its financial contributions in the form of royalties and tax revenues over the long term that can be reinvested in infrastructure, skills, and institutions for positive structural transformation. The revenue issue is central. Mining, by itself, generates few jobs, while investment in mining can contribute to an overvalued exchange rate which can harm the development of other sectors of the economy. So, if mining is going to contribute to the long-run development of the economy, it must generate substantial amounts of government revenues which must be reinvested in key infrastructure, and investments in other sectors which can sustain decent employment and poverty reduction over the long term.


3.2. Legal framework and informality

The conclusions of the general discussion on informal economy that took place during the International Labour Conference in 2002 indicate that the term “informal economy” refers to:

... all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements. Their activities are not included in the law, which means that they are operating outside the formal reach of the law; or they are not covered in practice, which means that – although they are operating within the formal reach of the law, the law is not applied or not enforced; or the law discourages compliance because it is inappropriate, burdensome, or imposes excessive costs (paragraph 3).

Informality is commonly understood in a legal context – those activities falling de facto or de jure out of the reach of law – but it is also an issue of governance, i.e. the capacity to implement existing laws. In this sense, the institutional context and the capacity of institutions are vitally important: good laws and regulations are useless in the absence of strong and effective institutions to implement them. It is therefore crucial, in any attempt to support the transition to formalization, to clarify why some economic activities are not covered by formal arrangements and what reforms or changes could reverse this situation.

Social partners are key actors in finding solutions to questions related to extending the coverage of law to workers and economic units operating in the informal economy. To have a voice, membership-based organizations of wage workers, own-account workers, self-employed persons or employers in the informal economy should be allowed to operate under the legislation and be duly represented in social dialogue institutions and processes. In many circumstances, representation of informal economy workers has been effective through the extension of employers’ and workers’ organizations already present in the formal economy.

Three types of legal and institutional frameworks are of particular importance vis-à-vis the informal economy: labour legislation; commercial laws; and legal frameworks to secure property rights (including land rights). This section deals with the first of these, and will address three issues: the relationship between labour law and informality; the “law-growth” nexus; and the “labour regulation pyramid”. The section concludes with a discussion of legal frameworks and workers’ protection.

3.2.1. A causal relationship between labour law and informality?

There is considerable debate in the literature – but, importantly, no consensus – regarding regulatory barriers, such as stringent labour laws, said to keep the size of the formal economy artificially small: as employers seek to evade their stringency by remaining informal, or as formal firms remain small, either to avoid a firm-size threshold of labour law coverage or because employers find labour law provisions a disincentive to hiring. 35 There is at least conceptual soundness to this line of argument, even if an empirical consensus remains lacking.

The soundness resides in the fact that there can be both incentives and disincentives to remaining informal. For example, recent research at the ILO empirically investigated a number of possible reasons that could explain the size of the informal economy. The strongest “predictor” of informality was found to be state corruption. Thinking along the lines of rational behaviour, moreover, the informal entrepreneur will weigh the costs of informality against the benefits of formality. As there is a “cost” to formality (compliance with the law, payment of taxes, etc.), the informal entrepreneur will make a rational decision on whether the benefits of formality outweigh its costs. This will depend as well on the opportunity costs of formality relative to informality.

A coherent national strategy to overcome the trap of informality should also recognize that the “regulatory” costs of working informally are high to businesses, workers and the community. The absence of law does not mean the absence of rules and rule enforcers. Private means of imposing some order in the informal economy are often very costly to businesses and workers and sometimes rest on the threat of violence. If the costs of moving into formality can be eased, many businesses may volunteer to come above ground, pay their taxes, observe labour laws and benefit from the security that access to the judicial system can give to property and contracts. ILO research in seven developing countries found that MSEs which complied with basic registration requirements had better access to financial services and provided their workers with better access to social security coverage. Enterprises that complied with registration requirements were found to create more employment over time than those that did not.

The challenge in Africa as elsewhere is the need to address in stronger empirical terms the causes of informality. The question is whether there is a causal relationship between labour law and informality and, if so, whether law is merely a “constraint”, with an impact at the margin, or a “binding constraint”. This relation between informality and laws should not be understood as meaning that formalization has only – or even mainly – a legal dimension. The causes of informality are manifold and most of these are unrelated to the legal field itself.

Therefore, it would be inefficient to pursue formalization through reforms and changes at the legislative level only. It should also be noted that formal arrangements are not regulated solely by labour legislation but also by a range of legal rules of a civil, commercial, administrative, fiscal, labour and social security nature. Parts of these legal rules may apply or be enforced and others may not. Several levels of application of these legal rules could be considered to indicate different levels of formalization or “profiles” of informalization.

That said, legal institutions and laws do have a direct bearing on the sustainability and growth of enterprises and the protection of workers. Workers in informal MSEs typically lack job protection and benefits such as access to health and safety provisions, wage protection, insurance, pensions and trade unions. Informal MSEs also have restricted access to investment and credit. By being outside the formal regulatory framework, informal activities are harder to tax, which represents lost revenue to governments. Thus, MSEs operating in the informal economy can be a barrier to broader and sustainable economic development.

3.2.2. The “law-growth” nexus: Labour law coverage of MSEs

There are two main issues to be considered in understanding how labour law works in regard to micro- and small enterprises. The first is the formal scope and coverage of labour

The informal economy in Africa: Promoting transition to formality: Challenges and strategies

laws themselves: do they apply to MSEs? The second is the application of labour laws to MSEs in practice: how do administrative policies and strategies promote and enforce those labour laws that officially apply to MSEs?

Recent research conducted by the ILO’s Small Enterprise Development Programme in 12 countries in sub-Saharan Africa shows that the countries can be divided into three groups separated by scope and coverage of labour law in relation to MSEs. In the first group, States make no exception in the scope of their labour laws for MSEs. In the second group, States use a differentiated labour code that excludes MSEs from particular requirements of the labour law. In the last group, States completely exclude all micro-enterprises; for example, Kenya in regard to own-account and family workers. The tendency, as seen in Kenya, towards explicit removal of formal scope and coverage instead of extending it to better apply to precarious work in the informal economy is especially alarming, since the removal of the formal scope of a non-applied law sends a clear message that removed regulatory areas are not important to the Government and are consequently not subject to the rule of law.

In contrast to this threefold approach to scope and coverage in regard to MSEs, all 12 countries have differentiated treatment for MSEs in regard to non-labour laws; for example, tax, zoning and commercial law. However, six of the countries with differentiated treatment for MSEs in regard to non-labour laws, easing the costs and burdens of compliance, make no exception in the scope of their labour laws. This could be the result of a misconception that labour law has no influence on enterprise formalization.

The above research results point to a conclusion that labour and social security laws are not the main or “binding” constraints on MSE formalization and growth, and that issues such as taxation, skills, management, proximity and access to markets, exports and finance provide a larger disincentive to formality. Nevertheless, if labour law is a constraint, easing the regulatory burden through (negotiated) labour law reform and creating incentives for compliance could provide the basis for a transition towards formalization. Again, it is an empirical question.

The exclusion of MSEs from the rule of law is not specific to sub-Saharan Africa. For example: in the Republic of Korea the Labour Standards Act only applies to enterprises that employ more than five workers. In India, section 2 of the Factories Act of 1948 provides that labour legislation only applies to enterprises with more than nine employees. Pakistan’s Factory Act also limits the reach of labour legislation to enterprises with more than nine employees. A common exemption of enterprises and workers from the rule of law is based on enterprise size. ILO Recommendation No. 198 (Employment Relationship) provides guidance for addressing this issue.

Legal and institutional frameworks can provide the basis for successful policies and campaigns fighting legal illiteracy and also highlight the benefits of complying with the legislation and regulations. (Among other matters, there is likely to be substantial information asymmetry between the formal and informal economies, rural and urban areas, etc.) Institutional structures and procedures at national and local level can play an important role in promoting formalization. Besides legislative and judicial powers, a non-

corrupt and effective structure, especially consistency in the application of law, could demonstrate the benefits of formality.

Again, responsive labour legislation must balance low cost with incentives for compliance. Application of labour legislation to MSEs should be gradual, starting with the fundamental principles and rights at work: (a) freedom of association and the effective recognition of the right to collective bargaining; (b) the elimination of all forms of forced or compulsory labour; (c) the effective abolition of child labour; and (d) the elimination of discrimination in respect of employment and occupation.

The fundamental principles and rights at work and the Core Conventions apply to all workers. A two-tiered system with parallel labour regimes is thus not needed. Nor is there any need for partially or completely exempting MSEs from the scope of law. However, there is a need for different approaches and mechanisms for guaranteeing the application of laws to the informal economy.

3.2.3. Innovative strategies for the enforcement of labour law

A broad and comprehensive definition of “regulation” is “the intentional activity of attempting to control, order or influence the behaviour of others according to defined standards or purposes”. 40 The State cannot achieve its regulatory goals alone. Partnerships between the State and the regulated community must be formed. Enterprises are not simply formal or informal; there is a continuum of informality within which each enterprise exists. Enterprises make strategic choices about the laws they choose to abide by. Thus, the State must use a wide range of regulatory and enforcement techniques to achieve its policy goals. Techniques to design regulatory systems can, and should, include hybrid strategies, using both governmental and non-governmental actors; be multifaceted, using a number of different strategies simultaneously; and may be indirect. This is not a stand-alone solution; States cannot abandon traditional regulatory approaches through hard law. However, States should expand their regulatory arsenal to include other, more responsive measures.

States should search for more innovative forms of regulation than the prescriptive approach that has been commonly associated with “command and control” regulation, and which can lead to unnecessary rigidity. Some of the more effective innovative regulatory approaches have succeeded precisely because they have been inclusive and participatory in their design and implementation. States might therefore take one of a number of broad approaches to creating an enabling regulatory environment for MSEs, based on the responsive recognition and application of labour rights and standards. Importantly, they might do so as well as creating laws that set out minimum labour standards and recognize basic labour rights. Three different regulatory techniques may prove particularly fruitful:

(a) education and information;
(b) provision of financial subsidies and other incentives;
(c) Innovative procedural regulation. 41


A particularly productive tool is the labour regulation pyramid (see figure 15). It can be used in the design of responsive labour regulations for MSEs. It is based on the assumption that regulations are more likely to be effective when there are different options available to enforce laws. Legal rules and norms enshrining labour rights and standards as non-negotiable behavioural minima, with non-compliance being subject to non-discretionary punishment, are at the apex of the pyramid, which also serves as the overall goal of the pyramid. However, frequently the most effective way for governments to achieve behavioural change in recognition of labour law is if MSEs themselves choose to comply with relevant rights and standards, without the application of sanctions.

The pyramid therefore contemplates other regulatory strategies that the State might use, often in collaboration with other regulatory actors, to achieve the desired change in a manner that is responsive to the circumstances of MSEs. A particular advantage of the labour regulation pyramid is that it is flexible: the pyramid will not necessarily be the same for every country. Thus, it is not a concept of optimal labour regulation that might be applied in any social, economic, cultural or political context. Rather, it is a way to conceptualize – and to depict graphically – a range of interlinked regulatory approaches that States might adopt, all of which reflect and promote key development objectives by working both towards and from a rights-based approach. Thus, an essential feature of each pyramid would be the apex of substantive labour rights and standards, with sanctions for non-compliance. This is because in the absence of the apex, regulators will have far less capacity to apply any leverage against MSEs unwilling to comply with labour law. The rest of the pyramid, however, would be designed in different ways according to different circumstances.  

Figure 13. The labour regulation pyramid

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42 ibid.
Development of micro- and small enterprises in the informal economy is not a goal in itself. It is merely a means to an end of alleviating poverty and promoting decent work for all women and men, irrespective of where they work. The deep causes of informality are not only in the legal frameworks but accompanied by a multitude of causes, and most of these are not related to the legal field itself. However, the transition towards the formal economy must be simplified by the use of conducive regulatory systems.

In the immediate term, actors in the informal economy must be recognized by labour and labour-related laws. In the short and medium terms, a responsive regulation allowing and encouraging MSEs to gradually enter the formal economy must be formulated. In the long term, macroeconomic policies ensuring the creation of formal employment opportunities must be developed.

States face considerable difficulties in designing regulatory environments conducive to the informal economy. The informal economy offers great potential for generating jobs and generating wealth; however, the quality and the sustainability of jobs are low. States must combine conducive regulatory frameworks with coordinated policies and transparent governance at both national and local level to succeed in the task of formalization.

**3.2.4. Legal frameworks and workers' protection**

The international labour standards provide a solid international basis for extending rights at work in the informal economy. De facto, despite some opposite beliefs, most of the international labour standards apply to “workers”, without distinction of being formal or not. In particular, the application in the informal economy of the ILO Declaration on Fundamental Principles and Rights at Work should be promoted without delay and by all possible means. It is worth noting also that some international Conventions focus on specific categories of workers that are mostly, in developing countries, in the informal economy, such as homeworkers or rural workers. That is the case, for example, of the Home Work Convention, 1996 (No. 177).

It is necessary to take into consideration the great diversity of workers’ status in the informal economy (employees, own-account workers, contributing family workers, etc.) and the diversity of the activities they undertake (agriculture, domestic work, craft industry, street vendors, etc.). The laws that apply to these different categories of workers and activities will differ. Needs and possible legal responses will also certainly differ, depending on the circumstances.

Some Conventions that deal mainly with formal employment contain explicit provisions to extend their coverage to informal economy workers. This is the case, for example, of the Labour Administration Convention, 1978 (No. 150), whose Article 7 indicates that, according to national conditions and with a view to meeting the needs of the largest possible number of workers, each ILO Member shall promote the extension of the functions of the system of labour administration to categories of workers who are not, in law, employed persons, such as self-employed workers occupied in the informal economy.

At country level, the application of rights at work refers to the national labour laws and institutions. To overcome the rights deficits, it is critical to analyse both the content of the labour laws – in particular their scope of application – and the way in which they are applied or enforced in practice.

Usually, labour laws as understood in the broad sense (labour codes or general labour laws and social security laws) cover workers that have a clear employment relationship (employees/employers) but do not cover autonomous (independent) workers, contributory family workers or members of cooperatives. Some exceptions exist in developing countries where occupational health and safety measures also cover independent workers. In some
cases, coverage of statutory social security has been extended to own-account workers. Often, due to different circumstances, some wage workers are not under the scope of the labour laws. This is sometimes the case for certain categories of dependent workers, such as domestic workers and casual workers; however, these workers may be covered by specific legislation.

One of the main and growing causes of the exclusion of wage workers from the protection of labour laws is the development of patterns of work organization that are not adequately covered by law. Some contractual arrangements can have the effect of depriving workers of the protections they are due, and vulnerable workers appear to suffer particularly from such arrangements where the existence of an employment relationship is unclear, ambiguous or hidden. The Employment Relationship Recommendation, 2006 (No. 198) provides guidance to overcome such difficulties. In sum, one way to extend rights to informal economy workers is to extend the scope of labour legislation to all types of employment relationships. Provision of social security benefits and occupational health and safety measures to independent workers should also be promoted.

Often, activities in the informal economy are inside the formal reach of labour laws but the workers are not covered in practice, because the laws are not applied or not enforced. There can be many reasons for such situations. The laws may not be adapted, for example because they do not take into account the realities of modern work organization. In many circumstances, workers are not covered in practice by labour legislation, because the enterprises they work in are not registered (see section 3.2.2 above). In some cases, the laws are highly complex, as are the work-related procedures. Several countries have carried out reform to simplify their labour laws and work-related procedures. This includes reducing or eliminating the expense involved in registering enterprises with labour administrations and social security authorities; simplifying the requirements, forms and procedures for hiring workers through public employment offices; and recognizing contracts of employment irrespective of the form in which they are concluded, and accepting any means of evidence.

Another important reason for the non-application or non-enforcement of labour laws is the weak capacity of labour administration, and in particular labour inspection, in many countries. Frequently, labour inspectors are not sufficiently resourced even to inspect medium-sized and large enterprises adequately and regularly; they can rarely if ever turn their attention to the problems of informal economy enterprises and workers. Expanding the scope of labour inspection to include all categories of workplace would in most cases require an increase in the resources allocated to the services in question. When resources are scarce, focusing on selected priorities such as occupational safety and health conditions and eliminating child labour and bonded labour in the informal economy may be particularly cost-effective.

Traditional approaches to labour inspection may need to be adapted to the specific circumstances of the informal economy. It seems advisable to initiate innovative labour inspection approaches combining advisory and information services, public and private interventions, and incentives with prevention and enforcement procedures, to improve compliance. Finally, to be effective, improvement of the labour inspection system should go hand-in-hand with easy and rapid access to legal aid and the judicial system as well as with a sound and mature industrial relations system.

3.3. Entrepreneurship and enterprise upgrading in the informal economy

Enterprise development strategies that promote decent work and ensure economically sustainable and competitive enterprises are central to the achievement of full and productive employment, and they are also central to poverty reduction strategies.

Yet Africa remains a very difficult place to do business. It takes a lot of time and considerable cost to register an enterprise. There are numerous and sometimes confusing licensing procedures, property rights are poorly enforced (only 1 per cent of land in sub-Saharan Africa is officially registered), there are ubiquitous problems concerning contract enforcement and obstacles in trading across borders, credit is invariably hard to come by and entrepreneurs are often faced with inconsistency and unpredictability in taxation. Women in particular often face legal obstacles to land ownership and access to formal credit.

Consequently, sub-Saharan Africa suffers from low domestic and foreign investment, high capital flight and low remittance flows relative to other developing countries. The challenge is to ensure that the business environment is more conducive to the creation and growth of sustainable enterprises across the full spectrum of society so that the potential for enterprises to create decent jobs is enhanced.

3.3.1. Promoting micro-, small and medium-sized enterprises

The business environment in Africa is highly insecure and this tends to thwart enterprise creation, encourage informality and retard good governance. However, it is clear that the private sector – from micro-enterprises through to large multinational firms, and including the agricultural sector where most Africans still work – has a central role in driving growth and poverty reduction. Making improvements to the business environment is thus essential in helping markets work better and improving the investment climate in Africa. This implies the need to focus on the “basics” (basic education and health, macroeconomic stability, good governance and addressing infrastructure weaknesses) that create the opportunity for the private sector to grow and diversify and thus provide more productive and decent jobs for women and men. It is also important to recognize that country-specific challenges and solutions will vary, and countries must develop their own strategies to address them.

In line with the ILO’s Job Creation in Small and Medium-Sized Enterprises Recommendation, 1998 (No. 189), enterprise policies should have a dual focus. They should aim at improving productivity and having access to competitive resources, and they should ensure that conditions at work result in equity (in particular between women and men), poverty eradication and social welfare. Meeting these interlinked challenges requires a mixture of policies at the international, national, sectoral and local levels to raise productivity, promote innovation and make small enterprises more competitive.

By improving job quality in small enterprises, increasing economic opportunities for women, promoting association-building by employers and workers, and upgrading employment for workers in the informal economy, the goal is to unlock the potential for creating more and better jobs in small enterprises. For small enterprises, acquiring the management skills to survive and grow is vital. Support is needed to build national and local capacity to deliver cost-effective and sustainable business development services, such as management training, access to finance, information on technologies, export and domestic market access, and inter-firm linkages.
Due to their limited resources and the lack of effective advocacy means, small enterprises are typically absent from the policy-making process. As a consequence, they tend to face greater obstacles in accessing markets, such as for government procurement, as well as financial and non-financial services. The regulatory framework is usually hostile and the cost of operating in the formal economy often prohibitive. It is therefore important to give small enterprises a voice in the policy process, strengthening the capabilities of their organizations and the skills of their leadership. An innovative way of giving informal economy operators a voice in the policy reform process is demonstrated in Uganda, where an ILO project supports radio stations in focusing on small businesses’ concerns and channelling their demands to policy-makers, who respond via phone-in broadcasts.

When it comes to the legal and regulatory environment for business, fewer and simpler laws and regulations usually lead to a more dynamic and efficient private sector. But if sustainable enterprises are to be fostered, the regulatory framework should not compromise international labour standards and they should be gender-sensitive. Reforms to the business environment should make it easier for informal enterprises to enter the formal economy and should provide them with incentives to do so. It is also important that policy reform be integrated into national development plans and poverty reduction strategies, and that donors work together and in close collaboration with governments so that national and regional initiatives such as the Investment Climate Facility are given the best chance of success.

Policies also need to support the inclusion of African enterprises in value chains at the global, national and local levels; horizontal linkages between firms through approaches such as partnerships and clustering, networks and area-based development strategies; and vertical linkages between producers, suppliers and market buyers. Such linkages can be particularly effective in overcoming many of the traditional constraints facing African enterprises, particularly enterprises owned by women, such as access to markets, services, technologies and know-how. Once such access is provided, African enterprises can create and maintain quality jobs by increasing their productivity, market presence and share.

Cooperatives of various types play an important role in many sectors of the African economy, especially in rural areas. The cooperative movement has, however, had to overcome the legacy of heavy state intervention, which in many countries severely damaged the credibility of cooperatives in the eyes of their members and customers. Following the adoption of the Promotion of Cooperatives Recommendation, 2002 (No. 193), many African countries have used ILO advisory services to help revise their legislation on cooperatives. The Cooperative Facility for Africa (CoopAfrica) is a technical cooperation programme for the promotion of cooperative development in Africa. Together with a wide range of international and national partners, CoopAfrica promotes an enabling legal and policy environment and effective cooperative unions and federations, as well as demand-driven services for cooperatives, currently in nine countries.

Business development services play an important role in upgrading the productivity of informal economy units. It is important to increase access to appropriate services in finance, training, marketing, quality improvement and information. Access to finance is a vital concern for operators in the informal economy. Often they resort to moneylenders or tontines for emergency loans, but many other financial needs are not covered. Microfinance can facilitate the passage to the formal economy for those wishing to

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44 The ICF is a private–public partnership, focused on improving the continent’s investment climate by removing obstacles to domestic and foreign investment and by promoting Africa as an attractive investment destination. The Donor Committee for Enterprise Development has published “Supporting Business Environment Reforms – practical guidance for development agencies”, which aims to document lessons learned and good practice.
undertake that step, and it is also a catalyst for group organization. The business development services can be delivered between businesses within value chains and clusters, by constituents and independent organizations or by mass media, which can provide a platform for information, advocacy and dialogue. Business development services to upgrade workplace practices can only be sustainable and effective if rooted in understanding and promotion of the benefits to all enterprise stakeholders, including the workers, owners and managers as well as the ultimate customers. By focusing enterprise development initiatives on value chains with higher relative growth rates, they are more likely to be cost-effective.

The ILO’s Start and Improve Your Business (SIYB) methodology has proved to be an effective vehicle in this context. Used in more than 90 countries worldwide, 34 of them in Africa, it follows a capacity-building multiplier strategy, working with 75 ILO-licensed Master Trainers who train trainers from existing local and national organizations; they in turn train the small entrepreneurs, thus reaching large numbers of people on a sustainable basis. The ILO GET (Gender and Enterprise Together) Ahead for Women in Enterprise programme, which primarily addresses the needs of women entrepreneurs, is particularly relevant for use in Africa.

While formality is associated with a higher quality of working conditions and social protection than informality, the differences can sometimes be marginal. So, in providing enterprise development with a view to promoting increased employment opportunities and a transition into formality, it is vital that job quality is addressed explicitly, with an emphasis on the contribution it can make to improved productivity.

The ILO’s WISE (Work Improvement in Small Enterprises) training package for small and medium-sized enterprises takes a participatory, action-oriented approach which underlines the potential to improve productivity through low-cost improvements in working conditions. The training provides core modules on good working conditions and practices which are adapted, through ground-level dialogue, to each set of local conditions and realities. The emphasis is on promoting local good practice and encouraging an ongoing sharing of expertise and networking among small enterprises.

WIND (Work Improvement in Neighbourhood Developments) applies the same idea to meet the particular needs of farmers and their families, and to help them to make rapid and sustainable improvements in their safety, health and working conditions, and productivity (see section 3.6.2).

**3.3.2. Promoting women’s entrepreneurship**

Even within the informal economy, women are concentrated in the lower end where decent work deficits are the greatest. Outside of agriculture, women are in the least protected and most precarious forms of work, including as domestic workers, unpaid contributing family workers and industrial outworkers. Those in this last category have some of the lowest average earnings of all, since they often lack firm contracts, they may not be paid for months and they are made responsible for non-wage costs of production.

The heavy representation of women in the informal economy, both agricultural and non-agricultural, arises directly from their lack of other means of survival and livelihood. This absence of choice, in turn, results from a combination of factors including social pressures and discrimination, a lack of economic power or control, their biological role as child bearers, and the greater burden they carry for child rearing. Promoting women’s entrepreneurship is one way to facilitate transition from the informal to the formal economy. However, as discussed above, this can only be effective if the elements that constrain women to work in the informal economy are addressed.
In most regions, self-employment is a more important source of employment among women workers than among men. Social norms that constrain women’s mobility in some regions are often reflected in a higher incidence of women working from home. When self-employed women in the informal economy work outside their home, available evidence indicates that their enterprises tend to be smaller both in terms of workers employed and in terms of the value of their assets. Women’s enterprises also tend to be concentrated in the less remunerative, low-investment sectors which build on traditional skills. The reasons for this include the heavy demands of unpaid work that fall primarily on women, and the particular barriers to and lack of adequate support for women’s entrepreneurship which can limit the growth of their enterprises. These include limited access to assets such as land, credit, skills, technology, networks, business information and markets.

An integrated approach that is sensitive to gender differences is required in order to equip women entrepreneurs with the means to enable them to shift from marginal income generation to profitable business. At the micro level, this includes combining provision of skills training with basic business development and other soft skills, which in many cases may include literacy. This is in addition to a range of support services which include legal-awareness-raising, support for unpaid family responsibilities and access to information, including on markets and microfinance opportunities.

At a meso level, policy needs to ensure that business development support and financial providers do not exclude women, and that indeed when necessary they develop targeted approaches towards women. Market access is also essential and encompasses a range of strategies, from encouraging women to participate in trade fairs to e-commerce programmes, development of fair-trade initiatives, supporting women producers in design, quality control and marketing strategies and linking women to trade and export markets. At a macro level, equality-promoting legislation and policies to enhance access to productive resources for women including land, property, inheritance, technology, skills development and credit are a vital component of an enabling environment for pro-poor growth strategies. Fiscal and trade policies need to be designed in ways that avoid distortions in favour of male producers and towards large scale and foreign owned businesses. Investing in infrastructure, roads, utilities, sanitation, health facilities, childcare and labour saving technologies in the home can significantly increase the amount of time women can devote to remunerative production.

In conclusion

The enterprise-upgrading policies for the informal economy include:

– promoting a greater awareness of the benefits and protection that come with formalization;
– creating an enabling policy and regulatory environment that reduces, both at the national and local levels, the barriers to formalization while protecting workers’ rights;

– a particular focus on women entrepreneurs;
– fostering linkages between enterprises of different sizes in value chains and clusters to improve market access;
– access to finance and business development services; and
– encouraging informal enterprises to join together in production conglomerates or cooperatives.

3.4. Microfinance and the informal economy

For better or worse, informal financial markets thrive in most African counties. Moneylenders do a brisk business providing uncollateralized loans to small enterprises that need extra cash to take advantage of a market opportunity, as well as to families requiring consumption-smoothing assistance to pay bills or just put food on the table. Rotating savings and credit associations (ROSCAs) and tontines allow the poor to pool small sums so that members can purchase household items or invest in business activities. Similarly, savings collectors (susus) make a living by providing a valuable service, particularly daily collections for market vendors who want to safeguard their limited funds. In some regions, persons working in the informal economy also cope with their insurance needs through informal mechanisms such as burial societies and mutuelles santé. Informal money transfer systems, sometimes known as hundi or hawala, enable migrant workers to send money home to their relatives. The prevalence of informal financial mechanisms highlights a failure in the formal financial markets to meet the needs of workers in the informal economy, both those who are employed and the self-employed. But moneylenders, ROSCAs, susus and the like also represent excellent learning opportunities for formal financial service providers that want to serve the informal economy. In many situations, informal financial services have significant advantages over the services provided by banks and other formal financial institutions.

Box 2
Comparing formal and informal finance: Money transfers

ILO research in Bangladesh revealed that the time of transfer for remittances varied between one hour (via hundi) and 25 days (demand draft). On average, it took 15 days to liquidate the money sent by bank draft, while a draft from an informal exchange house could be cashed immediately upon receipt. Despite its low transfer speed, the demand draft was the most popular formal transfer method because people had more confidence in the security of this approach.

To encourage the formal financial system to serve the low-income market, policymakers in some countries have promulgated financial inclusion regulations to encourage or require banks and insurers to serve the informal economy. In India, for example, financial institutions are required to have a portion of their portfolios in the “rural and social sectors”. South Africa has adopted a voluntary approach whereby financial institutions were involved in setting the targets under the country’s Financial Sector Charter. The effect in South Africa has been quite impressive. Since the Charter was launched in 2003, the proportion of adult South Africans with transaction banking accounts increased from 45 to more than 60 per cent in 2007 (FinScope Surveys).

In many countries, microfinance institutions (MFIs) have emerged to serve the financial needs of the informal economy, at least partially. Often they have done so by imitating informal finance structures. For example, the group lending methodologies used by many MFIs, which rely on social collateral and peer pressure, adapt many of their characteristics from ROSCAs (and moneylenders as well). A careful understanding of how
the informal economy finances itself can generate valuable lessons for financiers who are interested in financing the informal economy.

Microfinance institutions can even be an important vehicle for promoting decent work, for example by encouraging their micro-enterprise borrowers to adopt appropriate occupational safety and health measures, or by discouraging their clients from using child labour. They can even help to formalize the informal economy by creating incentives for informal businesses to incrementally formalize. At ABA, a microfinance institution in Egypt, for example, borrowers eventually need to have business licences and tax receipts, but not right away. When they return for a repeat loan, they need to show that they have taken certain steps in that direction.

Although they have started to step into the void between formal financial institutions and informal finance, in most countries microfinance institutions have three main limitations.

1. **Breadth.** Most African MFIs serve a limited number of persons, with market penetration often well below 5 per cent. In contrast, MFIs in Bangladesh, such as the Grameen Bank, BRAC and ASA, all serve several million low-income households; in Mexico Compartamos has just reached the 1 million customer mark, and several other Latin American MFIs will soon follow. Yet in Africa few MFIs exceed 100,000 clients. There are numerous explanations for this, including challenging demographic environments (e.g. high percentage of population in sparsely populated rural areas) and unfavourable macroeconomic and regulatory conditions. Box 3 highlights a notable exception, Equity Bank in Kenya, which shows that it is possible for African financial institutions to be profitable while serving the informal economy.

### Box 3

**Equity Bank in Kenya**

Equity began as a building society in Nairobi in 1984. Less than a decade after its inception, however, stagnant deposits, undercapitalization, poor management, a constrained macroeconomic environment and the high risk of term loans led to the bank's near collapse. The chairman responded by bringing on new management and shifting the institution’s focus to microfinance. The subsequent decade of Equity history was dramatically different, marked by consistent growth and competitive performance. Today, Equity Bank (no longer a building society) provides microfinance services to nearly 2 million low- and moderate-income persons, including nearly 400,000 outstanding loans, via a network of branch offices, as well as mobile banking units to reach clients in rural areas. The bank offers a range of financial services, including loans for micro- and small businesses, agriculture, household, education and emergency, as well as special savings accounts for businesses, children, groups and older people. In 2007, Equity generated a return on equity of nearly 20 per cent, down from the 40 per cent earned in 2006, even though the average outstanding loan is less than US$1,000.

Source: CGAP Agriculture Microfinance Case Study, The MIX Market.

Another constraint on the growth of microfinance providers in Africa is the limited capacity of middle managers. Often MFIs promote their best loan officers to be branch managers, but do not provide them with any training on how to manage. To address this issue, the ILO has developed a two-week course for middle managers, “Making Microfinance Work: Managing for Improved Performance” (see http://mmw.itcilo.org). Currently there are a dozen certified trainers in Africa who are available to offer the course in English, French, Arabic or Portuguese.

46 There are some important exceptions to the scale problem in Africa, particularly in Morocco (Al Amana and Zacoura), Ethiopia (Dedebit and Amhara), and Kenya (Equity): all have more than 100,000 clients each.
2. Scope. Although they are known as microfinance institutions, most are actually microcredit providers, typically focused on only providing micro-enterprise loans. In Africa, for example, although the Moroccan MFIs have succeeded in reaching large numbers of low-income persons in a way that is uncommon in the rest of the continent, they are largely prohibited from offering other financial services. While the provision of micro-enterprise loans is undoubtedly a critical contribution and a significant driver of employment and increased incomes among workers (employed and self-employed) in the informal economy, it only addresses part of the financial service needs of low-income households.

One of the ILO’s main messages with regard to financial services for the informal economy is to promote a balanced approach that considers both the productive and protective needs of the target group. The productive side consists primarily of micro-enterprise loans to boost incomes and create jobs. Yet when these businesses experience difficulty, or when the entrepreneurs or their families encounter a shock, any gains to employment or income generation can easily be lost. The productive approach must be balanced with the protective aspect, which includes the provision of savings, emergency loans and insurance to enable informal workers to cope with shocks and risks. To this end, the ILO has recently started the Microinsurance Innovation Facility, designed to encourage the provision of better insurance products to more low-income households (www.ilo.org/microinsurance).

3. Cost structure. Compared with other regions, African MFIs carry the biggest salary burden; that is, average salaries are much higher in relation to average outstanding loans than in Latin America or Asia. Consequently, to become viable businesses, African MFIs have to either increase their loan balances (which might move them out of the micro market), decrease their salaries (not likely to go over too well with staff) or find other ways of enhancing efficiencies to compensate for the relatively high salary costs. Consequently, efforts to use technology, such as cell phone banking from Wizzit in South Africa, are gaining increasing attention.

3.5. Skills, vocational training and the informal economy

Training by itself does not create jobs; nor does it necessarily raise productivity in the informal economy. But these objectives can best be achieved in an economic and labour market environment that supports the development and use of skills and the formalization of informal activities. In the long term, meeting national and global commitments to improve basic education and increase literacy will open technical and vocational training opportunities to a broader section of the population. In the meantime, however, there is a need to develop innovative ways of upgrading skills and recognize the latent skills of those already in the workforce, even if they have not had adequate basic education. Strategies to improve productivity in the informal economy must enable workers there to use new skills as leverage to help them move into decent formal work.

It is in the informal economy where skills gaps are the largest. In many African countries, the low level of education and vocational skills of informal workers results in a vicious circle of low productivity, low income and low investment in skills. Improving the skills of informal economy workers is key to their ability to access gainful jobs and improve productivity and income.
Formal training systems have proved inadequate to reach out to and meet the needs of informal economy workers. The formal system, in particular public training institutions, in many countries lacks the flexibility and accessibility needed to cater to the diversified needs of informal economy workers. A major shortcoming of earlier training strategies in developing countries was their exclusive concentration on the needs of the formal economy to the detriment of the informal and traditional training systems. Statistical surveys show that in most countries formal vocational training has reached between 0.1 (Ethiopia) and 5 per cent (Morocco) of informal economy workers. In addition, the proportion of technical and vocational education and training (TVET) enrolments in general secondary education is low, often below 10 per cent.

More recently, skills development in the informal economy has increasingly been considered a strategic element in increasing the employability of workers and productivity of enterprises, alleviating poverty and using new skills as leverage to help workers move into decent formal work. It is essential in meeting national and global commitments to improve basic education – the foundation on which further skills development needs to be built.

**3.5.1. Skills for working out of poverty**

Skills development and equal access to training are key elements in successful employment-promoting strategies for effective poverty reduction and social inclusion. Most African countries have developed specific schemes and programmes that provide training for income-generating activities. Targeting and meeting the special training needs of these groups is essential for effectiveness. Training programmes need to be tailor-made, flexible, practical and adapted to the diverse characteristics and educational levels of trainees, who are usually a heterogeneous group with accumulated layers of disadvantage. Training needs to be demand-led, helping poor workers, often at subsistence level in family-based activities or in service or trade activities, gain access to more productive self-employment or job opportunities.

Given the enormous numbers of people living in communities without any distinct skills or access to acquiring these, community-based learning has a huge potential for improving people’s capacities to reduce poverty. Many NGOs and some public training institutions deliver short-term training, for example in mushroom-growing, roof repair, water pump maintenance, welding, animal husbandry, etc. However, in order to lift people out of subsistence-level activities, skills development needs to be integrated into a local economy development strategy. This provides a labour market and economic environment that supports the use of skills and the formalization of informal activities.

The ILO has developed an integrated methodology – Training for Rural Economic Empowerment, or TREE – to improve the productivity and employability of the rural poor,

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especially women, disenfranchised youths, persons with disabilities and communities rebuilding after natural disasters or civil strife. The approach demonstrates how the limited opportunities for skills development in poor rural areas can be expanded and then linked to employment: by identifying local potential economic opportunities and skills constraints, designing and delivering (or extending access to existing) community-based training, and providing post-training services (such as entrepreneurship, obtaining wage employment, and access to credit and markets). An important component of TREE is empowering and mobilizing groups in the community so that they can work with local leaders and stakeholders in designing interventions and take on the responsibility of working together to improve their skills and living standards. Tracer studies revealed that trainees were using their new skills and earning higher incomes. TREE is an asset in the ILO’s portfolio of tools to enable constituents to meet needs for decent work at the local level and has been adapted for use in local development. It has been applied in several developing countries and is currently being implemented in Madagascar, Niger and Burkina Faso.

3.5.2. Skills for technological catch-up and diversification

The changing patterns and organization of work, technological change, and the increase in trade and foreign direct investment in Africa may result in emerging opportunities for informal enterprises and new training and skills needs. In particular, the more advanced enterprises in the informal economy benefit from this development by becoming subcontractors and partners to the modern economy. This is the case, for example, in the construction and civil engineering industry in Morocco and Senegal, the metal and beverage industries in South Africa, palm oil production in Cameroon, or weaving in Ethiopia. Linking new and higher skills with advanced technologies lies at the heart of the potential for improving the productivity and competitiveness of workers and firms. The combination of technical, business and management skills increases the capacity of the more dynamic enterprises to adopt more advanced technologies, diversify into new and higher-quality products and become more competitive.

A major policy challenge is to reform and upgrade formal vocational education and training systems for improved effectiveness and response to those new opportunities. Greater involvement on the part of the private sector in skills development is necessary, both in the design of reforms and in the provision of skills. For example, incentives need to be provided to formal enterprises to transfer relevant technological knowledge and skills to subcontractors to ensure that they meet quality standards of products and services.

Local or regional clusters of firms have the potential to support the catching-up and learning process in more dynamic informal enterprises, thereby boosting local economic growth and development. The upgrading of product and work processes requires firms to invest in a learning process, adjust technologies to local circumstances and develop workforce skills and new competencies. In addition, much technological knowledge is “tacit” and can only be transmitted by demonstration and observation.

50 Walther and Filipiak (2007), op. cit.
relationships between firms within clusters facilitate knowledge-sharing, problem-solving and skills development.  

Skills development policies combined with policies to upgrade technologies in the informal economy increase incentives for enterprises and workers to become formal.

### 3.5.3. Upgrading the informal training system

Few countries in Africa have training policies which emphasize skills development in the informal economy. Some countries, notably Ghana, Benin and Mali, have recently designed policies that emphasize training for workers in the informal economy. African countries need to acknowledge the informal economy as an important source of skills development in its own right. In particular, the role of informal apprenticeship systems in training the majority of young people in the crafts and trade sector needs to be recognized. Young apprentices largely outnumber youth trained in the formal TVET system. For instance, in Senegal around 300,000 youths are trained as apprentices as compared with some 10,000 graduates from the formal vocational training centres.

There is now a new way of looking at the informal training system. Recent research by the ILO in the United Republic of Tanzania demonstrates that apprenticeship in the informal economy is not “unregulated”. Rather, it is based on a (written or oral) training contract and regulated by informal rules such as traditions, norms and conventions. This informal institutional framework sets the incentives for master craft workers and young people to participate in apprenticeship, defines training arrangements and provides a financing mechanism. Informal apprenticeship is therefore widespread because many youths can meet the entry requirements in terms of educational achievements; and it is more affordable: since apprentices pay for training with their labour, poverty is not a bar to access. They receive training in a trade, and related skills preparing them mainly for self-employment in the informal economy.

The informal “apprenticeships” have a very large potential for speeding up local growth and development when integrated into the local and national development strategy. Investment in skills development needs to be focused on sectors, activities and occupations with a growth and development potential, helping them access local, regional and even international markets.

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55 ILO (forthcoming): “Informal institutions and current practices regulating informal apprenticeship in Mtwara and Lindi/Tanzania” (Geneva, ILO).

The challenge for policy-makers is to upgrade informal apprenticeship, thereby addressing its weaknesses and shortcomings. Policies need to build upon the informal rules and institutions. Interventions need to be carefully designed, as there is a risk of weakening the incentives for master craft workers and apprentices to participate in apprenticeship. Policies need to improve the quality and effectiveness of training in order to prepare for higher-value-added work and technological change.\textsuperscript{57} It is good practice to create links with formal or informal training centres so as to provide informal apprentices with complementary theoretical knowledge and new technologies, and master craft workers with technical, entrepreneurial and pedagogical skills. Further, some of the rules need to be modified in order to achieve development and decent work objectives, in particular prevention of child labour, improved social security, occupational safety and health measures, and equal access to training for women and men.\textsuperscript{58}

A survey of seven African countries showed that informal apprenticeship can be reformed and transformed into dual systems that combine on-the-job training with theoretical learning.\textsuperscript{59} This needs to be a gradual process, as demonstrated by the cases of Benin, Ghana and Mali. Successful schemes to gradually improve apprenticeship practices involve the partners and stakeholders concerned. The participation of informal crafts associations and youth organizations in designing reforms of training systems ensures that the skills and training needs of the informal economy are articulated. Public authorities need to develop appropriate long-term financing instruments and review current budget allocations, which are largely biased towards the training provided by the formal TVET system. In Benin and Mali, trade associations help informal apprenticeship evolve into a dual training system and are involved in quality assurance, such as defining skills and competencies.

### 3.5.4. Enhancing the portability of informal workers' skills

Portability of skills enhances the employability of workers and facilitates their access to more productive jobs in the formal economy.\textsuperscript{60} Skills are portable if the skills acquired are transferable and can be used productively in different jobs enterprises, both in the informal economy and the formal sector. This highlights the importance of training apprentices and workers in general technical skills such as operating and maintaining machines or using IT. Core work skills refer to the set of non-vocational skills such as the ability to read and write, communicate with others or be punctual, the ability to make judgements and solve problems, and the ability to innovate and learn additional skills. These core skills are relevant across occupations and professions, as well as across low- and high-level jobs, and are therefore highly portable.

Portability also requires that the skills of workers are recognized in the labour market. Skills gained through experience, training on the job, or apprenticeship in the informal economy, are usually not recognized in formal labour markets. Countries need to build institutions and develop mechanisms that assess the skills and competencies workers have acquired, validate them through certificates and ensure their recognition. Furthermore,

\textsuperscript{57} ibid.


recognition of skills and certificates requires that the mechanisms and institutions to assess and certify skills are transparent, consistent and credible. Benin, Ghana, South Africa and the United Republic of Tanzania provide interesting examples of recognition of prior learning. Assessment and certification of skills and prior learning also help informal workers have their skills and competencies recognized by the formal training system, which facilitates access to continuous training, skills upgrading and lifelong learning.

Providing skills and vocational training in the informal economy requires a coordinated and integrated skills development strategy, taking into account reforms in the formal and informal training system and incorporating the best skills development schemes and practices into a comprehensive reform of existing training systems.

3.6. Social protection and the informal economy

By definition, activities by informal economy workers and units are not covered or are insufficiently covered – in law or in practice – by formal arrangements. This means notably that informal economy workers have no access to the formal social security associated with employment (social insurance in particular) or to the protection provided by labour laws on working conditions (wages, leave, working hours, occupational health and safety, etc.).

There is a tremendous lack of reliable and comparable statistical data on social security coverage, and most broadly on the quality of employment in Africa, which prevents any precise assessment of these problems. Nevertheless, the available data confirm that informal economy workers face worse working conditions than those in the formal economy, and that they do not benefit from any form of social security coverage, at least in low-income countries. The ILO estimates that in sub-Saharan Africa only about 10 per cent of the economically active population is covered by statutory social security schemes, most of the informal economy workers being excluded.

This lack of social protection (understood here as comprising social security and decent working conditions) is often associated with a particularly high exposure to risk. Informal economy workers, and in particular women, often work in the most hazardous jobs, conditions and circumstances. Preventive measures to reduce risks at work often do not reach the informal economy. Although not everyone in the informal economy is poor, a significant proportion of the poor are in the informal economy and, because they are poor, a larger proportion of them than of the overall population tend to face risk-inducing factors such as poor-quality nutrition, low access to drinking water and sanitary facilities, low access to education and health services, precarious housing, etc.

High exposure to risk combined with low social protection coverage places most informal economy workers in a very vulnerable situation. Not only is this damaging to the well-being of these workers and their families but it also constitutes, as a range of evidence shows, a severe constraint preventing households from increasing productivity, undertaking more speculative but profitable activities, reducing child labour and increasing investment in children’s health and education, or finding a route out of poverty.

Extending social protection to the informal economy appears to be one of the main challenges to decent work deficits, supporting the transition to formalization and reducing poverty. Some aspects of this extension are discussed below.
3.6.1. Social security

Social security is a basic human right, as affirmed by Article 22 of the Universal Declaration of Human Rights: “Everyone, as a member of society, has the right to social security.” This right constitutes the first source of legitimacy for the extension of social security coverage to all. But social security is also a fundamental means of reducing poverty and social exclusion and promoting social cohesion. A growing body of evidence in developing countries shows the important contribution of social security to improving access to health, education and productive economic opportunities, reducing child labour and facilitating the participation of the poorest members of society in the labour market. 61 The improved knowledge and understanding of the contribution of social security to the development agenda have incited many countries in the developing world to undertake initiatives to extend coverage to those excluded from existing schemes, and in particular to informal economy workers. These efforts are both welcome and urgent; nevertheless, the transition from the informal economy to the mainstream remains a priority to reduce decent work deficits and extend the protective measures attached to formal employment to a larger share of the population.

The informal economy includes workers with very different characteristics in terms of income (level, regularity, seasonality), status in employment (employees, employers, own-account workers, casual workers, etc.), sector of activities (trade, agriculture, industry, etc.) and needs. Extending coverage to such a heterogeneous set of workers requires the implementation of several (coordinated) instruments adapted to the specific characteristics of the different groups, to the contingencies to be covered and to the national context. It is not possible here to effect an analysis by group and contingency of current experiences in coverage extension. The different approaches that are briefly described below provide only a generic view of some ways of extending coverage. These are not “either-or” policies but rather, in most cases, complementary.

Some countries, such as Tunisia, have engaged in reforms to extend statutory social insurance coverage. Currently, social insurance schemes, if they exist at all, usually cover only limited sections of the labour force in the formal economy. Legislators have frequently envisaged extending their cover at a later stage. In practice this extension, by bringing in successively smaller enterprises and/or including new categories of workers such as the self-employed, has not so far reached many more groups of the working population in Africa, with the exception of a few countries. Even small enterprises may present additional problems given their rudimentary accounts and arrangements for paying workers and their stronger tendency towards non-compliance. Self-employed workers are usually unwilling, and frequently unable, to pay the combined worker and employer contribution. As might be expected, schemes for self-employed workers are more successful when the government is willing to subsidize part of the premium.

Some of the efforts to extend the coverage of social insurance are also dedicated to adapting benefits, contributions and operations to the characteristics of informal economy workers. This may include giving beneficiaries a choice whether to affiliate to all branches, according to their needs and contributory capacity; more flexible contribution payments to take into account income fluctuations or seasonal revenues (in agriculture for example); introducing specific mechanisms to determine contribution levels for employees and self-employed workers where real incomes are difficult to assess (capitation or lump-sum payment based on size of economic activity, etc.); reducing the costs of registration; and offering small-scale contributors “simplified schemes” in terms of both registration and compliance with tax obligations.

It should be noted that in some African countries, the coverage of social insurance is also limited due to the inconsistencies of its operation, the inability of the State to enforce mandatory contributions and the lack of confidence in public institutions. A badly designed and implemented social insurance scheme may create an incentive for informalization. This is one of the reasons why efforts to improve the governance and efficiency of social insurance should be included in policies to reduce informalization of employment and extend coverage.

Another way observed in Africa of extending coverage, mostly in health, is through the development of microinsurance schemes. Over the past decade the continent has seen a proliferation of new microinsurance and other community-based social security schemes. Microinsurance schemes are often initiated by civil society organizations and are delivered through a diversity of organizational settings. Health microinsurance has shown good potential for reaching groups excluded from statutory social insurance, mobilizing supplementary resources, contributing to participation in civil society and empowering socio-occupational groups including women. However, stand-alone, self-financed microinsurance schemes have major limitations in terms of their ability to become sustainable and efficient mechanisms capable of reaching large segments of the excluded populations. Their impact should be increased notably by developing functional linkages with extended and expanded national or social insurance systems, contributing in this way to better equity and efficiency in national social security policies.

Microinsurance is not by any means the only emerging method of extending social health protection in Africa. Social health protection, defined as guaranteeing effective access to affordable quality health care and financial protection in case of sickness, is probably the area in which the number and size (via public investment) of initiatives to extend coverage of social security are the most important in the continent. There are many reasons for this focus on social health protection. Access to health is universally recognized as one of the most fundamental rights and a key factor in stimulating productivity and growth. Guaranteed access to health care is also in many circumstances the first security that poor and vulnerable people look for. The impact of health shocks on poverty is also quite severe in the continent and affects millions of people every year. Social health protection is increasingly perceived as a crucial component of policies and reforms aiming to improving health systems and access to quality health services in Africa.
Box 4

Extending social security in health

Senegal

In Senegal the extension of social security to uncovered populations is a high priority for the Government. It is conducted through social dialogue, as demonstrated by the creation in 2003 of a National Commission on Social Dialogue (CNDS) to develop a strategy to specifically address the extension of social security and social protection. In 2005, Senegal revised its social protection policy to address the problem of extension of social security. The new National Social Protection Strategy (SNPS/GR) is the third pillar of the Poverty Reduction Strategy Paper (PRSP).

The ILO Subregional Office contributes to the extension of social protection in Senegal by providing political and technical support for these initiatives, notably through its Strategies and Tools against Social Exclusion and Poverty (STEP) programme. ILO/STEP is also training social partners on the extension of social security; furthermore, it supports – in partnership with the CNDS and transport operators’ trade unions – the design and implementation process of a social health insurance scheme for transport operators. These workers are particularly affected by exclusion from social security. Today, their unions are actively involved in the design and implementation of a health insurance scheme that aims to cover all transport operators and their families (some 400,000 people).

Rwanda

In December 2004 the Government adopted a national policy on the development of mutual health organizations. Mutual health organizations have since been set up in each of the 30 health districts, with a mutual section presence at health centre level (there are 403 of these units). In 2006 the Government adopted a policy of compulsory health insurance for the entire Rwandan population. The membership rate of mutual health organizations has sharply increased over the past few years: starting at just 7 per cent in 2003, it rose to 27 per cent in 2004, 44.1 per cent in 2005 and 73 per cent in 2006, standing at 85 per cent by the end of June 2008.

The annual premium for a primary healthcare package at health centre level was set at 1,000 Rwandan francs per person as from January 2007, with a 200 francs co-payment due upon treatment. In addition to this package, beneficiaries have access to complementary benefits covering hospital services and treatment. The 1,000 francs package is financed via district and national risk pools on behalf of the beneficiaries. Upon treatment, a co-payment of 10 per cent of the total bill is required at the district or reference hospital. The district-level risk pool is made up of contributions from the national risk pool, 10 per cent of each 1,000 francs premium paid by beneficiaries for the primary package, and donor subsidies. The national risk pool or “Solidarity Fund” is constituted mainly by contributions from the State, donor agencies and public and private sector workers.

Even though the 1,000 francs premium for the primary healthcare package is kept low in relation to the real costs of health care, it remains out of reach for many Rwandans living in extreme poverty. The Global Fund to Fight AIDS, Tuberculosis and Malaria, together with other NGOs (e.g. the Red Cross, Oxfam, Caritas) and government programmes such as FARG (the Genocide Survivors’ Support Fund), has therefore opted to finance health insurance premiums for the poorest Rwandans, orphans and people living with HIV/AIDS.

For more information, see GESS platform at www.socialsecurityextension.org/gimi/gess/.

In this context, in addition to “classical” tax-funded health systems, several countries in Africa such as Ghana have launched national health insurance with a view to providing universal access to comprehensive benefit packages. Setting up and implementing national health insurance raises many challenges at the organizational, institutional and financial levels. The success of these schemes is also highly dependent on the existence of good provision of quality health care services. The ongoing schemes are too young for any conclusions to be drawn about their effectiveness and sustainability but, despite the hard challenges mentioned above, some are showing promising results. Other demand-side financing mechanisms have also been introduced in a number of countries, notably to improve targeting of equity subsidies, increase outputs and raise the productivity of the health systems. Reproductive health vouchers are one example of these mechanisms that

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62 National health insurances are insurance schemes targeting all citizens and financed both by tax revenues and contributions for those who can afford it.
have been adopted by countries such as Uganda. Within each of these financing mechanisms lies a range of options for organizing arrangements for pooling funds and purchasing services, leading to a great diversity of systems in the continent.

In most of these countries, several schemes aiming to provide social protection in health coexist. The key challenges are to improve the efficiency and coverage of the schemes (national health services, national or social health insurance, community-based health insurance, etc.) and incorporate them into one equitable and well-regulated pluralistic national system.

A promising way of extending social security in the area of income security is through non-contributory, tax-financed cash transfers delivered in various forms and ways: a universal social pension paid to all the elderly population; cash benefits paid to families with children, often conditional on school attendance or participation in public health programmes; benefits aimed at specific groups such as persons with disabilities, orphans and other vulnerable people; and targeted social assistance programmes. During the past two decades, social assistance programmes have gained importance worldwide and, at the same time, experienced considerable transformation, which indicates an increasing willingness to go beyond their traditional redistributive role, emphasizing stronger, multiple and positive linkages with labour market policies and aiming at fostering social inclusion and human development.

This trend in social assistance programmes appears quite promising as a means of tackling extreme poverty in Africa. Existing opportunities for extremely poor people are severely constrained due to mismatches between the structure of opportunities available and the complex set of constraints they face. It is now accepted that mainstream development approaches, especially microfinance, skills development, cooperative promotion or access to basic social services, largely bypass this population group. One of the reasons is that they are engaged in daily survival to respond to their immediate needs and are thus in no position to engage any spare resources (including time) or capacities in activities that do not provide an immediate return or where that return is seen as uncertain. New social assistance programmes seek to respond to such difficulties by using approaches that combine transfers to overcome the immediate and fundamental needs of the most poor with active support to strengthen their access to economic opportunities and basic social services.

Experiences of non-contributory, tax-financed cash transfers in low-income countries in Africa are limited but gaining considerable interest from governments and international agencies. Social pension schemes are being implemented in a growing number of African countries and some of them, such as Cape Verde, have recently increased their coverage and level of benefits. Zambia is piloting the development of conditional cash transfers: the 2006 Livingstone Call for Action resulting from a conference organized jointly by the African Union and the Government of Zambia illustrates the growing interest in tax-financed cash transfers in the continent.

During pregnancy, out-of-pocket fees and indirect costs (like transportation) required for maternal and obstetric services mean that access to appropriate care remains beyond the reach of many. Maternity care may not only be expensive for poor households but also be a low priority in the use of scarce household resources. Without effective access to affordable quality health care and protection against related financial burdens, poor women and their families are often discouraged from seeking the care they need.


Particularly cash and food transfers.
As indicated, several of the policy instruments described above may logically coexist in one country because they seek to provide coverage for different contingencies and for groups with different characteristics. The right mix of policy instruments used and their design should be adapted both to the specific characteristics and needs of the groups to be covered and to the national environment. To be efficient, as stated in 2001 by the 89th International Labour Conference, the different “policies and initiatives on the extension of coverage should be taken within the context of an integrated national social security strategy”. Improving policy coordination and coherence between the various social security mechanisms remains an important task in most African countries to maximize the utilization of resources, avoid the exclusion of groups of the population and promote the formalization of employment.

Despite the progress made during the past decade in some countries, exclusion from social security coverage still affects the immense majority of people working in the informal economy in Africa. Affordability problems are often mentioned as the most serious constraint on extension of coverage. Modelling work on affordability is helping policy dialogue move beyond anecdotal evidence and assumptions about the financial burden of long-term social security programmes. This work shows that providing a basic set of social security benefits is affordable in most of the middle-income countries. In some poor countries, significant long-term aid will be required until non-contributory social benefits can be funded solely from tax revenues.

In practice, any increase in domestic revenues allocated to basic social security is determined by both fiscal space and the political will to increase the share of public expenditures dedicated to this policy field. Capacity to create a fiscal space should be considered in the context of a comprehensive government expenditure framework in the medium term. Capacity to mobilize additional revenue by increasing the tax base, improving the efficiency of expenditure by strengthening public institutions, and adequate policies to sustain productivity remain the key factors in creating fiscal space in poor countries. The decision to increase the share of public expenditure dedicated to basic social security will depend on the political will to do so and on how much of the government budget is already committed. To support the decision-making process, overall feasibility, both financial and administrative, should be assessed and the projected outcomes of providing basic social security estimated.

To reduce coverage gaps while taking account of financial constraints, the ILO promotes the introduction of a package of basic social security guarantees that ensure minimum levels of security for people in low-income countries. They include:

- access to basic, essential health care;
- income security for children;
- some social assistance when poor or unemployed; and
- income security through basic pensions when old or disabled.

Even if a basic social security benefit package cannot be implemented at once, a sequential approach can generate immediate benefits in terms of poverty reduction, pro-poor growth and social development. The basic package should be considered as part of a

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progressive strategy providing for higher levels of social security as countries develop economically and the fiscal space for social transfers increases.

Finally, it must be stressed that extending social security coverage should be integrated with other economic and social policies. Special emphasis should be placed on two areas of work: first, strategies and approaches that integrate the two dimensions of prevention and protection, including occupational risk prevention, improvement of working conditions, income security and access to health care adapted to the special needs of groups, especially women; and second, approaches that link and combine social security measures with employment creation, organizing workers and employers and promoting rights at work. In particular, the capacity of workers and employers to organize is a key element in the move away from informality. Experience shows that social security is one of the best ingredients for organization-building and promoting social dialogue.

3.6.2. Working conditions

In most countries, especially in Africa, the informal economy plays a major role, not only in economic activities but also in the society itself, by providing people with work opportunities. Efforts to improve working conditions need to address deficits that exist in the informal economy in each and every element of working conditions, including wages, working hours, freedom from discrimination and violence, representation and bargaining rights, maternity protection, social security provision and occupational safety and health.

Take wages and working hours for instance. A worker needs to earn enough to be able to support both self and family. If this is not possible, or if it is necessary to work for, say, more than 50 hours each week to do so, then the worker’s quality of life, at home and at work, will be poor. The worker’s health is likely to suffer as a result and ultimately, for the worker, this can lead to unemployment and poverty. For the country, it can mean a loss of worker productivity, an increase in poverty, and a larger burden on medical and social services.

The above provides an example of the knock-on effect of one element of poor working conditions, upon the life of workers and upon the economy as a whole. The reality is that the different elements come together and are suffered jointly, most frequently by the poorest workers. For example, a worker in an informal clothing factory is likely to be on low pay (a poor piece rate), have no right to join a union, be at risk of dismissal without notice and, if the worker is female, be paid even less than poorly paid male colleagues. The combined effect on the worker is to reaffirm poverty and insecurity, demoralization and demotivation, and to increase the risk of accidents and ill-health, and loss of livelihood.

Earlier in this paper, the impact of the absence of maternity protection was mentioned. The Maternity Protection Convention, 2000 (No. 183), sets down internationally recognized minimum maternity protection standards. These include providing 14 weeks’ maternity leave, benefits during leave, protection from dismissal, and health protection in the workplace. Each of these provisions is designed specifically to provide essential (minimum) protection for the health of the mother and child – but few African workers could even imagine enjoying such protection. For many workers, particularly in the informal economy, the reality is no leave, no benefits, no health protection and no protection from dismissal. It is self-evident that, as with other working conditions deficits, the consequences for the worker, for the newborn baby, for productivity, for the economy and for the society at large, work against the aims of improving pro-poor growth and productivity and reducing poverty.
Some of the consequences of a lack of maternity protection

From early on in her pregnancy, an expectant mother needs to drink more and increase her nutritional and calorie intake so that her body can support and nourish the growing foetus. If, in the workplace, she has no ready access to clean drinking water, if there is no toilet facility for her to use, or if her access to either is limited to strictly controlled break times, she can quickly develop a urinary or kidney infection.

A pregnant worker is also very vulnerable to fatigue and hypertension, particularly in the later months, as her heart works harder to pump blood around her body and that of her baby, and as her size and the weight she is carrying increase. The risks are significant. Exhaustion in pregnant women can put the life of the mother and child in danger; hypertensive disorders are one of the major causes of maternal mortality. Despite this, in workplaces that do not provide maternity protection – many of them in the informal economy – pregnant women are often expected to work in a standing position for long hours or do demanding machine-paced work.

There are many other workplace practices that represent an increased risk to pregnant workers, including carrying heavy weights, which can bring on a haemorrhage or miscarriage, and exposure to chemical and biological products and pollutants, which can result in malformations or retardation in the child’s development. Maternity leave is a vitally important aspect of maternity protection as it provides the pregnant mother with the time she needs to rest in the later weeks of pregnancy, and to recover after the birth. It also enables her to properly care for and feed her baby during the first few weeks of its life. The internationally recognized minimum maternity leave period is 14 weeks. However, in Africa, only 46 per cent of countries provide this minimum and, even in countries where this leave is regulated for, informal workers are unlikely to benefit from it.


Efforts to address poor working conditions need to address the full range of problems that businesses and workers face. For example, when looking at wages, effective and enforced minimum wage legislation, and the establishment of social dialogue and bargaining procedures can make a vast difference to the wages that workers receive. In relation to maternity protection, legislation is important, but education and awareness raising, training, and the development of health and social service provision, would also be essential elements of the response.

Tanzanian “One UN” programme on improving maternal and newborn health

The ILO is currently working with UNESCO, WHO, UNICEF, WFP and UNFPA on the Tanzanian One UN programme. Launched in mid-2008, this focuses on achieving change at national level, including increased budget allocation and resource mobilization, improved information management and health care delivery, and policies and practices to promote maternal and newborn health. The ILO’s role includes promoting and implementing Convention 183 and national legislation on maternity protection as part of a continuum of policies needed to secure the health and economic well-being of mothers and newborns; supporting the Department of Labour’s OSH department and the Health Institute to identify key health risks in particular sectors and responses to those risks, including risks to health workers; and promoting advocacy on key issues for women workers and maternal health.

This project takes place against the background of a Demographic and Health Survey which shows that Tanzanian maternal and neonatal mortality has remained at unacceptably high levels despite government efforts. Maternal mortality is currently estimated at 578/100,000 live births while neonatal mortality is 32/1,000 live births. Neonatal mortality accounts for 29 per cent of the under-5 mortality rate and 47 per cent of the infant mortality rate.


It is well known that the rate of work-related accidents and diseases is much higher in small-scale than in large-scale industry and, although data on the precise rates in the informal economy are insufficient, the preponderance of small-scale enterprises in this sector, in itself, points to an increased risk, without other factors being taken into account. This means that, in designing efforts to address working conditions in the informal economy, the prevention of work-related accidents and illnesses must be an essential issue,
and preventive measures on it should be urgently established. These efforts must include raising awareness of the risks among informal economy workers and their employers. Currently, the awareness of workers is low and, in relation to informal entrepreneurs, those that are aware of the risks often do not have enough knowledge or resources to address them.

Unfortunately, the most pressing concern of informal economy units and their workers is simply their survival, and perhaps eventually the growth of their businesses. It is therefore crucial for the success of awareness-raising and knowledge dissemination activities that they establish a positive connection between occupational safety and health conditions (and other good working conditions), quality production, productivity and competitiveness. Those activities need also to promote understanding of the fact that actions to improve such conditions are not out of reach, either financially or technically. Action should be based on simple, low-cost and practical improvements that respond to the felt needs of the workers and families concerned. This is the type of approach that has been intensively developed and implemented by the ILO through methodologies such as WISE (Work Improvement in Small Enterprises) and WIND (Work Improvement in Neighbourhood Development). 67

As mentioned above, WIND is a participatory training method that involves promoting improvements in farming and agricultural enterprises through neighbourhood involvement and development. Its implementation empowers families, on a gender equality basis, to improve their own living and working conditions. Success relies upon the voluntary involvement of small agricultural enterprise owners, local and national non-governmental and governmental agricultural organizations, and the local community at large, with both participants and trainers being volunteers. WIND is particularly gaining popularity in African countries due to its adaptability to local needs and its potential to support local economic development initiatives.

Box 7
WIND in Senegal

The ILO is currently managing a pilot project in West Africa (Benin, Mali and Senegal) which has as its objective improving the living and working conditions of families and children in the agricultural sector. WIND is being used within the project to encourage small farmers to make simple, low-cost changes to their living and working environments that result in improvements in productivity. The training package has so far been carefully adapted to reflect the local conditions and experience of agricultural families in Mboro, in Senegal, where 13 volunteer trainers were trained and agricultural producers identified to take part in a pilot training project in February and March 2009.

The project has, in accordance with the WIND approach, promoted and relied upon cooperation with a wide range of local and national organizations and been successful in maximizing national and local institutional involvement. It has also benefited from the cooperation of the Senegalese Government, for which increasing food productivity is a key objective. The newly trained trainers reflect the diversity of groups committed to the success of WIND in Senegal, being drawn from associations of producers, women’s organizations, NGO and state technical agricultural services, villagers, and regional labour inspectors.

To ensure relevance, as well as sustainability, WIND is very much reliant on, and responsive to, farmers’ own initiatives, knowledge and resources, and it promotes good, local practices and affordable and practical solutions that are within the reach of all. This approach has a particular resonance in Africa at a time when increasing food productivity is a key objective across the continent.

In WIND, completing the training is not the end of the process. The larger aim is to build a momentum for continuing and sustainable improvements in productivity by creating local networks of farmers and supporting community development that provides long-term support for farmers and a driver for continued productivity gains.

67 The WIND methodology of the ILO specifically focuses attention on households and children living on farms and exposed to hazardous and strenuous rural agricultural contexts. WIND can be understood as a training approach for improving the safety, health, and working and living conditions of small farmers. It also encompasses protection of children, and increased production levels and quality of products, leading to possible increases in family income.
Efforts to improve occupational safety and health in the informal economy must also give due regard to institutionalization of corresponding strategies. At a national level, labour and health ministries and the ministries for industry or agriculture concerned with micro-enterprises and self-employment activities can all potentially play an important role. Unfortunately, improving occupational health and safety conditions in the informal economy is not often included in their strategies. In addition to a lack of awareness of these conditions, these ministries face strong financial constraints. Labour ministries, which in most countries have the main responsibility within government for occupational safety and health, are not even able to carry out these functions adequately for larger and formal enterprises due to a shortage of staff and other resources. Making sustainable progress in this area in the informal economy will thus require the strengthening of national occupational health and safety systems as a whole.

Another difficulty is that the methodology used for improving occupational safety and health in large-scale industry cannot be applied to the informal economy in many cases. In large-scale industry, legal frameworks and systems for increasing compliance are efficient measures to improve and maintain better working conditions. In the informal economy, it is more efficient to provide training and information and encourage participatory activities to improve occupational safety and health and other working conditions.

In the informal economy, working and living conditions are often intertwined. Improving working conditions means improving the physical and psychosocial conditions and income security of workers and the interface between their work and their personal, family and community lives. Issues such as wages regulation, working time, maternity protection and work–family balance have historically been perceived as largely irrelevant in the informal economy. A priority area of action is to demonstrate that this is not the case and what can be done. Multi-country studies have shown, for example, that a statutory minimum wage seemed to have a pull-up impact on wages in the informal economy. In some instances, the promotion of a minimum wage can be a tool to address simultaneously the problems of in-work poverty in the formal and informal economies. A second priority area is to better understand how to make a more effective difference to the lives of women and men in micro- and small enterprises and the informal economy through better working and employment conditions. This understanding should lead to changes in the policy or regulatory framework for small and medium-sized enterprises, informal economy development and working and employment conditions. Such changes should be aimed not only at upgrading conditions in the informal economy but also, and most importantly, at supporting a transition towards formality.

Part of the explanation for women’s preponderance among informal economy workers lies in the social and economic relations that relegate unpaid family responsibilities to women. In every society, women tend to spend far more hours in unpaid work than men do. The fact that unpaid work constrains women’s choices about whether they can participate in the labour market, for how long, and how far from home has long been at the core of discussions about gender equality. It is clear that for many women, the lack of public and private support for family responsibilities means that the informal economy may offer the only paid work that provides enough flexibility, autonomy and geographic proximity to home to allow them to combine paid economic activity with family responsibilities.

Existing evidence suggests that among the support needed to better conciliate paid work and family responsibility, childcare is one of the topmost concerns. Nevertheless, most developing countries provide little public support to develop childcare. The lack of support stems from assumptions that families can rely on each other to cope, or that work–family problems are too expensive to solve and less of a priority than other pressing issues. Growing evidence suggests that families face great difficulties making a living and meeting their care responsibilities, given the implications and long-term costs associated
with poverty, informality and gender inequality. Investing in targeted interventions for childcare and creating an environment that is more conducive to supporting workers’ family responsibilities can provide important long-term returns to these broader development goals.

3.6.3. Protection of specific groups

In Africa, the majority of those living with HIV, or at risk of HIV infection, are in the most productive phase of their working life, between 15 and 49 years of age, and many of them are working in the informal economy. The general characteristics of informal workers, such as absence of steady income, poverty, low education levels, lack of social protection and limited access to health facilities, are factors that increase individual vulnerability and susceptibility to HIV. Households affected by HIV/AIDS lose income earners, provide the bulk of care and coverage of medical costs; and often have recourse to the labour of children. Many of the most vulnerable households are female-headed. At the same time, micro-, small, medium-sized and household enterprises in the informal economy face HIV/AIDS-related costs in terms of lost skills and revenues and medical expenses that are unmanageable and can lead to their total collapse.

The issue of addressing HIV/AIDS in the informal economy encompasses the following two points:

– How to ensure that informal workers access information and awareness on HIV/AIDS.

– How to ensure that informal workers develop or have access to impact mitigation strategies to manage the risks linked to HIV/AIDS, including access to health care and income to cover related costs.

The first point is linked to prevention strategies. The most viable way to sustain these within the informal economy is to integrate prevention into existing programmes (training, business development or literacy programmes). This is the line the ILO has followed in programmes targeting informal workers, such as in South Africa.68

The second point relates to impact mitigation. This includes working towards social protection schemes that cover vulnerable groups to enable them to overcome financial barriers of access to health care and antiretrovirals (ARVs); it also takes in income-generating activities and improving business opportunities to ensure a sustainable income for persons living with HIV/AIDS (PLHIV) to cover such expenses. Integrated programmes covering both HIV/AIDS prevention and impact mitigation strategies for informal workers and their families are being implemented by the ILO in Mozambique, Ethiopia, Benin and Cameroon.

When addressing HIV/AIDS within the informal economy and designing instruments for prevention and impact mitigation, there is the need to consider the specificity of AIDS and some common features of informality: for example, many informal financial institutional mechanisms are time-bound and not sustainable in the long run, while the need for ARVs is lifelong; 69 informal workers may not have the same priorities and hence


the same life planning as workers in the formal sector. Other lessons learned from ongoing experiences that are relevant for the informal economy could be formulated as follows:

- There is the need to take into account the health care needs of PLHIV and ensure the long-term sustainability of interventions. Consequently, governments should recognize that the HIV/AIDS epidemic will create a long-term welfare bill and find ways of supporting this.

- Support should be targeted to households and not just individuals.

- Various institutions have a role to play in contributing to or implementing prevention programmes and safety nets. Outside HIV/AIDS-affected households and communities, other stakeholders, notably NGOs, governments and donors, should scale up community safety nets.

- The existence of cultural, social and religious barriers is particularly emphasized in the informal setting and is still the cause of poor access to or use of services.

- Outreach may be improved if employers’ and workers’ organizations and others such as microfinance institutions, cooperatives and business development services are involved.

There is also a great need to develop interventions to lessen the poverty impact of HIV/AIDS in the informal economy. Such interventions may include skills training and employment creation for young workers living with HIV, and management of HIV-related risks at the enterprise level with the aim of maintaining productivity, avoiding discrimination and preventing infection. Providing social assistance benefits, for example old age social pensions, for careers who are providing care in poor AIDS-affected households is also a key to reducing the poverty impact of the pandemic.

Another particularly vulnerable group in the informal economy are migrants. Internal migrants (who move internally from rural to urban areas) and international migrant workers (who cross borders) are an important segment in the informal economy in all regions, including Africa. Some African migration may not be voluntary, as people are pushed into other countries by armed conflict and natural hazard events. Most of them try to survive in the informal economy. While there are a number of regional economic communities, there is also limited progress on free movement of persons, especially relating to labour mobility. Thus, most of the border crossings may be informal in nature and involve undocumented workers. These do not receive any support or social protection in the host countries, and need attention in any strategy for the informal economy. The ILO Multilateral Framework on Labour Migration: Non-binding principles and guidelines for a rights-based approach to labour migration, which takes account of labour market needs, proposes guidelines and principles for policies based on best practices and international standards.

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71 A number of MFIs operating in sub-Saharan Africa are offering products designed to mitigate the impact of the epidemic on either the institution itself or its clients, or both. Among the products currently being offered are credit and health insurance, as well as conventional loans and savings products. Organizations such as FINCA, FOCCAS/Uganda and Opportunity International have begun to think strategically about the impact of HIV and the consequences for sustainability and client survival. See Amy McDonagh (2001): “Microfinance strategies for HIV/AIDS mitigation and prevention in sub-Saharan Africa”, ILO Working Paper No. 25 (Geneva, ILO).
Box 8
Street vendors lead the HIV response in Mozambique’s markets

When Maria Jacinto Sitoe became pregnant and the hospital told her she was HIV-positive, her husband kicked her out. “He said I was guilty, that I had committed adultery, and he abandoned me,” she says. “Since then I have been working in the market. I sell second-hand clothes and other small articles.”

Around 85 per cent of Mozambique’s workforce make their living like Maria in the informal economy. It is a hard life with poor working conditions, low wages, little or inadequate social protection and usually no means of representation or public voice. They are particularly vulnerable to HIV because of lack of knowledge, choices and resources to fall back on. Their situation is of great concern to the Associação de Operadores e Trabalhadores do Sector Informal (ASSOTSI), a Mozambican association that represents 48,000 informal sector workers countrywide.

“HIV is a major concern to informal sector traders, particularly the effects of stigma and discrimination,” says Maria da Glória, Coordinator of HIV/AIDS activities for ASSOTSI. “In the markets it is common to see vendors just giving up their stalls because they can no longer face the exclusion and discrimination from their colleagues. With no job and no money, they and their families face so many problems. Often the children leave school to live on the streets because there is no food and they can’t pay for transport. Many times we hear of abuse against them.”

As part of a wider national programme set up by the ILO and the Swedish International Development Cooperation Agency (Sida), ASSOTSI started running a range of HIV/AIDS activities in 2006 to help give its members the skills and knowledge to prevent HIV and cope with its impact on their lives. It started when two ASSOTSI staff members were trained by the project, and they in turn passed on their expertise to 30 informal sector operators (17 men and 13 women) who became HIV peer educators.

Between them they cover 27 informal markets in the capital city of Maputo, carrying out HIV activities on a regular basis. They focus on HIV prevention, strategies to fight discrimination and exclusion, and access to services such as condoms, antiretroviral therapy (ART) and voluntary counselling and testing (VCT). In two years they have reached about 6,000 people, including vendors and clients. Similar programmes are being implemented in Manica and Sofala provinces with support from the One UN Fund.

“The kindness and support of the peer educators in this market has helped me to recover my self-esteem because they have given me and other people living with HIV the information and will to live positively,” says Maria. “My colleagues in the market do not stigmatize me, they understand my situation and they help. They eat with me and socialize with me.”

A key component of the ILO programme is to help vendors increase their profits so that they are less financially vulnerable to the effects of HIV. In the markets the project is running training sessions on small business management that have so far involved 60 people (40 women and 20 men). These are very popular and the benefits offered by the training also help to make the HIV activities more attractive to workers who can’t easily afford to take time off from earning a living.

Outside Maputo, the project is supporting micro-credit schemes to help people set up small businesses, again with the aim of reducing their vulnerability to HIV. Pilot groups have been set up in Beira, Nhamatanda and Dondo districts, mostly involving women members. One pilot project on the outskirts of the capital involves a group of 45 families affected by HIV, who have started a chicken breeding business. The project has managed to access free antiretrovirals through the local hospital and is involved in many HIV sensitization activities.

“We have noticed many changes in behaviour as a result of the ASSOTSI HIV programme,” says Maria da Glória. “Many vendors have gone for VCT and some are now enrolled in treatment. There are a lot of people using condoms and we distribute plenty of materials about HIV and AIDS.”
4. Conclusions

The primary goal of the ILO is to promote opportunities for women and men to obtain decent and productive work. This goal will not be reached without addressing the underlying causes of informality and the barriers to entry into the economic and social mainstream. These causes are multidimensional and no single intervention can overcome the constraints faced by informal economy workers and units. To make progress towards this goal, which is deeply related to poverty reduction, growth as such is not enough. A context-specific mix of interventions within a pro-poor growth policy framework is needed. The five dimensions discussed above are only some of those that could be relevant for that purpose.

In Africa, fighting poverty requires promoting decent work within both the formal and the informal economy. Taking into consideration the poor performance of growth in terms of poverty reduction during the past decade, it is crucial to develop innovative patterns of growth associated with higher earnings and employment multipliers. Such patterns of growth should be country-specific and should include the informal economy as one of the main components of the development strategy. This shift in policy-making should lead to a redefinition of priority sectors and a greater concern for agriculture, productivity, skills, entrepreneurship and microfinance.

One of the strongest obstacles to designing sound policies to address decent work deficits in the informal economy is the lack of research studies linking the pattern of growth and the informal economy. Forward and backward linkages between the formal and informal economies need to be assessed in a more systematic way. Meanwhile, national household surveys are rarely tailored to address the particularities of informal employment. Reliable data on the livelihood characteristics of households engaged in the informal economy, notably their employment, earning and spending patterns, the factors of vulnerability they are submitted to, their access to basic services and productive factors, are some of the elements that need to be understood in order to design and monitor adequate policies. Gender-differentiated data would equally help policy-makers better target their interventions. Countries should especially increase their efforts to fill this current gap in statistical data.

Improved understanding of the informal economy in Africa would allow better capturing of the high heterogeneity of the informal economy from a dynamic rather than static perspective. In particular, many types of employment status are considered under the term “informal”: employers, own-account workers, employees, casual workers, unpaid family workers, etc. These different employment statuses generally have different implications in terms of income level, risk of poverty and vulnerability. The various activities and sectors of the informal economy present a very different set of constraints and opportunities for the workers and the enterprise units. Policy design should recognize this multi-segmented nature of the informal economy in terms of employment status, work arrangements, sector of activities and associated costs and benefits, all of these factors having implications in terms of possible options for responses.

In order to address the entire challenge of the transition to formality, individual countries, along with the social partners, would need to design an integrated set of policies and programmes. Even so, implementation would remain a major challenge, especially given that most countries have limited experience of intervening in the informal economy in a holistic manner. The four interrelated strategic objectives of the ILO’s Decent Work Agenda can provide a strong basis for the formulation of such an integrated framework. The ILO, through its knowledge base, tools and exchange of experiences, would be eminently well placed to support member States and the social partners in addressing the multiple challenges faced by informal workers and enterprise units, and facilitating the transition to formality.
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Appendix

Key questions to consider about the informal economy

**Growth and decent work**

- What are the key elements of a macroeconomic framework that would increase the likelihood that the MDG targets, and more specifically decent work and poverty reduction, will be reached?
- What are the sectors that generate the most added value, employment, multipliers, and linkages?
- What are the appropriate employment diagnostic tools to monitor the pattern of pro-poor growth?
- What could be the policy tools of financial regulators and the Central Bank to encourage greater intermediation and financial investment by the commercial banks and the financial sector as a whole to support micro- and small enterprises (MSEs) in the informal economy?

**Legal framework and informality**

- Informal entrepreneurs: do they want to break the law, or are they forced to?
- Property rights and wrongs: how can governments best strengthen property rights and ensure that formality has a solid foundation?
- What incentives can governments provide for businesses to comply with laws and regulations AND for public servants to implement them?
- Extending the rule of law to the informal economy: how can governments expand the employment relationship to cover workers in the informal economy?

**Entrepreneurship and enterprise upgrading in the informal economy**

- What should be done to promote better policies and regulations for enterprise registration, operation and expansion?
- What are examples of practical and successful strategies for upgrading the productivity of informal economy operators and policy reforms to facilitate the transition to formality?
- What should be done to reduce the costs and raise the benefits of informal-enterprise units joining the mainstream economy?
- What institutions and services are most effective in raising the productivity and competitiveness of MSEs?
- How can governments and social partners facilitate the presence of the informal economy operator’s voice in the process of creating a more enabling policy environment?

**Microfinance and the informal economy**

- Why are formal financial institutions not serving the informal economy? Do they not have the expertise or motivation? Are regulations preventing them? How can these obstacles be overcome?
- Are financial inclusion regulations an appropriate way of encouraging financial institutions to go “downmarket”?
- Is it reasonable to expect financial institutions to promote decent work among their borrowers?
- Is it possible to enable financial institutions that do focus on the low-income market to provide a diverse set of financial services, not just micro-enterprise loans?
Skills, vocational training and the informal economy

- What institutions are needed to facilitate the flow of technological knowledge and skills from the formal to the informal economy?
- What is the experience of countries in upgrading informal apprenticeship systems?
- What are effective policies for recognition of skills acquired in the informal economy?
- How can governments and social partners facilitate the design of an integrated skills development strategy?
- How to coordinate policies to link the formal and informal training systems?

Social protection and the informal economy

- What are the factors internal and external to the social security system that lead to exclusion of coverage?
- What incentives and adaptation in design and implementation are required to expand coverage of contributory schemes to the unaffiliated labour force with some capacity to pay?
- What possibilities exist for overcoming the main fiscal and institutional constraints on extending the coverage of non-contributory schemes? What would be the priority risks or groups for such extension?
- What are the best strategies to increase awareness of occupational safety and health problems among informal economy workers and economic units?
- What approaches can labour inspection develop to improve occupational safety and health in the informal economy?
- How should minimum wage policies be designed to reflect African realities and constraints, and what criteria should be used to set the level of minimum wages?
- What possibilities exist for practical improvements in extending maternity protection to women workers, including in the informal economy? What action can ministries of labour and employment, employers’ organizations and trade unions take to respond to this most fundamental of needs?