



Republic of Zambia

AN ANALYSIS OF THE INFORMAL ECONOMY IN ZAMBIA

2008 – 2012 – 2014



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Foreword

This information bulletin seeks to present a theme that is dominating public policy discourse at a global, continental, regional and national level. The drive towards universal coverage of social security is at the heart of a number of development frameworks including the Sustainable Development Goals (SDGs), International Labour Organization (ILO) international labour standards, the Southern Africa Development Community (SADC) instruments and at national level, the Decent Work Country Programme (DWC-P) and the 7th National Development Plan (7-NDP)

The Government of the Republic of Zambia (GRZ) attaches great importance to various efforts aimed at providing predictable and sustainable social protection to over 75 per cent of the Zambian working population. Workers in the informal economy, who are mainly vulnerable youths and women, face a number of contingencies including occupational injuries and diseases, maternity and paternity, old age and sickness, which tend to deprive them of their income. The 2015 Living Conditions Monitoring Survey Report shows a high incidence of income insecurity and destitution, especially among senior citizens, retirees and the working poor in the informal economy.

To this effect, the Government of the Republic of Zambia (GRZ), in collaboration with a number of stakeholders, including the International Labour Organization (ILO), the Zambia Federation of Employers (ZFE), the Zambia Congress of Trade Unions (ZCTU), the National Pension Scheme Authority (NAPSA), the Workers Compensation Fund Control Board (WCFCB) and the Friedrich Ebert Stiftung (FES), is working on a number of policy options to extend social security coverage to the informal economy.

This bulletin provides an overview of various statistical trends, figures and numbers, which are key in informing government policy and strategy on the subject matter. This bulletin provides a basis for a better and more comprehensive understanding of the key features of employment relationships, economic activities and gender dimensions of work within the broader informal economy in Zambia. I hope and trust that the various stakeholders will find the information contained in this bulletin useful in discharging their various mandates.



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Acknowledgement

The informal economy is an integral part of a larger economic landscape and its importance cannot be overemphasized. From a labour market perspective, informal economy brings together all workers in an informal sector and workers with informal jobs present in formal and informal sectors. It is a diversified set of economic activities, enterprises and jobs that pose great challenges for Governments to regulate and/or protect. Small and unregistered enterprises as well as persons in self-employment are concepts usually associated with informal economy. Other widely used concepts that connote informal economy are seasonal, casual and domestic work.

This bulletin presents an extent of informality in the Zambian economy for a period 2008 to 2014. It is the first in a series of specialized publications and factsheets focusing on characteristics of the informal economy. It is worth noting that the measurement of informal economy presented here is based on how the 2008, 2012 and 2014 Labour Force Survey (LFS) defined the concepts of formal sector and formal employment. In Zambia, informal economy hires about 90.0 percent of the employed population. Most workers in the informal economy are rural-based agricultural farmers with low levels of skill and generating low revenues, and often operating seasonally. The ease of entry by which workers move into the informal economy, characterised by low requirements in respect to levels of skill and labour intensiveness, has created a substantially higher rate of informality over the years.

Furthermore, the bulletin seeks to highlight main characteristics of workers in the informal economy with a view to unpacking complexities and heterogeneity of their socio-economic statuses and working conditions. It is hoped that this information bulletin will provide relevant information to various stakeholders including academia, social policy analysts, policy makers, etc as they seek to identify appropriate policy options on critical areas related to the implementation of the Seventh National Development Plan (7NDP). It will also serve as a basis for further research in addressing challenges that the informal economy faces.

The bulletin was prepared by Central Statistical Office (CSO) in collaboration with the Ministry of Labour and Social Security (MLSS). The International Labour Organization (ILO) facilitated the financial and technical support during its preparation. With this in mind, I would like to thank, most sincerely, the ILO for the support rendered during the preparation and publication of this information bulletin. It is also my sincere hope that the bulletin will provide necessary information for policy making and development of interventions aimed at covering the informal economy within the social protection policy.



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Concepts and Definitions

Total population is a total number of all persons aged 0 years or older in a given territory at a specified point in time.

Working-age population refers to persons 15 years of age or older.

Labour force refers to persons aged 15 years of age or older who are either employed or unemployed during a specified reference period. The concepts “labour force” and “economically active population” are often used interchangeably in most literature.

Employed population is a total number of persons who have a paid job (i.e. pay in cash or in kind), are in self-employment or are in contributing family work. Persons who have a paid job and are currently on leave, as well as those in self-employment but are currently absent from work due to various reasons, such as inadequate raw materials, labour disputes, absence of business opportunities, etc, are included in a count of employed population.

Formal sector refers to production units in an economy that are registered with a tax and/or a licensing authority and are less costly to monitor and regulate. Examples of tax and licensing authorities in the Zambian context are the Zambia Revenue Authority (ZRA) and the Patents and Companies Registration Agency (PACRA).

Informal sector refers to production units in an economy that are not registered with a tax or a licensing authority and are costly to monitor and regulate.

Formal employment is a job-based concept referring to a type of employment in which a job-holder is entitled to a social security and contract, in addition to annual paid leave, or any such entitlement.

Informal employment is a type of employment characterized by lack of an entitlement to social security and annual paid leave. This type of employment may be found in both formal and informal sector production units.

Industry refers to the main economic activity that takes place at a given place of work.

Labour force participation rate is a ratio of the labour force to an overall size of the working-age population. It is indicative of a country’s working-age population that is actively engaged in labour market activities, either by working or actively seeking work.

Executive Summary

A critical analysis of the informal economy in Zambia for the period 2008 to 2014 shows a number of notable statistical trends. The labour force participation rates in the informal economy were relatively stable over time. The fairly high labour force participation rates experienced in the economy between 2008 and 2014 of about 74.5 percent in 2008 and 77.7 percent in 2014 clearly indicated that the economy had a huge potential to register positive economic growth. In 2008, informal sector accounted for 88.9 percent of the employed population while in 2012 and 2014, the informal sector constituted 88.6 percent and 89.3 percent, respectively.

The informality rate also varied markedly by age. Cohorts of younger workers (15-24 years) and older workers (50 years or older) recorded relatively higher rates of informality. Given low levels of skill and lack of experience among the younger people they had a higher likelihood to assume informal jobs, while having exited formal employment the only alternative for older workers was the informal economy.

The level of education proved to be a crucial factor in determining formality of one's job. Persons with low levels of education registered high rates of informality, whereas those with high levels of education had low rates of informality.

Informality had taken root in almost every aspect of employment. The rural economy was dominated by informal jobs, placing women ahead of men in assuming informal jobs, the highest informality rate for women of 94.6 percent was recorded in 2014. However, a very significant increase in the number of informal jobs was observed in urban areas, with approximately one million new workers were joining the informal economy between 2014 and 2017.

In addition, the size of an enterprise determined the extent of informality of an enterprise. The smaller the size of an enterprise, the higher the certainty of it being informal, owing largely to "invisible" legislation and policies guiding their registration. Findings from the analysis also showed that small-scale enterprises were predominant in the informal economy compared to large-scale entities.

The results also showed that a bigger portion of informal economy enterprises did not provide written contracts to their employees, hence most workers in the informal economy were working either temporal/seasonal or part-time. Clearly, work contracts were found in very few firms or jobs across the entire labour market. Furthermore, it was found that informality of jobs depended on one's status in employment. Those working as self-employed, contributing family workers or employers were at greater risk of falling in the informal economy. The analysis showed that 25.6 percent of permanently employed male workers and 26.9 percent of female workers had informal jobs compared to those employed on temporary, part-time or seasonal basis whose rates of informality ranged from 80.9 percent to 99.4 percent among males and from 75.9 percent to 98.3 percent among females.

Structure of the Bulletin

The results are presented on graphs and charts. Figure 1 shows a trend (i.e. for a period 2008 to 2014) of labour market components. Figures 2 and 3 present the rate of informality by rural/urban and sex, respectively in 2008, 2012 and 2014. Figures 4, 5 and 6 shows the rate of informality by age group, level of education and industry, respectively in 2014, while Figure 7 shows female share in the informal economy by industry in 2014. Figure 8 shows a chart of informal jobs created between 2008 and 2014 by industry. In figures 9, 10 and 11, the bulletin presents the rate of informality by size of enterprise, status in employment and type of employment contract, while figure 12 presents monthly earnings in 2008, 2012 and 2014. The bulletin concludes with a summary of findings based on the three labour force survey data points, i.e. 2008, 2012 and 2014.

Labour Market and Informality 2008 - 2014

Zambia's labour market is characterized by high labour force participation. About three in every four persons of working age are either in employment or actively seeking work. Results show that labour force participation rate was 74.5 percent in 2008, 75.9 percent in 2012 and 77.7 percent in 2014. For persons in employment, informality takes prominence on most jobs. Nonetheless, the economy runs on a slowly-growing and lean formal sector.

In 2008, informal employment accounted for 88.9 percent. Informal employment remained relatively high at 88.6 percent in 2012, and increased to 89.3 percent in 2014. In absolute terms, informal employment was estimated at 4,309,006 individuals out of 5,003,871 persons in employment in 2008. Informal employment increased to 4,874,368 individuals in 2012 and to 5,229,599 individuals in 2014. With a relatively stable informality rate during the period under review, **a number of new informal jobs were created in the Zambian economy.**

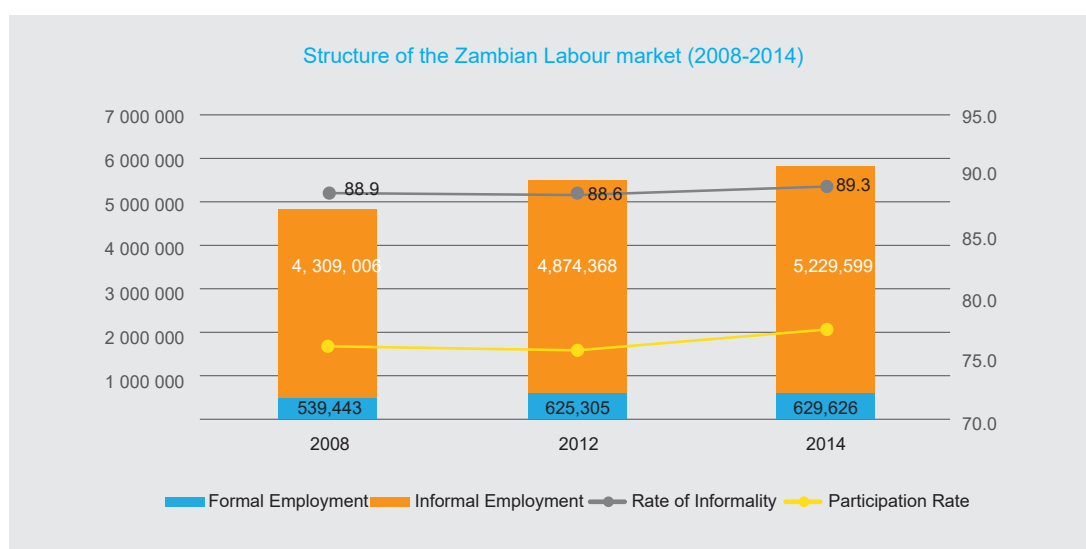
Key Findings

1.1. Informality

Informality is a concept applied to refer to the extent by which an enterprise and/or a job is devoid of specific attributes that determine the level of formality. Some of most widely used attributes to determine formality of enterprises are location, legal registration and number of workers in an enterprise. Formality of a job, on the other hand, is often determined by whether the job has a contract, an entitlement to annual paid/sick leave or an entitlement to a social security coverage through registration with social security scheme.

Figure 1 shows number of workers with formal and informal jobs in 2008, 2012 and 2014. The number of workers with informal jobs was estimated at 4,309,006 in 2008, representing 88.9 percent of workers in the economy. In 2012, workers with informal jobs were 4,874,368, which later further increased to 5,229,599 in 2014. Despite a stable informality rate, in the period considered approximately 1 million new informal jobs were created in the economy.

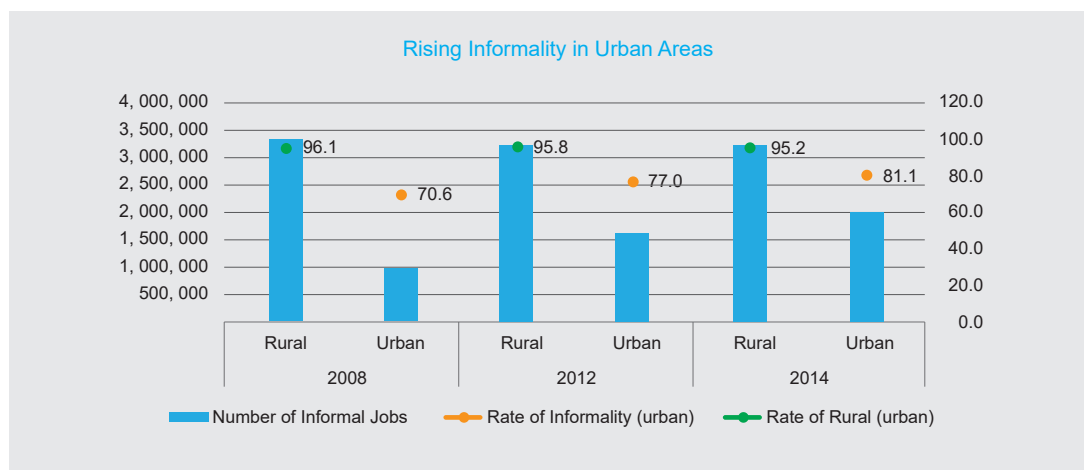
Figure 1: Structure of Labour Market for the period 2008 - 2014



1.2. Informality by rural/urban

Figure 2 shows informality rate by rural/urban. Results show that informality rate was higher in rural areas than was in urban areas during the period under review. Rural areas recorded a marginal downward trend in the rate of informality from 96.1 percent in 2008 to 95.8 percent and 95.2 percent in 2012 and 2014, respectively. It is however worth noting that, despite maintaining modestly high informality rates, urban areas had an upward trend in the rate of informality from 70.6 percent in 2008 to 77.0 percent and 81.1 percent in 2012 and 2014, respectively. The overall increase in the number of informal jobs in the period considered was taking place almost exclusively in the urban areas.

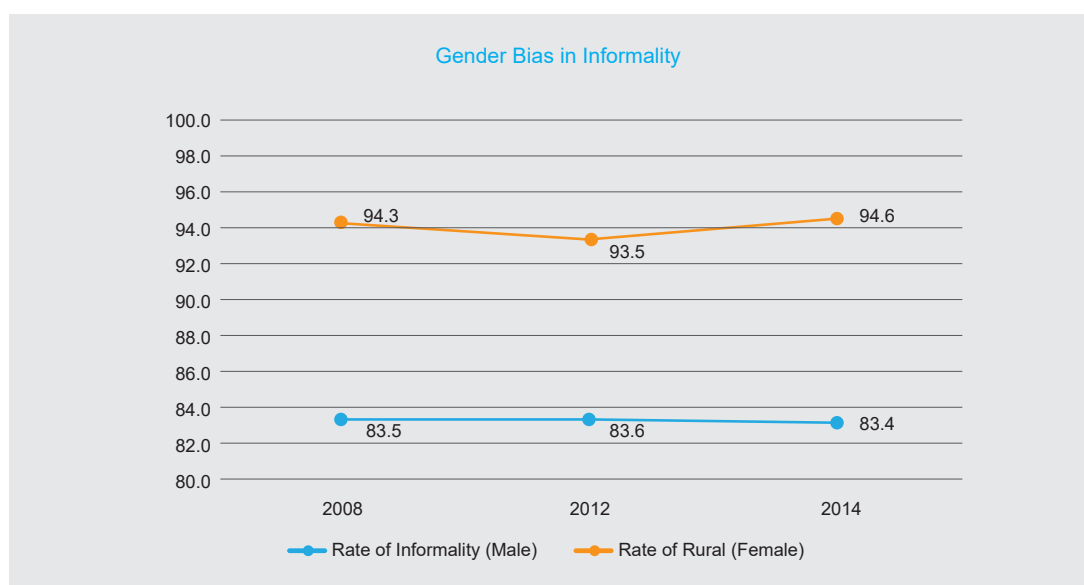
Figure 2: Informality rate by rural/urban, Zambia 2008, 2012 and 2014



1.3. Informality rate by sex

Figure 3 shows informality rate by sex. Results clearly show that informality rates were consistently higher among women. Women were more susceptible to effects of informality than men. Results show that about nine in every ten women compared to eight in every ten men had informal jobs.

Figure 3: Informality rate by sex, Zambia 2008, 2012 and 2014

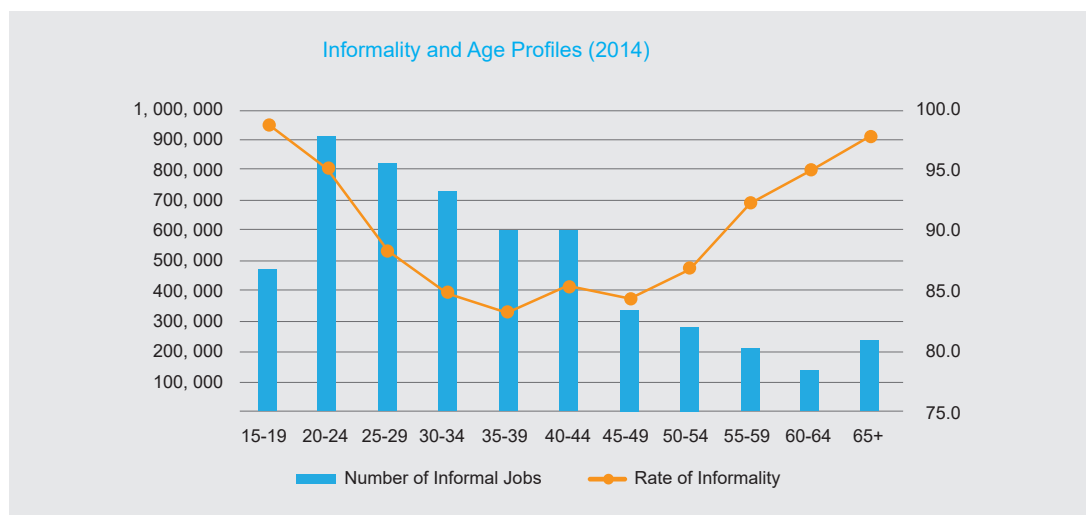


1.4. Informality rate by age group, 2014

Figure 4 shows informality rate and number of informal jobs by age group. Results reveal that informality rates were relatively higher among cohorts of younger workers aged 15-24 years and workers 50 years of age or older. While the younger ones are less skilled and inexperienced probably due to being in school or training, the older ones might have left formal employment, due to retirement and opted to join the informal sector. Individuals in the age group 25-50 years of age recorded the lowest rates of informality, the stage in life during which the majority of citizens may have completed education thereby increasing their chances of being in paid formal employment.

The absolute number of informal economy workers (see blue bars) is mostly concentrated in the 20 to 39 years range.

Figure 4: Informality by age group, Zambia 2014



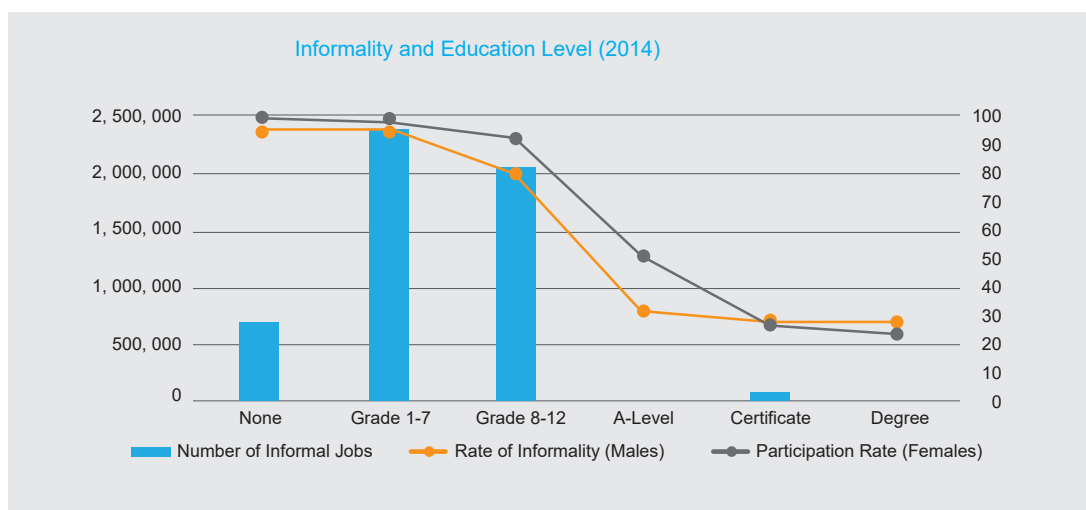
1.5. Informality rate by level of education, 2014

Figure 5 shows informality rate by level of education. Results show that there was a positive correlation between informality and level of education. Persons with lower level of education registered the highest rate of informality (i.e. ranging from those that had no education to those that attained grade 12).

The lack of experience coupled with limited training and low skills compelled such people to assume jobs that were not as secure as they ought to be. This status quo was common to male and female alike, though females were more at risk to fall in informal employment than their male counterparts. Informality rates ranged between 80 and 100 percent. Workers with higher level of education (i.e. A-level, certificate and degree holders) had much lower rates of informality at less than 30 percent for males and females alike.

For all levels of education, informality rates were significantly higher among female workers, showing a consistent disadvantage of women in accessing formal employment compared to men.

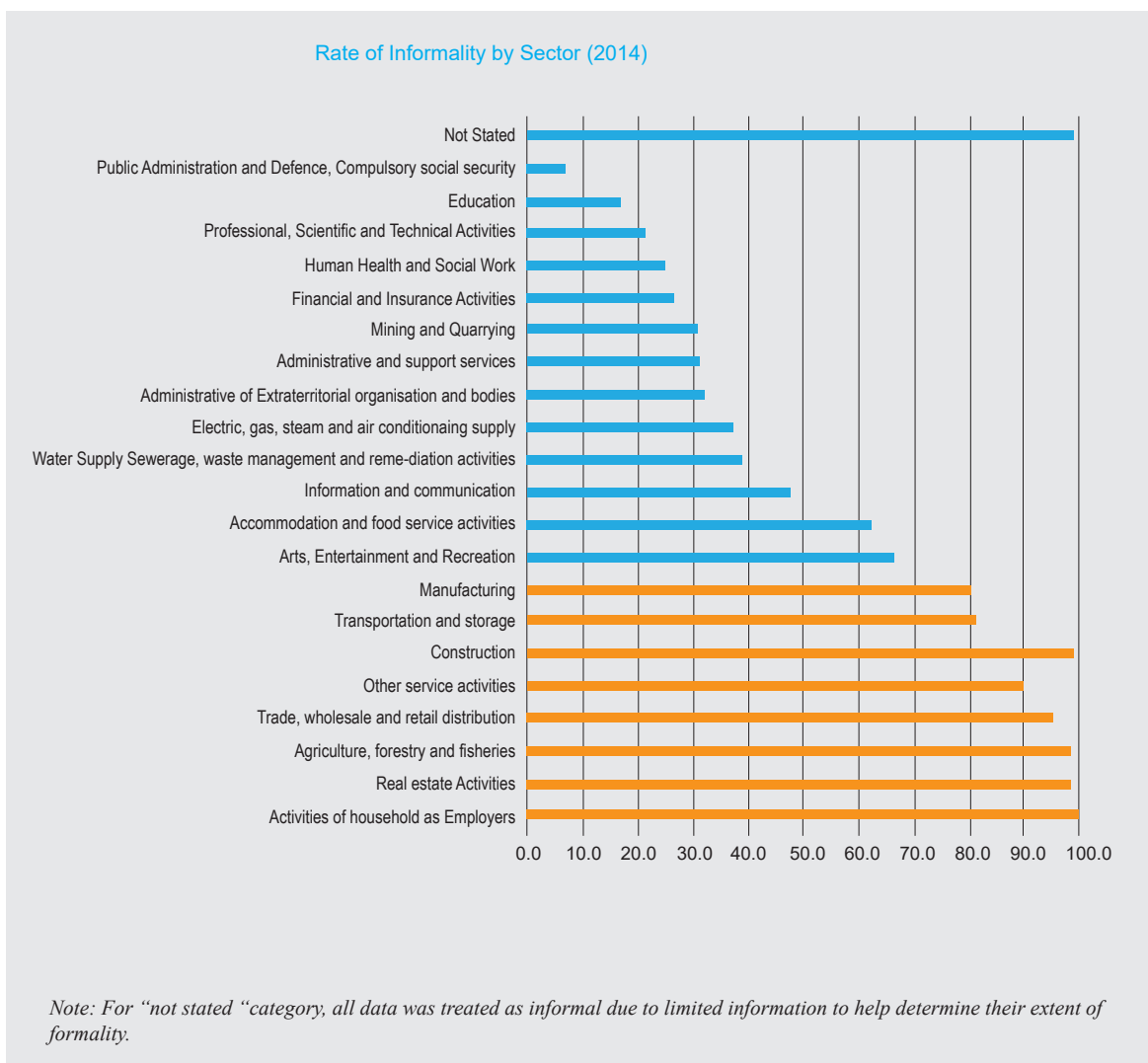
Figure 5: Informality rate by level of education, Zambia 2014



1.6. Informality rate by industry/sector, 2014

Figure 6 shows informality rate by industry/sector. Results show that informality rates varied by industry. Manufacturing; Transportation and storage; Construction; Other service activities; Trade wholesale and retail distribution; Agriculture, forestry and fishing; Real estate activities and Activities of households as employers industries had rates of informality in the range of 80.0 percent to about 100.0 percent in comparison to Public administration and defense, compulsory social security; Education; Professional, scientific and technical activities; Human health and social work; Financial and insurance activities and Mining and quarrying industries in the range of 5.0 and 30.0 percent.

Figure 6: Informality rate by level of education, Zambia 2014



1.7. Predominance of female workers with informal jobs by industry, 2014

Concentration of informal jobs by industry, sex and location

An analysis of informality rates by sector per se can be misleading. Different sectors vary in size, and relatively low informality rates can still translate into very large number of informal jobs if the total size of the employed population in the sector is big.

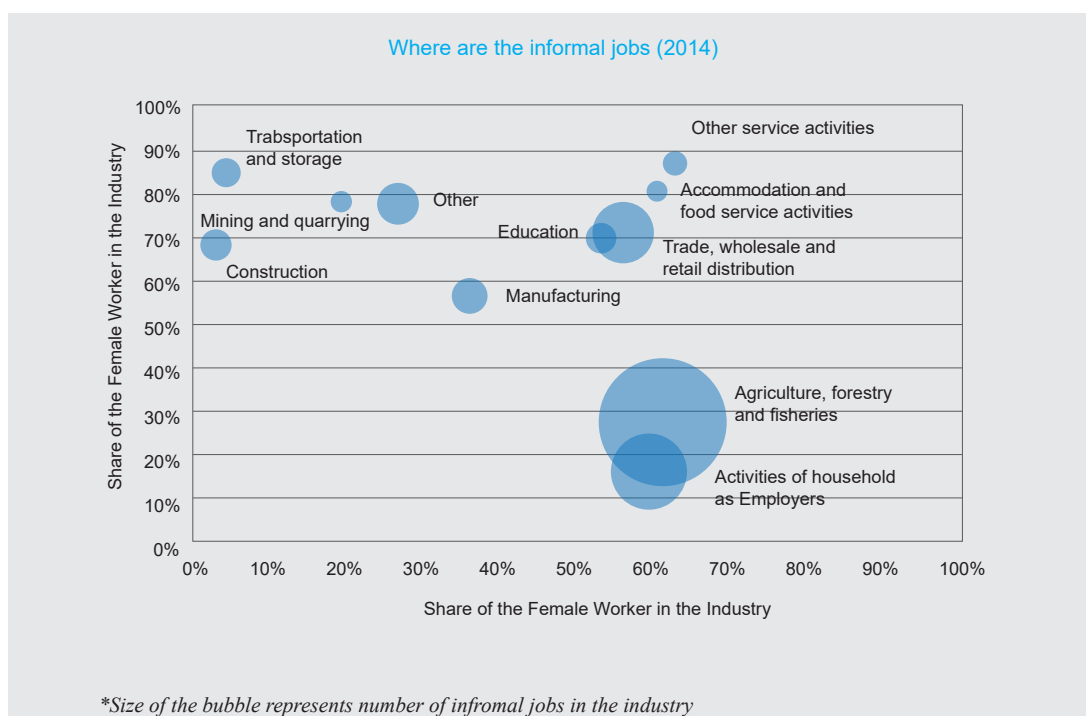
The Labour Force Survey for 2014 shows that the agriculture, forestry and fishing and activities of household as employers' industries had highest absolute number of informal employed individuals (respectively 2,9 million and 1 million informally employed workers). Workers in these sectors predominately females and operate primarily in rural areas.

The third largest sector in which informal employment is concentrated was trade, wholesale and retail distribution (0,7 million informally employed workers), again with a higher participation of females, but in this case mostly prevalent in urban areas.

Other informal employment sectors that are predominantly male dominated and found in urban areas were Manufacturing (180,000 informally employed workers), Construction (150,000 informally employed workers) and Transportation and Storage (120,000 informally employed workers).

Combining information of informality rate and absolute numbers of informally employed workers is important. For example while the informality rate in the construction sector is above 80% this sector contribution to the total number of informal job in Zambia is relatively small compared to other sectors.

Figure 7: Predominance of female workers with informal jobs by industry, Zambia 2014

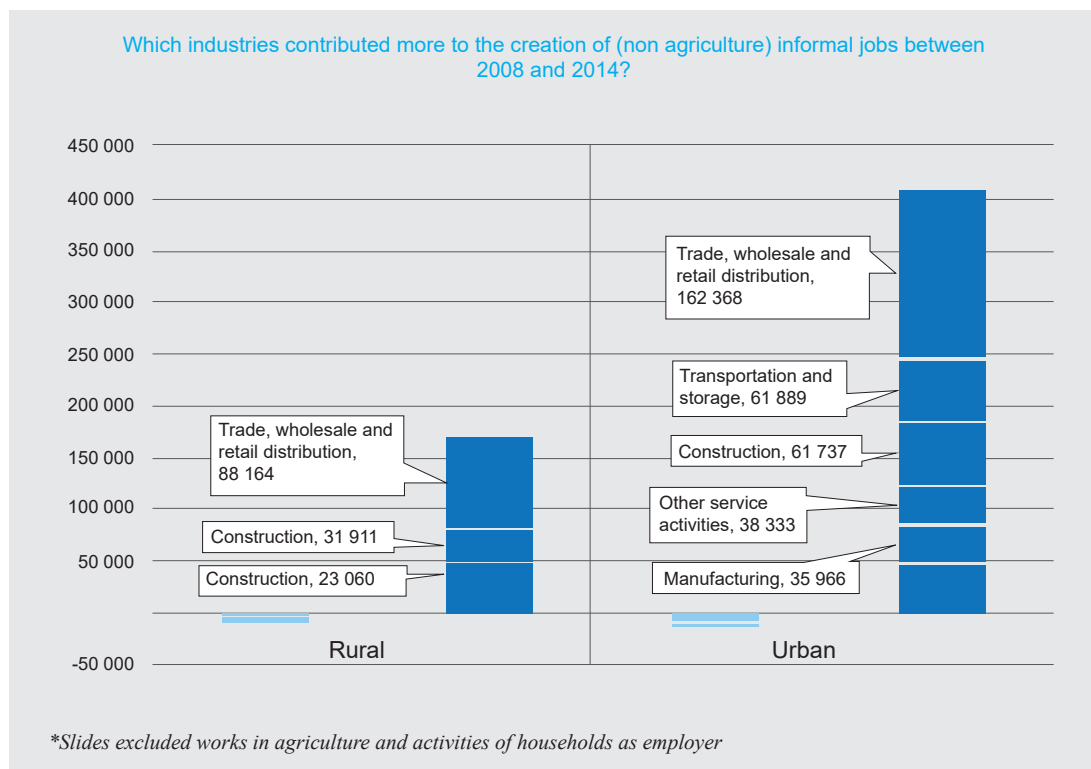


1.8. Contribution of non-agricultural informal employment by industry between 2008 and 2014

Figure 8 shows contribution of Non-agriculture informal employment gains by industry. Results show Trade, wholesale and retail distribution industry as a primary contributor to the number of jobs gained between 2008 and 2014. An estimated 88,164 jobs were gained in rural areas, whereas 162,368 jobs were gained in urban areas.

Transport and storage industry was the second largest contributor of jobs (61,889) in urban areas while Construction industry was the second largest contributor in rural areas (31,911) and 61,737 in urban areas. Manufacturing industry with a contribution of 23,060 jobs ranked third in rural areas. However, the manufacturing industry with a contribution of 35,966 jobs was recorded as a fifth contributor in urban areas.

Figure 8: Contribution of non-agriculture informal employment gains by industry, Zambia 2014



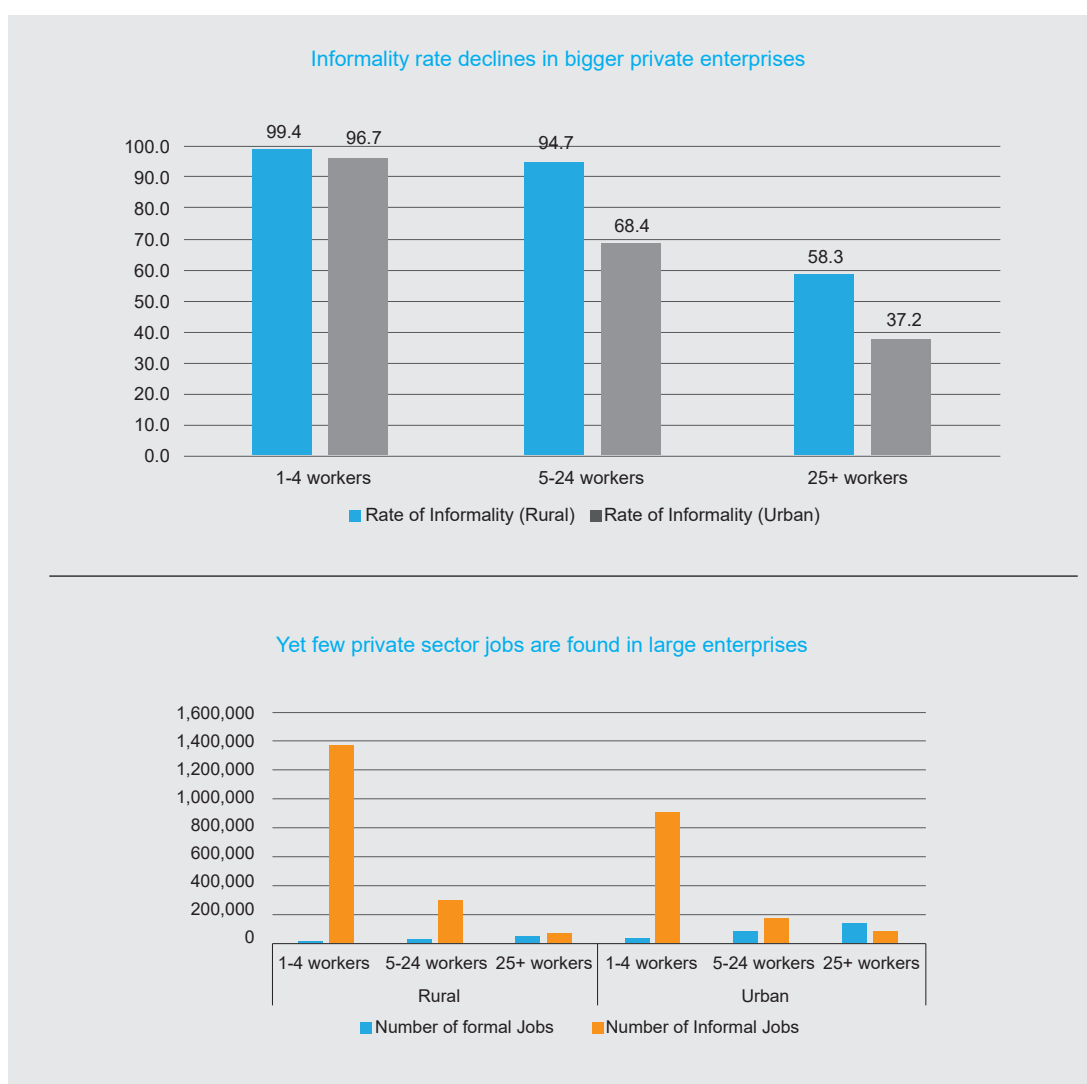
1.9. Informality rate by size of enterprise, 2014

Figure 9 shows informality rate by size of enterprise. It also contains an inset on formal and informal jobs by rural/urban. Results show a declining informality rate with an increase in enterprise size in rural and urban areas alike. Enterprises with 1 to 4 workers had a rate of informality of 99.4 percent in rural areas and 96.7 percent in urban areas. Those with 5 to 25 workers had rates of informality of 94.7 percent and 68.4 percent in rural and urban areas, respectively. And enterprises with more than 24 workers had 58.3 percent in rural and 37.2 percent in urban areas.

Furthermore, results affirm (see inset) that formality of an enterprise was also determined on the basis of the number of workers in an enterprise. Enterprises whose number of workers was between 1 to 4, had an exceedingly larger number of workers with informal jobs, whereas those whose number of workers was more than 4 had very few workers with informal job in rural and urban areas alike.

The rate of informal jobs among enterprise with more than 25 workers still showed high rates of above 50% this could point to challenges with increased insecurity and flexibility in labor market and inadequate measures to enhance labor market regulations.

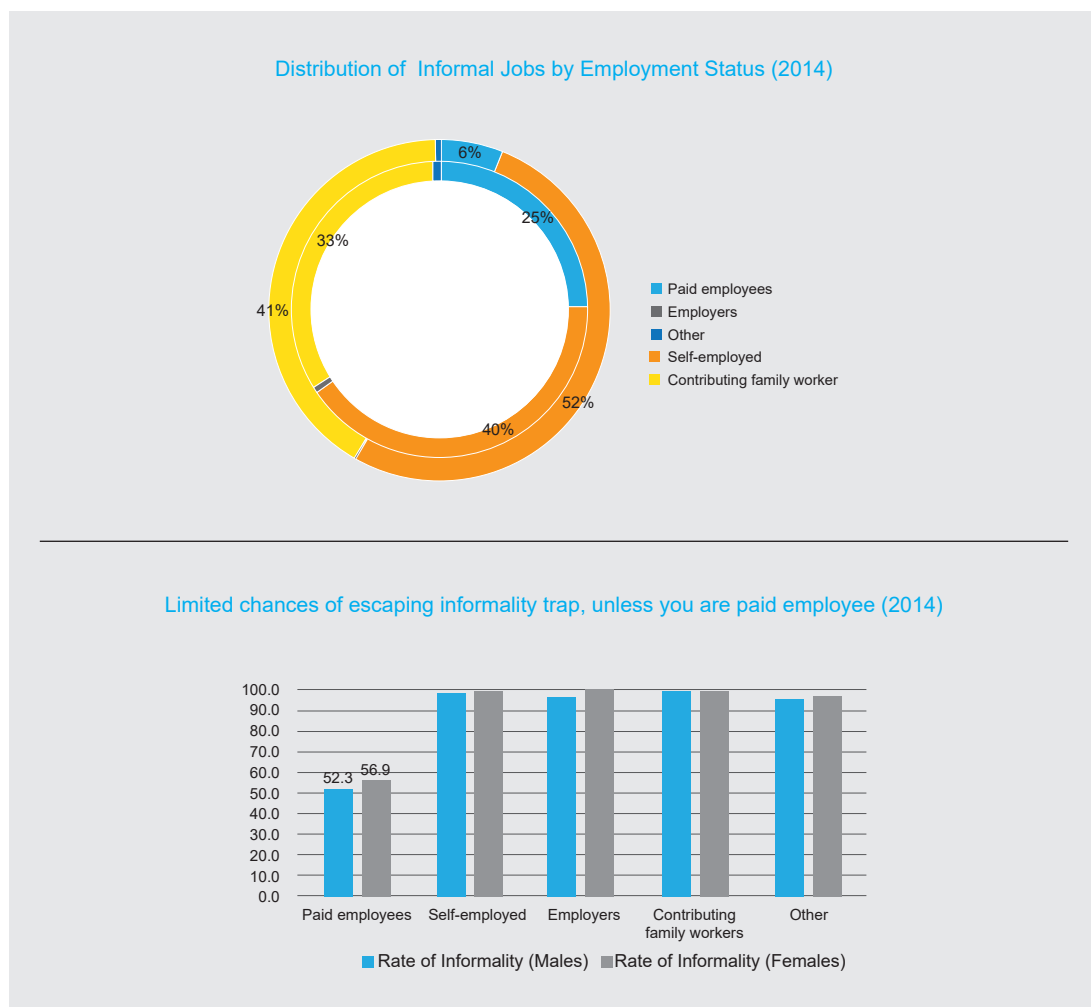
Figure 9: Informality rate by size of enterprise, Zambia 2014



1.10. Informality rate by status in employment, 2014

Figure 10 shows informality rate by status in employment and sex. It also contains an inset on status in employment of informal jobs. Results show a close relationship between status in employment and informality. Nearly all unpaid family workers; employers and self-employed workers had informal jobs for males and females alike. Informality rate for self-employed workers was recorded at 99.9 percent among females and 99.8 among males. Employers' rate of informality was 96.0 percent among females and 98.0 percent among males. Paid wage workers had substantially lower rate of informality of 52.3 percent among males and 56.9 percent among females.

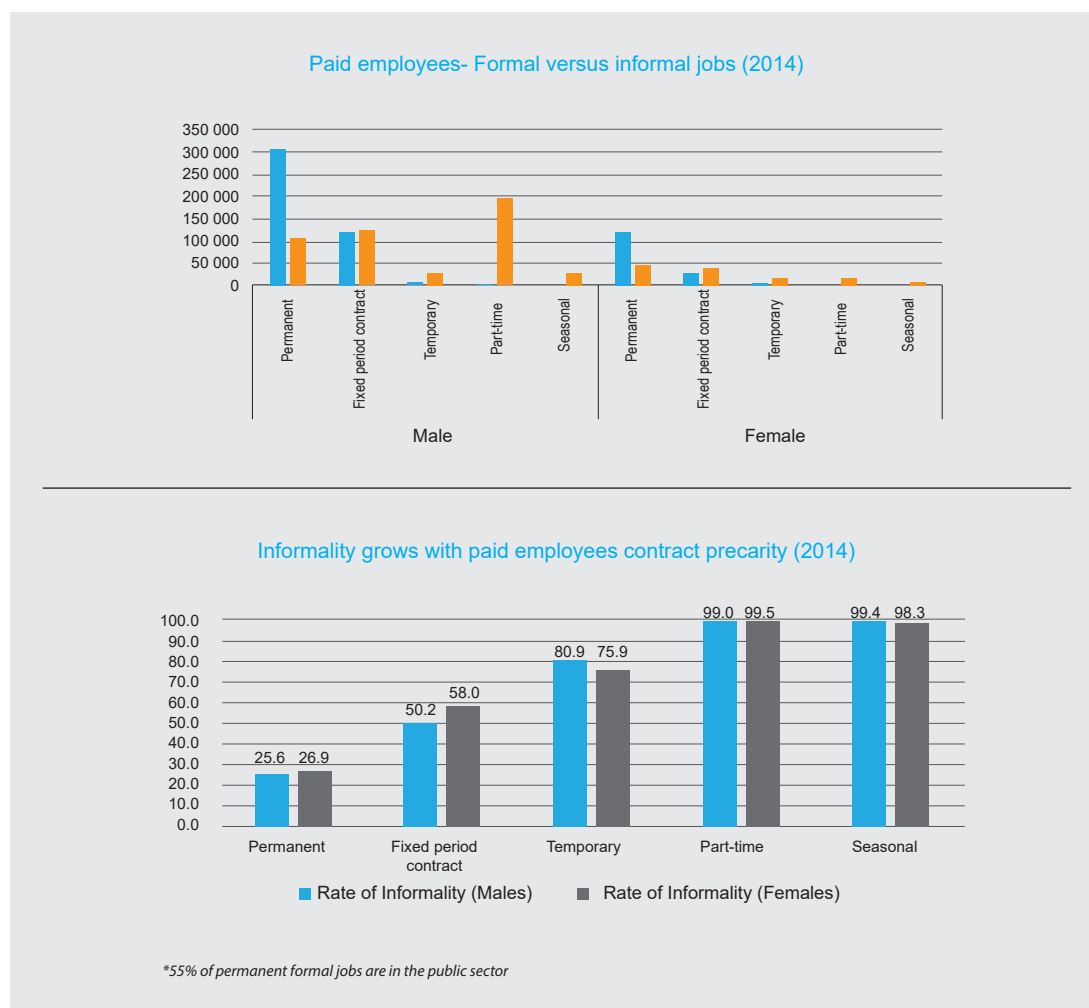
Figure 10: Informality rate by status in employment by sex, Zambia 2014



1.11. Informality rate by type of contract, 2014

Figure 11 shows informality rate by type of workers' contract and sex. It also contains an inset on distribution of employment by formal/informal jobs and sex. Informality rate among permanently employed male workers was 25.6 percent and 26.9 percent among females. The rate of informality among male workers on fixed period contract were higher at 50.2 percent and 58.0 percent among females. The temporal, part-time and seasonal workers had informality rates in the ranges of 80.9 to 99.4 percent among males and 75.9 to 98.3 percent among females. Results show that informality rates increased with precarity of workers' contract. The more precarious the job was the higher the rate of informality.

Figure 11: Informality rate by type of workers' contract and sex, Zambia 2014



CONCLUSION

In most developing countries the informal economy represents an important source of work opportunities for majority of the population. The analysis of the informal economy in Zambia for the period 2008 to 2014 showed notable trends. The fairly high labour force participation rates experienced in the economy between 2008 and 2014 clearly indicated that the economy had a huge potential to register positive economic growth. On the other hand, at the core of the potential to grow the economy was the informal economy which made up majority of the employed population. The high level of informality is an important factor for the design of particularly the social insurance programmes.

The Government of Zambia has been piloting strategies for extending social protection coverage to the informal economy spearheaded by the Technical Working Group on Extension of Social Protection to the Informal Economy in Zambia. This necessitates a need for quality data on the size and characteristics of the informal economy workers. Quality data constitutes a major building block in the formulation of adequate policies responsive to the informal economy. The analysis produced in this report provides evidence that will guide adequate policy formulation and effective inclusion of informal workers in the social protection strategies and programmes.



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