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Parallel thematic discussion

Theme 4: Moving out of informality: The role of the social economy

The distinction between “formal” and “informal” is often ambiguous; and the process of formalization is often gradual and lengthy. Informal economy workers and employers do not become formal overnight. The ILO believes that the social economy, i.e. the kaleidoscope of voluntary organizations that exist and strive in Africa’s societies and communities, can build a bridge between informality and formality. Likewise, the social economy builds bridges between rural and urban markets, between economic and social concerns, and between individuals and society.

The role of the informal economy in Africa

In sub-Saharan Africa the proportion of informal economic activity is higher than anywhere else in the world, a fact that poses an important challenge for the economic and social development of the continent. Work in the informal economy is mostly not “decent”, and productivity, profitability and competitiveness in informal businesses remain low. Conflicts, crises and economic downturns typically lead to an expansion of the informal economy; especially in fragile or collapsed states. While it is difficult to compile reliable statistics on the informal sector in Africa, it has been estimated that in sub-Saharan Africa the share of the informal economy in non-agricultural employment is as high as 78 per cent, while 93 per cent of all new jobs created are informal; on an average, the share of the informal economy in GDP is 42 per cent. These averages mask important differences between countries; in some African nations, the formal economy occupies just 5 per cent of the workforce, while in other, it may exceed 50 per cent. The share of women and youths in informality almost always exceeds that of men. The degree of informality in North Africa is relatively lower, but the recent revolutions, sparked and driven largely by disillusioned and discouraged youths, shows that even there, the formal economy does not create a sufficient number of opportunities for all.

The ILO coined the term “informal sector” in the early 1970s to describe the economic reality in many low-income countries. The term was later changed to “informal economy” to underline the fact that it describes a phenomenon that is distinct from the mainstream economy. Informal economy as a concept goes beyond the “informal sector” incorporating the diversity of workers and economic entities across sectors in both urban and rural contexts. There is no universally accepted definition of the term “informal economy”; however, the 2002 International Labour Conference adopted at the outcome of a tripartite general discussion on the following definition: the informal economy comprises “all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements”.

Additional characteristics of the informal economy include non-regulation of its businesses, the prevalence of cash transactions, dependency on local markets, relatively poor working conditions, and the prevalence of self-employment, casual and seasonal labour, and family work (including, very often, child labour). The informal economy is heterogeneous and includes a great variety of businesses and initiatives set up for various motives: economic, social, political, and environmental. Therefore, the informal economy has a strong job creation potential and can also be a source for economic and social innovations; but it is certainly not a haven of Decent Work.

The transition from informality to the formal economy is the declared goal of the ILO's tripartite constituents since this would be the only way to address the considerable decent work deficits in terms of lack of rights, protection, and dialogue. Informal sector workers are often poorly protected, earn low and irregular salaries, and are seldom allowed to engage in collective bargaining. Moreover, there is a strong correlation between poverty and informality.

The social economy

While there is no globally accepted definition for what constitutes “social economy”, the ILO uses the working definition agreed at a tripartite conference held in Johannesburg in October 2009.¹ According to that definition, the terms social economy designates: enterprises and organizations, in particular cooperatives, mutual benefit societies, associations, foundations and social enterprises, which have the specific feature of producing goods, services and knowledge while pursuing both economic and social aims and fostering solidarity.

Social economy enterprises therefore exist in a variety of legal forms. On the other hand, not all entities registered under such a legal form do necessarily belong to the social economy. In order to qualify as a social economy organization or enterprise, such entities must have the following features:

- Their primary purpose is not to obtain a return on capital. They are, by nature, part of a stakeholder economy, whose enterprises are created by and for those with common needs, and accountable to those they are meant to serve. Social economy entities recognize the primacy of people and work over capital.
- They are democratically controlled in accordance with the principle of “one member, one vote”.
- They are based on voluntary participation, membership and commitment, and they emphasize self-help and self-reliance, as well as local identity.

The social economy and its enterprises and organizations offer a promising means to bridge the gap between the informal and formal economies, thus reducing decent work deficits, improving productivity and competitiveness, and raising incomes and profitability. By combining social aims with economic and environmental sustainability, social economy enterprises create a “virtual triangle” of opportunity, empowerment, and protection. Through their membership in a social economy organization, informal economy workers and operators can generate economies of scale and scope, enhance voice and representation, increase their bargaining power, and achieve a minimum of social protection through mutual assistance, solidarity and reciprocity. Social economy

¹ ILO Tripartite Regional Conference on Social Economy, Johannesburg, South Africa, 19–21 October 2009.

enterprises can also be important channels for the dissemination of knowledge and information among their members, and provide opportunities for skills development and training. Examples of social economy enterprises already fulfilling these goals include, among others, micro-finance and micro insurance societies, mutual health benefit schemes, social enterprises formed to reintegrate disadvantaged population groups or perform community work, and a multitude of different types of cooperatives. Unfortunately, the potential of the social economy to build a bridge between the informal and formal economies has not yet been fully recognized by governments, constituents, civil society and development partners.

In Africa, the social economy is particularly visible in the areas of microfinance, social protection, microinsurance, agricultural marketing and supply, housing, and collective work in agriculture, commerce and manufacturing. Several African countries have taken an increasing interest in the social economy as an alternative and complementary path to development. Examples include:

- In 22 African countries, the 14,400 credit unions associated with the World Council of Credit Unions, with their 15.6 million members, have accumulated an estimated US\$4.4 billion in savings.
- Approximately 7 per cent of African households include at least one cooperative member, making the total number of cooperative members on the continent at least 70 million.
- In South Africa, the potential of the social economy has been recognized by its inclusion as a key jobs driver in the New Growth Path endorsed by Cabinet in 2010.
- Countries such as Mali, Morocco and Cameroun have established government departments dedicated to the promotion of the social economy, and/or adopted national policies on the subject.
- African networks of social economy enterprises and organizations have been established, including the African Network of the Social and Solidarity Economy (RAESS) established in 2010, the African Social Entrepreneurs Network (ASEN), the East Africa Social Enterprise Network (EASEN), the African Cooperative Savings and Credit Association (ACOSCA), and the Pan-African Cooperative Conference.

While the social economy enterprises and organizations are registered and formally recognized and therefore belong to the formal economy, their members and beneficiaries often remain in the informal sector, at least for a certain period of time. In the longer term, however, the economic, social and societal benefits of membership in a social economy organization will lead to the gradual formalization of informal work and business, as demonstrated by many examples throughout the continent and beyond.

Suggested questions for discussion

1. How can governments and the social partners support the transition from informal economy to the formal economy through social economy enterprises?
2. What measures are needed to be taken by constituents and development partners for the social economy to fully reach its potential to build a bridge between informality and formality?
3. What are the factors constraining the emergence and successful operations of social economy enterprises and organizations in Africa, and how can those be overcome?