African Labour Research Network

FORMALISING THE INFORMAL ECONOMY: A LABOUR PERSPECTIVE

Compiled & Edited by:
Kwabena Nyarko Otoo
Trywell Kalusopa
Kimani Ndungu
Naome Chakanya

2015

African Labour Research Network

FORMALISING THE INFORMAL ECONOMY:

A LABOUR PERSPECTIVE

Published in Zimbabwe by The African Labour Research Network (ALRN)

www.alrnetwork.org

Edited by:

Kwabena Nyarko Otoo
Trywell Kalusopa
Kimani Ndungu
Naome Chakanya

Table of Contents

List of Figures

List of Tables

Abbreviations and Acronyms

ACILS	American Center for International Labor Solidarity
ADR	Alternative Dispute Resolution
AfDB	African Development Bank
ALRN	Africa Labour Research Network
ASCAs	Accumulating Savings and Credit Associations
AWC	Agricultural Wage Council
AZIEA	Alliance for Zambia Informal Economy Association
BDS	Business Development Services
BON	Bank of Namibia
BUTA	Bulawayo Upcoming Traders' Association
CBAs	Collective Bargaining Agreements
CBD	Central Business District
CBS	Central Bureau of Statistics
CIF	Construction Industry Federation
CISEP	Concept for Informal Sector Employment Promotion
COTU	Central Organisation of Trade Unions
CPP	Convention Peoples' Party
CZI	Confederation of Zimbabwe Industries
DWPP	Decent Work Pilot Programme
DWU	Dock Workers Union
DYMIMIC	Dynamic Multiple-Indicator-Multiple-Cause
EFT	Electronic Funds Transfer
EPA	Economic Partnership Agreement
ERP	Economic Recovery Programme
ERS	Economic Recovery Strategy for Wealth and Employment Creation
ESAP	Economic Structural Adjustment Programme
EU	European Union
FDI	Foreign Direct Investment
FDI	Foreign Direct Investment
FES	Friedrich Ebert Stiftung
FFTUZ	Federation of Free Trade Unions
FKE	Federation of Kenya Employers
FNGOs	Financial Non-Governmental Organisation
FPL	Food Poverty Line
GAWU	General Agricultural Workers' Union
GDP	Gross Domestic Product
GDP	Gross Domestic Product
GDWCP	Ghana Decent Work Country Programme

GEA	Ghana Employers' Association
GIPC	Ghana Investment Promotion Council
GIPF	Government Institution Pension Fund
GLSS	Ghana Living Standards Survey
GPRTU	Ghana Private Road Transport Union
GRN	Government of the Republic of Namibia
GSS	Ghana Statistical Service
GUFs	Global Union Federations
GWC	General Wage Council
GYEEDA	Ghana Youth Enterprises and Entrepreneurial Development Agency
HDI	Human Development Index
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
ICEG	International Centre for Economic Growth
IEA	Institute of Economic Affairs
IHDI	Inequality adjusted Human Development Index
IJCS	Industrialization and Job Creation Strategy
ILO	International Labour Organisation
ILO	International Labour Organisation
ISSER	Institute of Statistical Social and Economic Research
IUF	International Union of Food
JASPA	Jobs and Skills Programs for Africa
KANU	Kenya African National Union
KBCTFIEU	Kenya Building, Construction, Timber and Furniture Industries Employees Union
KENASVIT	Kenya National Alliance of Street Vendors and Informal Traders
KIHBS	Kenya Integrated Household Budget Survey
KILM	Key Indicators of the Labour Market
KIPPRA	Kenya Institute for Public Policy Research and Analysis
KNFJKA	Kenya National Federation of Jua Kali Associations
KNPSWU	Kenya National Private Security Workers Union
KNUT	Kenya National Union of Teachers
KUDHEIHA	Kenya Union of Domestic Hotels Educational Institutions Hospitals and Allied Workers
KUHABSWO	Kenya Hair and Beauty and Salon Workers Union
KUSU	Kenya Universities Staff Union
LaRRI	Labour Resource and Research Institute
LCMS	Living Conditions Monitoring Survey
LEAP	Livelihood Empowerment Against Poverty
LED	Local Economic Development

LESD	Local Economic and Social Development strategy
LFS	Labour Force Survey
LFS	Labour Force Survey
LGN	Law Growth Nexus
LMIS	Labour Market Information System
MADCOWA	Matatu Drivers' and Conductors' Welfare Association
MANWU	Metal and Allied Namibia Workers Union
MASLOC	Microfinance and Small Loans Centre
MIT	Ministry of Trade and Industry
MMD	Movement for Multiparty Democracy
MOA	Matatu Owners Association
MoFEP	Ministry of Finance and Economic Planning
MoL	Ministry of Labour
MoLSS	Ministry of Labour, Social Security and Services
MSE	Micro and Small Enterprise
MSEA	Micro and Small Enterprise Authority
MSMEs	Micro, Small and Medium Enterprises
MTP	Medium-Term Plan
MUN	Mine Workers Union of Namibia
MUZ	Mineworkers Union of Zambia
MVA	Motor Vehicle Accident Fund of Namibia
MWA	Matatu Welfare Association
NABTA	Namibia Bus and Taxi Association
NACOSH	National Council for Occupational Safety and Health
NANLO	Namibian National Labour Organisation
NANTU	Namibia National Teachers Union
NAPWU	Namibia Public Workers Union
NARC	National Rainbow Coalition
NASGWU	Namibia Security Guard and Watchman's Union
NATAU	Namibian Transport and Allied Workers Union
NAVUZ	National Vendors' Union of Zimbabwe
NCAS	Namibia National Child Activities Survey
NDP	National Development Plan
NEET	Youth not in Employment-not in Education or Training
NELMP	National Employment and Labour Market Policy
NEP	National Employment Policy
NHIF	National Hospital Insurance Fund
NHIS	National Health Insurance Scheme
NISO	Namibia Informal Sector Organisation
NLB	National Labour Board
NLC	National Labour Commission
NLC	Nigeria Labour Congress

NOWS	Namibia Occupational Wages Survey
NSA	Namibia Statistics Agency
NSSA	National Social Security Authority
NSSF	National Social Security Fund
NTC	National Tripartite Committee
NTM	Nairobi-Thika-Muranga
NUNW	National Union of Namibian Workers
NYEP	National Youth Employment Programme
ODM	Orange Democratic Movement
OP-CT	Older Persons Cash Transfer
OVC	Orphan or vulnerable child
OVC-CT	Orphans and Vulnerable Children Cash Transfer
PACRA	Patents and Company Registration Agency
PASS	Poverty Assessment Study Survey
PF	Patriotic Front
PICES	Poverty, Income, Consumption and Expenditure Survey
PNDC	Provisional National Defence Council
PNU	Party of National Unity
PWSD-CT	Persons With Severe Disabilities Cash Transfer
ROSCAs	Rotating Savings and Credit Associations
SACCO	Savings and Credit Co-operative Society
SACCOS	Savings and Credit Co-operative Societies
SADC	Southern Africa Development Community
SAN	Security Association of Namibia
SAPS	Structural Adjustment Programmes
SATUCC	Southern Africa Trade Union Coordination Council
SMEs	Small Medium Enterprises
SNDP	Sixth National Development Plan
SPF	Social Protection Floor
SSA	Sub-Saharan Africa
SSC	Social Security Commission
SWAPO	South West Africa People's Organisation
SYOB	Start Your Own Business
TCLC	Tripartite Consultative Labour Council
TNDP	Transitional National Development Plan
TUC	Trade Union Congress (Ghana)
TUC-Ke	Trade Union Congress of Kenya
TUCNA	Trade Union Congress of Namibia
TVET	Technical, Vocational Education and Training
TWU	Timber and Woodworkers' Union
TWU	Transport Workers Union
UASU	Universities Academic Staff Union

UDWUZ	United Domestic Workers Union of Zambia
UKCS	Union of Kenya Civil Servants
UN	United Nations
UNIP	United National Independence Party
UNMDG	United Nations Millennium Development Goals
VAT	Value-Added Tax
WEAZ	Workers Education Alliance of Zambia
WEDF	Women Enterprise Development Fund
WIEGO	Women in Informal Economy: Globalising and Organising
YEDF	Youth Enterprise Development Fund
YEP	Youth Employment Programme
ZCCM	Zambia Consolidated Copper Mine
ZCIEA	Zimbabwe Chamber of Informal Economy Associations
ZCTU	Zambia Congress of Trade Unions
ZCTU	Zimbabwe Congress of Trade Unions
ZFE	Zambia Federation of Employers
ZNCC	Zimbabwe National Chamber of Commerce

Acknowledgements

The African Labour Research Network (ALRN) would like to thank the editorial team comprising of Kwabena Nyarko Otoo (Labour Research & Policy Institute (LRPI), Ghana Trade Union Congress), Trywell Kalusopa, PhD (Department of Information Studies, University of Zululand, South Africa) and Kimani Ndungu (former Executive Director, National Labour and Economic Development Institute (NALEDI), COSATU, South Africa), that peer reviewed and edited this publication. The network recognises the work of Naome Chakanya (Labour & Economic Development Research Institute of Zimbabwe (LEDRIZ) for her tireless effort in co-ordinating the whole process that led to the publication of the book.

The ALRN is very grateful for the financial support provided by FNV Mondiaal, Netherlands and FOS, Belgium for the entire study.

In addition, the network thanks all the workers, trade unions, labour research institutes/ departments and researchers who contributed to the production of this book more especially the researchers for the good spirit in which they conducted the study – with commitment and zeal. Particular mention must be made of *Labour & Economic Development Research Institute of Zimbabwe* (*LEDRIZ*) for the co-ordination of the activities that directed the whole research process and publication of the book.

A word of thanks is extended to the International Trade Union Confederation (ITUC) – Africa Region, especially the General Secretary Kwasi Adu Amankwah, for the technical and political support as well as the encouragement he continues to offer to trade union research in Africa in general and in particular this study.

Finally, we are grateful to Frances Marks for accepting to do the language editing and MG Printers for the professional layout and printing of the book.

Preface

In the last four decades since the term 'informal sector' was first used it has been debated intensely within the International Labour Organisation (ILO), academia and policy circles. Contrary to earlier predictions that informality will disappear as countries move towards modernisation and development, the phenomenon has persisted and even expanded beyond its historical confines. In the process, we have transitioned from the conception of the term 'informal sector' to 'informal economy', having recognised that informality is no longer confined to a distinct sector.

The trade union movement in Africa takes the view that informality is a fundamental feature of underdevelopment and has economic, political and social dimensions. In economic terms, the failure of economic growth to translate into development and create decent employment in the formal sector is at the heart of the expanding informal economy. This has been the result of inappropriate macroeconomic policies implemented across Africa in the last three decades; economic policies that regard growth as an end in itself. At the social level, mass illiteracy combined with low skills, even among the educated, partly explains the expanding informal economy. Significant proportion of people entering the labour market lack the necessary education and skills the modern labour market requires. Politically, informality reflects the failure of the states of several countries in Africa. Thus, if informality is seen to reproduce economic agents undertaking economic activities without complying with norms set by the state, then the question to be addressed is why such non-compliance occurs on such large scale and almost endlessly. In many African countries, the social contract with the people to delivery on the key mandate has been abused and simply broken. Enterprises and individuals are either excluded from critical state benefits or they have exited from the state and the formal rules perceiving such rules as effectively rigged against their interests.

Therefore, even as we dedicate ourselves to international efforts to formalise the informal economy, we must also caution stakeholders on two fronts. First, it is imperative to recognise that the informal economy, with all its shortcomings, continues to play a critical role in the lives of many people in Africa. As the formal economy continues to falter, informal jobs provide the only means to a livelihood for majority of Africans. Accordingly, efforts for transitioning should be about enhancing the potential of the informal economy rather than dimming it. Working together as social partners in setting appropriate regulations and enforcement mechanisms is essential to going forward. Extending social protection to informal economy workers will improve their living conditions. Organising informal operators – both workers and employers – will help to extend critical state benefits to them. This can be achieved at a relatively low cost, but the benefits would be immense. Second, we draw attention to the fact that informality in all its dimensions is linked to the living conditions of majority of Africans; conditions that are shaped by the underdeveloped nature of their societies, economies and polity. While a number of measures can be taken, including, in theory, the extension of rights, to tackle some of the immediate concerns of actors in the informal economy, enduring *success can only be achieved when the fundamental issues of underdevelopment currently sustaining informality have been addressed. Hence, we need to focus firmly on the broader economic, social and political issues that underpin underdevelopment and nourish informality. Underdevelopment of the state and its institutions that frequently leads to the poor policy formulation and implementation of policy which in turn breaks up the social contract between citizens and the state must be tackled as part of the transitioning efforts.*

In this publication, we have, in Chapter 1, first presented a framework for understanding informality in the belief that a proper understanding would help simplify the tasks involved in the transitioning discourse. We accordingly outline a number of measures that should make the formalisation process effective. These include extending rights, reforming existing rules and enforcing them, building state capacity for enforcements, rebuilding trust between states and citizens and making economic and social policies more effective at addressing the underdevelopment that pervades most African societies. We endorse immediate measures intended to alleviate the plight of the many that are trapped in informal employment. However, we argue that the ultimate prize should be a defeat of underdevelopment by questioning the current development paradigm saddled in the neo-liberal agenda that perpetuates the growth of informality. In Chapter 2, we present the labour approach to informality. In that regard, we review the current conception of informality as advanced by the ILO that views informality as a governance problem. We assert that while this may be true to some extent, we are of the view that this is a limited conception. Our labour view is that we need to broaden this conception to include the fact that informality is a problem of underdevelopment. For us, underdevelopment of the polity and its institutions, and the economy in which governance is undermined nourishes a political economy framework of exclusion and exit from critical state benefits that any ethical state should provide to advance decent employment and livelihood. In Chapter 3 of this book, we attempt to provide selected evidence of the labour's approach to formalising the informal economy in Ghana, Kenya, Namibia, Zambia and Zimbabwe. These provide national-level evidence of the nature and changing forms of informality, past approaches to formalisation and how the current enthusiasm for formalisation can be made more effective. Thus far, for Africa, the evidence confirms other studies that informal employment is large and growing in all countries except in Namibia, wherein only a minority of the workforce is located in the informal economy.

Editorial Team

Kwabena Nyarko Otoo (Labour Research and Policy Institute, Ghana - TUC)

Trywell Kalusopa, PhD (University of Zululand, South Africa)

Kimani Ndungu (National Labour and Economic Development Institute, COSATU, South Africa)

Naome Chakanya (Labour and Economic Development Research Institute of Zimbabwe (LEDRIZ)

CHAPTER 1

A FRAMEWORK FOR UNDERSTANDING INFORMAL ECONOMY IN AFRICA

Kwabena Nyarko Otoo, Trywell Kalusopa and Kimani Ndungu

Introduction

In many countries in Sub-Saharan Africa (SSA), the bulk of the workforce is employed informally either in informal firms or formal ones. The International Labour Organisation (ILO, 2012) estimates show that more than seven out of every ten non-agricultural workers in SSA are informally employed. In total, about 90 percent of all employment in Africa is informal in nature. The most dominant form of informal employment is self-employment where people work for themselves usually with no employees. Self-employment accounts for more than 83 percent of total employment in Africa (World Bank, 2014).

While the informal economy was initially conceived as transitory, and with the perception that it would disappear with growth and modern development, it has instead persisted and even expanded in most parts of the world. In many parts of Africa, the formal economy is on the decline in terms of its contribution to total employment. Nearly, all new jobs are being created in the informal economy. The informal economy contributes significantly to Gross Domestic Product (GDP) of many countries in Africa. At the same time, the informal economy is subject to significant decent work deficits. Most informal workers work long hours but earn very low incomes. Majority have no social protection coverage. Many work under unsafe and unhealthy conditions without any insurance against the risks they face in their daily work.

Informality has wider economic, social and political implications. In economic terms, informality is a symptom of under-development. It is a source of continued economic stagnation. Government revenues are reduced as more firms and workers fall outside the tax net. At the same time, socially, informal firms and workers are denied both the social protection and the services the state offers, thus inhibiting their potential for growth. Politically, informality weakens the respect for the state, as so many firms and workers flagrantly evade basic laws, undermining state legitimacy and authority.

There are significant disagreements across the broad spectrum of stakeholders over the causes of informality. Some have pointed to the excessive regulation of the labour market as the cause of the enlarging informal labour market. Others allude to the inability of the formal sector to expand and absorb the growing numbers of people entering the labour market. It is further argued that the informal economy is deliberately maintained to enable formal employers to reduce production costs. However, many agree that informality represents misallocation of resources. Despite the considerable flexibility this sector affords, informality entails losing the benefits associated with being recognised by the state including access to formal credit, police or judicial protection and participation in the international markets (Loayza and Servén, 2011).

Over the last decade, the international development community has focused attention on how best to bring in line the bustling informal economy into the realm of formality. Policies and programmes seeking to formalise the sector have proliferated. Reforms to labour and business laws to streamline regulations and reduce or even eliminate their mandates have been enacted in the hope of spurring formalisation. Special entrepreneurship programmes have been implemented, and often targeted at young people seeking employment. Trade unions and employer organisations have done their bit by organising informal workers and enterprises by extending services to them or assisting them with obtaining state services, including protection.

Nevertheless, the informal economy continues to thrive. In effect, the formalisation agenda has yet to achieve the desired results despite the considerable resources being expended. In this report, we revisit the subject of formalising the informal economy by formulating labours' approach to this situation. We do so by addressing a number of issues.

First, we identify what in our view has been the proximate cause or causes of the expanding informal economy in Africa. Second, we identify areas where policy can best minimise or eliminate their impacts. Third, we outline which aspects of informality would most likely be beneficial to formalise; and how formalisation can be done in practical terms.

Defining the Informal Economy

In a study of the economic activities of low-income migrants in Accra, Ghana, Hart (1973) first used the term 'informal sector' to describe income-generating activities of the urban sub-proletariat.[1] The ILO adopted and popularised his terminology in its earlier multidisciplinary employment mission to Kenya in 1972.[2] For the next three decades, the informal sector as a concept would become widely debated in terms of

1 See K. Hart: Informal income opportunities and urban employment in Ghana', The Journal of African Studies, 11, 1 (1973), pp. 61-89.
2 See ILO: Employment, incomes and equity: A strategy for increasing productive employment in Kenya (Geneva, ILO, 1972).

its meaning, characteristics, effects and causes.

Early development experts assumed that the informal sector would eventually disappear as economies developed and the formal capitalist sector expanded. Informality was thus seen as a development issue. Accordingly, much of the development efforts in the last half-century have focused on growing under-developed economies. However, the actual pattern of development around the world failed to conform to the prediction that informality would disappear. In much of the under-developed world, economic growth as measured by growth of Gross Domestic Product (GDP) failed to translate into development. As a result, the informal sector has persisted rather than disappeared, and actually expanded in many parts of the world, particularly in sub-Saharan Africa (SSA).

In their current estimates, the ILO (2013:6) show that "non-agricultural employment in the informal economy represents 82 per cent of total employment in South Asia, 66 per cent in sub-Saharan Africa, 65 per cent in East and South-East Asia (excluding China), 51 per cent in Latin America and 10 per cent in Eastern Europe and Central Asia". It is also estimated by the ILO (2013:6) in their labour statistics that in "47 countries and territories, the percentage of persons in informal employment (non-agricultural) ranges in Latin America and the Caribbean from 40 per cent in Uruguay to 75 per cent in the Plurinational State of Bolivia; in sub-Saharan Africa from 33 per cent in South Africa to 82 per cent in Mali; in southern and eastern Asia (excluding China) from 42 per cent in Thailand to 83.5 per cent in India; in northern Africa and the Middle East, from 30.5 per cent in Turkey to 58.5 per cent in the West Bank and Gaza."[3]

In 2002, the ILO proposed the concept of "informal economy" as opposed to the "informal sector". This was in recognition of the fact that informality has not only persisted but it has actually expanded manifesting in different guises within the formal sector. Moreover, this expansion was not limited to developing economies: informality – particularly as it relates to employment relations – had spread to developed and industrialised economies where the need to cut costs had forced many production units to offer flexible/wholly informal employment contracts. Small-scale, decentralised and flexible production units became an alternative to the factory system as part of the globalising phenomenon. Thus, building, among others, its earlier official work such as its statistical measurement of employment in the informal sector as endorsed by the 15th International Conference of Labour Statisticians in Geneva, 19 - 28 January 1993, the ILO published a manual on methodological issues for undertaking surveys of the informal economy at the country level in 2012.[4] In the same vein, it is important to underscore the fact that as observed by the Women in Informal Employment: Globalising and Organising

3 See ILO: Report V (1) Transitioning from the informal to the formal economy – 2014 International Labour Conference, 103rd Session, (Geneva: ILO, 2013).

4 See ILO: Measuring informality: A statistical manual on the informal sector and informal employment (Geneva, ILO, 2012).

(WIEGO) that the notion of 'job for life' was eroded as non-standard, hourly and piece-rate jobs came into being (WIEGO, 2012)[5]. Accordingly, in Africa and Latin America, structural adjustment policies resulted in large-scale retrenchments in the public sector, forcing many into the informal economy.

Measuring Informality

The terms informality, informal sector or informal economy continue to be used interchangeably. The ILO (2002) defines informality as any economic activity that is not recognised, regulated, or protected by existing legal or regulatory frameworks and non-remunerative work undertaken in an income producing enterprise. The term thus refers to "all economic activities that are – in law or in practice – not covered or insufficiently covered by formal arrangements" (ILC, 2002: para. 3). The terminology "stresses that informality can be found across the entire economy and that informal activities cannot be discussed in isolation from the overall economy."[6] De Soto (1989), likewise described informality as a collection of firms, workers and activities that operate outside the legal and regulatory framework.

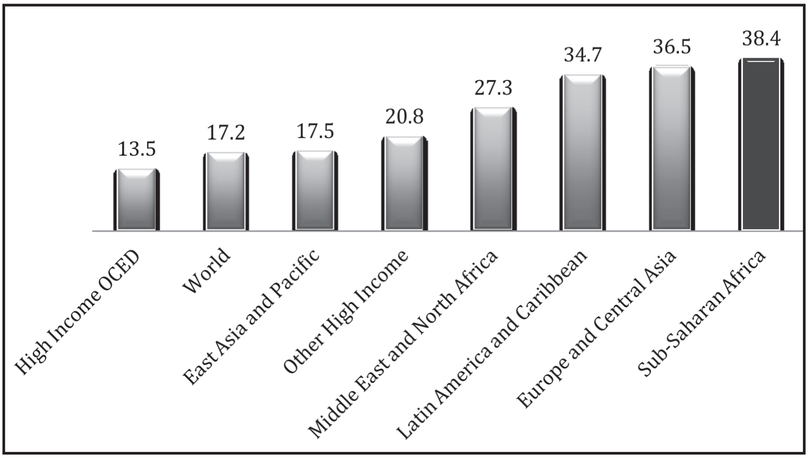
While these definitions are simple and precise, informality as a concept does not lend itself to easy measurement. Part of the reason is that informality involves operating outside the legal and regulatory framework and is therefore a latent and unobservable variable and difficult to measure both accurately and completely. We can only attempt to approximate it using some indicators. The literature on informality has four main indicators. The Friedrich Schneider's index of shadow economies and the Heritage Foundation index of informal markets attempt to measure overall informal activity in a country. The Schneider index combines the DYMIMIC (dynamic multiple-indicator-multiple-cause) method, the physical input (electricity) method, and the excess currency-demand approach for the estimation of the share of production that is not declared to tax and regulatory authorities. The Heritage Foundation index is based on subjective perceptions of general compliance with the law, with particular emphasis on the role played by official corruption. The other two indicators are related to employment of labour and emphasise the proportion of the labour force that is self-employed and/or is excluded from pension coverage. The prevalence of self-employment is measured as a ratio of self-employment to total employment. Lack of pension coverage is determined by the proportion of the workforce that does not contribute to a pension scheme and thus has no right to an earnings-related pension upon retirement. According to the Schneider index, the informal economy generates 17 per cent of global GDP. For Sub-Saharan Africa, 38 percent of GDP is produced informally, making Africa the region with highest contribution of

5 See Women in Informal Employment: Globalising and Organising (WIEGO) Working Papers No1 on the Informal Economy: Definitions, Theories and Policies by Martha Alter Chen (Cambridge, WIEGO, 2012).

6 See Luebker, Malte: Employment, unemployment and informality in Zimbabwe : concepts and data for coherent policy-making - Sub-Regional Office for southern Africa (SRO-Harare) (Geneva: ILO, 2008)

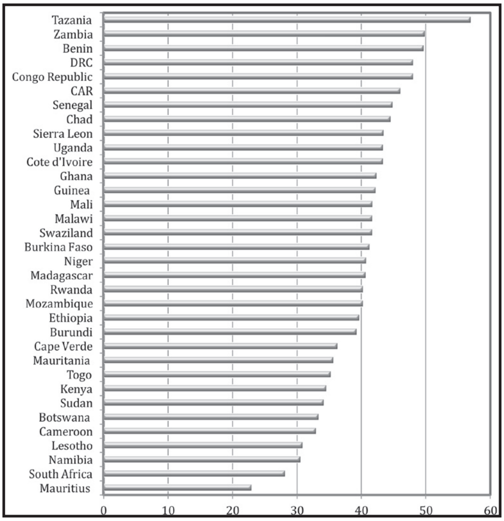
informality to GDP (Figure 1). In most countries on the continent, roughly half of their GDP is produced in the informal economy (for Tanzania the percentage is nearly 60 per cent) (Figure 2).

Figure 1: Average Informality Weighted by Total GDP in 2005



Source: Schneider Index, 2007.

Figure 2: Average Informality in Sub-Saharan Africa based on the Schneider Index (1999–2007)



Source: Schneider Index, 2007.

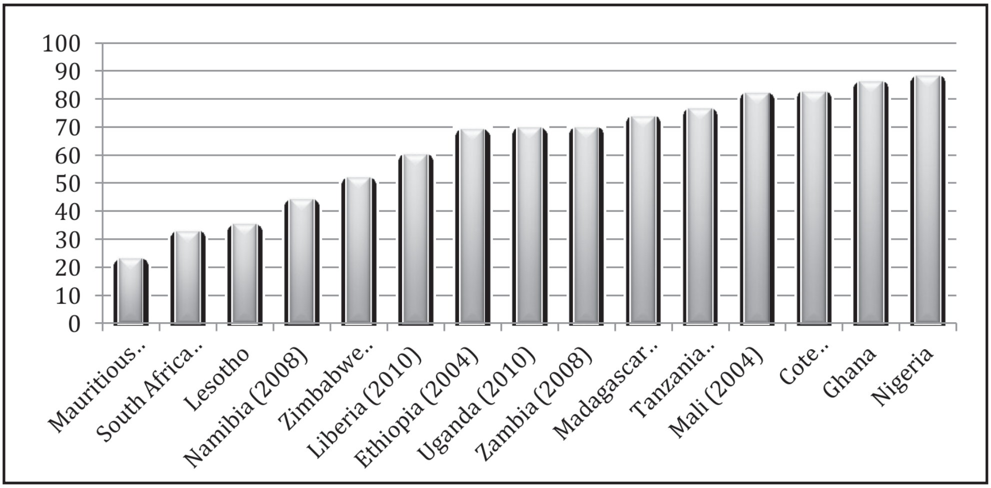
In this study, we define informality through a combination of these indicators. Informality is defined both from the perspective of the enterprise/firm and the worker. We therefore, look at two indicators. The first aspect relates to unregistered enterprises, i.e. those that are not registered with any state agency. The second concerns the proportion of the workforce that is self-employed and/or is not registered with the national pension scheme. The emphasis is on persons in vulnerable employment, which comprises:

(i). Own-account workers – persons who operate their own economic enterprises or engages independently in a profession or trade with no employees other than family members. This also includes producer cooperatives; and

(ii). Unpaid family workers – persons working without pay in an enterprise operated by a family member.

As expected, estimates of the size of informality based on the proportion of the working age population in informal employment showed that the bulk of Africa's workforce is trapped in informality as illustrated in Figure 3.

Figure 3: Informal Employment in Selected Countries in sub-Saharan Africa



Source: ILO, 2012.

On average, ILO (2012) estimates indicate that more than seven out every ten workers (72%) in sub-Saharan Africa are informally employed outside the agricultural sector. When the agricultural sector is included informality reaches 86 per cent in Ghana, 88 per cent in Nigeria and 95 per cent in Benin. Overall, in Africa, informality is estimated at about 90 per cent, of whom more than two-thirds are self-employed. For example, the percentage is 65 per cent in Ghana, 80 per cent in Tanzania and 86 per cent in Liberia. Tables 1-4 show breakdowns for Liberia, Mali, SSA and Tanzania respectively.

Table 1: Informal Employment in Liberia as a Percentage of Non-Agricultural Employment (2008)

	Total	Women	Men	Urban	Rural
Persons in informal employment	60.0	72.0	47.4	59.4	61.4
Persons employed in the informal sector	49.7	65.7	33.4	48.3	53.0
Persons in formal employment in the informal sector	0.3	0.0	0.7	0.2	0.0
Persons in informal employment outside the informal sector	10.8	6.6	14.6	11.3	8.4

Source: Labour Force Survey, 2008.

Table 2: Informal Employment in Mali as a Percentage of Non-Agricultural Employment

Persons in informal employment	81.8	89.2	74.2
Persons employed in the informal sector	71.4	79.6	62.9
Persons in formal employment in the informal sector	0.9	0.5	1.2
Persons in informal employment outside the informal sector	11.3	10.1	12.6

Table 3: Informal Employment in South Africa as a Percentage of Non-Agricultural Employment

	Total	Women	Men	Urban	Rural
Persons in informal employment	32.7	36.8	29.5	28.2	51.7
Persons employed in the informal sector	17.8	16.8	18.6	14.3	32.2
Persons in formal employment in the informal sector	0.0	0.0	0.0	0.0	0.0
Persons in informal employment outside the informal sector	14.9	20.0	10.9	13.8	19.5

Source: Quarterly Labour Force Survey, 2010 (IV).

Table 4: Informal Employment in Tanzania as a Percentage of Non-Agricultural Employment

	Total	Women	Men	Urban	Rural
Persons in informal employment	76.2	82.8	70.9	75.6	77.5
Persons employed in the informal sector	51.7	49.8	53.2	52.4	50.3
Persons in formal employment in the informal sector	0.5	0.3	0.7	0.6	0.2
Persons in informal employment outside the informal sector	25.0	33.3	18.4	23.9	27.3

Source: Integrated Labour Force Survey (2005/06).

In his 1954 seminal paper, Economic Development with Unlimited Supplies of Labour, Arthur Lewis predicted that an expanding capitalist sector would lead to the elimination of the large army of surplus labour in the traditional informal sector. As we have already explained, this has not been the case. Part of the reason is that economic growth failed to translate into development – GDP growth is not the same as economic development. In much of Africa, despite many years of economic growth reversing the earlier decades of stagnation and even negative growth, there has been little development. In other words, Lewis' capitalist sector contracted rather than expanded.

Explaining Informality in Development Paradigm

Early development theorists and practitioners, including Lewis (1954) posited informality as the outcome of necessity and the direct consequence of under-development (ILO, 1972, Hart, 1973; Gibson and Kelley, 1994; Tokman, 2007; Amin, 2009). In many countries in Africa, the capitalist sector is small or has shrunk and unable to absorb the large swathe of labour preferring formal sector employment, who are thus forced by necessity to work in the 'subsistence' informal sector.

The capitalist sector's failure to expand has been explained in terms of the neo-classical framework: as the result of rising wages made possible by trade union activities. Lewis (1954:225-277) made reference to rising urban wages in less developed countries attributing it to trade unions and "their strict control of entry", civil service unions raising government pay and the pressure of government on foreign employers and minimum wage regulations. It is argued that these factors depress employment in the formal sector and increase that in the informal sector.

Other development theorists and practitioners have attributed the persistence of the informal economy to the very nature of capitalist accumulation (Chen, 2012). The thrust of their argument is that informality is useful for capital accumulation in that it provides a mechanism for achieving lower inputs and labour costs. In this way, the constant urge for profits –the animal spirit – that has become central to capitalism can be realised.

The informal sector then becomes an appendage to the capitalist sector, as the latter seeks to lower production costs, improve its competitiveness and make ever-increasing profits. To perpetuate this dependent exploitation, the informal sector growth trajectory becomes controlled by and linked to the capitalist mode of production (Moser, 1978).

In his study of the petty commodity sector in Ghana, Bryant (1976: 27-8) argued along the same lines. Bryant (1976) maintained that petty commodity production existed prior to the entry of foreign capital. Foreign capitalists found the sector to be useful and necessary, as it provided them with a convenient vehicle for the exploitation of the indigenous population. He wrote:

> *Given the pre-existing economic structure, it was unprofitable for individual foreign entrepreneurs to invest either in production for the home market or in the production of agricultural raw materials for export. In this context the early capitalist entrepreneurs aimed to benefit from the underdevelopment rather than the development of the economy. In order to do this they had to encourage the development of commodity production, and this had the effect of breaking down the pre-colonial structure of production, producing the petty commodity form. The development of the petty commodity sector allowed foreign mercantile capital to extract surplus value by mediating between metropolitan producers and the Ghanaian market; … it allowed foreign mining capital to extract surplus value through the payment of low wages, a condition made possible by the provision by petty commodity production of cheap substitutes for consumption goods which would otherwise have had to be imported, and by the maintenance of subsistence production in labour catchment areas.*

The informal sector performs an equilibrating role of sustaining and nourishing the formal capitalist sector. By providing cheap inputs, it helps the formal sector to reduce production costs and improves competitiveness. It also provides low-cost products (including food and housing) that justify the payment of low wages to those ‘lucky’ enough to have employment in the formal sector. This exploitative linkage constitutes a formidable barrier to the growth of the informal sector and its ability to accumulate capital.

Within the formal sector itself, the proliferation of various flexible production systems is part of the capitalist drive to lower costs by adopting arrangements that are typically associated with the informal sector (Swaminathan, 1991). Globally, today, this is largely associated with the ease with which firms can hire and fire labour (Brusco, 1982) as they adjust to economic change. Maintaining a large pool of labour in the subsistence economy and/or on the fringes of the formal capitalist sector considerably weakens labour's resolve to resist flexibility in all its dimensions. The central message is that capitalism is deliberately structured to preserve the status quo.

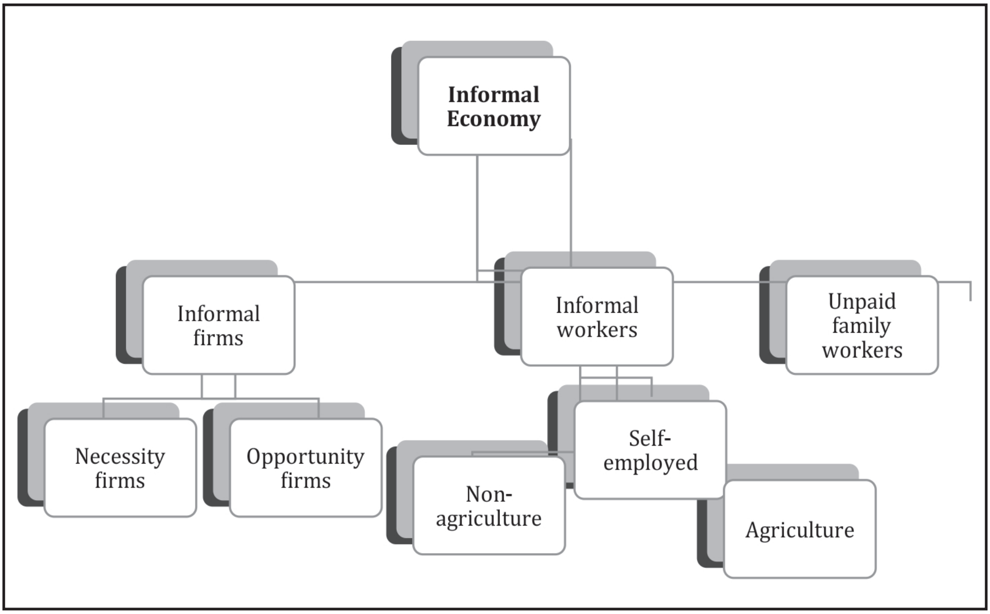
These views notwithstanding, the dominant explanation – in the neoclassical framework – for the persistence of informality has coalesced around the theory famously espoused by Hernando de Soto (1989). According to him, informality is the result of excessive regulation of the labour market. The informal sector is described as 'unprotected' and the formal sector 'protected' (Mazumdar, 1975). The 'unprotected' informal sector includes the self-employed, owners of small-unregistered firms, petty traders and commodity producers. Legalists opine that there are two reasons for informal operation: a) the stream of burdensome state-imposed regulations, including taxes and laws on the use of labour, prevents firms from crossing the line to formality and b) related to the above, firms operate informally out of necessity as the burdensome regulations inhibit the growth and expansion of the large-scale enterprises and the absorption of jobseekers into the formal economy This is reinforced by the bureaucratic red tape and corruption that frequently accompany the enforcement of the rules (Hirschman, 1970; Olson, 1982; De Soto, 1989).

This line of argument views regulations as increasing the cost of labour and compelling employers to substitute capital for labour in a labour-surplus economy. For example, legalities such as obligatory severance payments that increase the cost of dismissals leave employers reluctant to hire labour when they are in the position to do so. Mandated benefits, for example, social security contributions, increase the tax wedge; as a result those employers unable to afford the mandate may refuse to hire at all. When combined with minimum wage legislations, trade union bargaining powers increase wages above market clearing rates and close the door to formal employment for many workers.

Understanding the Informal Economy – A Conceptual Framework

As has been illustrated in Figure 4 below, the informal economy consists of informal enterprises and informal workers. These enterprises are not registered with the appropriate state agencies and may or may not have paid employees, preferring apprentices or relying on family labour. Those who have employees seldom register them for social security. Not being able to contribute to a state pension scheme denies workers the right to a future pension. Although some owners of enterprises chose to respond to business opportunities and are thus frequently referred to as 'opportunity entrepreneurs', the majority operate out of necessity and are thus referred to as 'necessity entrepreneurs'. Amin (2009) estimates that in Côte d'Ivoire, Madagascar and Mauritius about 42 per cent of informal businesses are 'necessity firms'.

Figure 4: A Conceptual Framework for the Informal Economy



Source: Otoo, 2015.

The distinction between necessity and opportunity entrepreneurs (firms) is at the heart of the debate on why firms and individuals operate informally. The idea of necessity firms takes us back to the early work of Lewis (1954), Fields (1975) and Dickens and Lang (1985), among others. They argued that lack of alternative employment in the formal sector forced many workers to set up businesses in the informal economy. Others have argued, however, that entering the informal economy is a choice motivated by the desire to exploit profitable business opportunities (Maloney, 2004; Yamada, 1996, Saavedra and Chong, 1995).

As shown in Table 5 evidence shows that the vast majority of informal workers worldwide are self-employed. The ILO estimates that self-employment accounts for 72 per cent of non-agricultural employment in Africa. When agriculture is included, the total percentage rises to approximately 83 per cent (World Bank, 2014).

Table 5: Self-employment in Developing Countries

Region and Income Level	NON-AGRICULTURE				AGRICULTURE
(number of countries in sample)	wage and salary employee	non-paid employee	employer	own account	
All Countries (90)	**45.2**	**2.6**	**2.1**	**14.4**	**35.8**
Low and Middle Income Countries (68)	**37.9**	**3.0**	**1.8**	**15.7**	**41.7**
Region (Low and Middle Income Countries)					
East Asia and Pacific (6)	35.7	4.1	1.8	17.2	41.2
Europe and Central Asia (13)	74.3	0.6	2.6	5.0	17.5
Latin America and the Caribbean (18)	59.2	2.2	3.8	18.5	16.3
Middle East and North Africa (4)	48.0	2.3	4.0	8.7	37.1
South Asia (4)	28.7	3.8	0.7	15.6	51.2
Sub-Saharan Africa (21)	13.4	2.4	1.4	19.0	63.7
Per Capita GNI					
Low Income (17)	18.6	2.1	1.0	17.9	60.4
Lower Middle Income (27)	32.2	3.8	1.3	15.6	47.1
Upper Middle Income (22)	65.2	1.7	3.6	14.3	15.1
High Income (24)	84.0	0.4	3.5	7.5	4.6

Source: World Bank, 2014.

More than half of Africa's self-employed are classified as poor, i.e. having to survive on less than USD2.00 day. About a third of those in non-agricultural employment are poor as more than half of those working in agriculture. In Ghana, for example, food-crop farmers (19 per cent of the population) constitute about 46 per cent of the poor (GSS, 2006). It can therefore be assumed that majority have not chosen self-employment; had they been presented with the opportunity to do something different, they would have done so.

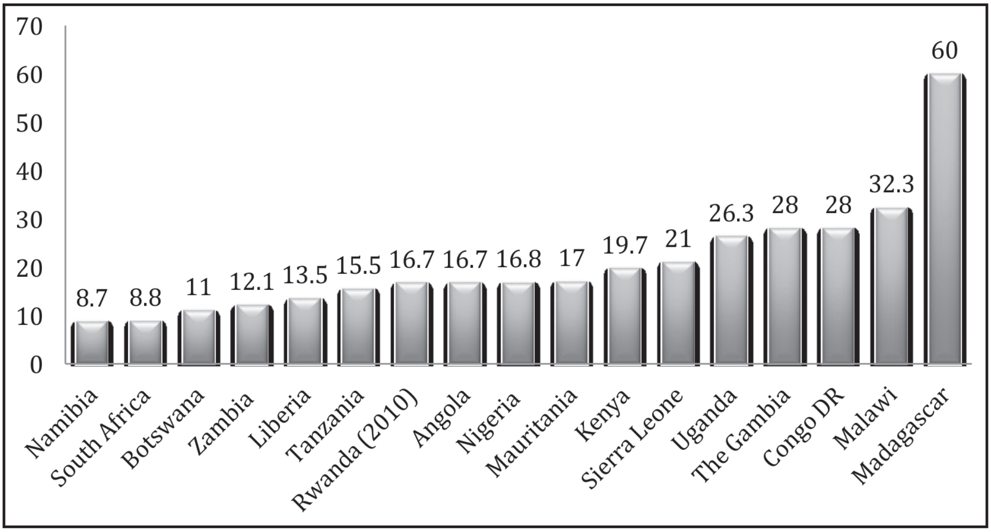
The Failure of the Current Development Paradigm

In this study, we take the view that informality is a fundamental feature of under-development and that informality has multiple causes. The failure of economic growth to translate into development and create sufficient decent employment in the formal sector is at the heart of the expansion of the informal sector. This is the direct outcome of the economic policies of the last three decades. Adding to this is the fact that much economic growth has been fuelled principally by the extraction of natural resources. Here, the extensive use of capital-intensive technology has resulted in considerably less demand for manual labour. While dominating and fuelling growth, foreign investors have had little incentive to plough their profits back into the domestic economy, thus detaching the natural resource sector from the rest of the domestic economy.

Secondly, domestic enterprises have been severely constrained by the number of internal and external factors that limit their expansion and ability to absorb the growing numbers of jobseekers. The unbridled liberalisation of international trade has made it all but impossible for local firms to thrive even in the domestic economy. Across the continent, imports have taken over the domestic market. For more than a decade almost every country in SSA has run a current account deficit. More than half of the region's informal non-agricultural workers retail imported goods. The few companies that have survived the onslaught of globalisation have resorted to atypical forms of employment that nevertheless bear all the hallmarks of informal employment. In Tanzania, a quarter of all informal employment is found in the formal sector. In South Africa, this constitutes 15 per cent, in Uganda 14 per cent and in Zambia 12 per cent (ILO, 2012). This situation has been and is enabled by the continued weakness of the state and, in particular, the weakness of labour market institutions.

The business climate in Africa is equally constraining. Access to credit is limited for many in the micro, small and medium enterprise sector, and its costs are prohibitive. For example, while the average annual interest rate in Ghana is estimated at about 30 percent, many small businesses are borrowing at 40 percent. In Madagascar, the lending rate is estimated at 32 percent and in Malawi it is 60 percent. By contrast, the rate in the United Kingdom is 0.5 percent, 3.3 percent in the United States and 6 percent in China. As shown in Figure 5 most African country depict high lending rates.

Figure 5: Lending Rates in Selected African Countries



Source: World Bank, 2013.

In addition to this, as shown in Figure 6, businesses in Africa are confronted with poor infrastructure, which increases the cost of doing business on the continent. Further, nearly every country in sub-Sahara Africa is currently experiencing an energy crisis characterised by high costs and erratic domestic and industrial electricity supplies. Road networks are in deplorable condition, further contributing to the cost of doing business on the continent. Figure 7 shows the top ten business environment constraints for firms in Burkina Faso, Ghana and sub-Saharan Africa.

Figure 6: Transportation as a Business Constraint

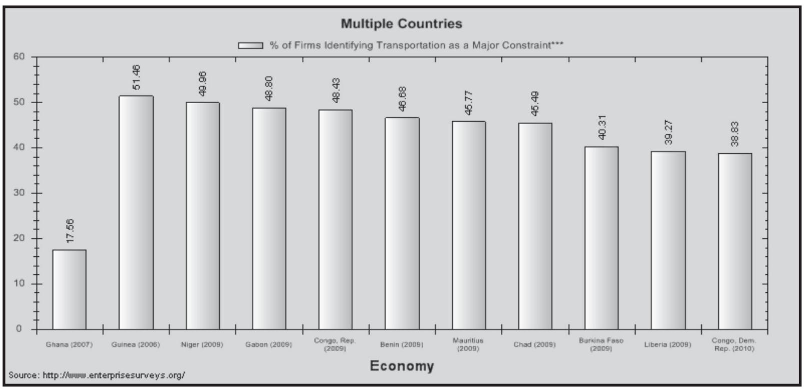
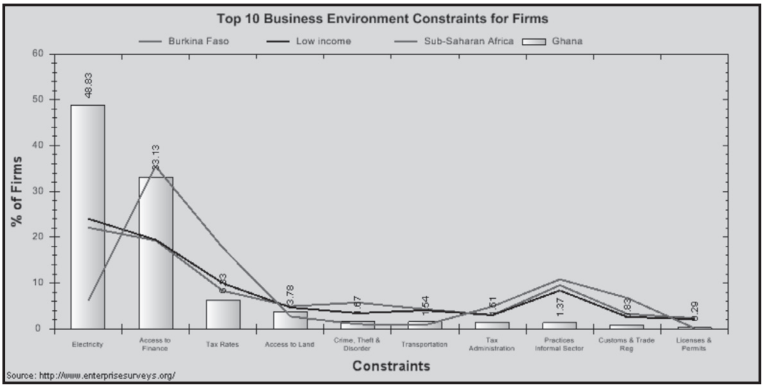
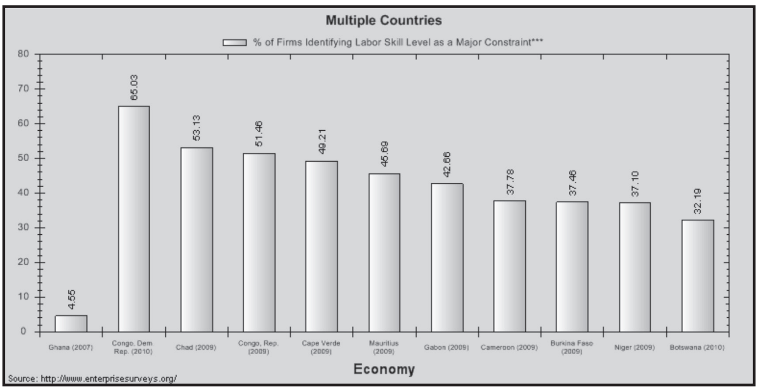


Figure 7: The Top Ten Business Environment Constraints for Firms in Burkina Faso, Ghana and sub-Saharan Africa



As shown in Figure 8, in Africa, mass illiteracy combined with low skills on the continent has possibly influenced the expansion of the informal economy. A significant proportion of people entering the labour market do lack the necessary education and skills to secure employment in the formal economy. Indeed, employers continue to cite low skills as a major constraint to doing business in Africa. Globally, evidence shows that most educated and skilled workers are more likely to be working outside the agricultural sector either as employers or salaried workers. The least educated tend to work in the agricultural sector, while people with medium or intermediate education are more likely to work as non-agricultural own account workers and non-agricultural non-paid employees. According to the fifth round of the Ghana Living Standards Survey conducted in 2006, almost one-third of Ghanaians of working age never attended school. While access to education has improved for many countries on the continent, the quality of education offered tends to be low.

Figure 8: Skills as Constraint (Selected Countries)



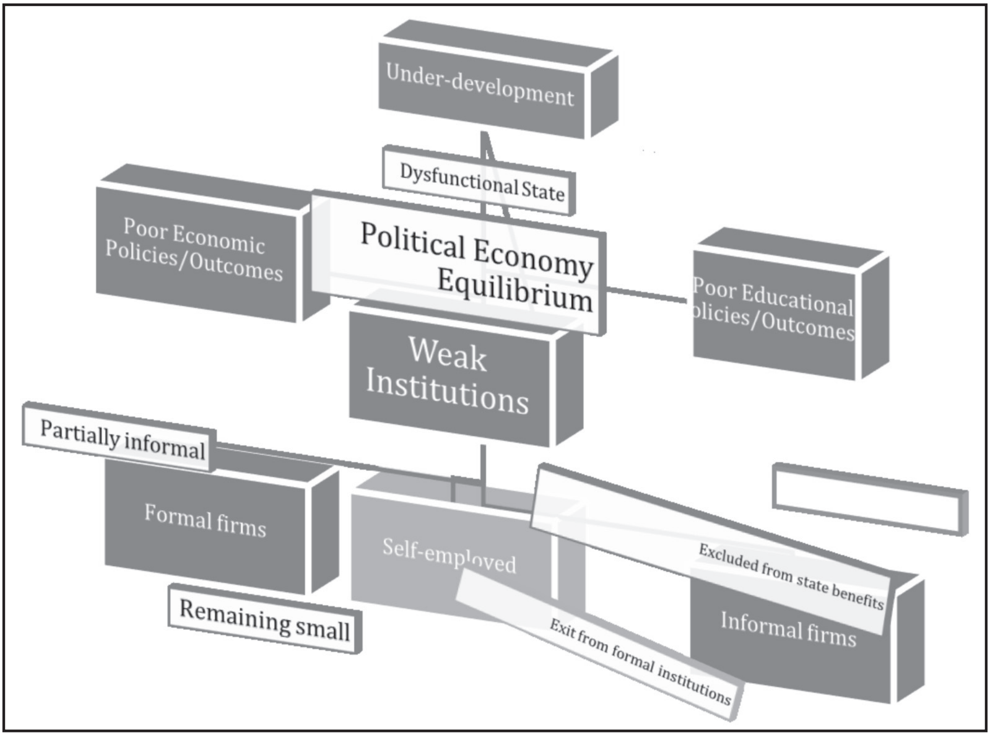
From the political standpoint, the informal economy in many ways reflects the failure of the state in several areas of governance. The state has legitimate role in mediating economic exchanges among individuals and firms. The provision of public goods (roads, defence, and security) is supposed to help address co-ordination failures while also preventing social wrongs such as pollution. The state establishes courts and property rights, provides mechanisms for pooling risks and generally sets the rules that govern the activities of economic actors and the operations of the modern economy. The rules include balancing power relations between economic actors, for example, the relations between labour and capital. All of these 'components' are part of what a functioning state does, or is supposed to do, to address market failures and even serve as market should private initiatives fail to do so. The state is also invested with the power to monitor, enforce and coerce economic actors to comply with rules that are socially agreed.

If informality is equated to economic agents undertaking economic activities without complying with the norms set by the state, then the question arises as to why non-compliance occurs on such large scale, and almost endlessly.

One possible answer is that a dysfunctional state deliberately excludes firms and individuals from access to critical state benefits. In this sense, the state is captured by special interests in business or in labour, perhaps in alliance with the political elite in the state bureaucracy. In most cases, this dysfunctionality is sustained by an underlying equilibrium in the political economy where those who are excluded lack the power to mount any meaningful challenge to the status quo.

In the face of such equilibrium, many firms and individuals are forced to exit from the state and the formal rules it has established. As many see the latter as rigged, they exit completely or choose their own level of engagement with the state and its institutions. In such situations firms or individuals will operate without having formally registered, while those that do register keep a large portion of their business activities off the regulatory radar. This is aided by a state that is either disinterested or incapable of enforcing its own laws. Across Africa, three decades of budget cuts motivated by structural adjustment and successor policies have severely limited state capacity to undertake the simplest tasks of governing, including enforcing basic state laws. Labour ministries have suffered the most, as African governments have refused to invest in labour market institutions and social dialogue. Figure 9 illustrates a framework that is useful to understanding informality in Africa.

Figure 9: A Framework for Understanding Informality



Source: Otoo (2015)

A more disturbing trend in the informality discourse is the idea that informality is no longer confined to a distinct sector of the economy. This was captured in the linguistic switch from 'informal sector' to 'informal economy'. It is has therefore become customary to talk of informal employment rather than informal sector employment. Facing weak state institutions, and forced by necessity to cut costs in a fiercely and unfair global competitive environment, firms that are formally registered employ labour on an informal basis, with no contract of employment and refuse to register them for social security (Figure 9). Alternatively, some firms register, indicating a willingness to conduct formal business, but retreat partly or completely into informality within a few years. The African Development Bank's 2012 study of Cote d'Ivoire, Kenya, Nigeria and Senegal indicated that about five per cent of firms that registered as start-ups later relapsed into informality.

There are number of reasons for this. First, the AfDB study showed that a major push factor is the unofficial payments that businesses are required to make in order to 'get things done'. A second factor is their inability to climb the productivity ladder.

To these, we add the other factors we have enumerated above, including access to finance, financing costs and low education/skills. Crucially, however, remaining partially informal or completely relapsing into informality occurs because the political economy equilibrium allows it. The state is either disinterested or lacks the necessary enforcement capacity. And, with no tangible benefits, most firms and individuals that undertake a cost–benefit analysis find it more than profitable to exit from formal structures.

Conclusion

Informality is a complex phenomenon but largely it reflects under-development. The idea of transitioning from an informal to a formal economy entails the notion that despite being a source of employment and livelihood for many Africans, informality is itself a drag on national development, worker welfare and enterprise development. Large swathes of people in the informal economy are there primarily because they have no other economic option. A few chose to operate informally having undertaken a cost–benefit analysis. However, such firms/workers could benefit from formality if the rules and the way they are implemented are streamlined. In general, while reforming business registrations processes, tax laws, social security and labour laws can encourage formalisation, informality could also be 'cured' through policies and programmes that will ensure economies achieve sustainable development and improve governance.

References

Amin, M. (2009). Obstacles to Registering: Necessity versus Opportunity Entrepreneurs, World Bank Working Paper.

Bryant, J (1976), ‘The petty commodity sector in urban Ghana’, BS & Development Group: Working Paper, Mimeo.

Brusco, S. (1982). ‘The Emilian Model: Productive Decentralisation and Social Integration’, *Cambridge Journal of Economics.*

Chen, M. 2006. “Rethinking the Informal Economy: Linkages with the Formal Sector and the Formal Regulatory Environment.” In Basudeb Guha-Khasnobis, Ravi Kanbur and Elinor Ostrom (Eds.). 2006. Linking the Formal and Informal Economy: Concepts and Policies. Oxford University Press, pp 75-92.

Lewis (1954) ‘Economic Development with Unlimited Supplies of Labour’, in *The Manchester School of Economic and Social Studies,* Vol. 22, No. 2, pp. 139-91.

De Soto, H (1989). ‘The other path: the invisible revolution in the Third World’. New York: Harper and Row.

Hart, K (1973) ‘Informal income opportunities and urban employment in Ghana’, *The Journal of African Studies*, 11, 1 (1973), pp. 61-89.

ILO (1972) ‘Employment, incomes and equity: A strategy for increasing productive employment in Kenya’.Geneva, ILO.

ILO (2013) ‘Report V(1) Transitioning from the informal to the formal economy – 2014 International Labour Conference, 103rd Session’, Geneva: ILO.

Otoo, K.N. (forthcoming). *Informality and Labour Regulations in Ghana.*

CHAPTER 2

FORMALISING THE INFORMAL ECONOMY: LABOUR'S APPROACH

Kwabena Nyarko Otoo

Labour Research and Policy Institute, Ghana -TUC

Introduction

Despite its apparent shortcomings, the informal economy continues to play a critical role in the lives of many people in Sub-Saharan Africa. As the formal economy falters, millions have resorted to informal jobs to earn a living. However, as we have seen, a large and growing informal economy not only reflects underdevelopment in all its dimensions but also, and equally importantly, constitutes a barrier to inclusive development and shared prosperity. Informality undermines the rule of law and state-building, exposes firms to costly uncertainties and leaves many workers without adequate protection (Rutkowski and Scarpetta, 2005). It reduces government revenues, undermines enterprise development and sustainability and imperils social protection and working conditions (ILO, 2014).

In this chapter we ask: 'What to do with the informal economy?' Within the international development community, the emerging consensus is that it needs to be formalised. In other words, the economic activities of those individuals and enterprises that remain outside of formal regulation must be brought within the ambit of the law. While this is clearly evidenced in the tripartite deliberations of the ILO, there is no consensus on the route to take. To this end, we present our conceptual approach in this chapter.

PAST APPROACHES

Modernisation Theory

In the 1950s and '60s, modernisation theories saw traditional forms of work and production – the informal sector – as transient (Lewis, 1954; WIEGO, 2012), underscoring the idea that there was an overlap between informality and underdevelopment. Countries with lower levels of development, as measured by Gross Income (GI), tended to have larger share of informal economy. The challenge thus became one of raising incomes in the belief that development and rising incomes would see informality, either of employment or general economic activities disappear. Informality was considered little more than a blip, one that would be addressed in the normal course of development. Since countries regarded as 'developed' were also industrialised, modernisation hence equated one with the other. In the African context, countries emerging from colonialism hit the path to modernity by establishing industries of all kinds within the framework of import substitution industrialisation (ISI).

As indicated in chapter one, this benign view of how informality would be addressed missed the actual pattern of development and employment (Holzmann, Robalino and Takayama, 2009). First, industrial expansion itself did not lead to the acquisition of industrial capability. Second, income growth was too slow relative to population. Third, poverty, unemployment and underemployment remained widespread. Despite the proliferation of industries, surplus labour in the traditional informal sector continued to grow. As argued by Hans Singer (1970), third-world economies were not attaining the Lewis Turning Point. The extensive use of capital-intensive technology meant that, employment creation was on a limited scale, even in growing economies. The problem was compounded by rapid population growth resulting from progress in health and disease control. Singer predicted a persistence of labour market dualism in which high levels of casual self-employment and underemployment would coexist with limited wage employment in developing countries.

The Era of Structural Adjustment

In addition to failing to lead to the elimination of the informal sector, modernisation theory also led countries to a path of economic decline. By the end of the 1970s, many countries in Africa had accumulated huge debts, resulting in some turning to the International Monetary Fund (IMF) and the World Bank for assistance. These countries were ushered into a painful process of economic and social restructuring under the general hubris of structural adjustment. Embedded in neoclassical economics, structural adjustment took the view that the state itself was part of the problem (Otoo, 2013; Rapley, 2002). An immediate first step was a rollback of the state and the deployment of market forces.

Among other policies and programmes, structural adjustment de-emphasised industrialisation as an explicit goal of economic policy. Instead, it promoted the privatisation of state-owned enterprises, which threw many out of formal employment. It also forced opened domestic markets under its of programme of liberalisation, believing that industrial development can be achieved through improvements in incentives structures using exchange rates and trade policies. Trade liberalisation was identified as a tool for industrial policy: by reducing tariff rates and removing quantitative restrictions on trade, domestic producers, particularly those in the manufacturing sector, would become more competitive in the face of a fiercely competitive external environment. Structural adjustment also entailed a switch from ISI to export-led industrialisation.

Structural adjustment made economic growth measured by Gross Domestic Product (GDP) a key focus of economic policy. This was to be achieved by focusing the state on providing a so-called enabling environment, liberalising international trade and deregulating prices, including wages and interest rates. The central assumption was that by removing regulations and institutional constraints and deploying markets countries would experience unprecedented economic growth, thereby accelerating the rate of employment creation and drawing more people into formal employment. This would see the informal sector – once again regarded as transitory – wither away.

The reality of economic growth and patterns of employment did not, however, reflect the optimism of the growth proponent, not even for countries that experienced growth in their GDP. As the following chapters show, economic growth in those countries that implemented structural adjustment moved in tandem with growth of informal employment.

Overall, large-scale redundancies in the public sector over a short space of time radically reduced the size of the public sector workforce and the share of the formal sector in total employment.[1] Likewise, the notion that economic growth combined with institutional reforms, including the massive deregulation of labour markets, would revive the private sector and enhance its ability to generate good jobs in the formal economy simply did not occur. While economic growth did actually return after years of decline, it never achieved the spectacular levels structural adjustment promised. At the same time, many of the new policies implemented actually constrained the domestic private sector in several countries. The overnight liberalisation of trade exposed the domestic private sector in Africa to competitive shocks they could not withstand. This was made worse by the liberalisation of the financial sector, which saw several countries raise their lending rates, and was in some cases further compounded by energy shortages. Thus, the domestic private sector in Africa became a victim of the adjustment measures that were supposed to rescue it. Not surprisingly, the informal sector ballooned, despite the resurgence of economic growth.

Poverty Reduction Strategies and the Microfinance Revolution

In the late 1990s and early 2000s, structural adjustment mutated into poverty reduction strategy programmes. Although economic policies remained largely unchanged, the emphasis in outcomes shifted from growth to a direct attack on poverty. This was

1 It is important to underscore the fact that in much of the Third World the implementation of statist policies meant that the public sector became a major source of employment, accounting for more than 50 per cent of all formal employment.

despite the fact that economic growth remained the vehicle for achieving poverty reduction. According to a 1999 study by the World Bank entitled 'Voices of the Poor', poor people could expect to escape poverty through 'income from their own business or wages earned in employment'. The goal of development policy thus shifted from the attempt to obliterate the informal activities of small and medium enterprises and workers to supporting them.

The informal economy and its workers became officially recognised as major contributors to GDP, employment and livelihoods. This was accompanied by numerous attempts to support the sector, the first of which was the identification of inherent constraints. The inability of informal entrepreneurs to access the formal credit system, for example, sparked a revolution in micro-finance. Traditional banking systems had overpriced the risks associated with informal economy operators, so denying them of the credit required to expand their businesses. The microfinance industry was supported both by national governments and international development agencies. Schemes were tailored – or were supposed to be – to the needs of operators in the sprawling informal sector, and took into account the fact that those in the informal economy were unable to raise the collateral often demanded by formal credit institutions.

Support to the small and medium enterprises (SME) sector also came in the form of streamlining the regulatory environment that was believed to be constraining the growth of informal enterprises. Governments were encouraged and supported to reform business regulations, including labour laws. Such reforms were generally directed at reducing costs in terms of money and time. Labour law reforms included reducing employer liabilities in the employment relationship, allowing them the freedom to hire and fire at will and according to their best of assessment of the economy and the health of their enterprises. There was a reduction in tax rate, particularly for small firms, and the process for complying with tax codes was streamlined.

These policies and programmes were intended not only to spur the growth of informal enterprises but also, and equally importantly, to facilitate their formalisation. With the launch of the 2003 'Doing Business Survey', a flagship product of the World Bank and the International Finance Corporation that graded and ranked countries according to the ease of transacting business in their economies, countries were motivated to reform their business environment in several dimensions. Overall, the reforms were geared towards making the business environment less costly for businesses themselves. Since 2004, 75 percent of countries worldwide had adopted at least one reform, making it easier to register a business (IFC, 2009).

Even so, the majority of businesses in developing countries remain informal. Studies that have examined the impact of these regulatory reforms have found that much of the action in terms of formalisation has come from new rather than existing firms.[2] This suggests that existing firms require something other than credit-extension or easier and less costly registration procedures. Were informality simply the result of a lack of finance, for instance, existing large formal firms in developing and developed countries would not be employing workers on an informal basis. Hence, a broader conception and understanding of the drivers and the willingness to address the fundamental determinants of informality is required.

Labour's Approach to Formalisation

The ILO views informality as governance problem. While this is true, we think it is a limited conception. We broaden this conception to include the fact that informality is a problem of underdevelopment. Underdevelopment of the polity and its institutions, and the economy in which governance is undermined nourishes a political economy framework of exclusion and exit from critical state benefits. Although some workers and enterprises chose to enter the informal economy to escape burdensome regulations, the majority are there because there are no opportunities for them in the formal economy. Those who operate informally by choice find it cost-effective to do so when the governance structures make complying with formal rules too costly and non-compliance less risky. Having weak institutions and enforcements allows and sustains non-compliance. While the majority of those who operate informally out of sheer necessity have very little potential for growth and transitioning into the formal economy. There is a significant minority that can be assisted with policies to cross the line into formality.

The formalisation efforts then come down to two sets of approaches. First, is the need to assist potentially productive firms/enterprises so that they transition to formality. The second set of approaches relate to addressing the fundamental issues that sustain informality – underdevelopment! These are discussed below.

A reform of business regulation is needed in several countries

Assisting potentially productive enterprises in the informal economy to make the transition to formality entails reforming the business regulatory regime, including the laws that relate to employment and the use of labour. This has to be done with the prime objective of reducing the costs associated with compliance and possibly inducing voluntary compliance, and in combination with incentives and enforcement measures. The system of business registration in many countries in Africa needs urgent reform. Although a number of countries have set up one-stop-shops for business registration, too often they are only located in the national or provincial/regional

2 See, for example, Klapper et al., 2006 and Bruhn, 2011.

capital. Further decentralising the business registration system will reduce time and inconveniences associated with business registration of businesses. In addition, small businesses in the informal economy should be exempted from registration fees in order to encourage registration. In Côte d'Ivoire, Madagascar and Mauritius, for example, half of the firms in the informal economy consider registration fees as major or severe obstacle to registration (Amin, 2009).

Labour regulations can also benefit from further reform and aid the switch to formality

Labour regulations have seldom featured prominently in the list of obstacles often reported by informal enterprises. However, reforming certain aspects of labour regulations could greatly enhance the formalisation process. From the workers' perspective, labour legislation must be reformed so that it universally covers all workers and enterprises, whether in the formal or informal economy. This is in recognition of the fact that informal workers are equally entitled to the rights that are often extended to their counterparts in the formal economy. Labour laws that exclude informal economy workers may often be in conflict with national constitutions that guarantee freedom of associations and/or frown upon forced labour and discrimination in employment.

One key area where informal worker are frequently excluded is social security. In many countries there are no clear channels for informal workers to contribute to social security schemes, despite the fact that it offers a solid opportunity for enhancing their welfare. It can also serve to introduce informal operators to formal regulatory structures in a manner many would be comfortable with. In Ghana, Namibia and South Africa, for example, reforms to social security laws have opened up access to informal workers. Further reforms are needed to ensure that informal workers can take full advantage of such opportunities. For example, streamlining administrative procedures and bringing them to the level of the average informal worker could be helpful. Additionally, given the low incomes of many informal workers, a system of matching contributions in which the state matches whatever amount the informal worker puts would provide the incentives for more people to join the formal social security system.

Regulatory mandates, particularly in relation to social security, could be reduced or subsidised by the state for formal businesses. A particular area of concern is the provision of maternity leave, which is increasingly forcing young women into the informal economy because employers in the formal economy are discriminating against them. Maternity pay should be removed as an employer liability and placed on national social security schemes as a way of addressing the bias against women. This could be funded through additional contributions from all.

Minimum wage laws can play a complementary role in design and implementation

To an extent possible, minimum wage laws should be extended to informal workers gradually and in a manner that balances workers' welfare, productivity and the employers' ability to pay. Countries with minimum wages pegged at between 30 to 50 percent of average economy-wide wage could consider establishing the same rate for informal workers. The state should also consider abolishing taxes on minimum wages to ensure that workers on low incomes are not taxed into poverty.

Addressing health and safety issues is paramount to transition

A major characteristic feature of informality that is an obstacle to worker welfare and enterprise growth is the poor health and safety conditions under which work is executed. In some (limited) cases, monitoring and inspection combined with education could help to address this. But in majority of the cases, the unsafe and unhealthy working environments are themselves part and parcel of the under-development that face informal workers and which have become part of their existence. The unsafe and unhealthy conditions at their workplaces may not be different from the conditions that prevail at their dwellings.

Tax reforms need to be considered at two levels

A major challenge in the efforts to encourage formalisation is disabusing the minds of informal enterprises and workers of the notion that it is all about bringing them into the tax net. Past attempt to formalise has been frontloaded with the aim of taxing operators in the sector. While a few people in the informal economy are in the position to pay tax and are indeed rich enough to be outside the tax bracket, the vast majority of informal workers are too poor to be taxed. Here, governments can assist by implementing a five-year tax moratorium for informal enterprises/workers their register their businesses. If governments can grant tax breaks for multi-national corporations, they should be able to do likewise for employers and workers struggling to eke out a living in the informal economy. At another level, for those informal operators that are in tax-paying positions, a simplification of the tax laws and the processes would encourage voluntary compliance and/or make enforcement effective and less prone to corruption.

Enforcement matters a great deal in formalising the informal economy

Enforcement has to be essential part of the transitioning process. Enacting appropriate laws and reducing their adverse footprints on business growth have been prime concern of policy over the last few years. However, very little has been done by way of strengthening enforcements. The idea that businesses would self-comply with light-touched regulations has relegated enforcement measures to the background. But the belief is not unfounded; while businesses are always happy to have minimal regulations; it does not determine their entire behavior. In the end, the business environment must be governed through enforcing whatever laws are in place. Enforcing the implementation of even the most basic business regulations including core the labour standards is a major challenge and not easy to achieve for many countries in Africa.

Enforcement can be achieved through a combination of two approaches: punitive and co-operative enforcement. Through a co-operative approach, enforcement is achieved by working with social partners and stakeholders (workers and employers) to address challenges associated with existing laws and the enforcement regime. Several issues need to be addressed in this regard.

First, many countries that have ratified international conventions have not necessarily incorporated them into national laws and regulations. Second, the mechanism for resolving violations, including labour violations, are often lengthy, costly and cumbersome for all parties involved. When violations of labour regulations occur most countries allow individual worker disputes concerning alleged breaches of employment law to be heard in the traditional court of justice, whether a specialist labour court or a civil court. Unfortunately, this is long, expensive and burdensome for all parties involved.

As a result, countries such as Ghana are pursuing various methods of alternative dispute resolution procedure, including conciliation, mediation, and arbitration, prior to proceeding to a court hearing. The Germany model is a useful one to look at: as all employees have the right to have their grievances heard by the works council. In practice, in most cases where a works council exists, an employee might first address the council, which would then seek to resolve the matter with management, sometimes using informal mediation. Where there is no works council, the relevant trade union would seek an out-of-court agreement with the employer. In cases of individual dismissals, the works council must be consulted.

A third challenge is the lack of public awareness of legal rights and responsibilities associated with employment and businesses in general. Workers and enterprises entering the formal regulatory system should know their legal rights and obligations. The evidence, however, suggests that in many countries, the public is ill-informed about laws and the rights and responsibilities of those in employment relationships. Small businesses are often inundated with information about their tax obligations but are seldom told about what they could receive in return. This is, compounded by, fragmented business regulations, labour laws and complex legal technicalities, especially when entrepreneurs and workers are attempting to exercise their legal rights. Simplifying and integrating labour and business codes and codifying them in non-technical language would make them accessible to many workers and employers in the informal economy. This should be combined with intense public education and campaigns.

Above all, the laws have to be applied by invoking appropriate sanctions for violations. This can be achieved in two ways. First, better co-operation among the relevant stakeholders namely - tax authorities, labour ministries/inspectorates, social security agencies, trade unions, employers' organisations and the police is required. Second, there need for appropriate investment in national institutions including those for social dialogue and business regulations. This should include increasing the number of inspectors, investing in training and equipment and improving working conditions and remuneration systems. Agencies involved with compliance must likewise be reformed by, strengthening their capacity and imposing stiffer penalties for non-compliance.

Administrative measures can also incorporate better public education and information to shape the perspectives of enterprises and individuals in terms of whether they choose to operate in the formal sector or not. Speedy and less costly resolution of disputes can lead to the improved enforcement of laws and regulations protecting workers. Businesses entering the formal sector must be assured of speedy and corrupt-free system for resolving disputes. Where possible, special labour courts staffed by judges with fuller schooling in industrial relations should be established.

The sources of underdevelopment that sustain informality must be addressed

The transitioning process must firmly address the broader economic, social and political issues currently sustaining underdevelopment and nourishing informality. Underdevelopment of the state and its institutions frequently leads to poor policy formulation and implementation and breaks the social contract between it and its citizens.

For the vast majority of those trapped in survivalist self-employment or unpaid family work, the measures enumerated above would do very little to improve their situations. Some could be drawn into productive employment if, and only if, the above measures allow existing enterprises to expand and ultimately transition into formal economy. But only so much can be employed given the limited opportunities and the workers' general lack of skills. In the medium to long term, the transition process must confront the sources of underdevelopment that have become the bastion of the sprawling informal economy.

At the risk of sounding idealistic, policies and the way they are implemented must change in three specific areas. First, economic policy must change to reflect the special development circumstances of countries on the continent. Economic growth needs to be seen as a means to an end, the end being the creation of decent employment and improved living conditions. Countries must emphasise manufacturing linking the continent's natural resource base to its industrial ambitions. Developing a competitive manufacturing base can only be achieved by following the route every successful country has taken: the state supporting and, where necessary, protecting domestic manufacturing, which is an important source of employment. Trade policies have to reverse the unbridled liberalisation that characterised the last three decades. No country or region has developed by implementing the kinds of ultra-liberal trade policy countries in Africa have been made to implement.

Additionally, the state must undertake strategic interventions in the operations of the market to ensure that they are guided to outcomes that are fair, efficient and work in the interests of people not corporations. One area where such strategic intervention is needed is the credit market. In most African countries the financial sector reforms tend to free interest rates from administrative controls thereby allowing the interest rates to soar thus severely hurting the competitiveness of domestic enterprises. Governments must work with banks to bring down interest rates. Another area requiring attention is the natural resource sector, where radical measures must be taken to ensure that the resource rent benefits Africans. A complete overhaul of natural resource governance is needed to ensure that the growing sectors of African economies are linked up with the rest of the domestic economy and that states in Africa obtain fair revenues to address the many infrastructure constraints that frustrate businesses on the continent.

African states must also address the all-pervasive educational and skills gaps. There is no way Africa can reduce informality when nearly half of its workforce do not have the appropriate skills required for employment in the formal economy. The continent must leverage it natural resources to abolish all fees at the pre-university level of education. Equally importantly, education curriculum must be re-designed in several countries to reflect and address the development challenges that countries face.

Politically, states in several countries in Africa must be rehabilitated if they are to be able to enforce the rule of law. Most are too weak and/or disorganised to effectively undertake the tasks of governing, and until this situation is reversed, little in the way of development can be realised. The social contract must be re-established on the basis of respect for the dignity of the African and accountability. This is something that will have to be 'fought for' through mass mobilisation geared towards changing the political economy equilibrium that sustains Africa's development, excludes the majority from state benefits and forces them into the informal economy.

Organising operators in the informal economy is key to addressing decent work deficits and forcing a change in the social contract. Trade unions, being the foremost political organisations with relatively better networks, are important in this regard. However, the goal of organising the unorganised in the informal economy has floundered because it is difficult to sustain in the medium to longer term. The attempt to shore up dwindling membership by recruiting informal workers and helping them to improve their lot in economic and social terms is a noble objective. Nevertheless, these objectives are harder to maintain when the broader economic, social and political issues that sustain informality appear to be getting worse rather than better. It is for this very reason that some of the best examples of informal economy organisation, such as the case of Ghana, have seen no more than five per cent of operators in the informal economy being organised.

It is important that trade unions broaden their objectives for organising in the informal economy to include an explicit attempt to use the large numbers of workers to attack the root of the problem: the political economy equilibrium that implements poor economic and social policies and excludes many citizens from state largess.

References

Berndt, L. E. (1976). 'Sub-divisions of the Informal Sector', University of Michigan Institute of Labour and Industrial Relations, unpublished.

Blunch, N.H., Canagarajah, S and Raju. D. (2001). The Informal Sector Revisited: A

Synthesis across Space and Time, World Bank, USA.

Bromley, R. and Gerry, C (eds). (1979). *Casual Work and Poverty in Third World Cities,* John Wiley and Sons.

Brusco, S. (1982). 'The Emilian Model: Productive Decentralisation and Social Integration', *Cambridge Journal of Economics.*

Castells, M. and Portes, A. (1989). 'World Underneath: The Origins, Dynamics and Effects of the Informal Economy', in Portes, Castells and Benton (eds), *The Informal Economy.*

De Soto, H. (1989). *The Other Path*, London: IB Taurus.

Gajigo O. and M. Hallward-Driemeier. (2012). 'Why do some Firms abandon Formality for Informality? Evidence from African Countries', African Development Bank Group, Working Paper No. 159.

Harris, J R. and Michael P. T. (1970). 'Migration, unemployment and development: A two-sector analysis', in *American Economic Review,* Vol. 60, No. 1, pp. 126-42.

Hart, K.(1973). 'Informal Income Opportunities and Urban Employment in Ghana', *The Journal of African Studies,* 11, 1, pp. 61-89.

Hussmanns, R. (2004). 'Measuring the informal economy: From employment in the informal sector to informal employment', Working Paper No. 53, Geneva: ILO.

ILO. (2002). 'Women and Men in the Informal Economy: A statistical picture', Geneva: ILO.

— (2002). 'Decent work and the informal economy', Report IV, Geneva: ILO.

— (1972). Employment, incomes and equity: A strategy for increasing productive employment in Kenya, Geneva: ILO.

Lewis, W. Arthur. (1979). 'The dual economy revisited', in *The Manchester School of Economic and Social Studies,* Vol. 47, No. 3, pp. 211-29.

— (1954). 'Economic Development with Unlimited Supplies of Labour', in *The Manchester School of Economic and Social Studies*, Vol. 22, No. 2, pp. 139-91.

Loayza N.V. (1996). 'The Economics of the informal sector: a simple model and some empirical evidence from Latin America', *Carnegie-Rochester Conference Series on Public Policy*, Vol. 45, pp. 129-62.

Losby, J.L. et al. (2002). Informal Economy Literature Review.

Otoo, K.N. (forthcoming). *Informality and Labour Regulations in Ghana.*

Scott, A. M. (1979). Who are the Self-Employed?' in Bromley and Gerry (eds), *Casual Work and Poverty in Third World Cities*, John Wiley.

Silverman, J.M. (1992). Dual Economy Theory Revisited: Governance and the Role of the Informal Sector.

Women in the Informal Economy: Globalising and Organising (WIEGO). (2012). 'The Informal Economy: Definitions, Theories and Policies', WIEGO Working Paper No. 1.

CHAPTER 3

COUNTRY CASE STUDIES

This chapter provides summaries of country case studies conducted as part of this book. In all, there are five country studies summarised in this chapter, namely Ghana, Kenya, Namibia, Zambia and Zimbabwe. These provide national-level evidence of the nature and changing forms of informality, past approaches to formalisation and how the current enthusiasm for formalisation can be made more effective. Thus far, for Africa, the evidence shows that informal employment is large and growing in all countries except Namibia, wherein only a minority of the workforce is located in the informal economy.

-GHANA-

Labour's Approach to Formalising the Informal Economy in Ghana

Kwabena Nyarko Otoo, Prince Asafu-Adjaye and Richard Acheampong

Labour Research and Policy Institute, Ghana-TUC

Introduction

For Ghana, the case study focused formalising informal economic activities from the perspective of government, employers and trade unions. It analysed in detail the nature, drivers, contributions and effects of informality countrywide. In terms of approach, the study focused on trade unions that have traditionally organised in the informal economy and what that organisation has meant for the average informal worker. Government interventions in the informal economy were also analysed in the context of formalisation.

The methodology used was largely qualitative: the researchers surveyed a number of operators in the informal economy through focused group discussions. Interviews were also conducted with unions and unionists as well as experts working on the subject of informality. Government officials from the Ministry of Employment and Labour Relations as well as officials from the Ghana Employers Association (GEA) were also interviewed. It also included an extensive review of existing documentation on the Ghanaian economy and labour market.

Nearly 90 percent of Ghana's workforce is employed in the informal economy. Informality is most pronounced among women, young people and the rural population, most of whom have no opportunity to join the formal economy. In the past it was believed that economic growth would draw more people into formal employment, hence the attempt to provide financing, deregulating labour markets and implementing decent work country programmes. Regarding trade union efforts, interventions in the informal economy have tended to rest on organising and helping operators to secure public goods and services, including financing.

Background and Context

Consistent with the trend in Sub-Saharan Africa (SSA), informality is widespread in Ghana. Latest estimates by the Ghana Statistical Service (GSS, 2014) indicate that 88 per cent of the Ghanaian workforce is informally employed.[1] The informal economy, contrary to the promise of structural adjustment, is exploding even as the economy achieves so-called robust growth (Otoo, 2015). In terms of enterprises, data from the 2006 Living Standards Survey shows that more than eight (8) in ten (10) non-farm household enterprises are not registered with the appropriate national institutions.

It has always been difficult to correctly estimate the contribution of the informal economy to national output. This is explained by the fact that informal economic activities do not come under the purview of national authorities and due to the paucity of data in general in Ghana. According to the Schneider index[2] of the shadow economy, roughly 41 percent of Ghana's Gross GDP is produced informally and therefore accounts for a significant proportion of the national output.

Despite this, there is no coherent official policy or strategy for the informal economy. Policies and programmes regarding the informal economy and operators in Ghana are scattered and sometimes confusing. Official support and statements have been frontloaded with the sole ambition of bringing the informal economy into the tax net, and although many informal operators already contribute to tax revenues, they receive little official state support in terms of growing their businesses. Some are severely discouraged by officialdom.

In this study, we take the view that while the informal economy has been beneficial in providing employment and livelihoods to vast majority of Ghanaians, informality is a distortion of the efficient utilisation of the country's human capital, one arising from the underdevelopment of its society, polity and economy. Hence, we argue that a transition from informality to formality is desirable and ought to be pursued. This study concludes by, proposing a number of steps that should be taken to facilitate the

1 The 1999 GLSS put it at 80 per cent and the 2006 survey at 86 per cent.

2 The Schneider index combines the DYMIMIC (dynamic multiple-indicator–multiple-cause) method, the physical input (electricity) method and the excess currency-demand approach to estimate the share of production that is not declared to tax and regulatory authorities.

shift to formal economic transaction.

A fuller appreciation of the growing levels of informal employment requires an understanding of the political, economic and social environments in which Ghanaians interact with one another and with the State. This is summarised herein in order to provide the context for a detailed analysis of the country's informal economy.

The Political Context

In 1957, Ghana gained political independence from British colonial rule, becoming a republic in 1960. The labour movement in Ghana, specifically the TUC (Ghana) played an active role in the decolonisation and exerted significant influence on the politics of the immediate post-independence era. In 1966, Kwame Nkrumah, Ghana's leader and first President, and his Convention People's Party were overthrown through a coup d'état. The coup ushered Ghana into a period of political instability spanning more than three decades.

Since the restoration of democracy in 1993 the political situation has been stable. The country has had six elections, two of which resulted in the peaceful transfer of power from one political party to another. The country enjoys political freedom and pluralism. Media freedom has also been enhanced. The country is frequently described as an island of peace in a sub-region mired in conflict and political instability.

However, democracy as practised in Ghana has not habituated to state-building. The political elite and the citizenry in general have reduced it to a four-year cycle of elections and voting. Between elections, citizens' participation in governance has been reduced to unfocused media debates in which the political elite allow every shade of opinion without acting on none. Democracy has therefore led to a situation where national institutions have become severely weakened and deliberately focused on the interest of governing parties at the expense of national development. The country appears to be caught up in a political stalemate in which governance has retreated and government and its functionaries have become engaged in a large-scale distribution of patronage.

Ghana has thus arrived at political–economic equilibrium wherein there are powerful forces, namely the business and political elite, interested in maintaining the status quo.[3] Although these groups are aware of the challenges associated with the current 'development' framework, they have yet to figure out how to reform the system without losing their privileged positions. The vast majority of Ghanaians who derive virtually no benefits from the equilibrium appear too weak and sometimes unwilling –for reasons of history and ethnicity – to disturb the status quo.

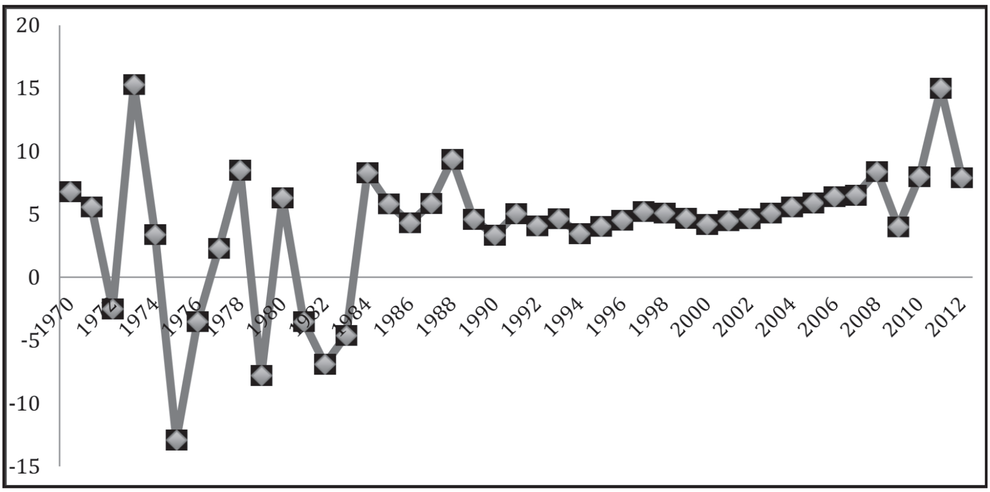
3 See Otoo, 2013.

In response, many rational economic actors have chosen to withdraw from formal state institutions, it having become too costly both in terms of money and time to deal with crumbling state agencies. Rational economic agents have devised informal mechanisms to get things done, including bribery and circumvention of formal channels. Some businesses refuse to register with appropriate state agencies, while others conceal a substantial part of their operations from the state. Moreover, the state itself is too weak and appears unwilling and disinterested to assert its authority. This political climate makes informality rational and permissible.

The Economic and Social Context

A standard neo-liberal analysis of Ghana's economy indicates that it is strong and robust. Economic growth as measured by GDP has averaged over 8 per cent for the past six years (Figure 10). This remarkable growth has resulted in a significant decline in the headcount poverty rate, dropping from about 52 per cent in 1992 to 28.5 per cent in 2006. While inflation remains stubbornly high at about 15 per cent, it is far below the triple digits rates recorded in the 1970s and early 1980s. Infrastructure has improved; road networks have never been better, for example. More of the population now has access to healthcare, schools are nearer to communities and many more have access to secondary schooling and beyond.

Figure 10: Ghana's GDP Growth Rate (1970–2012)

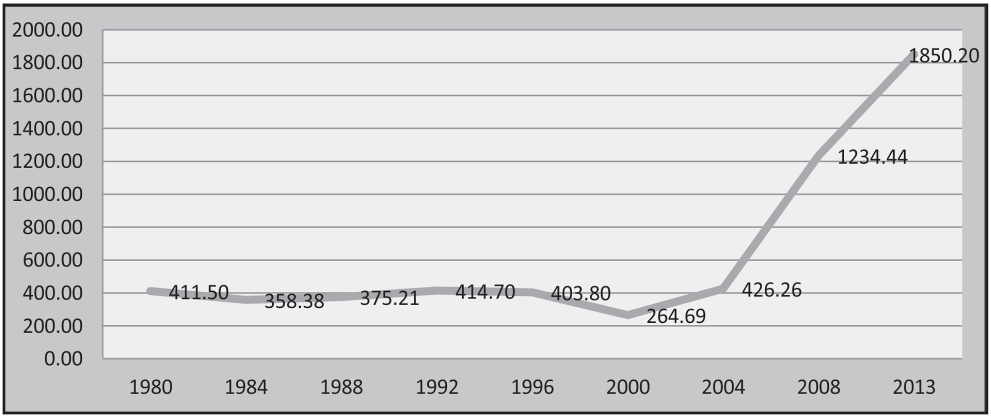


Source: GSS and ISSER (various years).

As expected, growth in the GDP has seen significant improvements in the GDP per capita, it having increased from US$411.50 in 1980 to US$1,850.20

in 2013 (Figure 11). This represents an increase of 349.62 per cent in the per capita income. As a result, Ghana is currently classified as a lower-middle-income country.

Figure 11: Ghana – GDP per capita in US$



Source: Adapted from World Bank

However, there is little else to celebrate about Ghana's growth episode. It has failed to transform and develop the structure of the economy, reinforcing instead the colonial pattern of enclave development. The agricultural sector has declined in terms of its contribution to GDP and employment and the services sector is now the largest contributor. This shift reflects the perverse nature of Ghana's economic transformation, where productivity, inducing dynamic sectors such as manufacturing, has all but collapsed.

The Labour Market

The information on Ghana's labour market and our analysis thereof is based on data from the sixth round of the GLSS (GLSS6, 2014).

Data from the GLSS6 shows that 79.6 per cent of the population aged 15 years and older is economically active. The economic activity rate is higher in rural areas (84.9%) than urban areas (74.7%). Economic activity is higher for males (82.2%) than females (77.3%) and the majority of the economically active population is employed (94.8%). The unemployed constitute 5.2 per cent and approximately 20 per cent are economically inactive.

In terms of status of employment, more than two-thirds (68.7%) are engaged in vulnerable employment, being self-employed/own-account workers (46.4%) or contributing family workers (22.3%). Paid employees constitute 22.5 per cent of the currently employed, with the percentage being higher for males (32.5%) than females (13.2%). However, females (50.5%) are more likely to be self-employed. More than half of the population in rural areas (52%) are own-account workers. The corresponding figure for urban Ghana is 40.4 per cent.

As expected, the bulk (93.7%) of Ghana's workforce is employed by the private sector. The public sector employs just 6.3 per cent of the total workforce. A high proportion (44.7%) currently work in the agricultural sector, this being a slight rise from 2010 levels, where the national population and housing census estimated total agricultural employment being 42 per cent. The implication is that even as agriculture's share of total national output continues to dip, the sector continues to employ the majority of the workforce. The manufacturing sector employs 9 per cent of the eligible population, down from the 2010 estimate of 10.8 per cent. Wholesale and retail trade employs 19.5 per cent of the workforce, a marginal rise from 18.9 per cent in 2010 (GSS, 2012; 2014).

The formal sector employs just over 10 per cent of the total workforce, indicating a continuous decline in its share of total employment. In terms of trend, the share of formal employment in terms of total employment has increased since 1999, rising from 80.3 per cent in 1999 to 86 per cent in 2006. Thus, as Ghana's economy grows the formal sector declines and informal employment soars.

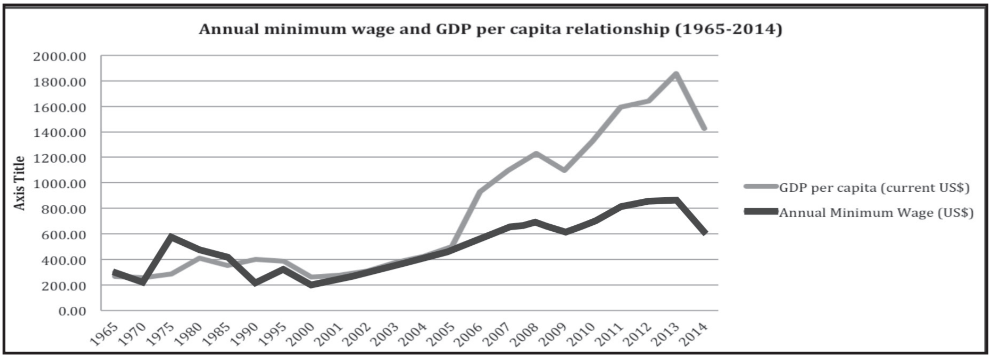
The Ghanaian labour market is also characterised by high levels of child labour. From the 2005/06 GLSS data, the 2008 GSS estimated that about 13 per cent of children of school-going age in Ghana were active in the labour market. By 2012/13, this proportion had shot up to 22 per cent. Such high and increasing levels of child labour are worrying, and not only because these children may be missing out on schooling and the opportunity to develop their human capital. As a result they will doubtless constitute the weakest segment of Ghana's future labour market. The current labour market already has a pool of young people with very limited skills and human capital endowments.

Low earnings are also common to Ghana's labour market, both in absolute and relative terms. The 2006 GLSS survey (GSS, 2008) put the average wage at GHC118.80 estimated in 2006; according to Otoo (2013), this was GHC256.31 in 2013,[4] while the 2014 GLSS6 put it at GHC252.72. Although the cumulative increase in the average wage between 2006 and 2013 was about 113 per cent, the cumulative inflation rate for the same period was 173 per cent. In real terms, therefore, wages in Ghana have exhibited considerable downward flexibility. Figure 12 compares per capita GDP with the national monthly minimum wage expressed in US dollars and shows that

4 Ghana's unit of curreny is the Cedi.

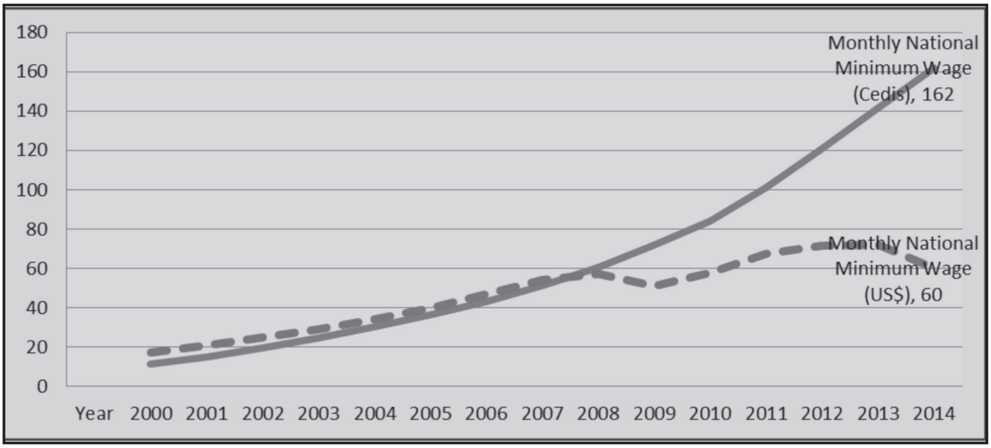
the minimum wage has lagged behind per capita income since the 1980s and that the gap between the two keeps has continued to widen, especially after 2005.[5] Figure 13 shows the divergences between the minimum wage and per capita GDP denominated in Cedis and US dollars.

Figure 12: Minimum Wage and GDP per Capita from 1965 to 2014



Source: Trades Union Congress (Ghana)

Figure 13: Minimum Wage Trends in Ghana from 2000 to 2014



Source: Trades Union Congress (Ghana)

Ghana has a long and rich history of industrial relations that pre-date its independence. It has established an institutional and legislative framework for industrial relations and law and also guarantees trade union rights. Labour market and industrial relations

5 See Otoo, 2015.

institutions such as the National Tripartite Committee (NTC), the National Labour Commission (NLC) and the Labour Department have been established to promote social dialogue. However, systematic underfunding has severely undermined these institutions' ability to enforce national labour laws.

Social protection coverage is another major challenge for Ghana's labour market. Social security coverage is low for both the number of persons and contingencies covered. The GLSS5 data (2005/06) revealed that barely 29 per cent of the country's workers were covered and that scarcely 10 per cent of working population was contributing to social security (Otoo et al., 2013). Only three contingencies, namely retirement, incapacitation and survivor's benefits, are covered by the current mandatory social security scheme.

The informal economy

In this section we look at the development of the informal economy in Ghana, its drivers and trends in its development.

The Growth and Development of the Informal Economy

Informality is not new to the Ghanaian labour market. Prior to colonialism there was no central government or central authority with which economic transactions could be registered, nor was there a requirement for such registration. Some form of employment relations did exist, but these were regulated purely on the basis of social norms that were commonly agreed. By current standards, employment relations and economic activities in pre-colonial times were completely informal.

Waged employment on the Gold Coast (now Ghana) emerged in 1874, after the formal establishment of a colonial government, which subsequently recruited Africans to work as administrative clerks. In the private sector it began with the opening of the mines in the mid-1890s, which marked a dramatic shift in the structure of the labour market – large numbers were uprooted from agricultural employment to work as miners. By 1956, total waged employment had increased to over 260,000, with the public sector accounting for more than half (52%) as shown in Table 6.

Table 6: Recorded Employment and percentages in the Public Sector (1949 – 1956)

Year	Employment	Percentage in Public Sector
1949	130,930	39.1
1951	217,000	43.5
1956	261,849	51.9

Sources: Baah (2001)

Although the colony's African workers were subject to inhumane working conditions, including forced labour and poor pay, the colonial administration did begin the important process of formalising employment relations and economic transaction. At independence, total waged employment stood at over 300,000. The establishment of the Labour Department in 1938 had also paved the way for the recognition and improvements of the rights of African workers. The formation of the Trade Union Congress (TUC) in 1945 gave all workers a collective voice for protecting and defending their rights. The Pension Ordinance of 1946 established the first non-contributory pension scheme to provide benefits to workers and dependents. In 1955, the Teachers' Pension Ordinance was passed, affording teachers benefits under the 1946 scheme. A superannuation scheme was also established for teachers at the University of the Gold Coast, now University of Ghana.

The pace of employment creation and formalisation of employment was quickened in the first decade after independence. The many industries that were established together with the development of both economic and social infrastructure considerably expanded employment. Public sector employment was the most important source of employment for most Ghanaians entering the labour market from the education system. Between 1960 and 1965, direct public sector employment expanded by an astonishing 93,000 people, equating to 63 per cent (Killick, 2010).

Between 1960 and 1970, there was matching growth in employment and the size of the labour force growth, each expanding at 2.2 per cent per annum (Census Report, 1960; 1970). Indeed, figures based on the membership of the TUC indicate the rapid growth of formal employment in the first six years of independence. In 1963, the combined membership of the 17 unions that made up the TUC stood at 324,648. This six-year period also witnessed a marginal drop in unemployment. Most significantly, the nature and forms of employment were shifting, albeit gradually, towards a formal economy, with the public sector leading the way. By the beginning of the 1980s, those in formal employment constituted about 21 per cent of the overall total.

The subsequent adoption of structural adjustment policies marked an important watershed in the development of informal economy in Ghana. As was and has been the case in other African countries, structural adjustment helped to arrest Ghana's spiralling inflation and revive economic growth, it failed to create employment and, more importantly, led to wide-scale destruction of jobs in the formal economy. After the mid-1980s, formal sector employment dropped from 20 per cent of total employment to just about 10 per cent.

In 1999, the Ghana Living Standards Survey (GLSS4), which was financed by the World Bank and produced under its technical supervision, put the size of the informal economy at around 80 per cent (GSS, 2000). The GLSS5 estimated the size of the informal economy as being 86 per cent in 2006, while the latest round – GLSS6 – puts it at about 88 per cent. The trend is obvious: contrary to the promise of structural adjustment, the informal economy continues to grow.

These broad numbers hide the magnitude of the employment debacle. The GLSS6 estimates that more than two-thirds (68.7%) of the Ghanaian workforce is in vulnerable employment, i.e. combination of own-account and/or contributing family employment. It is most pronounced among women (78.4%) than men (58.3%) and far higher in rural (84.5%) than urban (52.1%) areas.

Drivers of the Informal Economy

The decline in formal employment and the resultant rise of informality has been explained variously. Mainstream economists, including the World Bank and the International Monetary Fund (IMF) have attributed the failure of economic growth to create employment in the formal sector to the excessive regulation of the labour market (World Bank, 1990). According to this view, the labour market in Ghana should be straddled by many rules, including minimum wage laws that prevent real wages from falling towards the equilibrium. The implication is that firms that are unable to pay and workers who are willing to work for less than the mandated minimum frequently collude to operate informally.

The evidence does not support this somewhat flimsy explanation. The wage structure in Ghana showed considerable fluctuations during structural adjustment, with the national daily minimum wage – a benchmark – remaining below US$2 for the most of the three decades. In dollar terms, the monthly minimum wage was US$196 in 1983, at the start of structural adjustment. In 1984, this dropped sharply to US$27 per month, i.e. 13 per cent of the previous year's minimum wage. The 1990s saw further declines, dropping to an all-time low of US$17 per month in 2000. In 2007, the minimum wage fell to US$2 a day, which was the international upper poverty line for. The minimum wage for 2013 was 55 per cent of the national average wage. However, a significant proportion of Ghanaian workers have always earned less; in

2006, the GLSS5 data showed that 46 per cent of food-crop farmers and 17 per cent of all informal economy workers' earning were below the minimum wage.

In a study sponsored by the World Bank, Kiragu and Makunda (2004) compared public sector pay in eight African countries, Ghana included. They revealed that public sector pay in Ghana was not only among the lowest but had also declined in real terms during the 1990s. The country's top-level salary of US$6,261 in terms of purchasing power parity (PPP) in 1992 saw a precipitous decline thereafter, falling to US$3,275 in 2001. For the same period, the top-level salary in Uganda increased from US$469 to US$13,300.

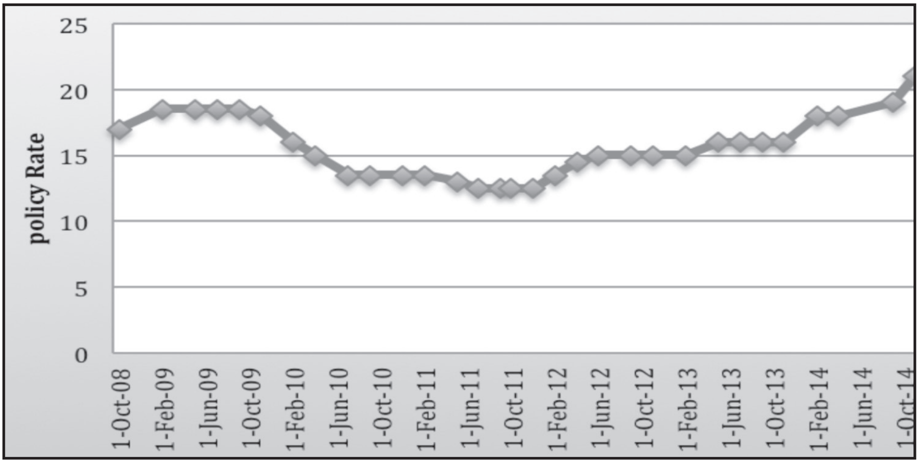
In surveys of Ghanaian businesses over the years, neither wage nor labour costs have been cited as a binding constraint on business expansion and thus the creation of jobs. In its 2010 third quarter survey, the Association of Ghana Industries prioritised ten constraints to business expansion and doing business in Ghana. These did not include labour costs or regulations. Rather, access to and costs of credit have topped of the constraints chart. Almost twenty years prior to this survey, Baah-Nuako and Teal (1993) stated that 'lack of access to credit is the most important constraint for all firms in all size, sector and age categories'.

Accordingly, neo-classical explanations fail to account for the growth of the informal sector in Ghana. We explain the rising levels of informality within a framework that encompasses the dual underdevelopment of the economy and state. In economic terms, several factors are important in explaining the persistence of informality. First, large-scale privatisation and downsizing in the public sector led to a huge number of redundancies and the assumption that they would find employment in the formal private sector failed to materialise. They had no option other than to enter the informal economy, swelling numbers there and depressing conditions even further.

Second, the freeze on public sector employment imposed by structural adjustment effectively locked many people out of employment. Prior to the implementation of structural policies, the public sector was a major source of employment for people entering the labour market. The notion that public sector employment wastes scarce resources is erroneous. Several aspects of national life could benefit greatly from the expansion of this sector: sanitation, public security, education and healthcare, among others. Although these areas offer huge potential employment and significant social returns, the private sector has little no or incentive to invest in this area.

Third, the formal private sector too has failed to respond to the adjustment measures in terms of providing jobs in their right quantities and quality. It is constrained by several internal and external factors: the challenges of poor infrastructure, including road networks, costly telecommunication, unreliable electricity supplies and limited access to credit. The cost of borrowing is prohibitive – data from the Bank of Ghana showed average interest rates in Ghana as about 30 per cent, while its own prime rate, a benchmark interest rate for the commercial banks, exceeds 20 per cent (Figure 14).

Figure 14: Bank of Ghana Policy Rate (2008–2014)



Source: Bank of Ghana, 2014.

Among the key external constraints on private sector development is the over-liberalisation of external trade sector. This has led to an influx of a wide range of foreign-made, low-priced, hugely subsidised products. Many otherwise promising domestic firms have been forced to close down because they could not compete. Economic policy has become so obsessed with 'helping' Ghanaians firms to enter the export market that they have lost their share of the domestic market.

At the level of the polity (the State), several factors explain the rising levels of informality in the Ghanaian labour market. First is the inability or the failure of the state and its institutions to enforce basic employment legislations. Structural adjustment did its best to dismantle labour market institutions, including institutions for social dialogue. Where they could not be uprooted, reformers simply denied them the funding needed to carry out their mandates. As a result, there are many that now exist in name only, having no functionality whatsoever.

Second is the nature of the Ghanaian state and how citizens, including businesses view the state. A major part of the solution to Ghana's economic malaise of the 1970s under the economic structural adjustment programme was reducing the number of civil servants. In our view, this exercise was pushed to a level where the state was so thoroughly deformed it was unable to undertake the simple task of governing.

Many people are still disengaged from the state as they derive no benefits from engagement. State institutions including those that are required to facilitate business have become embroiled in costly bureaucracy, selfishly providing enormous benefits to a few authorities and almost a nuisance to the citizenry, for whom it appears to have lost moral legitimacy and thus openly defy it with no consequence. It retains political legitimacy, but in the cost-benefits consideration of those wield political power, the large swathe of people and their activities that take place outside of formal regulatory framework can be overlooked without affecting their privileges.

The Contribution of the Informal Economy to GDP and Government Revenue

A survey conducted in Accra by Jobs and Skills Programs for Africa (JASPA) in 1990/91 established that the informal sector accounted for about 22 per cent of Ghana's real GDP (ISSER, 2003). By 2013, this had increased to 40.7 per cent.

It is estimated that the private sector in Ghana consists of approximately 80,000 registered companies and 220,000 registered partnerships. The sector is dominated by enterprises in the informal sector, of which approximately 90 per cent of the companies are micro, small and medium enterprises employing less than 20 persons. These enterprises provide low costs inputs to the large firms in the formal economy and serve as markets for the formal economy.

Contribution of Informal Economy to Employment in Ghana

As already outlined, the informal economy is the largest employer in Ghana. In 2013, the informal economy was estimated as employing about 88 per cent of the total national workforce.

Table 7 shows that the private sector is the largest employer – formally and informally – in Ghana, employing more than 90 per cent of the total workforce; its share in total employment has remained at about 94 per cent between 1999 and 2013. The majority of this workforce is in the informal economy. The public sector employs just 6 per cent of the workforce.

Table 7: Distribution of Employment by Institutional Sector (1999 and 2013) – Per cent

INSTITUTIONAL SECTOR	1999	2013
Public	6.2	5.9
Private formal	7.5	6.1
Informal	86.3	88.0
Total	100	100

Sources: GSS (2000; 2014), GLSS5 (1998/99, GLSS6 (2012/13)

National Legislation and the Informal Economy

Despite the importance of the informal economy in providing employment and contributing to the GDP, the Ghanaian government has no specific policy on the sector. National laws and policies make no distinction between the formal and informal sectors of the economy. The Labour Act No. 651 (2003) speaks of 'workers' made up of those in the formal and informal sectors without taking into account the peculiar circumstances of the latter. For instance, employment benefits provided under this are provided as employer liabilities. Maternity leave is supposed to be an 'employer liability', as are paid sick leave and others. Mandatory social security is a shared liability, with the employer contributing the largest portion. It is obvious that these provisions fail to account for the fact that more than two-thirds of the nation's workforce is self-employed. Further, they cannot be expected to undertake and benefit from collective bargaining, which, under the current law, is reserved for workers who have an employer–employee relationship.

Informal workers and enterprises are required to pay tax on their earnings and many programmes have been implemented to rope the informal sector into the tax net. However, the informal economy remains a challenge as far government efforts to collect taxes for national development are concerned. According to the 2009 budget statement:

> *The fact that the vast majority of Ghanaians are in the informal sector makes revenue generation a daunting task. Tax administration will be strengthened to realise efficiency gains and broadening of the tax base.*

In fact, nearly all government policy statements on the informal economy by government and its agencies have been frontloaded with the singular ambition of bringing operators in the informal economy into the tax net.

Legal and Administrative Procedures in Registration and/or the Issuing of Licenses

In Ghana, being registered is what tends to separate the informal and formal economies. The most important state institution mandated for business registration is the Registrar General's Department. However, this body is not represented countrywide. Every district, however, has its own District Assembly and is therefore far more easily accessible to informal operatives.

The Company Registration Code, 1963 (Act 179), the Partnership Act, 1962 (Act 152), the Business Name Act, 1962 (ACT 151) and the Ghana Investment Promotion Centre Act 1994 (Act 478) specify the conditions under which businesses can establish and operate. The registration procedure for sole proprietorship business (usually micro and small-scale businesses) has fewer requirements than for companies. Importantly, wholly Ghanaian-owned businesses/companies need meet fewer requirements those that have foreign interests. For instance, a wholly Ghanaian-owned company requires a minimum capital of GH¢500 compared to US$10,000 required from foreigners venturing into businesses other than trading. Foreigners registering trading activities require a minimum equity capital of US$300,000. Thus it can be fairly concluded that the law makes business registration relatively simple for Ghanaians compared to foreigners.

In practice, however, the registration process is fraught with challenges. It takes too long, sometimes requiring up six months to complete. The centres themselves are often congested and chaotic. Moreover, having to have GHC500 in a bank account flies in the face of the country's socioeconomic reality. Many people with small-scale businesses do not even have a bank account.

Incomes, Wages and Working Conditions in the Informal Economy

Ghana has traditionally been described a low-wage/low-income economy. Most workers, particularly those in the informal economy, take home less than mandated minimum wage. In 2006, this percentage was 46 per cent for food-crop farmers and 17 per cent for informal economy workers.[6] The GLSS6 estimated average monthly earnings as being US$178.69. For persons in paid employment, this sum was US$225.21.

Few informal economy operators have access to non-wage benefits. No more than one per cent is registered for social security and nearly all are excluded from employer-sponsored benefits such as paid maternity leave.

Informal economy workers face additional challenges. These include low earnings,

6 See GLSS5.

unsafe working conditions, lack of employment and income security, lack of social protection, non-recognition in national policymaking, harassment by public authorities and lack of access to credit and finance. They have lower level of education, are largely unorganised and are voiceless. These challenges have persisted, partly due to the low level of organising, the low degree of compliance with the Labour Law, 2003 (Act 651) and the inability of government agencies to enforce and regulate activities in the sector.

Adu-Amankwah (1999) sums up these challenging 'needs' within two categories: (i) social needs – job security, health care facilities and the promotion of occupational health and safety, protective clothing, protection against loss of income when sick, annual leave and maternity rights, minimum wages, general infrastructure and environmental sanitation; and (ii) economic needs – training and education for skills development, basic tools, business premises, financial credit and marketing opportunities.

Formalising the Informal Economy

Stakeholders in Ghana have adopted various approaches to the informal economy, not all of which have been undertaken with the explicit goal of formalisation. More often than not, the goal has been to improve the situation of operators, including their productivity and earnings. In this section we review some of these strategies and lay out our plan for formalising the informal economy.

The National Policy on the Informal Economy

As indicated in the previous section, the Ghana government has no official position on the informal economy. Nevertheless, various government documents, including policy documents such as the national budget and the recently launched employment policy, have made references to the informal economy. From a fiscal perspective, the informal economy is an important source of potential revenue for government. In pursuit of this, various interventions have been designed to ensure that the informal economy contributes its 'fair share' of tax revenues, for example, the introduction of specific tax schemes and simplified administration. The Ghana Revenue Authority's Personal Income Tax (PIT)[7] was designed to ensure that the self-employed pay income tax at graduated rates in four equal instalments and the Tax Stamp to 'collect taxes from small-scale self-employed persons in the informal economy on quarterly basis'.[8] The National Pensions Act (2008) also allows the self-employed in the informal economy to contribute to pensions under the third tier of the PIT.[9] This has created a greater opportunity for individuals in the informal sector to make more

7 This came into effect in November 2011.

8 Under the Tax Stamp System, business operators in the informal sector are grouped according to type, for example, dressmakers, susu (traditional banking) collectors, chop-bar owners, butchers. These are further categorised by class and/or /size to establish equitable rates to be paid.

9 Contributions are based on declared earnings/income.

effective plans for their retirement.

Although national labour laws cover all workers in Ghana, they fail to address the special characteristics of the informal economy. For instance, the majority of workers in this sector are self-employed and have no employees. It is unclear how the labour laws relate to such workers. They have full control of their working hours and income for instance. The Pension Act provides for their inclusion but on a voluntary basis. For those in waged employment in the informal economy, lax enforcement has them robbed of the protection and rights the law offers them. In addition, various employment forms are emerging for which existing laws are inadequate. One such 'group' comprises those employed on a so-called 'management contract' in which they are paid a given sum from which they are 'expected' to make personal contributions to the pension funds.

Ghana's recently launched National Employment Policy is to 'facilitate and supervise the transition from informal to formal economy'. Government intends to achieve this by maintaining a national register of informal economic activities and agents and integrate it with urban structure and local plans. Plans are afoot to provide operators with financial and non-financial assistance, including credit, market information and other business advisory and extension services.

Trade Union Policies, Programmes and Activities

The TUC and its member unions have had an official position on organisation, advocacy and internal democracy for the informal economy since the 1990s. That position has been based. To this end, in 1996 the TUC stated that the informal economy is an important part of Ghana's economy and that trade unions needed to step up organisational work therein and vigorously so. One key policy objectives for the current quadrennial (2012–2016) is thus to increase informal economy union membership. The expectation is that by extending union coverage in the informal economy, it can promote 'a more rigorous application of minimum labour standards in the informal economy'.

In 2015, the TUC incorporated the nine associated informal economy unions under the Union of Informal Economy Workers' Association. It is worth noting that the TUC has long had two strong unions whose membership is largely drawn from the informal economy: the General Agricultural Workers Union (GAWU), formed in 1959, and the Ghana Private Road Transport Union (GPRTU), formed in 1974.

Trade union organising efforts were initially facilitated by the existence of trade associations in the informal economy that had done the core work of organising individual workers in given trades. These self-organised groups included the Actors' Guild, the Musicians' Association of Ghana and the Hairdressers and Beauticians

Association. The current challenge is how to organise the many self-employed itinerant workers in both urban and rural areas.

In terms of advocacy, the TUC–Ghana has provided a collective voice for the informal economy. It negotiates the annual national daily minimum wage and has pushed for tax exemption for those on the minimum wage, most of who are in the informal economy. The GPRTU can now, with the support of government, facilitate credit to acquire vehicles for its members, while GAWU enables its members to access institutional credit and basic tools and inputs such as cutlasses and fertiliser. It did establish a revolving fund for the benefit of its members (particularly women) but difficulties recovering loans forced it to shut down. The Timber and Woodworkers Union assists its informal sector members with business registration.

Employers' Organisations: Policies, Programmes and Activities on the Informal Economy

Employers' organisations in Ghana comprise the Ghana Employers' Association (GEA), the Association of Ghana Industries (AGI) and the Ghana Chamber of Commerce (GCC). For this report, we chose to interview the GEA.

The GEA's position on the informal economy centres on improving productivity and hence earnings of informal operators. It does this in three ways, the first of which is by advocating for policies and programmes that lessen the regulatory burden on the small businesses in the business environment. In this regard, the GEA has made a number of submissions and proposals to government and its agencies. Second, it has undertaken a number of capacity building initiatives focusing on managing resources, including maintaining proper business records and finding niche markets. The third area of support is in the realm of finance. The GEA also supports small businesses with accessing credit at cheaper rates and sourcing linkages to donor funding.

An officer at the GEA said:

> *We support them to build their capacities in the area of improving their business and access to markets and finance. We also link them up for donor support.*
>
> *Another officer from the same union also corroborated this:*
>
> *Through the Business Sector Programme Support, [the] Ghana Employers' Association built the capacity of members of the Council*

for Indigenous Business Associations.

These capacity-building training programmes, according to the officers, help streamline the activities of businesses and support the process towards formalisation.

Activities/programmes of the ILO, Regional and Continental Trade Union bodies and Global Union Federations concerning the Informal Economy

With the support of the ILO, Ghana has implemented three decent work country programmes since 2002, namely the Ghana Decent Work Pilot Programme (DWPP) and the Ghana Decent Work Country Programmes I and II.

The Ghana Decent Work Pilot Programme, 2002

In 2002, social partners in Ghana selected two complementary elements – national and local – for the DWPP. The national component focused on influencing the socioeconomic policy environment for poverty reduction and the local component on developing and testing an integrated approach to reducing poverty in the informal economy.

The national component identified five areas for policy development, namely:

- More and better jobs in micro-and small enterprises.
- Skills development.
- Ensuring that infrastructure projects create as many jobs as possible.
- Integrating people with disabilities into the economy.
- Increasing productivity and fair wealth distribution through a wages and incomes policy.

Regarding the local component, the DWPP developed and tested an integrated approach to poverty reduction at district and community level, focusing on two districts in Central Ghana. It also aimed at building the capacities of key stakeholders in the local economy to design and implement a local economic and social development strategy. Official documents indicate that the DWPP objectives were largely achieved.

Ghana Decent Work Country Programme I (2006–2009)

Following the achievements of the pilot programme, GDWCPI was implemented in 2006 and concluded in 2009. The priority areas included:

The Ministry of Manpower, Youth and Employment and the social partners effectively coordinating and managing a multi-sector employment policy, social policy and the associated programmes, started with a youth employment programme addressing employment, productivity and income. It also addressed risk and vulnerability among the most vulnerable groups (informal workers, children, persons living with disabilities and persons living with HIV/AIDS).Under GDWCP-I, various projects were implemented, including those focusing on Local Economic Development (LED), HIV-AIDS awareness for the informal economy and efforts to eliminate child labour.

Ghana Decent Work Country Programme II (2011–2014)

Ghana implemented its second decent work country programme in 2011. It had two main priority areas, namely increasing employment and decent work opportunities, and improving social protection, especially for women and informal sector workers.

Approaches to Addressing the Informal Economy

With regard to trade union approaches to formalising the informal economy, one of the key items on the interview guide was to establish whether or not interviewees honestly felt the informal economy should be formalised. As expected, the response was a unanimous ‘yes’. Not unexpectedly, the reasons given pertained to being able to enjoy better work and living conditions as well as social protection and reducing poverty.

Almost all were of the opinion that the high levels of informality characterising Ghana’s economy and society reflect the failure of development or the attempt thereof. There was also near-consensus on the proposition that it reflects the abysmal performance of the country’s systems of governance. Trade unionist opinion in these areas is also central to this study, the General Secretary of GAWU likewise confirming that informality is a symptom of underdevelopment:

> *The formalisation process is what economic development is (or should be) all about. Economic development is similar to formalisation. Informality means that we are not doing well with our economic development efforts.*

This assertion places government in a lead role in developing the economy and tackling the rising levels of informality. The process of developing the economy is a process towards formalisation runs the argument. The lead role proposed for government is based on the stakeholder view that:

Formality underscores standardisation; as in compliance with rules, occupational safety, health and environment issues, minimum wage, decent work requirements and conforming to national legislation.

As these standardised rules are made and implemented largely at the behest of government, it goes without saying that government, as the custodian, has a critical role to play in the formalisation process.

Respondents also pointed to the need for effective organisation of the informal economy. This can be achieved by encouraging people engaged in specific activities or trades in the informal economy to form groups or associations. By so doing, the informal economy could be better assessed, allow a differentiated approach to tackling the needs of what has largely been agreed as a heterogeneous sector. Stakeholders also advocated for a gradual approach to the process of formalisation: while not discounting the vital role of government, the Employers' Association called for a concerted approach from all stakeholders, trade unions included. It also asked that a national blueprint on how to bring about the formalisation of informal economy be drawn up.

Some respondents strongly advocated for the creation of a government ministry dedicated to the informal sector rather than an informal economy desk at the Ministry of Employment and Labour Relations. Their reasoning is that the informal sector being far bigger than the formal sector, issues that arise tend to cut across several ministries, leaving operators often unclear as to which ministry they should air their grievances. By convention, and since informal economy operators operate within local jurisdictions, District Assemblies have thus become the first point of contact when issues come to light, more so because they also collect taxes and tolls. In most cases, the operator will be referred to one or other ministry for redress, a fact that usually engenders feelings of frustration.

An official from the Ghana Federation of Labour agreed with the first point:

... there should be a full and complete ministry in charge of the informal economy. This ministry should be completely different from the Employment and Labour Relations Ministry because the informal economy constitutes a greater proportion of the workforce.

Respondents were of the view that informal economy activities can be streamlined if concrete data is compiled. According to an official of the recently formed Union of Informal Workers' Association, streamlining could bring advantages such as access to training and finance and so boost to their operations. The official added that the formalisation process could be greatly enhanced if trade unions can:

> *Bring [informal economy workers] under one umbrella, unionise them and train them. Get them to streamline their activities. When you unionise them, you can have access to them. And encourage them to form co-operatives.*

These views suggest that the path to formality will be long and difficult and, above all, will require a great amount of commitment from government towards accelerated economic development.

Formalising does mean legalising it out of existence. Rather, it is about implementing economic policies that will expand the formal economy. This in itself entails a number of things; the first being the need to look at the source of economic growth, recognising that not all growth creates employment. Second is the need to identify sectors with joint potential for growth and employment creation. Third, these sectors must be supported in whatever way possible to stand on their feet and be competitive. In other words, economic policy must recognise that employment or labour demand is a derived demand, stemming from the need to produce goods and services for human consumption. Large-scale imports undercut domestic production, thereby limiting the ability of the economy to create employment. This anomaly must be corrected through policies that enable and encourage domestic production.

The second leg of our approach is to enable citizens to take advantage of economic opportunities through employment. As already observed, a great proportion of the labour market lacks the relevant human capital and skills to take any advantage of employment opportunities in the formal economy. In the past, the government has implemented piecemeal and uncoordinated training programmes aimed at addressing this skills deficit. At the same time, the education system continues to produce poor-quality graduates. To go forward, a systematic review of education and its delivery must be carried out in order to position it to address the challenges. Broadening access to education is vital – every Ghanaian must benefit from formal education, while policies on education must emphasise the important of quality, recognising that continuing to have a semi-literate population will only add to the problem.

The third and final phase of our approach looks at the state, its capacity and the relations it establishes with citizens. We take the view that this capacity is limited and continue to decline and that the state is currently incapable of leading or even bringing about effective development. A major 'revamp' is required in order for it to be able to enable it implement sound policies that create employment that citizens can access. Strengthening state capacity is also about addressing perennial issues: the elite, powerful individuals and groups and the concomitant exclusion (and withdrawal) of large sections of society from state benefits. This requires political leadership capable of – and willing to – rebuild state institutions to serve the needs of citizens rather the needs of the ruling class.

Conclusion

This case study has analysed trade union opinions and approaches to formalising the informal economy. It favours reversing the growth of informality through a process of formalisation, having found support for the view that informality is the result of failed economic and political development. It eschews any notion of legislation that focuses on its eradication, given that informal economic activities actually ameliorate the pain of underdevelopment. However, with informality come significant decent work deficits and impoverishment. Informality itself is a drag on development as it represents an inefficient use of economic resources, labour in particular, not to mention open defiance of, and even hostility towards, the state.

In the Ghanaian context, formalisation would benefit both operators and the national economy. The process also entails changes to the social sphere, stressing education for all and the need to empower citizens to take advantage of opportunities in the formal economy.

Ultimately, our view is that development is first and foremost political and that the country's political climate hinders development. State capacity must be strengthened to be able to address pertinent socioeconomic issues in order to prevent ongoing exclusion and withdrawal of large swathes of citizens from 'formal' work settings.

Specific recommendations

Government

It has emerged that informality is synonymous with underdevelopment. Making development effective and expanding employment opportunities in the formal sector is the primary responsibility of government. In this area, government needs to achieve two things:

First, it must change the core of its economic policy from one that emphasises inflation to one in which employment creation is at the front and centre of economic policy. Government must support domestic production through targeted and time-bound support to domestic industry and provide the economic and social infrastructure to enable its growth of the domestic private sector.

In terms of social development, it is essential that government empower citizens by providing education that meets the challenges of our time. Access to schooling at primary and secondary level, and beyond, must be expanded and its quality improved.

Politically, government must lead the process of rebuilding state institutions, re-establishing an effective social contract with citizens and ensuring that the state works for all. Strengthening state capacity will also ensure that needless bureaucratic barriers facing businesses active in the formal economy are removed.

Beyond this, government, through the Department of Labour and other related agencies, must dramatically improve the enforcement of labour laws in order to protect and promote the workers' rights. To this end, the department needs to be provided with the requisite human and logistics support to carry out its mandate effectively. Government must also invest in labour market institutions and social dialogue.

Trade Unions

As we have established herein, organising is an important step on the road to formality. Trade unions must therefore continue to organise workers in the informal economy and broaden its scope. One tactic, for example, would be to encourage them to form co-operatives so that providing them with specific assistance is simpler.

In the medium to long term, trade unions must generate sufficient domestic pressure on government so that it makes development effective and expands employment in the formal sector. Trade unions have called for a change in the direction of the country's economic policy, but to no avail, primarily because national authorities have no incentive so to do, facing external pressure to maintain the status quo.

References

Adu-Amankwah, K. (1999). ‘Trade unions in the informal sector’, in *Trade unions in the informal sector: Finding their bearings*. Labour Education 1999/3, No. 116, ILO.

African Development Bank and African Development Fund. (2011). *Ghana: 2010 Update of the 2005–2009 Country Strategy.*

Baah, A. (2010). ‘Poverty: A Threat to Constitutionalism and Multiparty Democracy in Ghana’, TUC (Ghana) policy bulletin, 6 (2), pp. 7-11.

Chen, M.A., R. Jhabvala and Lund, R. (2001). Supporting Workers in the Informal Economy: A Policy Framework.

Chong, A. and M. Gradstein. (2004). *Inequality, institutions, and informality*. Washington, DC: Inter-American Development Bank.

Dada, J.O. (2009). Harnessing the potentials of the informal sector for sustainable development: Lessons from Nigeria.

De Soto, H. (2000). *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*. New York: Basic Books.

Ghana Investment Promotion Centre. (2014). Investment Report, 1 October to 31 December 2014’, *Quarterly Update* 1(4):1-4.

Ghana Statistical Service. (2013). *Revised Gross Domestic Product 2012: Production Approach and Expenditure Approach*. Accra, Ghana Statistical Service.

Ghana Labour Law. (2003). Act No. 651.

Government of Ghana, Ministry of Finance and Economic Planning. Fiscal data for 2009 and 2010. Available at www.MinistryofFinance.gov.gh/fiscal_data.htm. Accessed 3 October 2014.

Haan, H.C. and Serrier, N. (2002). *Training for Work in the Informal Sector: Fresh evidence from West and Central Africa*. Turin. Centro de Capacitación Internacional de l’Oficina Internacional del Trabajo.

Institute of Statistical, Social and Economic Research (ISSER). (2003). *State of the Ghanaian Economy*. Accra: ISSER.

International Labour Organisation. (2009). *The informal economy in Africa: Promoting transition to formality: Challenges and strategies*. Geneva: ILO.

— (2002). ‘Decent work and the informal economy’, International Labour

Conference, 90th session.

Johnson, S., Kaufmann, D and Shleifer, A. (1997). 'The unofficial economy in transition', *Brookings Papers on Economic Activity*, (2): pp. 159-239.

Loayza, N. (2007). The causes and consequences of informality in Peru, Banco de Reserva del Perú, DT. No. 2007-018. Available at www.core.ac.uk/download/pdf/7115924.pdf. Accessed 15 June 2015.

Loayza, N., A.M. Oviedo and Servén, L. (2006). *The impact of regulation on growth and informality: Cross-country evidence, in unlocking human potential: linking the informal and formal Sectors*, EDGI-WIDER.

Maloney, W.F. (2004). 'Informality Revisited', *World Development Report* 32 (7), pp. 1159-78.

— (1999). 'Does informality imply segmentation in urban labor markets? Evidence from sectoral transitions in Mexico', *World Bank Economic Review*, (13), pp. 275-302.

Otoo, K.N. (2012). 'Baseline study on employment standards and trade union situation in the mining sector in Ghana'. Unpublished research report.

Rodrik, D. (1997). *Has Globalisation Gone Too Far?* Washington, DC: Institute for International Economics.

Schneider, F. (2004). 'The Size of the Shadow Economies of 145 Countries all over the World: First Results over the Period 1999 to 2003', IZA DP No. 1431.

United Nations. (2001). 'Growing Micro and Small Enterprises in LDCs, Women in Informal Economy: Globalising and Organising. 2001. A Policy Response to the Informal Economy'.

- KENYA -

Labour's Approach to Formalising the Informal Economy in Kenya

Jacob Omolo (Kenyatta University), Damaris Muhika and George Otieno [COTU(K)]

Introduction

Consistent with the general trend on the continent, Kenya's informal economy is large and growing. In 2014, it accounted for 83 per cent of those in employment. More than nine out every ten new jobs are created in the informal economy. In terms of output, the informal economy accounts for a little over 33 per cent of GDP. The study addresses three main issues, namely challenges faced by informal economy operators, how stakeholders have attempted to address these challenges and the various approaches to its formalisation.

The study methodology involved analyses of official data and documents on the economy and labour market and interviews with trade unions organising in the informal economy. A focus group discussion was conducted with 26 respondents working in the informal economy. Our research revealed that the informal economy has received considerable attention from all stakeholders, featuring prominently in most government policies and programmes dealing with the economy and the labour market. Trade unions are doing their part to organise workers in this sector, while international bodies such as the ILO have implemented programmes to address the challenges in the sector. As elsewhere in SSA, the informal economy continues to expand and the challenges are increasing in number. Various interventions have been too fragmented, uncoordinated and unable to address the systemic issues affecting the informal economy.

Background and Context

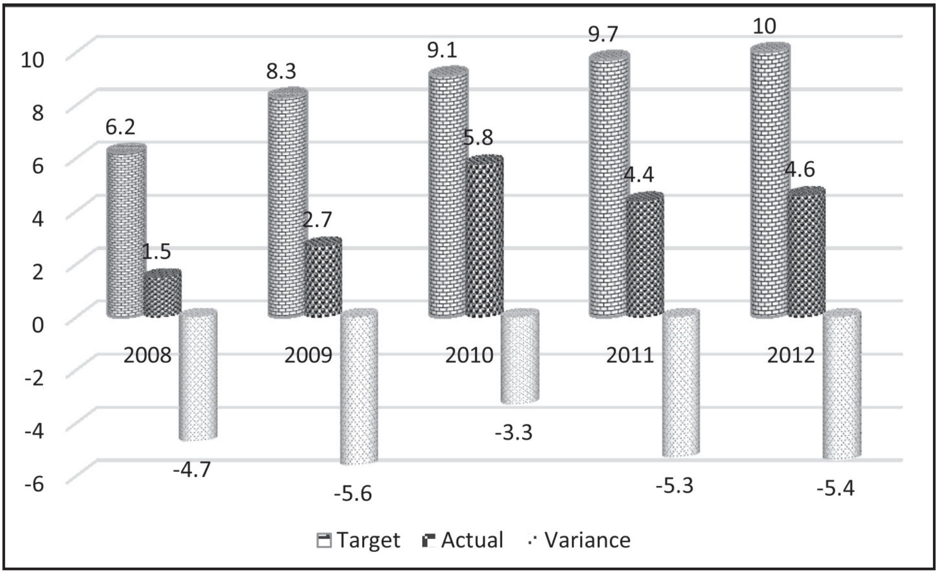
Kenya has enjoyed relative political stability since it attained independence from Britain in 1963. After Oginga Odinga's Kenya People's Union was banned in 1969, the country was effectively a one-party state. The third general elections held in 2007 were marred by widespread irregularities, culminating in post-election violence that claimed many lives and led to the internal displacement of thousands of people.

A new constitution was adopted in 2010 following a national referendum. It brought in a devolved system of governance with a national government and 47 county governments. The first election thereafter was held in 2013 and was won by the Jubilee Coalition, resulting in Uhuru Kenyatta becoming the country's fourth president.

Kenya's current economic, social and political policy environment is guided by the *Kenya Vision 2030* (Republic of Kenya, 2007). This document is a successor to the Economic Recovery Strategy for Wealth and Employment Creation (ERS), which covered the period 2003–2007 and was aimed at restoring economic growth. This was to be achieved within a sustainable framework of low inflation, declining fiscal imbalances, declining net domestic borrowing and healthy balance of payments. The policies in the *Kenya Vision 2030* are being implemented in a five-year rolling period Medium-Term Plans (MTPs), which started in 2008. The first MTP covered the period 2008–2012 and the second MTP will be completed in 2017.

MTP I (2008–2012) targeted Kenya's real economic growth rate and resulted in it increasing from 7.1 per cent to 10 per cent by the year 2012 (Republic of Kenya, 2007; 2008b). Figure 15 shows the trends in targeted and actual GDP growth realised during this first five-year segment.

Figure 15: Targeted and Actual Economic Growth Rates, 2008–2012



Source of Data: Republic of Kenya (2008b; 2014a).

It also reveals that Kenya's economic performance during this time was subdued, and that growth in GDP failed to meet targets. This resulted in a steady increase in overall poverty levels from 48.8 per cent in 2007 to 49.8 per cent in 2012 (KIPPRA, 2013). The country's HDI also increased – 0.493 to 0.519 – but remained well under the average global score of 0.694.[1]

The Labour Market

Kenya's labour market is characterised by a rapidly growing labour force, especially as concerns the youth. There are relatively low female rates, and growing informality. According to the 8th edition of the ILO's key indicators of the labour market, its size has almost doubled since 1990, having increased from 8.5 million persons in 1990 to 16.6 million in 2013, depicting an average annual growth rate of 4.1 per cent. Males constitute the majority across the board (53.4 per cent). Table 8 shows the distribution of Kenya's labour force by age and gender over the period 2004–2013. As can be seen, youth (those aged 15-34) form the bulk of the country's labour force, accounting for 55.4 per cent in 2013.

Table 8: Labour Force Distribution by Age and Gender (Percentage) in 2004-2013

Age	15-24		25-34		35-54		55-64		Total	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
2004	13.88	11.50	18.14	14.57	17.90	16.99	3.58	3.43	53.50	46.50
2005	13.66	11.20	19.99	13.05	17.92	17.00	3.64	3.53	55.21	44.79
2006	13.47	11.04	18.47	14.89	17.93	16.89	3.69	3.62	53.57	46.43
2007	13.26	10.85	18.62	15.06	17.96	16.77	3.77	3.71	53.61	46.39
2008	13.02	10.64	18.75	15.26	18.01	16.67	3.84	3.81	53.62	46.38
2009	12.77	10.43	18.88	15.43	18.09	16.59	3.90	3.91	53.64	46.36
2010	12.50	10.19	19.00	15.60	18.21	16.56	3.95	3.99	53.66	46.34
2011	12.19	9.93	19.10	15.74	18.40	16.62	3.98	4.04	53.67	46.33
2012	11.70	9.58	18.86	15.66	18.84	17.22	4.11	4.04	53.50	46.50
2013	11.41	9.36	18.87	15.71	19.07	17.38	4.13	4.08	53.48	46.52

Source: Key Indicators of the Labour Market (8th edition).

Table 9 disaggregates the available labour force by age, status of employment and sector reveals that 59.3 per cent of the country's workforce was located in the informal sector in 2005/2006, with less than 10 per cent (9.16 per cent) engaged in

1 This is much higher the SSA index, which is 0.475 (UNDP, 2013).

the formal sector. According to the 2005/2006 KIHBS data, unemployment stood at 16.53 per cent, homemaking activities accounted for 7.74 per and other forms of work 7.24 per cent. Of those that were in employment in 2006, nearly 75 per cent worked in the informal economy, with the youth accounting for 55 per cent.

Table 9: Distribution of Labour Force by Age, Status of Employment and Sector (Percentage) for 2005/2006

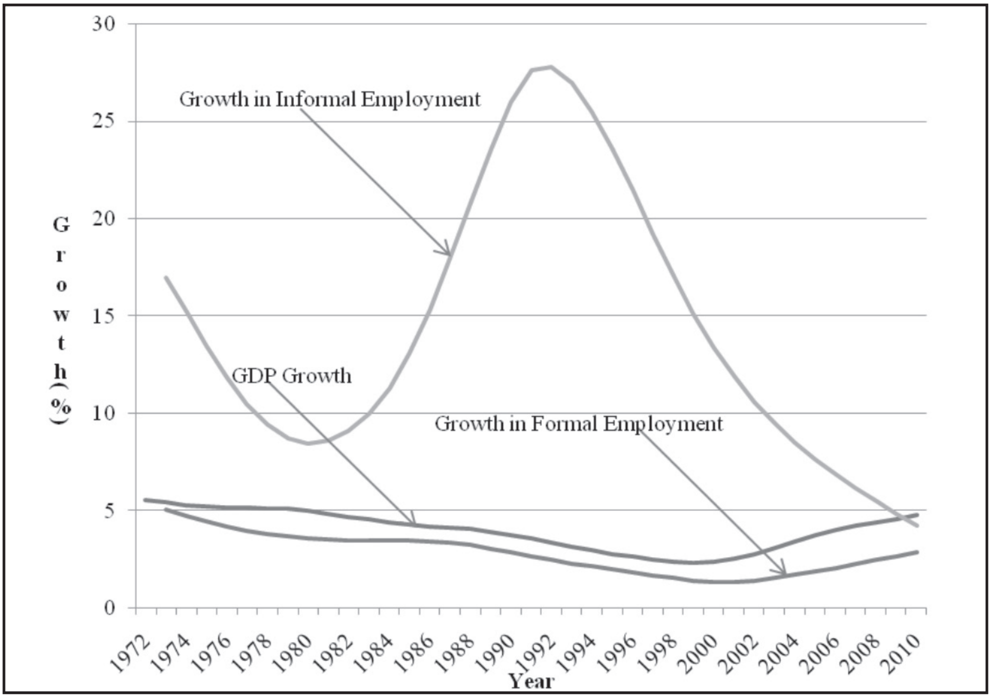
Age Group	Employed		Unemployed	Home	Other
	Formal	Informal			
15-19	0.10	5.87	2.91	1.18	1.49
20-24	0.75	9.26	4.74	1.49	1.18
25-29	1.58	9.35	3.12	1.20	0.72
30-34	1.81	8.15	1.37	1.00	0.52
35-39	1.40	6.71	2.33	0.70	0.39
40-44	1.32	6.05	0.72	0.64	0.42
45-49	1.25	4.70	0.48	0.47	0.80
50-54	0.63	3.71	0.41	0.40	0.56
55-59	0.25	3.20	0.32	0.36	0.54
60-64	0.07	2.32	0.12	0.31	0.62
Total	**9.16**	**59.33**	**16.53**	**7.74**	**7.24**

Source: Eduardo et al. 2013.

Figure 16 reflects the trends in growth in formal and informal sector employment and the rate of growth of the economy during the period 1972–2010.

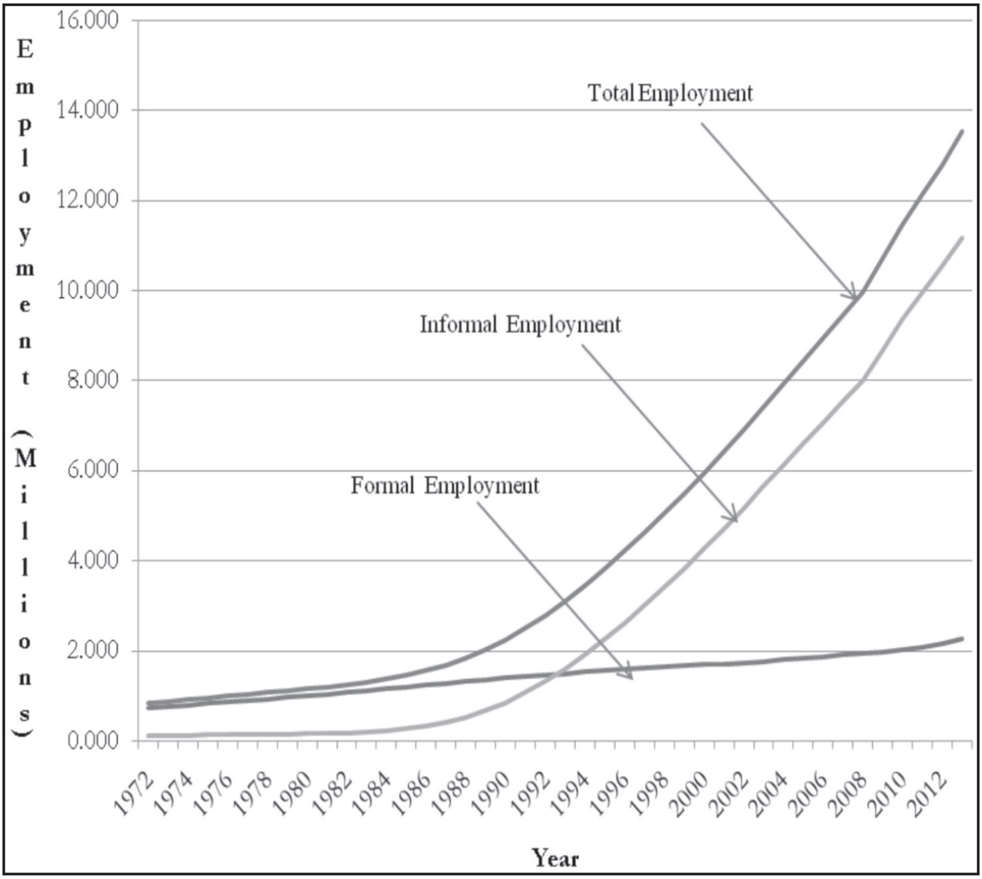
From it we can deduce the fact that growth in the formal economy remained sluggish, almost consistent with economic growth rates. The rate of growth in informal employment reached its peak in the mid-1990s and is tapering off. Figure 17 indicates that formal economy employment has exhibited some signs of recovery since the 2000s and that this may remain ongoing trend.

Figure 16: Trends in Employment Growth and GDP, 1972–2010 (by percentage)



Source: Republic of Kenya, Economic Surveys

Figure 17: Employment Trends, 1972–2013



Source: Republic of Kenya, Economic Surveys

Table 10 reflects employment trends in terms of male and female access to employment, especially in the formal sector. For the latter, the data indicates that before 2011 females only accounted for less than 33 per cent. This percentage rose to 36.6 per cent in 2012 but slightly declined the following year.

Table 10: Waged Employment in Kenya by Sex ('000s)

Year	Female	Male	Total	Female (%)
2004	521.3	1,242.4	1763.7	29.6
2005	532.3	1,275.4	1807.7	29.4
2006	562.7	1,297.0	1859.7	30.3
2007	575.5	1,334.3	1909.8	30.1
2008	586.8	1,356.7	1943.5	30.2
2009	570.1	1,430.0	2,000.1	28.5
2010	591.4	1,469.0	2,060.4	28.7
2011	656.9	1,427.2	2,084.1	31.5
2012	789.0	1,366.6	2,155.6	36.6
2013	813.2	1,452.5	2,265.7	35.9

Source: Republic of Kenya: Economic Surveys.

Our research on the structure of Kenya's employment revealed the different forms of employment contracts. These include permanent, fixed-term, casual and temporary. Table 11 summarises of the proportion of males and females with regular (permanent) and casual contracts for the period 2004–2013.

Table 11: Waged Employment by Employment Contract

Year	Male		Female		Sub-total		Grand Total (000)
	Regular (%)	Casual (%)	Regular (%)	Casual (%)	Regular (%)	Casual (%)	
2004	56.46	13.99	22.38	7.17	78.84	21.16	1763.7
2005	55.08	14.66	21.83	8.42	76.92	23.08	1807.8
2006	55.61	14.14	21.83	8.42	77.44	22.56	1858.4
2007	51.30	18.57	19.78	10.35	71.08	28.92	1909.8
2008	40.42	29.28	19.97	10.33	60.39	39.61	1943.9
2009	51.04	20.45	19.55	8.95	70.60	29.40	2000.1
2010	46.36	24.94	18.99	9.70	65.35	34.64	2059.1
2011	56.13	12.35	23.37	8.15	79.50	20.50	2084.1
2012	58.97	7.51	35.16	3.23	94.13	10.74	2155.6
2013	56.42	7.69	32.35	3.54	88.77	11.23	2265.7
Average	**52.78**	**16.36**	**23.52**	**7.83**	**76.30**	**24.18**	

Source: Republic of Kenya, Economic Surveys.

Despite a significant drop in numbers, child labour remains a major challenge to development. The 2005/2006 KIHBS revealed that the total number of working children stood at 1.9 million in 1999 but had almost halved by 2005/2006. Of these 1.01 million, nearly 53 per cent were boys. The Child Labour Analytical Report (2008) observed that approximately 2.5 per cent of these children were engaged in hazardous work. The 2009 Kenya Population and Housing Census (Republic of Kenya, 2010a) estimated that over four million children of school-going age were out of school and might well be working.

Social protection and industrial relations

Kenya has numerous, albeit non-integrated, social protection interventions. These can be broadly categorised into state social safety nets and community and family safety nets. The government operates the National Social Security Fund (NSSF), which provides social security protection to workers in the formal and informal economy. It also operates the National Hospital Insurance Fund (NHIF) to cater for the healthcare needs of registered members and their families. Social protection schemes for vulnerable and orphaned children, older persons, and persons with severe disabilities are in place, as are occupational social security schemes.

Kenya's Constitution provides for and grants fundamental freedoms and rights at work. Specifically, Article 41(2c) of the Constitution confers the right to form, join or participate in the programmes and activities of a trade union of choice. Article 41(5) grants trade unions the right to engage in collective bargaining and Article 43 confers workers with social and economic rights, including the right to social security (Republic of Kenya, 2010b). Of the country's 46 registered trade unions, 41 are affiliated to the Central Organisation of Trade Unions–Kenya (COTU (K)); the other five – the Kenya National Union of Teachers, the Union of Kenya Civil Servants, Kenya Universities Staff Union, Universities Academic Staff Union and the Dock Workers' Union – are affiliated to the Trade Union Congress of Kenya.

Kenya's industrial relations structure also recognises employers' organisations and associations as trade unions. The Federation of Kenya Employers (FKE) is the national employers' umbrella body and its 5,000-strong membership includes 2,500 individual enterprises and 13 sectoral associations (Fashoyin, 2010).

Approximately 550,000 workers in Kenya belong to trade unions. However, this figure needs to be treated with caution, as many unions do not regularly update their membership records, have weak union membership data management systems and/ or have inherent inaccuracy when reporting membership figures to third parties.

Kenya has a fairly elaborate institutional and legal framework as regards industrial relations. The framework is anchored on a tripartite model that brings together government, workers and employers. The legal framework includes ratified ILO Conventions, the Constitution and domestic labour legislation. The Industrial Relations Charter of 1957 (revised in 1984) defines the boundaries for trade union organisation and recruitment, including guidelines on categorising workers who qualify for trade union membership.

Five sets of labour laws govern industrial relations in Kenya, namely the Employment Act (2007), the Labour Relations Act (2007), the Labour Institutions Act (2007), the Work Injury Benefits Act (2007) and the Occupational Safety and Health Act (2007). The Employment Act defines the employees' fundamental rights; The Labour Relations Act deals with freedom of association, the establishment and registration of trade unions and collective bargaining agreements, and trade union dues and agency fees; the Labour Institutions Act (2007) governs the establishment of staff, employees' and employers' organisations, institutions for labour administration, the registration and enforcement of collective agreements and dispute resolution. The main institutions of social dialogue established under the Labour Institutions Act are the National Labour Board (NLB), the Industrial Court, the National Council for Occupational Safety and Health, the General Wages Council, the Agricultural Wages Council, employment agencies and other sector-specific wage councils.

The Informal Economy in Kenya

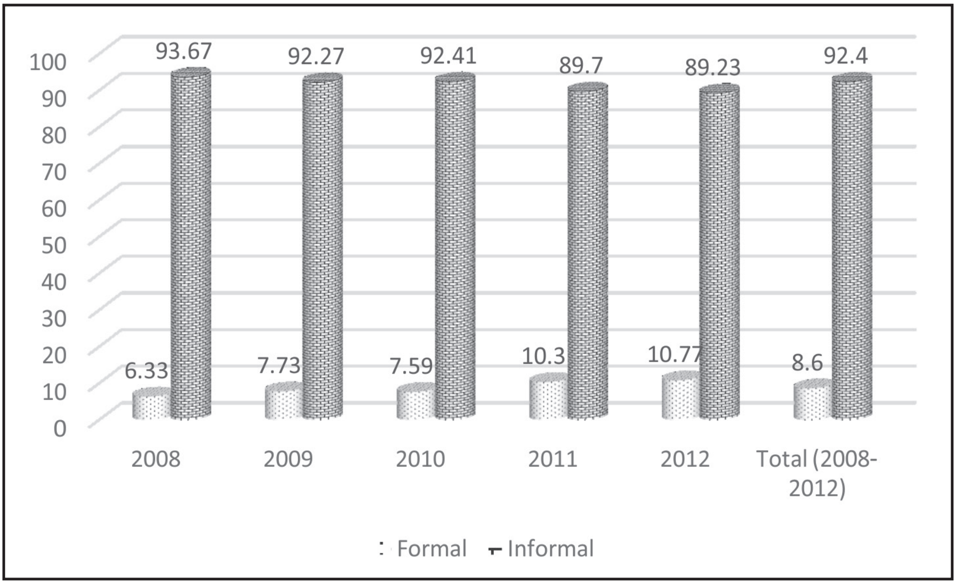
Trends in Growth and Development of the Informal Economy

Data with which to gauge the size of the informal economy and its contribution to economic growth is scant. No survey is Kenya's informal economy has been carried out since political independence in 1963. The three national baseline surveys that have been conducted focused on MSEs, a key component of the informal economy. The first was carried out in 1993 (CBS, ICEG and K-Rep, 1999) and the results suggested that there were 910,000 MSEs employing up to 2 million people and that their contribution to GDP was 13.8 per cent. The second survey (1995) put the size of the MSE sector at a lower figure – 708,000 enterprises, employing up to 1.2 million people (Ibid.).

The third MSE baseline survey was conducted in 1999. It established that there were about 1.3 million MSEs in Kenya employing 2.4 million people. The average monthly income for an MSE was around 6,000 Kenyan shillings a month and the GDP contribution 18.4 per cent (Ibid.). According to this same survey, 65.6 per cent of all MSEs were located in rural areas. In terms of national ownership, men accounted for 52 per cent of the total. However, in terms of the urban–rural spread, women owned 52 per cent of urban MSEs, while men owned 54 per cent of the rural enterprises.

The informal economy has been a leading contributor of new jobs in Kenya. Over the course of the first MTP (2008–2012), for example, the informal economy accounted for 86.9 per cent of the 2.557 million new jobs created. Figure 18 gives a schematic representation of the formal–informal share of the new jobs created during this period. In terms of its contribution to GDP, the latest figures put its share at 34.3 per cent (IEA, 2012).

Figure 18: Formal–Informal Sector Shares of New Jobs Created



Source: Republic of Kenya (2014a)

Challenges concerning the Informal Economy

An analysis of various government policy blueprints found that the informal economy is a critical economy in Kenya as far as employment creation, income-generation and contribution to GDP growth is concerned. The Kenyan government has, in its various policy papers, recognised the potential of the economy and the challenges it presents.

Challenges identified in the Sessional Paper No. 2 of 2005 include an unfavourable policy environment; an inhibitive legal and regulatory framework; limited access to financial services and markets; inadequate access to skills and technology; insecurity of land tenure; poor access to infrastructure; inadequate business knowhow and weak linkages with medium- and large-scale enterprises (Republic of Kenya, 2005). The MTP II (2013–2017) further recognised poor occupational safety and health measures, inadequate access to markets and marketing channels and information asymmetry (Republic of Kenya, 2013).

In addition, key informants cited poor working conditions, the absence of a framework for representation and collective bargaining and inadequate financing. They also lamented the weak participation and involvement of informal economy players during the design of informal sector policies. Participants in the focus group discussions agreed on the fact that although the focus of the government is on formalising the informal economy, informal sector operators are never consulted during the design of any proposed interventionist strategies. As a result, they said, few informal sector operators want to leave the sector.

Those informal sector entrepreneurs interviewed also indicated that the sector cushions them against the negative effects of Kenya's high level of unemployment. Sixty-five per cent) of those interviewed cited unemployment as the main driver for joining the sector and 19 per cent indicated that desire for better income was the main driving factor. This group of respondents believed that the informal sector is 'promising as compared to the formal sector where wages are very rigid'. Twelve per cent of the respondents indicated that they had joined the sector for empowerment purposes and four per cent because of their inability to find jobs in the formal sector, especially due to limited education.

Overall, this indicates that the persistence of the informal economy has push and pull factors. It is an economic refuge for job-seekers, while for others, the perception of flexibility, opportunities for income-generation and its unregulated characteristic makes it more attractive than the formal sector. Policy and legislation targeted at formalisation must therefore recognise and address these factors if it is to have any impact.

Findings from the focus group discussions indicated that in order for formalisation to succeed, laws must provide for freedom of association and expression. In addition, legal instruments should be supportive of the sector's activities; and new policies and legislation should be drawn up in consultation with, and through the participation of, informal sector players.

A Policy Framework for the Growth and Development of the Informal Economy

The wish to enhance the growth and development of the informal economy in Kenya can be traced back to the 1972 ILO study on the informal sector (ILO, 1972). It identified the role and potential of the sector in terms of employment-creation and income-generation. Since then, the Kenya government has formulated a number of policies aimed at spurring its growth and development. The resultant policy intentions are outlined in various government documents such as sessional papers, development plans and presidential circulars.

Sessional Paper No. 1 of 1986 – 'Economic Management for Renewed Growth' – and the sixth National Development Plan (1989–1993) – 'Participation for Progress' –contain critical policy proposals for the sector. In these documents, the government promised to amend the rules and regulations that inhibit the growth and development of the informal economy enterprises; limit unfair trade practices by large-scale firms; change cost-price relations to favour the informal economy and address the constraints on informal economy entrepreneurs' access to finance and credit.

Other support measures were articulated in Sessional Paper No. 2 of 1992 – 'Small Enterprise and Jua Kali Development in Kenya'. In it, the government identified and prioritised support for the informal economy to assist it in melding with the formal sector. According to this blueprint, formalisation would enhance its employment creation capacity. The sessional paper emphasised the need to establish an enabling policy, legal, regulatory and institutional environment that would enable the sector to thrive.

Sessional Paper No. 2 of 1996 – 'Industrial Transformation to the Year 2020' – sought to promote enterprises within the informal economy as a basis for the country's industrialisation. This document proposed a number of measures aimed at mainstreaming the growth and development of the informal sector. These included a review of government procurement regulations and procedures to widen its marketing frontiers. A change in the licensing regime was also envisaged to facilitate registration and the faster processing of licenses for the informal economy operators.

In 2003, the government developed the *Economic Recovery Strategy for Wealth and Employment Creation* (ERS, 2003–2007) policy. In it, the government emphasised the need to establish a conducive environment for informal micro and small enterprises to graduate to medium-size enterprises with the capacity to produce high-quality products and productive employment opportunities. Sessional Paper No. 2 of 2005 –'Development of Micro and Small Enterprises for Wealth and Employment Creation for Poverty Reduction' – advocated for the integration of informal economy enterprises into the national economic grid in order to enhance their job creation capacity. The paper also called for graduating informal enterprises into the formal sector to enhance employment-creation and income-generation. This was reiterated in the MTP I, which identified further challenges: low productivity, limited technological transfer, poor occupational safety and health measures, inadequate access to markets and marketing channels and information asymmetry.

The MTP II (2013–2017) likewise advocates formalising the informal economy, including transforming most of new jobs into formal ones (Republic of Kenya, 2013). The government projects that a total of 5.17 million new jobs will be created during this five-year period, with the proportion of formal sector employment envisaged to increase from 12 per cent (2012) to 40 per cent by 2017 (Republic of Kenya, 2013). However, as is the case with many government policy statements, the MTP II (2013–2017) does not indicate the strategies to be used to achieve this ambition.

A key issue in Kenya's informal economy policies is the contradiction and inconsistency in policy pronouncements. Both Sessional Papers No. 1 of 1986 and No. 2 of 1996 made a case for development and expansion of the informal economy. However, Sessional No. 2 of 1992, the ERS (2003–2007), Sessional Paper No. 2 of 2005, the MTP I (2008–2012) and the MTP II (2013–2017) all pressed for formalisation of the informal economy. However, none of the latter policy documents provided any signal that the government was turning away from an expansionist approach. The informal sector thus grew rapidly during the period 1990–2013. Employment therein increased from 25.6 per cent (1990) to 83.2 per cent (2013) (Omolo, 2010; Republic of Kenya, 2014b).

Another contradiction concerns government's definition and categorisation of those enterprises that constitute the economy. The Medium and Small Enterprises Act (2012), which provides the legislative framework for the economy, contains no such definitions whatsoever. The Act does, however, MSEs in terms of turnover and employees and loosely categorises them as firms, trades, services, industries or business activities with annual turnover under Ksh. 500,000 and less than ten employees. According to the Act, MSEs include the manufacturing sector where the investment in plant and machinery or registered capital does not exceed Ksh. 10 million and the service sector and farming enterprises where the investment in equipment or registered capital does not exceed Ksh. five million. Under these terms MSEs can also include qualifying enterprises in the formal sector. By contrast, the definition adopted by the policy framework for MSEs (Sessional Paper No. 2 of 2005) focuses on the number of employees. It defines MSEs as any enterprise employing 1-50 workers (Republic of Kenya, 2005). The variance is clear.

The inconsistencies and contradictions in the policy and legislative framework for the informal economy may be 'blamed' for its rapid growth. It may also explain why the sector is non-responsive to policy and legislative interventions. As per the definition in the MSE Act, MSEs are enterprises located in the formal and informal sectors of Kenya's economy. This means that any intervention to promote their growth and development would increase formal and informal economy divides. The lack of a clear definition of the informal economy also means that no policy targeting can be directed at it.

National Legislation Governing the Informal Economy

In 2012, the Kenyan government approved the Micro and Small Enterprises Act. It became operational in January 2013 and provides for the promotion, development and regulation of MSEs. It also provides for the establishment, functions and powers of the Micro and Small Enterprises Authority, the MSE Fund and the MSE Tribunal.

Other than this Act, Kenya has no comprehensive piece of legislation governing the informal economy. Moreover, having a devolved system of government, the operations of most informal economy enterprises are regulated by legislation enacted and implemented by the county governments. Such legislation governs the registration and conduct of business enterprises, and the levies and fees that they must pay in order to operate.

The ILO, Global Union Federations and other Interventions on the Informal Economy in Kenya

The ILO, in conjunction with its social partners in Kenya – namely the Ministry of Labour, Social Security and Services, COTU (K) and the FKE – is currently implementing the Law Growth Nexus (LGN III) Project. This project seeks to increase MSEs' knowledge of and compliance with labour laws and is aimed at the public transport (matatu) and the private security industries. These sub-sectors were prioritised on the basis of their high employment-creation potential and current informality. The objectives are to nurture respect for the rule of (labour) law; strengthen the capacity of ILO constituents to engage in social dialogue on the nexus between labour law compliance and sustainable MSE development; facilitate sector-specific regulatory reforms and strengthen the capacity of MSEs to comply with the revised labour laws. It is expected that striking a balance between compliance with labour-related legislation and promoting competitiveness will enhance MSE growth and creation of decent jobs.

Other interventions led by international labour support institutions and Global Union Federations (GUFs) have mainly targeted the domestic workers. In this case, the Friedrich-Ebert-Stiftung, the American Centre for International Labour Solidarity, the International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers' Association (IUF) and Public Services International (PSI) have all supported the Kenya Union of Domestic Hotels Educational Institutions Hospitals and Allied Workers (KUDHEIHA) in its undertaking of recruitment campaigns, and also to compel adherence to labour laws in the domestic workers industry. In 2012–2013, for example, the union, with the support of its partners and the NSSF undertook campaigns aimed at ensuring that employers register their domestic workers with it and were also make monthly NSSF contributions on their behalf. Though the momentum was not sustained, a number were subsequently registered as a direct result.

Trade Union Approaches to Formalising and Organising the Informal Economy

The study also sought to establish how trade unions and other players in Kenya have addressed informality, the informal economy and its causes. It was established that trade unions in Kenya have implemented various policies, programmes and activities aimed at formalisation as well as making assorted efforts to organise workers in the informal economy. COTU (K), for example, implemented the ILO-designed and -funded SYNDICOOP project between 2002 and 2006.

SYNDICOOP was developed using the ILO's decent work agenda and was also implemented in Uganda and Tanzania. Its immediate objectives were to strengthen the capacity of trade unions and co-operatives to organise unprotected informal economy workers; reduce poverty through improved working and living conditions among informal economy workers and creating decent work opportunities for young women and men; and developing more inclusive and participatory poverty-reduction strategy papers in all three countries.

The project was implemented in collaboration with the co-operative society movement in East Africa. Under the project, COTU (K) provided training on business entrepreneurship, trade union rights and obligations and offered loan facilities from a revolving fund. In this context, SYNDICOOP acted as a microfinance provider, offering loans at subsidised interest rates.

In 2004, SYNDICOOP supported the establishment of the Gikomba Self-Help Group, which consisted of 30 small-scale urban traders in Nairobi. The original purpose of this group was to provide basic services such as water, toilets, washing facilities and a restaurant at the market. The group was set up the GikombaWanabiashara Savings and Credit Co-operative (SACCO) to promote access to business credit and finance by the members, and to enable them to cope with emergencies such as sickness and death. Besides providing credit opportunities, the SACCO thus facilitated social security coverage for its members.

COTU (K) also has a collaboration framework agreement with other associations within the informal economy. These include the Matatu Welfare Association (MWA), the Matatu Drivers' and Conductors' Welfare Association (MADCOWA), Women in Music, Kenya National Federation of Jua Kali Associations, Gikomba Small Traders' Association, Kenya National Alliance of Street Vendors and Informal Traders and the Nairobi Informal Sector Confederation.

The main aims of the COTU-MWA-MADCOWA collaboration are to promote employment-creation within the public transport industry, improve the terms and conditions of employment within the industry and identify specific labour-related laws and regulations that can be implemented and enforced without necessarily inhibiting its growth and development. Hence, issues such as providing of written letters of contract to employees, employing matatu drivers and conductors on permanent terms of service, working hours and promoting the freedom of association and the right to collective bargaining were identified as key norms and working conditions that could be implemented by the *matatu* industry.

These aspirations for formalising these two sub-sectors of the informal economy have been since integrated into the legislative framework governing the operations of public service vehicles (PSVs). Legal Notice No. 161 of 2003, for example, requires that all PSV drivers and conductors be employed on monthly contract, and issued with badges as confirmation of their vehicle and employer attachment. Section 66A(1) of the Traffic Act (Cap. 403) also caps the working hours for a PSV driver at a total of eight hours in any 24-hour period.

Further, Section 98(5) of the Traffic Act states that 'a person licensed as a driver or conductor of a public service vehicle shall not drive or act as a conductor of such vehicle on a road without wearing the prescribed badge'. When applying for the badge, the PSV employee has to provide their Identification Card and the Personal Identification numbers and the employer must countersign the application form. If the applicant is from a company, then the company must to provide its Certificate of Registration and PIN numbers, among other private details. This means that each driver and conductor is attached to a specific vehicle and employer.

In partnership with the FKE and the LGN III, the COTU-MWA-MADCOWA collaboration has also successfully lobbied the National Labour Board (NLB) to establish a Transport Wages Council.[2] This body will determine and fix statutory minimum wages and terms and conditions of employment applicable to the transport industry.

Although these approaches appear very positive, the situation on the ground remains largely unchanged. Interviews with an official from MADCOWA revealed that most of the industry's employees prefer casual or temporary contracts of service to fixed-term or permanent contracts of service. The official explained that matatu industry employees 'get tired working for one employer for a long time' and opt to remain on casual and/or a temporary contract of service as it gives them the flexibility to move on. This was supported by a representative of Matatu SACCO, who stated that although the SACCO had attempted to put its drivers and conductors on monthly terms of contract, they had refused to comply, preferring daily engagements. This SACCO also observed that matatu industry employees prefer casual contracts and daily payment due to job insecurity in the industry.

2 The National Labour Board is Kenya's apex labour and employment policy body established under Section 5(1) of the Labour Institutions Act (2007).

The General Secretary of the Transport Workers' Union (TWU) took a different view, contending that most of these employees preferred casual contracts in order to avoid statutory deductions such as income tax and NSSF and NHIF contributions. According to this official, the workers argue that the industry requires young people and they may find it difficult to access their NSSF benefits when they move on to other sectors upon attaining the age 'ceiling' for employment in the matatu industry.

Another successful COTU (K)-led initiative was lobbying the NLB to reactivate sector-based wage councils. These include the Domestic Workers' Wages Council, the Floriculture Wages Council, the Protective Security Industry Wages Council, and the Hotel and Catering Trades' Wages Council. These wage councils also covers sectors with relatively high levels of informality. This positive outcome is seen as the first step towards formalising these sectors and thus allowing them to be legally regulated and liable for enforcement of the laws.

A more innovative approach to formalisation is the one adopted by the Kenya Building, Construction, Timber and Furniture Industries Employees' Union. This particular union is negotiating a Collective Bargaining Agreement (CBA) with a group of employers within the sector (Kenya Association of Building and Civil Engineering Contractors', Roads and Civil Engineering Contractors' Association of Kenya and the Kenya Federation of Master Builders). Once its terms and expiry date have been agreed, the union will approach the Cabinet Secretary for Labour, Social Security and Services to gazette the agreement. Once gazetted, the negotiated CBA rates will become the minimum wages for the sector in its entirety.

Trade unions have also taken an alternative approach to organising and recruiting workers in the informal economy by offering employees and employers in the sub-sectors of hair and beauty, transport, private security and domestic work training in areas such as occupational safety and health, labour laws and basic financial management skills. At least four trade unions have made efforts in this area, including the Kenya Hair and Beauty Salon Workers' Union, which is an affiliate of COTU (K) and has recruited more than 4,000 workers. It has also supported the establishment of a SACCO for these workers.

As concerns public transport, interviews with the General Secretary of the TWU revealed that the union has started to organise and recruit matatu industry employees; to date an additional 75 employees have become members, all of whom belong to the Nairobi–Thika–Muranga SACCO. The union has also established a check-off system and a recognition agreement with this SACCO. An estimated 300 matatu industry employees are also remitting their membership dues directly to the union.

The Kenya National Private Security Workers' Union (KNPSWU) has likewise made efforts to organise informal economy employees. The private security industry in

Kenya has grown hugely, particularly after Kenya's military invasion of Somalia in October 2011. The industry's growth is intertwined with high degrees of informality, as most companies are individually owned. Interviews with the General Secretary of the KNPSWU indicated that the union has organised and recruited a total of 35,000 industry employees out of a potential membership base in excess of 300,000. Though the union membership projects a density of only 11.7 per cent, it nevertheless constitutes a solid effort towards organisation.

Domestic workers are organised and recruited by KUDHEIHA. Interviews with its General Secretary revealed that the union first started organising domestic workers in 1948, long before Kenya attained her political independence. However, according to current union figures, it has only about 5,000 active members.

Conclusion

This study sought to address three research questions, namely what are the challenges associated with informality in Kenya, what have been the different approaches to addressing informality, and how have the various players in Kenya addressed informality and the informal economy and its causes. To address these research questions, the study relied on an integrated approach that involved use of quantitative and qualitative data.

The study has determined that the informal economy is an important component of Kenya's economy, contributing about one-third of GDP, and accounted for more than 80 per cent of the total employment in 2014. The focus of the Kenyan government is to increase the proportion of formal sector employment to 40 per cent by the year 2017. However, no strategic measures for realising this have been put in place by the government. The low and un-sustained economic growth rates coupled with low employment elasticity and high levels of unemployment will make it difficult for Kenya to attain the envisaged levels of formalisation.

There is a long and varied list of challenges associated with informality in Kenya. These include an unfavourable policy environment and inhibitive legal and regulatory framework, limited access to financial services and markets, inadequate access to skills and technology, insecurity of land tenure and poor access to infrastructure, challenges are inadequate business knowhow, weak linkages with medium and large enterprises, gender inequality, decent work deficits, limited access to information, unsatisfactory occupational safety and health standards and unenforced of labour laws and standards.

Even though the Kenyan government has continued to recognise the informal economy as an integral component of the country's economy, there remains a severe lack of mechanisms with which to address it. Besides contradictions inherent in the informal sector policy and legislative framework, existing government policy documents have failed to indicate the specific interventions that are going to be employed to formalise the informal economy. The policies also lack focus on the formalisation agenda and specific targets and failed to identify the institution that will lead the drive towards formalisation.

Different role-players have adopted different approaches in the bid to transition Kenya's informal economy. The government's approach has been to develop policies and put in place legal and institutional frameworks for enhancing its growth and development. Trade unions have sought to implement programmes and activities to set up SACCOs, lobbying for the enforcement of basic labour laws and regulations within the informal economy and organising informal sector workers. ILO and GUF interventions have largely focused on supporting the activities of trade unions, reforming labour law so as to enhance compliance and recruiting workers into trade unions.

Recommendations

The following recommendations should be considered when addressing informality and the informal economy in Kenya.

Kenya's employment challenge and the subsequent expansion of the informal economy are due to slow economic growth and low employment elasticity. It therefore follows that one of the mechanisms for creating new jobs in the formal sector and consequently reducing the size of the informal economy is to enhance economic growth. This can be achieved through an effective implementation of the macroeconomic measures outlined in the *Kenya Vision 2030.*

Government should also undertake complementary interventions aimed at promoting productivity and economic growth in order to increase employment elasticity. Measures aimed at reducing the cost of doing business, reducing macroeconomic risks, keeping political risks low and improving governance should also be considered. In addition, simplifying business registration processes, improving physical infrastructure and curtailing crime should become top priorities.

The tripartite partners, in collaboration with the players in the informal economy, the ILO, GUFs and other stakeholders, should undertake measures to simplify the labour laws and translate them into local languages in order to extend outreach and increase knowledge. Key aspects of the labour laws could be extracted and published as fliers, booklets and stickers.

One trade union approach to addressing informality and the informal economy has been establishing minimum wage councils to fix minimum wages and statutory terms and conditions of employment. To date, this has tended to take a sector-based approach, with wage councils proposed for different sectors. This means that the use of sector-based wage councils will ultimately lead to duplication, bringing with it problems of enforcement and compliance. This would lead to their effectiveness being undermined. To prevent this, the government, together with other players, should consider establishing a single wage council for the informal economy.

To strike a balance between promoting compliance with labour legislation and enhancing the competitiveness of the informal economy, the government should, in consultation with COTU (K), FKE, informal economy associations, GUFs and other informal economy stakeholders, develop and implement a responsive labour code that balances low costs with incentives for compliance. This differentiated code (which ought to be implemented gradually) should prioritise compliance with fundamental principles and rights at work. These include formalising employment relationships, the freedom of association, recognising the right to collective bargaining and adhering to basic safety and health regulations.

References

CBS, ICEG and K-REP. (1999). *National MSE Baseline Survey*, Nairobi: Central Bureau of Statistics, International Centre for Economic Growth and K-REP Holdings Ltd.

Eduardo, Z., L. Ndirangu, F. Leigh, J. Omolo and S. Wainaina. (2013). *Kenya's Youth Employment Challenge*, Discussion Paper (January), New York: United Nations Development Programme.

Fashoyin, T. (2010). 'Collective Bargaining and Employment Relations in Kenya', Geneva: International Labour Office.

IEA. (2012). 'Informal sector and Taxation in Kenya', The Budget Focus, Issue No. 29, (September 2012), Nairobi: Institute of Economic Affairs.

International Labour Organisation. (1972). *Employment, Incomes and Equity: A strategy of increasing productive employment in Kenya*, Geneva: International Labour Organisation.

KIPPRA. (2013). *Kenya Economic Report 2013: Creating an Enabling Environment for Stimulating Investment for Competitive and Sustainable Counties.* Nairobi: Kenya Institute for Public Policy Research and Analysis.

Omolo, O.J. (2010). 'The Dynamics and Trends of Employment in Kenya', IEA Research Paper Series, No. 1/2010, Nairobi: Institute of Economic Affairs.

Republic of Kenya. (2014a). *Economic Survey.* Nairobi: Kenya National Bureau of Statistics.

— (2014b). *End Term Evaluation Report on the Implementation of the First Medium-Term Plan (2008–2012) of the Kenya Vision 2030.* Nairobi: Monitoring and Evaluation Department, Ministry of Devolution and Planning.

— (2013). *Second Medium-Term Plan (2013–2017): Transforming Kenya-Pathway to devolution, socio-economic development, equity and national unity.* Nairobi: Ministry of Devolution and Planning.

— (2012). *Economic Survey.* Nairobi: Kenya National Bureau of Statistics.

— (2010a). *2009 Kenya Population and Housing Census: Volume II.* Nairobi: Kenya National Bureau of Statistics.

— (2010b). *The Constitution of Kenya, 2010.* Nairobi: Government Printer.

(2009). *Economic Survey.* Nairobi: Kenya National Bureau of Statistics.

— (2008a). *Analytical Report: 2005-06 Labour Force Survey.* Central Bureau of Statistics: Ministry of Planning and National Development. Nairobi: Government Printer.

— (2008b). *First Medium-Term Plan (2008-2012): A Globally Competitive and Prosperous Kenya.* Nairobi: Ministry of State for Planning and National Development.

— (2007). *Vision 2030 Strategy for National Transformation: Accelerating Equitable Economic and Social Development for a Prosperous Kenya.* Nairobi: Ministry of State for Planning, National Development and Vision 2030.

(2005). *Sessional Paper No. 2 of 2005: Development of Micro and Small Enterprises for Wealth and Employment Creation for Poverty Reduction.* Nairobi: Ministry of Labour and Human Resource Development.

(2003). *Report of 1998/99 Labour Force Survey.* Central Bureau of Statistics: Ministry of Planning and National Development. Nairobi: Government Printer.

(1996). *Sessional Paper No. 2 of 1996:Industrial Transformation to the Year 2020,* Nairobi: Government Printer.

— (1989). *Sixth National Development Plan (1989–1993): Participation for Progress,* Nairobi: Government Printer.

(1986). *Sessional Paper No. 1 of 1986: Economic Management for Renewed Growth*, Nairobi: Government Printer.

Tokman, E.V. (2007). 'Modernizing the informal sector', DESA Working Paper No. 42, New York: United Nations Department of Economic and Social Affairs.

UNDP. (2013). *Human Development Report 2013: The Rise of the South-Human Progress in a Diverse World.* New York: United Nations Development Programme.

World Bank. (2012). *Kenya Economic Update: Kenya at work-Energizing the economy and creating jobs,* Edition No. 7. Nairobi.

NAMIBIA

Formalising the Informal Economy: Namibia's Taxi Transport Sector

Hilma Shindondola-Mote, Michael Akuupa and Kudzai Chireka

Labour Resource and Research Institute (LaRRI), Namibia

Introduction

Namibia has a relatively small informal economy compared to Zambia, Zimbabwe and Tanzania, but it too is growing. However, evidence shows that informal employment has surpassed formal employment in recent years. Namibia is particularly interesting because of the fact that it is an upper-middle-income country whose initially small informal economy is gradual descending into informality.

The researchers focused on investigating the working conditions of Namibia's taxi drivers. The taxi transport sub-sector serves the transport needs of many Namibians and is becoming a major source of employment for young people. While regarded as formal in the sense that taxis are registered with the appropriate national authorities, the employment it offers is largely informal in nature. Many drivers have poor working conditions, no have no employment contracts, irregular incomes, no pay slips and registration with social security schemes is almost non-existent. The study concludes by proposes remedies for formalising transport-related employment relations.

The study methodology was based on face-to-face interviews with taxi drivers, commuters and representatives of taxi associations, government and trade unions. It also included a focus group discussion with taxi passengers.

Background and Context

Due to the absence of reliable and up-to-date information on the nature and extent of informality in Namibia, it is difficult to make a realistic assessment of the sector's contribution to GDP and overall development. However, it is clear that informal economic activities have surpassed formal activities. In 2013, informal employment was estimated as accounting for 47.1 per cent, but it rose to 57.4 per cent in 2014 (National Statistics Agency (NSA), 2013; 2014).

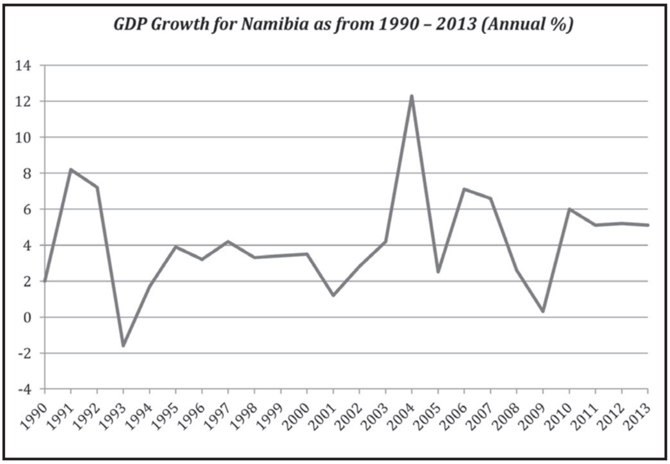
Economic and social context

In 2009, the World Bank reclassified Namibia as an upper middle-income country based on its per capita Gross National Income average of $5,840 in 2013. The country's GDP has grown at a higher rate than its population. By African standards, then, Namibia is a rich country, despite the fact that the majority of the populace are poor. It has long had a skewed income distribution; its Gini-coefficient is 0.5971 (National Planning Commission (NPC), 2010; World Bank Group, 2015).

Aside from GDP, other fundamental indicators show that Namibia has not been performing well. For instance, it is estimated that 21 per cent of all households in Namibia lived on less than $1.25 per day in 2009. In 2011, Namibia's HDI of 0.625 was below the world average of 0.682 and it ranked 127 out of 187 on the HDI index (UNDP, 2014).

Much of Namibia's growth has been in mining and fisheries (without aquaculture) that have little effect on rural areas, which is where the majority of Namibia's poor, are located. For example, mining – a key driver of GDP – has little impact in terms of employment creation and currently accounts for three per cent of all those in active employment (NPC, 2014). Namibia's economic growth in more traditionally productive sectors has been low, with agriculture improving by a mere 12.8 per cent and manufacturing 5.8 per cent (Ibid.). Inclusive growth in agriculture and manufacturing, together with the development of new technologies and building a skilled workforce must be achieved. Figure 19 and indicates the GDP growth and per capita form 1990-2013.

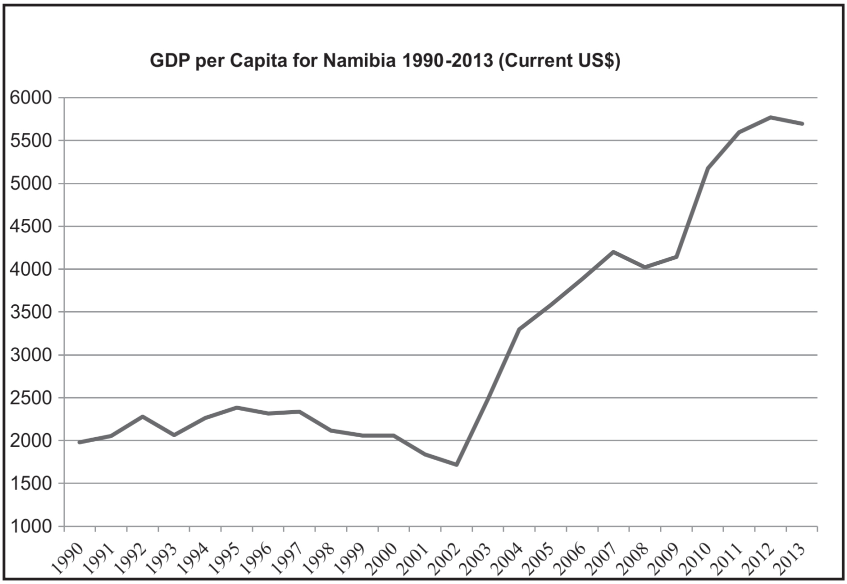
Figure 19: Namibia's GDP (1990–2013)



Source: Various: World Bank Group 2015; BON, 2015

Some of the nation's valuable resources, diamonds in particular, have driven and improved its economy for the last 25 years. However, we argue that the ultimate measure of economic progress is the wellbeing of the populace. Under this umbrella, it is clear that Namibia's growth has not done nearly as much as it should to reduce social inequalities or improve health and education.

Figure 20: GDP per capita (1990–2013) in US dollars



Source: Various: World Bank Group 2015, BON, 2015

Namibia's National Development Plan Four (NPD4) identifies agriculture, manufacturing, tourism and logistics as sectors requiring investment in order to assure structural economic transformation. This is to be achieved in tandem with the 'basic enablers': better public infrastructure, a reduction in extreme poverty and improvements to health, education, the national skills base and improved institutions. The plan's main goals are 'faster and sustained economic growth, creation of employment opportunities and reduced income inequality' (NPC, 2012: xi). However, there is no mention of informality in its strategic framework.

The labour force situation

In 2014, the total size of Namibia's labour force was put at 990,998, up from 980,781 in 2013 (see Table 12). There has been a general increase in the number of female labour force participation rates, particularly in rural areas. This can be partially explained by subsistence farming activities being recorded during the 2013 survey.

Male participation in urban areas has declined (NSA, 2013: 48). Labour force participation is lowest in the rural areas and among the youth. It is at its highest for those aged between 20 and 44 (see Table 13).

Table 12: Labour Force Participation by sex, age group and locality

	Namibia	Urban %			Rural %		
Year	Total	Female	Male	Total	Female	Male	Total
2013	980,781	25.6	24.7	50.3	26.9	22.8	49.7
2012	868,568	27.8	29.2	57	22.9	20.1	43
Change	112.513	-2.2	-4.5	-6.7	4	2.7	6.7

Source: NSA 2013

Table 13: Labour Force Participation by age group and locality

Year	2013		2014	
Age	**Urban**	**Rural**	**Urban**	**Rural**
15-19	3.4	6.0	3.7	5.1
20-24	15.1	16.8	17.5	14.0
25-29	20.6	14.3	19.1	13.6
30-34	17.0	12.3	16.9	12.9
35-39	14.1	10.8	13.5	10.5
40-44	10.8	9.5	10.7	9.8
45-49	7.7	7.8	7.0	7.9
50-54	5.4	6.3	4.9	6.6
55-59	3.5	4.8	3.5	5.6
60-64	1.2	3.4	1.2	4.0
65+	0.8	7.2	1.1	8.7
Unknown	0.4	1.0	0.9	1.4

Source: NSA 2014

Educational levels of the labour force

The majority of Namibia's economically active population in the years 2012–2014 has been educated at junior secondary level (see Table 14). The statistics for 2014 show that 21.3 per cent had attended a senior secondary school (NSA, 2014:54).

Table 14: Education Levels of the employed population

Highest level of education completed	Employed Population					
	2012		2013		2014	
	Number	%	Number	%	Number	%
None	72,854	11.6	90,933	13.2	80,669	11.3
Primary	136,706	21.7	163,427	23.7	161,544	22.7
Junior Secondary	201,678	32.0	217,176	31.5	244,103	34.2
Senior Secondary	145,900	23.2	142,770	20.7	152,042	21.3
Certificate/Diploma	4,756	0.8	6,831	1.0	6,196	0.9
University	34,070	5.4	50,430	7.3	38,998	5.5
Postgraduate	8,380	1.3	7,101	1.0	7,797	1.1
Teacher training	12 758	2.0	6,664	1.0	12,258	1.7
Don't Know	12,992	2.1	4,687	0.7	9,145	1.3
Total	630 094	100	690,019	100	712,752	100

Sources: NSA, 2014

The gender gap in education increases at the highest level of education. In 2012, it was estimated that only a total of 5.4 per cent of Namibians had a university degree, of which the total percentage of women was higher by 0.7 per cent. The picture reverses at post-graduate level. Of the 1.3 per cent with post-graduate qualifications, men had 1.7 per cent and women 0.9 per cent (NSA 2012: 10). The level of education plays a major role in employment opportunities in the formal sector. Women with have lower qualifications tend to be absorbed by the informal economy, hence their proportional domination.

There are more adult males in employment than there are adult women and youth. Currently, the labour market absorption rate for men is 71.6 per cent, women 69.9 per cent and for the youth a disturbingly low 38.6 per cent (NSA, 2014: 6). In terms of sectors, those with teaching qualifications have a high chance of finding employment (88.1 per cent). Not surprisingly, the statistics also confirm that those with the lowest educational attainments have a much lower absorption rate, it being normally below 50 per cent. Once again, rural areas lag when it comes to absorption, tending to be under 50 per cent (NSA, 2012; 2013; 2014). This confirms the fact that Namibia is suffering from a chronic skills shortage, largely because most workers only have an elementary level of education.

The private sector accounts for 42.4 per cent of those in active employment and the public sector (government) 20 per cent (NSA, 2014: 59). Of the remainder many are to be found in areas that include agriculture, domestic work, private household employment, informal private enterprises, construction, parastatals, real estate and business, education, private household commercial farms, manufacturing, mining, non-profit organisations and co-operatives (Table 15).

Table 15: Employment by sector

Industry	2012		2013		2014	
	Total	%	Total	%	Total	%
Agriculture forestry and fishing	172 530	27.4	215,311	31.4	209,906	29.5
Mining and quarrying	11 240	1.8	13,558	2.0	14,539	2.0
Manufacturing	28 409	4.5	32, 769	4.8	28,706	4.0
Electricity and related industries	2 161	0.3	4,743	0.7	3,053	0.4
Water supply and related industries	2 775	0.4			2,344	0.3
Construction	42 577	6.8	47,859	7.0	56,747	8.0
Whole sale and retail trade	74 805	11.9	105,051	15.3	97,099	13.6
Transport and storage	22 680	3.6	5,591	0.8	26,565	3.7
Accommodation and food service activities	41 853	6.6			29,179	4.1
Information and communication	6 073	1.0			4,081	0.6
Financial and insurance activities	12 645	2.0	14,609	2.1	13,896	1.9
Real estate activities	1 583	0.3	42,941	6.3	677	0.1
Professional, scientific and technical activities	7 265	1.2			6,626	0.9
Administrative and support service activities	29 861	4.7			31,572	4.4
Public administration, defence, compulsory social security	32 313	5.1	31,943	4.7	41,889	5.9
Education	37 535	6.0	41,797	6.1	41,510	5.8
Human health and social work activities	20 242	3.2	16,580	2.4	21,706	3.0
Arts, entertainment and recreation	3 218	0.5			2,342	0.3
Other services activities	9 972	1.6	17,952	2.6	12,480	1.8
Private households	69 142	11.0	57,668	8.4	67,057	9.4
Extraterritorial organisation and bodies	589	0.1	*	0.1	135	*
Hotels and restaurant			36,767	5.4		
Not recorded	642	0.1			601	0.1
Total	**630 094**	**100**	**685 651**	**100**	**710,703**	**100**

Source: NSA, 2012; 2013; 2014

Unemployment

In broad measures, overall unemployment for Namibia was estimated at 28.1 per cent in 2014, signifying a drop of one percentage point from 2013. Unemployment in rural areas is 30.2 per cent and urban areas 26.2 per cent. Unemployment amongst women is 31.7 per cent and 24.3 per cent among men (NSA, 2014: 68). In 2013, the youth unemployment rate was higher than the national average estimated at 41.7 per cent. For female youth, the figures were almost double that of the national average, standing at 46.7 per cent, whilst for male youth it is 36 per cent (NSA, 2013). When it comes to education level, the highest unemployment rates are found amongst those who have completed junior, secondary and primary education (34.1 per cent and 29.4 per cent, respectively). Those with no formal education face a lower risk of being out of work (21.1 per cent) than those with education below diploma or post-school education 90.3 per cent (NSA, 2014: 71). The majority of the unemployed tend to look to the informal sector for employment.

Earnings

Salaried and wage work constitutes the main source of income for about half of the population. The NSA reports that 50.8 per cent of the total labour force depended on wages and salaries as primary sources of income in 2013. Of this figure, 19 per cent relied on subsistence agriculture, 9.5 per cent on remittances and a mere 7 per cent on non-agricultural business activities. As expected, the regions in which people cited higher dependency on wages were all urban. These were also Namibia's main formal employment centres: Khomas, Erongo and //Karas. Furthermore, the data reveals that most households earn below N$10,000 a month. For instance, of the near 300,000 households that mentioned wages and salaries as sources of income, only about 82.4 per cent (NSA, 2013: 44) reported incomes of N$10,000 or more. About 64.4 per cent households reported wages and salaries between N$1,000 and $2,000 (NSA, 2014: 44, 42). Table 16 compares the data for the years 2013 and 2014.

Table 16: Number and percentage of household income by level of income (wages and salaries)

	Namibia	Wages and Salaries %	
Year	Total households	>10,000	Between 1,000-2,000
2014		82.5	65.9
2013	300,000	82.4	64.4
Change		0.1	1.5

The national mean monthly wage is around N$6,802, and gender discrepancies are apparent. For men, it is N$7,315, whereas for women it is N$6,125. Further analysis by sector shows that transport and communication pays the highest, with a mean average of N$18,139, followed by financial services (N$14,411), education (N$11,487) and mining (N$10,868) (NSA, 2013: 67). The biggest discrepancy is in utilities and manufacturing, where wages for men are almost double those of women.

The income: gender ratio is a little more balanced for employees in the public sector and the gap is nearly equal with respect to workers with tertiary education (Ibid.). In all other sectors, private and public, women earn less than men. This situation is reversed in the traditionally poorly paying sectors, where women are mostly concentrated. An average mean monthly wage per month in the agricultural sector for women is N$4,427 compared to N$2,119 for men. For domestic work, the average for men is N$844, while for women it is N$970.

Gender discrepancies are also abundant in the informal ecnomy.

Social Protection

Namibia has a commendable record of social security and social protection. Even before independence, there was a blend of the two in the form of employment-linked pensions as well as universal non-employment-linked programmes such as old age, the child support and disability grants. The country remains one the few in Africa with a Constitution that makes provisions for public-funded social welfare. It has also enacted several laws and established institutions to regulate and administer the different social welfare programmes. It is estimated that close to 300,000 people are covered in various ways (Konjwang & Shindondola-Mote, 2011).

The Social Security Act and the Social Security Commission (SSC) provides for coverage for those in formal employment, the former essentially protecting the provision of social insurance providing that the beneficiary has been employed. This implies that the majority of workers remain uncovered, as they operate in the informal sector. Hence, there is a large coverage gap, which must be addressed if the objectives of the ILO’s Social Protection Floor (SPF) are to be achieved.

Trade unions

Trade unions in Namibia are recognised in the constitution under Chapter 11 on Principals of State Policy. Under Article 95, sub-Section (c), it is stated that ‘the State shall actively encourage the formation of independent trade unions to protect workers’ rights and interests; and to promote sound labour relations and fair employment practices’.

At present, Namibia has three trade union federations and close to 40 industrial sector unions, and many others that are unaffiliated. Reliable figures on the total number of members are difficult to ascertain, largely because many trade unions do not keep organised and up-to-date membership databases.

The largest federation is the National Union of Namibian Workers (NUNW), which represents over 70,000 workers. NUNW has a historical link with the ruling party, since it was founded by SWAPO in 1970. The second federation is the Trade Union Congress of Namibia (TUCNA). It was formed in 2002, represents somewhere between 30,000 and 40,000 people and is not affiliated to any political party. Due to the many disagreements within the NUNW in the past couple of years, TUCNA seems to be making inroads into sectors in which NUNW was previously strong. This is particularly evident in the fisheries, wholesale and retail sectors. The third federation is the Namibian National Labour Organisation (NANLO), which was registered at the beginning of 2014. It is led by the former Secretary General of NUNW, Evilastus Kaaronda.

The Informal Economy in Namibia

Namibia's informal economy covers various economic activities and is characterised by a need for survival. The 2014 labour force survey showed that almost 60 per cent of Namibians in employment were working in the informal economy. Around 63.6 per cent of employed women and 56 per cent of men make a living through the informal economy.

The survey conducted by the Ministry of Labour (MoL) in 2001 counted 85,302 informal operators (40,408 males and 44,894 females). It also revealed that in both rural and urban areas, the operators were concentrated in the 25 to 49 age bracket. Wholesale and retail trade and motor vehicle repair provide by far the most number of jobs, constituting 52.5 per cent of the total. The majority of these jobs are in urban areas (61.3 per cent) (MoL, 2001: 29). This is just one example of how informal employment has surpassed formal employment.

In 2014, the NSA measured informality at two levels: characteristics of enterprises and of jobs. In 2013, 59.8 per cent were employed in the informal economy; this decreased to 41.1 per cent in 2014 (NSA, 2013; 2014). Although the NSA grouped transport and communications in 2013, the survey could not provide figures on the size of this combined sector. For 2014, the NSA grouped transport with storage and the proportion of those employed was 66.9 per cent.

At the enterprise level, factors considered included business registration status with the Ministry of Trade and Industry; income tax certification with the Ministry of

Finance; size of the establishment and registration with social security (for fitness certificate). If the employee had no employment contract, was not registered with Social Security Commission and had no other benefits such as a pension or medical aid, they were classified as informal workers. Again, there is no information as to the size of this sub-sector.

In terms of age distribution, those in informal work tend to be more dominant in the younger age groups 25 up to 49 (MoL, 2001), and formal workers in the age categories between WHAT and 60. As already mentioned, there is a marked decline in informality as the level of education rises, thus confirming the latter as defence against informality. For example, in 2010, 65 per cent of those with primary education only were active in the informal sector, compared to 5 per cent of those with university education (Kanyenze & Laperye, 2010).

Full-time employment was more common amongst formal workers (93 per cent) than informal ones (69 per cent). The latter dominate in terms of those working less than 20 hours per week (88 per cent). Not surprisingly, a higher percentage of formal employees have written contracts compared; only 28 per cent of informal employees have such documents. More than four out of five formal employees have permanent contracts, compared to just fewer than one out of three informal employees (NSA, 2012).

Earnings in the Informal Economy

Income gaps are an all-too frequent phenomenon when it comes to formal and informal employment. Earnings are skewed in favour of formal employees: only 7 per cent earned less than N$599 per month compared to 43 per cent of informal workers. Thirty-nine per cent of the formal sector earned at least N$3,500 ($269) per month compared to 6 per cent of those in the informal employees sector (NSA, 2012; 2013; 2014).

The rural and urban aggregates shown in Table 17 further detail earning disparities. These constitute important push–pull factors for rural–urban migration.

Table 17: Mean Monthly Earnings for informal and formal operators

Rural		**Urban**	
Formal	Informal	Formal	Informal
N$2,798	N$724	N$4,960	N$1,809

Employment benefits

There is a significant difference in employment benefits for formal and informal workers. Those enjoyed by a large number of formal workers – housing allowances, retirement benefits and health insurance, for example – are either unknown or non-existent in the informal sector. Accessing credit from financial institutions is also difficult for the informally employed, since banks usually demand documents such as pay-slips in order to ascertain the regularity of incomes and determine the level of credit that can be granted. As a result, the informally employed can seldom access funds outside of their immediate income, which restricts development.

Explaining growing informality economy in Namibia

Previous researches has tried to explain the causes of the increasing informality in Namibia. Jobless economic growth, unaccommodating macro-economic policies and the general skills deficits and mismatch are but three examples (Shindondola-Mote and Konjwang, 2011). Opportunities for formal employment have shrunk considerably in recent years, while the proportion of the population available for work has grown. The increasing numbers of unemployed people, including those retrenched, has largely led to the growth of the informal economy.

Another reason for the growth in informality is poor literacy and lack of skills. The various labour force surveys have continued to demonstrate the fact that people with basic education are more likely to be unemployed for longer than those with higher education levels, particularly in the formal economy. It therefore goes without saying that better education goes hand in hand with active participation in formal employment structures.

However, we argue here that while poor literacy, skills shortages and mismatches reduce the likelihood of finding employment they are not the primary causes of unemployment. This is because skills meet job requirements, not vice versa.

The taxi transport sub-sector in Namibia

Taxi services are an important contributor to national income, both directly and indirectly. At a direct level, operators contribute to government coffers through VAT payments when purchasing vehicles and paying for goods and services with the income derived from their businesses. However, we could find no statistics on its specific contribution to the national economy, there being no official figures for this sub-sector.

Its indirect contributions stem from workers and employers who are wholly dependent on this form of transport. Workers use taxis as a means of transport to and from work and allows them to get to their workplaces on time, as do a large number of public servants, including teachers, nurses and members of state security services. Many dependents, especially schoolchildren, also rely on these privately owned taxis to get around.

Age, gender and number of years as a taxi driver

The majority of the taxi drivers we interviewed were in the productive age of 25 to 45 years, many of whom had a basic education (75 per cent). Two were university students who, due to lack of finances to pay for university fees, had opted to work as taxi drivers for extra income. In general, our overall findings matched to the general trend in the informal sector. Informal taxi operators tend to be young and not highly educated. As expected for this sector, all the respondents were male.

Many of the respondents had been driving taxis for over a decade; one indicated that he had been a taxi driver for 18 years. This length of employment could be explained by the lack of alternative forms of employment, but it could also be the result of preference, although we did not sense this during the interviews. Such preference could apply to owners, as they make more money, but less so for drivers, whose jobs are hard.

The reasons for becoming a taxi driver

The general shortage of alternative employment opportunities was cited as a major reason, and some interviewees stated that, other than obtaining a valid driver's license, the job does not require rigorous procedures such a formal education qualification and/or a number of years of experience. It is fairly easy to find a job in this sub-sector, they said, as recruitment is often directly tied to social/family networks.

Three-quarters of the respondents indicated that driving a taxi was their first experience of work. The remaining 25 per cent indicated having worked elsewhere before joining the taxi industry. Of those we interviewed who fell in this latter percentile, one had been a petrol attendant, another fisherman, the third a construction worker, the fourth an electoral officer and the fifth a private security guard.

Employment contracts, incomes and benefits

None of the drivers interviewed had a written employment contract, but they all stated that they had some sort of verbal agreement with the owner. Few actually had any regard for such a document, happy enough with working on a trust basis due to knowing the owner on a personal level. Some were self-employed rather than contributing family labour and thus needed no such contract at all.

The nature of their verbal contracts was largely limited to income. Other conditions such as working hours and health and safety were neither discussed nor agreed upon. The most common 'contract' is the one where the driver has a financial target to meet target within a certain time frame (normally 6 months to 2 years). During this time period, the driver must furnish the owner with a specified amount, after which the owner signs off the car to the driver. This effectively means the driver then becomes the owner and self-employed. Ten per cent of the drivers interviewed confirmed that they had become owners through this 'scheme'.

Other drivers indicated that they work according to a profit-sharing agreement, with the owner taking 60 to 70 per cent and the driver 30 to 40 per cent of the total monthly profits. Working in this manner, the majority earned between N$2,000 and N$5,000. None of them were, however, provided with proof of income through a pay slip.

Incomes in this sub-sector are unpredictable as meeting targets and making profits are influenced by a number of factors. These include having a consistent flow of customers, no breakdowns and fuel prices remaining steady. Even a slight negative change will affect earnings. Unfortunately, many owners do not take these factors into consideration and their drivers are expected to meet the specified payback terms.

The working hours are often very long: driving for 12 hours or more a day is not uncommon. This put negative pressure on physical health as well as social and family life. At month end, taxi drivers indicated that they may work up to 15 hours per day, this being the time when most customers have access to extra cash and their movement hence increases. The busiest times were cited as any day from the 20th of the existing month to the 7th of the new month. The sub-sector has no overtime payments.

Drivers are paid in cash rather than through a bank deposit or electronic transfer (EFT). Receiving no formal proof of income, for example, a pay slip, has major implications, especially as far as exclusion from the formal banking system is concerned. It leaves them unable to access additional services that come with formal banking such as bank loans. Many cited low and unpredictable incomes as reasons why their applications for housing loan are likewise rejected.

Registration with Social Security

Remarkably, all but one driver was aware of the SSC, but none had been able to register. Among the reasons cited were 'no pay slip', 'not employed by a company therefore they will not be allowed to register', and 'social security is for people who go to work'. This last response is a clear indication that taxi drivers believe that the SSC only serves the formally employed. It was also striking that some drivers equate 'work' with being employed in the formal company and that they do not consider themselves as proper workers.

Daily challenges

Taxi drivers face a number of challenges. They indicated that some people do not place any value on their jobs. They further felt that the authorities do not appreciate the economic contribution they make to the country's GDP. They also cited unfair treatment by city authorities, especially with reference to 'unreasonably' high traffic fines.

In relation to this, they consider it grossly unfair that owners take no responsibility for fines and the repair their vehicles. They took further issues with the fact that taxi fares are not increased in line with the any increase in the cost of fuel.

Recommendations by the taxi drivers

To this end, the taxi drivers proposed the following solutions to their immediate concerns:

- Reduced traffic fines
- Fair and equal treatment by the City Police – as the drivers are concerned, the traffic police enforce harsher treatment on them compared to other road-users
- Medical aid companies should devise packages to suit taxi drivers, with the option allowing monthly, weekly, or yearly contributions
- Facilitating bank accounts with low fees and/or interest rates to enable them to enter mainstream banking.
- Policy approaches to dealing with informality
- The Government's National Employment Policy 2013–2017

In 2013, Namibia launched it second and most recent National Employment Policy (NEP) 2013–2017, with the aim of achieving 'sustainable, productive and decent employment and incomes for all Namibians'. The NEP is one tool through which the employment objectives set out in NDP4 and Vision 2030 are articulated. Many of the elements elaborated in the NEP are also contained in the Namibia Decent Work Agenda programme. The NEP has following priorities: employment-creation, mitigating the impact of HIV/AIDS at the workplace and social dialogue. It is the first government policy that is explicit in its intentions regarding the informal economy (Ministry of Labour and Social Welfare, 2013).

The policy states that the informal economy presents opportunities for creating jobs, but only if it is systematically supported. The MoL, as the custodian of the NEP, has acknowledged that the lack of up-to-date and reliable information on its contribution to the Namibian economy and livelihoods in general is a major problem. This second NEP is therefore committed to undertaking a study aimed at measuring the size, nature and types of informal activities, as well as other relevant issues, in order to assist government with developing appropriate interventions towards job-creation and skills improvement in the informal economy (Ministry of Labour and Social Welfare, 2013:19).

The NEP further highlights the fact that the informal sector that needs formal appreciation by various stakeholders, including government, regional and local councils and municipalities. It is a sector that cannot be wished away and hence regional- and local-level informal sector bargaining forums must be established so that informal economy organisations can negotiate policy space. Such forums should discuss and agree on major issues related to occupational health and safety standards and all labour-related rights as articulated in the Labour Act (Ministry of Labour and Social Welfare, 2013:19).

In addition, the policy proposes several measures to protect and promote the informal economy in Namibia. These include protection against unfair competition, especially from multinational companies; direct support for informal businesses, to include amending city by-laws and regulations to support informal businesses; and extending social security to operators and their employees.

Finally, as regards formalising the informal economy, measures should include relaxing registration procedures and offering basic business management training as an incentive for formal business registration. Furthermore, the NEP proposes a review of the tax system to make it easier for informal economic operators and workers to make contributions. Land-based collateral to access credit, micro-financing for informal economy and skills development are also avenues that need to be explored (Ministry of Labour and Social Welfare, 2013: 20-1).

Namibians are hopeful that some of these proposals will come to life with the next five years. This is because the government recently expanded the scope of the Ministry of Labour and Social Welfare to include creating jobs and has since renamed it the Ministry of Labour, Industrial Relations and Employment Creation.

Trade union responses: efforts to organise

In Namibia, trade unions have yet to give the informal economy the level of attention it requires. In 2006, NUNW signed a memorandum of understanding with the Namibia Informal Sector Organisation (NISO) to the effect that the two organisations would co-operate on matters of mutual interest with regard to the informal sector. However, there is no evidence of any such subsequent action. It should be noted that NISO essentially operates to promote the interests of informal economic operators and not employers. To date, there is no specific trade union that organises informal economy workers.

While the interviews reveal that that the Federation leaders wish to organise informal economy workers, especially so that they can benefit from social security, we found no evidence of any of them having taken any steps so to do. Nor are there are any strategies for bringing these workers into mainstream trade union activities. As the continued existence and relevance of any trade union is judged according to its ability to grow and maintain a stable membership, it is imperative that Namibia's trade unions to develop and implement policies that will successfully recruit and mobilise workers within the informal economy.

In 2009, when urging Nigeria's NLC to organise the unorganised, Kamolafe and Emeribe argued that 'informal workers need the organisational experience of the trade unions while unions also need the vast number of informal workers to build more power to leverage more concessions on larger macroeconomic issues'. This neatly sums up the mutual needs and benefits that can or should be derived from trade union interactions with informal economy workers in Namibia. While trade union rights are indivisible, the opposite is true in the informal economy, which is also deprived of a homogenous conceptualisation right across the policy-making spectrum.

Conclusion

Though there is consensus on what, in Namibia, constitutes the informal economy, it has experienced a very uneven policy response. At the extreme end, it is devoid of official recognition. Jobs in this economy are precarious, and conditions are beyond any conformity with national and international labour standards. This scourge will continue to be difficult to eradicate without the development of a targeted and specific policy intervention.

Namibia's steady economic growth over the past decade is worth celebrating. Averaging 5 per cent a year or more, it is driven by domestic demand, foreign investment, strong commodity prices and prudent economic governance. Paradoxically, most Namibians, especially the vast majority of its youth and women earn a living in the informal economy. As a result, many Namibians of employable age are economically unproductive, while others have no reliable source of income. This implies that the country has a smaller middle class, a large working class and a small rich group.

Herein, we have demonstrated that despite the significant growth of the taxi industry over the years it has yet to be embraced by policy makers. Workers operate on the periphery and are held in low-regard, even though much of the populace depends on this sub-sector to get to and from work, for example. We also conclude that there are different and unreconciled views about the sub-sector's contribution to the national economy. On one hand, a number of people regard the sector as an 'unorganised "nuisance"' whose members avoid paying any form of tax. On the other, it provides jobs and increases the incomes of the most vulnerable groups (who fall largely outside the formal employment arena.

The city authorities and the well-to-do may loathe the way taxis drivers behave on public roads, but the growth in the number of taxis in the city reflects a larger problem. Taxis are filling a growing and an unaddressed gap: Namibia has no proper state-owned public transport whatsoever. The few municipal city buses that exist are cannot meet the ever-growing demand for public transport. Post-independent city planning has also failed to take deal with the increase in the urban population due to rural–urban migration.

Furthermore, we have shown that the trade unions have paid insufficient attention to the pressing needs of the informal economy. We maintain that the ultimate measure of strength for any modern trade union lies in its ability to organise workers in non-traditional workplaces such as the taxi industry. Despite their various operational difficulties, Namibia's trade unions must realise that the informal sector is here to stay and their future depends responding to and ultimately ensuring the formalisation of this economy.

References

Africa Development Bank. (2014). Namibia Country Strategy Paper. Available at www.afdb.org/.../Documents/.../2014–2018. *Accessed 15 May 2015.*

Dicks, R. (eds) 2012. Social Protection in Namibia.

Government of the Republic of Namibia. (2004). Namibia Vision 2030*:* Policy Framework for Long-Term National Development, Office of the President, Windhoek, Namibia.

— (1990). The Namibian Constitution. Windhoek: GRN.

Kalusopa, T., Dicks, R. and Osei-Boateng, C (eds). (2012). *Social protection in schemes in Africa.* Accra: ALRN.

Jauch, H. (2004). *Trade Unions in Namibia: Defining a new role*? Windhoek: LaRRI.

Kanyenze, G. and F. Laperye. (2010) Report of the Explanatory Mission to Namibia on Employment Policy: Policy Environment Assessment, 22-26 November 2010.

Komolafe, F. and Emeribe, D. (2009). 'Nigeria: NLC – Organising the unorganised'. *Vanguard*, December 30, 2009.

Konjwang, R. and H. Shindondola-Mote. (2012). in T. Kalusopa., Dicks and C. Osei-Boateng (eds). (2012). *Social protection in schemes in Africa.* Accra: ALRN.

Labour Resource and Research Institute. (LaRRI) (2011). Informal economy in Namibia: Possibilities for Transition. Windhoek: LaRRI.

— (2010). The working conditions of petrol attendants. Windhoek. LaRRI.

— (2009). Guarding wealth, but living in poverty: the working conditions of security guards in Namibia. Windhoek: LaRRI.

— (2008). The working and living conditions of Namibian Domestic Workers, Windhoek: LaRRI.

— (2006). Informal economy in Namibia: Possibilities for Trade Union Involvement. Windhoek. LaRRI.

National Planning Commission (NPC). (2010). Poverty and Inequality in Namibia. Windhoek: NPC.

Ministry of Labour (MoL). (2002). The Namibia Labour Force Survey 2000: Final Report. Windhoek: MoL and NPC.

Ministry of Labour and Social Welfare (MoLSW). (2013). Namibia Second Employment Policy. Windhoek: MoLSW.

— (2010). Namibia labour force survey 2008: Report of analysis. Windhoek: MoLSW.

— (2006). Namibia labour force survey 2004: Report of analysis. Windhoek: MoLSW.

— (2001). 'Informal economy in Namibia'. Windhoek: MoLSW.

National Planning Commission (NPC). (2012). 'National Development Plan 4'. Windhoek: NPC.

National Statistics Agency (NSA). (2014). Namibia Labour Force Survey. Windhoek: NSA.

— (2013). Namibia Labour Force Survey. Windhoek: NSA.

— (2012). Namibia Labour Force Survey. Windhoek: NSA.

— (2010). Namibia National Household Income and Expenditure Survey 2009–2010, Windhoek: NSA.

Office of the President (2004) Namibia Vision 2030. Windhoek: National Planning Commission.

Shindondola-Mote, H., N.Mwilima F. and Adewumi. (2013). Industrial development in Namibia: Some policy proposals. Windhoek: LaRRI.

United Nations Development Programme (UNDP). (2014). Human Development Report. UNDP.

ZAMBIA

Labour's Approach to Formalising the Informal Economy in Zambia

Grayson Koyi (Institute of Economic and Social Research, UNZA) and Borniface J. Phiri (Department of Research and Economics, ZaCTU)

Introduction

This report identifies and analyses the nature and dimensions of the Zambian informal economy, factors influencing its growth and trade union approaches towards its formalisation. The analysis is part of a cross country study by the African Labour Research Network (ALRN) to identify existing trade union approaches towards the formalisation of the informal economy in Africa and thus present a consolidated trade union position. The overall objective is to make a case for the formalisation of the informal economy and to elicit views of trade unions and other interested stakeholders on how best to achieve the transition.

Becker (2004), defines the informal sector as "the unregulated, non-formal portion of the market economy that produces goods and services for sale or for other forms of remuneration (Becker, 2004). In effect, the term informal economy as it is often used to denote informal sector, 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" (ILO, 2002:4)[1]. Critical to this definition is the designation of two main agents or actors in the informal economy: informal workers and informal enterprises. Informal workers comprise both self-employed and wage workers that are usually not recognised, regulated, or protected by legal or regulatory frameworks (ILO, 2002). Informal enterprises are defined as units engaged in the production of goods and services with the primary objective of generating employment and incomes to the person involved (International Conference of Labour Statisticians, 1993).

Informality, either of workers or of enterprises is widespread in Zambia. Latest estimates by the Labour Force Survey (LFS, 2014) indicate that 84 per cent of the Zambian workforce is informally employed. In terms of enterprises, data from the 2012 Economic Census show that about eight (8) in ten (10) non-farm household enterprises are not registered with the appropriate authorities.

1 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.

Estimating the correct contribution of the informal economy to national output remains difficult in Zambia. This is largely because informal economic activities do not come under the ambit of national tax and regulatory authorities. In 2000, the World Bank estimated[2] that the contribution towards Gross National Product (GNP) of the informal economy in total was at 48.9 percent in Zambia (Schneider, 2002). How much the informal economy actually contributes to the national economy, however, remains a subject of great debate in Zambia.

Besides, there is an absence of a pro-active official policy agenda towards the informal economy in Zambia. Policies, strategies and programmes of interventions regarding the informal economy and operators in Zambia are at best passive and disarticulate. Official policy statements on the informal economy have often been linked to expansion of the tax base. Other critical dimensions of the informal economy that requires coherent policies and strategies such the sector's contribution to national output and employment is downplayed. Incidentally, people engaged in informal economic activities in Zambia face significant decent work deficits such as long working hours, job insecurity, low wages, hazardous work environments and exclusion from social security coverage, among others (Muneku 2001). Informal enterprises on the other hand are faced with critical constraints. A World Bank Business Competitiveness Survey Report (2010) observed that, "most informal enterprises in Zambia do not have access to basic infrastructure and formal financial services such as access to credit" (World Bank, 2010:5).

Given these features of informal work and constraints affecting informal enterprises, a case can be made for the design of policies and programmes of intervention for facilitating decent work and formalisation of informal work as well as for facilitating the upgrade and transition of informal economic enterprises into the formal economy. Flowing from this, the paper makes a justification for the statement that a transition from informal economic activities to the formal economy would be desirable and ought to be pursued. On this basis, a number of specific recommendations are made.

Background

The political, economic and labour market contexts of informal economic activities in Zambia are briefly presented in this section as background to a detailed discussion that ensues in the subsequent sections of the report.

Political Context

In 1964, Zambia gained political independence from British colonial rule and

2 This was based on the Schneider Index which combines the dynamic (dynamic- multiple-indicator-multiple –cause) method, the physical input (electricity) method, and the excess currency approach for the estimation of the share of production that is not declared to tax and regulatory authorities.

became a republic. The labour movement, specifically the Zambia Congress of Trade Unions (ZCTU), played a major role in bringing about this change. During the era of colonialism, the labour movement played a key role as an industrial arm of political parties in the fight for political independence (Mulenga, 2011). In the post-independence era, the movement continued to play a significant role of representing and protecting the interest of workers. Most importantly, as Mulenga notes, "the ZCTU made important sacrifices during the one party state, whose circumstances compelled the labour movement to fight for political pluralism and democratic governance, leading to the adoption of multi-party politics in 1991" (Mulenga, 2011:11).

Over the last two decades, Zambia has retained a multi-party governance system, leading to a stable political environment. Presidential and legislative elections are held every five (5) years for which the elected president is only eligible to run for a maximum of two (2) consecutive terms. The country has had seven (7) elections since 1991, two of which have been presidential by-elections following the death of incumbent presidents - in 2008 and 2015.

As a legacy from the second republic, Zambia still has a highly centralized form of government and public service, and faces challenges in realizing aspirations of an open, transparent and accountable governance regime. Central government undertakes most of the functions that have the greatest impact on people's lives and resources allocated at the local level are few. In some cases, the central government re-allocates funds budgeted for particular projects to others that may be more sensitive to sudden political developments. In this context, while democracy has led to increased political participation and realisation of fundamental rights and freedoms for the citizenry, it has also led to a situation where national institutions have become severely weakened and deliberately focused on the interests of governing parties at the expense of national interests. Arguably, the country appears to be caught up in a political stalemate in which good governance has retreated and government and its functionaries have become engaged in large-scale distribution of patronage.

In response, many rational economic actors have chosen to withdraw from formal state institutional arrangements and devised informal mechanisms to get things done, including bribery and circumvention of formal channels. Businesses and other informal economic actors are sometimes reluctant to formalise or to conduct most of their business transactions through formal channels for fear of political victimisation from state security agencies. Consequently, a sizeable proportion of enterprises keep a substantial part of their operations from formal state institutions. In some instances, cases of political intrigue make the state itself appear too weak and unwilling or disinterested to apply justice fairly. The bottom line is clear. While the political climate in Zambia remains peaceful and stable it also makes informality rational and permissible. To some extent, therefore, politics have contributed to the growth and development of informality in the country.

Economic and Social Context

In terms of economic context, the country started off on a sound economic footing in 1964, but wrong policy choices conspired with adverse international factors to generate an economic crisis that peaked during the 1980s and 1990s (Chiwele, 1998). Far reaching economic policy changes inspired by the International Monetary Fund (IMF) and World Bank were implemented throughout the 1990s to try and redress the economic challenges. The impact of these measures on the growth of the informal economy have been well documented. Muneku posits thus, "the result of these combined processes [was] that formal employment in the primary labour market lost its importance" (Muneku, 2001:84). As the formal sector contracted and turned to be unable (or unwilling?) to create new jobs, the informal economy[3] grew in size. Indeed, "given the contraction of the formal sector, many retrenched workers sought refuge in the informal economy" (Muneku, 2001: 84.). In addition, "many workers have had to supplement diminishing income from wage employment in the formal sector with earnings from activities in the informal economy, often doubling or tripling the number of jobs one person holds" (Schiphorst, 2004:3). At the same time, there has also been observed the 'informalisation' of the workforce in a number of industries that are taking advantage of the de-regulated labour market to exploit unlimited supplies of domestic labour (Muneku, 2001).

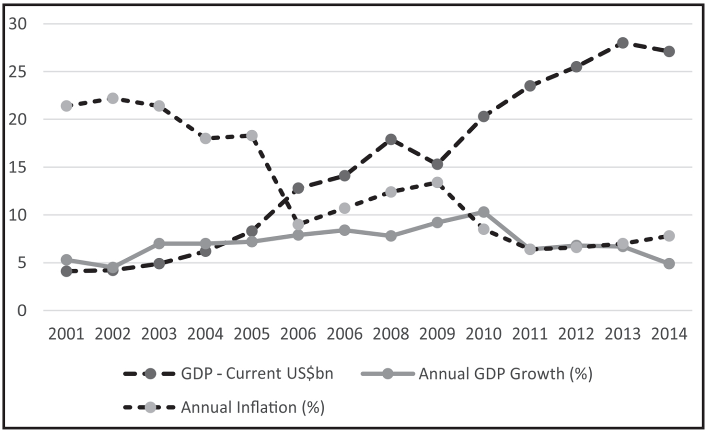
However, economic performance has largely been chequered since Zambia's independence in 1964. This is because the national economy has relied strongly upon a single natural resource, namely, copper. When high world market copper prices started to decline in 1973, the Zambian economy did the same. The first and second republics under President Kaunda (the first, from 1964 to 1973 characterized by multi-party democracy, and the second, from 1973 to 1991 characterized by the One-Party State) saw Zambia transition from a middle-income country to a least developed country, due to a combination of low copper prices, inflexible and state-controlled economic policies and high costs associated with Zambia being a prominent frontline state in the context of the liberation struggles in Southern Africa.

The third republic under Presidents Chiluba (1992 to 2001), Mwanawasa (2001 to 2008), Banda (2008-2011), Sata (2011-2014), Lungu (since 2014) was characterized by a return to multi-party politics and the opening up of the economy. This resulted in modest growth during the nineties with an average annual growth rate of 2.9 percent (Ministry of Finance, 2010). In the period 2000 to 2014, assisted by generally high copper prices in the world market, the economy picked up and annual growth rate

3 While the phenomenon of the informal economy is not new in Zambia, evidence suggests the informal economy rapidly expanded during the structural adjustment episodes of the 1990s. See, for instance Muneku (2001).

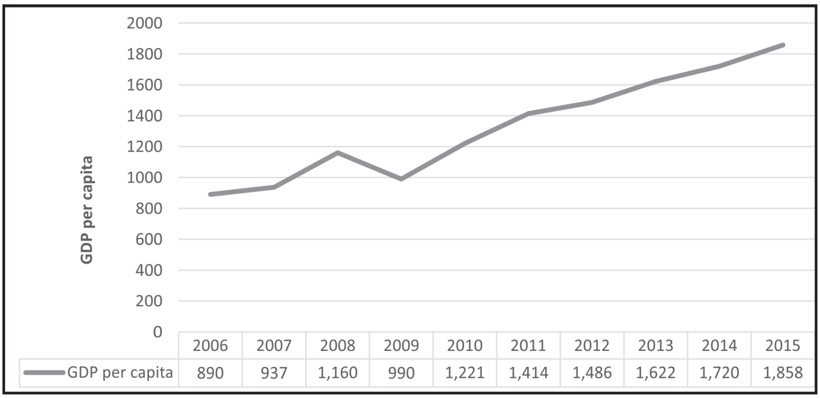
rose to 5 percent. In 2015, however, the economy faced new waves of economic shocks that dampened the country's growth prospects. The country was hit by a significant drop in copper prices on the world market. The African Development Bank, however, observed that the Zambian economy would rebound by 2017 (AfDB, 2015). Figures 21 and 22 summarises the trend in economic performance for Zambia during the period 2000 to 2014.

Figure 21: Annual GDP, Growth and Inflation, 2001-2014



Source: http://data.worldbank.org/indicator/FP.CPI.TOTL.ZG?locations=ZM, and http://data.worldbank.org/country/zambia, 2015

Figure 22: GDP per Capita, 2006- 2015 (US$ Current Prices)

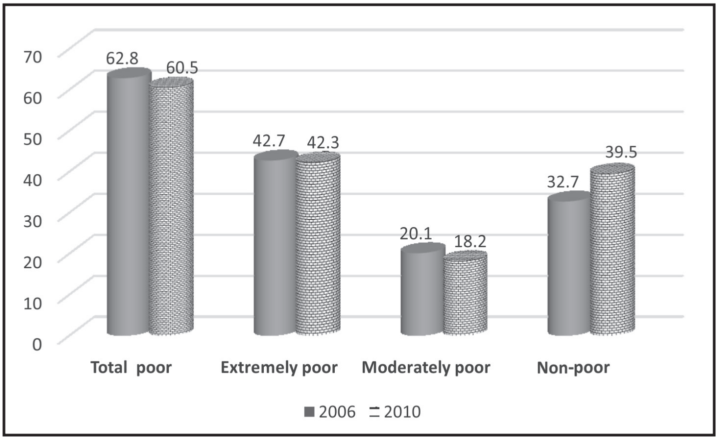


Source: IMF (2015)

Overall, the Zambia's economy remains strong with growth expected to increase above 6 percent in 2016/17 after a decline in GDP growth from 6.7 percent in 2013 to 5.7 percent in 2014. Inflation is also expected to fall below 7.0 percent by 2017 (AfDB, 2015). Economic performance is expected to remain strong in the medium term driven by large investments in infrastructure and a growing public administration and defence.

In spite of having seen decent economic growth since 2000, abject poverty remains the greatest challenge to development in Zambia. Poverty statistics are probably not completely accurate and only exist up to 2012, but according to the 2010 Living Conditions Monitoring Survey, around 60 percent of the population in Zambia could be considered poor, subdivided into extremely poor (42 percent) and moderately poor (18 percent) (LCMS, 2010). In absolute numbers, 7.9 million (out of about 13 million) people live in poverty, with 5.5 million of those living in extreme poverty having insufficient resources to meet their daily minimum food requirements (LCMS, 2010). Although poverty has declined marginally when comparing 2006 and 2010 (Figure 23), the absolute number of the poor has increased, from about 6 million in 1991 to 7.9 million in 2010 (UNICEF, 2014).

Figure 23: Changes in Poverty levels 2006-2010 (Percentage)

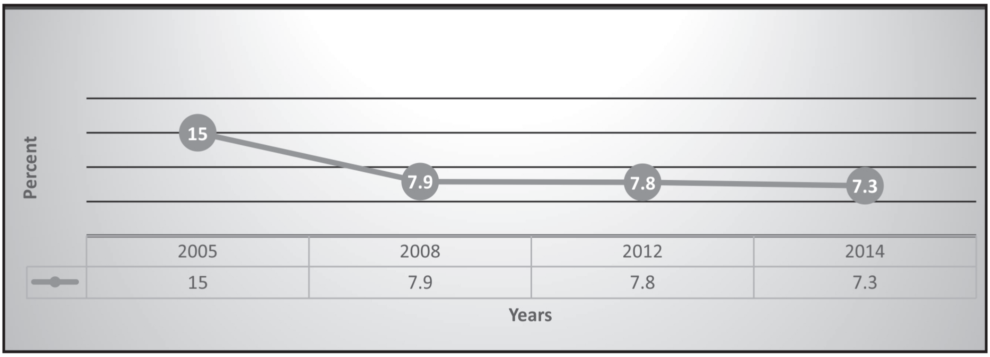


Source: CSO (2012)

Labour Market Context

In term of labour market context, there has been a declining trend in the unemployment rate in the last few years in the national economy. As shown in Figure 24, the unemployment rate declined from 15.0 percent in 2005 to 7.9 percent in 2008 (LFS, 2014). This further declined to 7.8 percent in 2012 and to 7.3 percent in 2014.

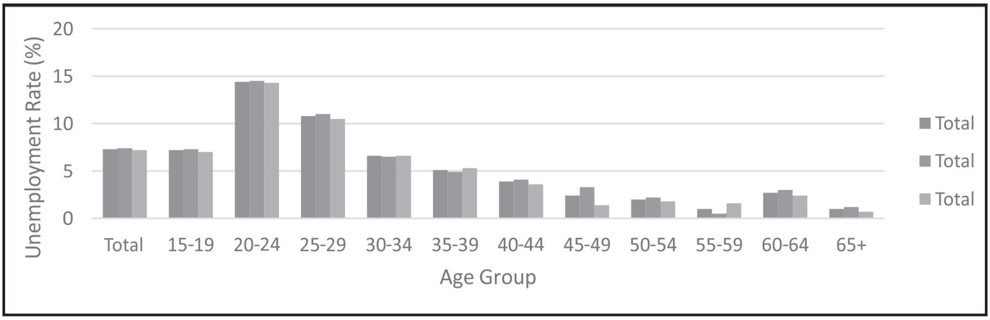
Figure 24: Unemployment Rate, 2005 - 2014



Source: Labour Force Survey, 2014

The aggregate unemployment rate that has assumed a downward trend over the last few years, however, must be contextualised within the multi-dimensional nature of the Zambian unemployment problem. Unemployment distribution by age, sex and location provides deeper insights. The 2014 Labour Force Survey results indicate that the unemployment rate was more pronounced in urban areas than in rural areas, and that it mostly affected youths (Figure 25).

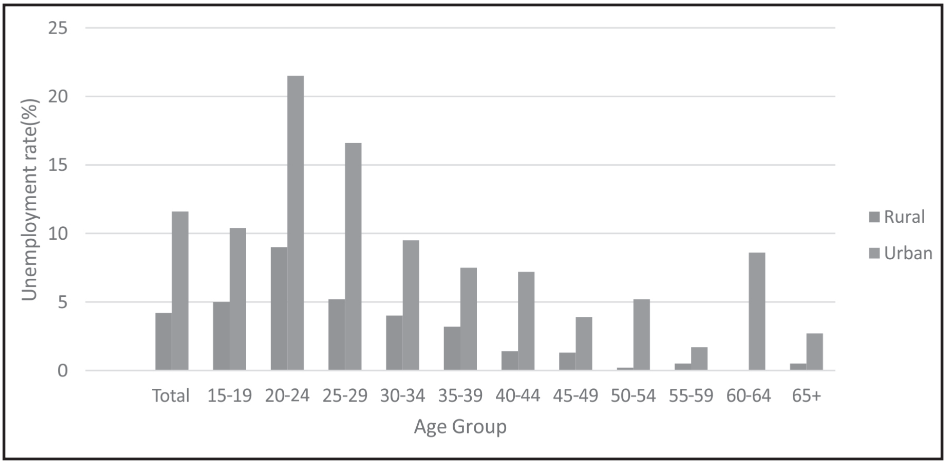
Figure 25: Distribution of Unemployment by Age Group, 2014



Source: Labour Force Survey, 2014.

Another dimension of the unemployment problem is its urban bias, even though it can also be argued that the rural dimension remains disguised since much of farming activity in rural agriculture is considered as work in official data capture. Nonetheless, the Labour Force Survey (2014) observes a higher concentration of unemployment in urban areas (Figure 26).

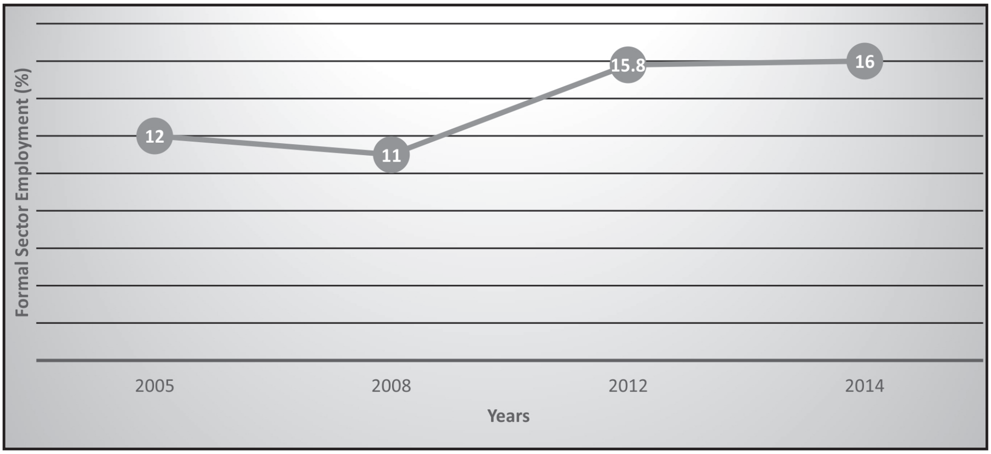
Figure 26: Distribution of Unemployment by Rural and Urban Areas, 2014



Source: Labour Force Survey, 2014

Generally, however, there has been a rising trend in the proportion of formal sector employment as a percentage of the employed population in the last few years in the national economy. Figure 27 shows that while formal sector employment declined from 12.0 percent in 2005 to 11.0 percent in 2008 it rose to 15.8 percent in 2012. It further rose to 16.10 percent in 2014.

Figure 27: Formal Employment as a Percent of Employment Population, 2005-2014

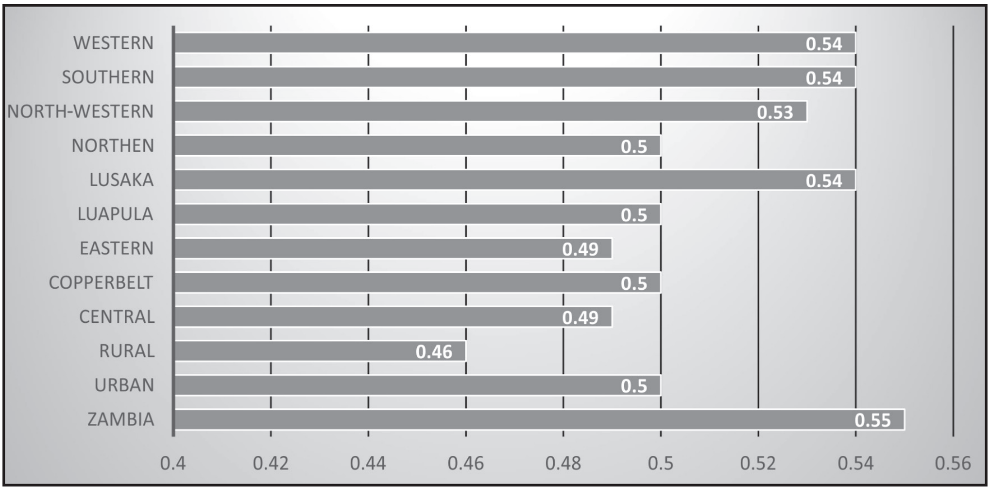


Source: CSO, Labour Force Survey (2014); Labour Force Survey (2008).

However, beneath the surface of this rising formal sector employment trend and 16 percent outturn in 2014 manifests the glaring evidence of informal employment at 84 percent. The 2004 Living Conditions Monitoring Survey by Central Statistics Office (CSO) defined informal employment as employment where the employed persons were not entitled to paid leave, pensions, gratuity and social security and worked in an establishment employing five (5) persons or less"(LCMS 2004). In this context, therefore, Informal employment at 84 percent of the employed population is a matter of concern because it means that the majority of people at work in Zambia are not productively employed and neither do they earn adequate incomes. Further, it means that they do not enjoy fundamental entitlements at work and that are deprived of the right to social protection.

Besides, income distribution in Zambia is highly unequal. With a gini coefficient of 0.53 in 2003, the richest 20 percent of Zambians were reported to earn 56.6 percent of all income, while the poorest 20 percent shared a meagre 3.3 percent (UNICEF, 2014). This situation has not changed much since 2003. The 2010 LCMS report provides a Gini coefficient for nine provinces, for urban and rural areas and for the country (Figure 28). At country level, a coefficient of 0.55 is among the highest in the world. Similar numbers are present at province level, and also in rural and urban regions. Even those provinces that are less poor than others, Lusaka for example, present a high Gini coefficient.

Figure 28: Gini Coefficient at Provincial Level, Rural and Urban, 2010



Source: *CSO (2012)*

Methods of Data collection

The report is based on a survey of the views of operators in the informal economy, government officials from the ministries of commerce and labour as well as experts working on the subject of informality. The views of the Zambia Congress of Trades Unions (ZCTU) and its units that directly deal with the informal economy were also sought. Interviews were also conducted with the Zambia Federation of Employers (ZFE) and officials of the Association of Zambia Informal Economy Association (AZIEA). Finally, the report benefited substantially from extensive review of existing documentation on informal economy, the national economy and the governance architecture relating to the operations of businesses in Zambia.

The Informal Economy in Zambia

The Zambian economy and labour market are characterized by pronounced informality. Large proportions of economic activities are undertaken outside the legal and institutional framework. Most importantly, informality has been growing. About 84 percent of employment is secured informally. Several other economic activities including the operations of enterprises take place outside of formal tax and regulatory authorities. This section looks at the development of the informal economy in Zambia. The section covers trends in the development of the informal economy in Zambia as well as drivers of informality in the Zambian labour market.

Composition

The informal economy in Zambia consists of all economic activities by workers and economic units that are not covered or insufficiently covered by formal arrangements. For economic units, these are engaged in the production of goods and services with the primary objective of providing incomes and employment to the persons concerned (CSO, 2012). These units typically operate on a small-scale basis, with a low level of Organisation and with little or no division of labour and capital as factors of production. Labour relations, where they exist, are based mostly on casual employment, personal and social relations rather than contractual arrangements with formal guarantees.

Economic activities by workers, on the other hand, comprises own account workers and employers, contributing family workers, employees who have informal jobs and members of producer cooperatives (LFS, 2012). Own-account workers and employers have their own informal sector enterprises and are usually characterized by absence of registration with the national authority, lack of contributions to a social security scheme and lack of entitlement to annual paid and sick leave by workers. According to the 2012 Labour Force Survey, this form of employment constitutes about 44 percent of total informal employment in Zambia (LFS, 2012). Another dimension is that contributing family workers, irrespective of whether they work in the formal or informal sector enterprises. These account for 34.8 percent of total employment (LFS, 2012). Then there are employees who have informal jobs, whether employed in the formal sector enterprises, informal sector enterprises, or as paid domestic workers by households. In addition, there are members of informal producers' cooperatives and persons engaged in the own-account production of goods exclusively for own final use by their household, such as subsistence farming (LFS, 2012).

The most visible and highly urbanised group of informal economy operators are vendors who predominantly operate in streets or organised market places despite street vending being an offence[4]. Broadly, therefore, informal economic activities in Zambia can be seen ranging from fishing to mining; small scale manufacturing to construction; from service delivery mainly in taxis and commuter bus transportation to small shops, barbershops, hair saloons, retail outlets and car repairs; from subsistence farming to vending and hawking; from '*marketeers*' selling perishable goods, new and second hand clothes to money exchangers; from those with some crafts or skills like mechanics, plumbers, bricklayers, electricians, painters, artists, watch repairers, musicians, and photographers to shoe makers, tailors and carpenters. In short, heterogeneity is the word that best describe almost all aspects of the informal economy in Zambia - as almost every sector of the Zambian economy has an informal component.

Growth and Development of the Informal Economy

Informality is not new to the Zambian labour market. Prior to colonialism, there was no central government or central authority with which economic transactions could be registered, neither was there a requirement for such registration. There were in existence some form of employment relations. People earned incomes by offering their labour services largely to themselves and on a limited scale to others. Such relations were regulated not according to any formal rules but on the basis of social norms that were commonly agreed. By current standards, therefore, employment relations and indeed economic activities in pre-colonial times were completely informal (Nakhoda, 2011).

Wage employment in present day Zambia only emerged with the formal establishment of a colonial government. The colonial government led the way as it recruited Africans as clerks in the administration of the colony. By 1924, Northern

4 According to the law governing markets (Market Act Cap 290 of the laws of Zambia), street vending is an offence and any person who carries out such trade is liable to be convicted and may be subjected to a custodial sentence.

Rhodesia (now Zambia) was administered and occupied by the British government as an official British protectorate. While the Colonial Office headed administration, a group of interconnected companies financed by Britain, South Africa, and the United States came to control what became the ‘Copperbelt’ in Northern Rhodesia. Copper was becoming more valuable due to increased demand for electrical components and motors and regional deposits were easy to extract and profitably attracted investors (Nakhoda, 2011). Wage employment in the private sector therefore started in the mines with the first commercial mines opened in 1928 (Fraser and Lungu, 2004). The opening of the mines marked a dramatic shift in the structure of the labour market. Large numbers were uprooted from agricultural employment to wage employment in the mines.

When Zambia won its political independence in 1964, first President Kenneth Kaunda and his United National Independence Party (UNIP) set up great hopes for development. Central to these hopes was the rapid growth of the copper industry, driven by favourable world prices through the late 1960s and early 1970s. Mining had transformed the Copperbelt from an area of bush to a dynamic urban and industrial region, and with independence and the growth of the sector, Zambia was seen as the model for a continent moving rapidly towards political and economic independence, industrialisation and an end to poverty. In 1969, Zambia was classified a middle-income country, with one of the highest GDPs in Africa, three times that of Kenya, twice that of Egypt, and higher than Brazil, Malaysia, Turkey and South Korea (Fraser and Lungu, 2004). By 1973, Zambia had an urban population of 1 million out of a total population of 4 million and 750,000 were in waged employment (Fraser and Lungu, 2004).

Due to falling copper prices since the 1970s and mismanagement of the state-owned companies, however, the government of the republic of Zambia was forced to adopt structural adjustment policies to access World Bank and International Monetary Fund credit facilities. The adoption of structural adjustment policies from the mid-1980s marked an important watershed in the development of the informal economy in Zambia. Structural adjustment policies helped revive economic growth and arrested the spiralling inflation. However, economic growth did not only fail to create employment, but more importantly, led to sharp reductions in the number of people employed in the formal economy. Massive job losses from retrenchments left a number of former formal economy workers jobless, forcing them to engage in informal economy work. Shikwe reports that employment in manufacturing fell from 75,400 in 1991 to 43,320 in 1998 while that in the mining sector fell from fell from 56.582 in 1992 to around 22,000 in 2003 (Shikwe, 2003).

Parallel to privatisation was the public sector reform programme which the government was implementing in the name of making the public service ‘lean’, ‘efficient’, and 'affordable' (Shikwe, 2003). Public sector reforms reduced employment from an estimated 150,000 in 1992 to 120,000 in 2004 (Shikwe, 2003). The cumulative effect of these policy measures was to create massive unemployment through processes commonly described as 'retrenchments', 'redundancies', 'lay-offs' or 'right- sizing of the public service' leading to workers seeking refuge in the informal economy.

Drivers of the Informal Economy In Zambia

Kate Meagher notes that "the contemporary era of globalization and economic reform have exerted more uniform influences among African countries, precipitating rising levels of informality across the continent" (Meagher, 2013:5). She further argues that "while historical differences in patterns of informality persist, contemporary push and pull factors shaping the expansion of informality have become more similar across countries and sub-regions" (ibid). Henrik Huitfeldt and Jutting (2009:100, cited in Meagher, 2013)) identify four key drivers behind the contemporary expansion of informality. These are: slow employment growth in the formal economy, the restructuring of labour markets under liberalization and globalization, inappropriate formal economy regulations, and competitive pressures to reduce costs.

In the Zambian context, the first and second drivers could be collapsed into one, since it was the restructuring of labour markets under structural adjustment programme's liberalization and globalization that were the main force behind reduction in formal employment levels. The third driver, inappropriate regulation, has been shown to be relatively unimportant to the expansion of informality in Africa and across much of the developing world (see for instance, Meagher, 2013). Similarly for Zambia, the excessive regulation argument has been weakened by the fact that greater deregulation of the Zambian economies over the past two decades has been accompanied by the expansion of informality. This paradox was observed by Maloney (2004:1159), who argued that the key push factor was related to unwanted social benefits rather than rigidities in enterprise and labour regulations. The fourth driver, cost-cutting in response to competition, is relevant for Zambia, although liberalization and globalization are driving the bulk of the competitive pressures (Henrik Huitfeldt and Jutting 2000).

The resulting picture of push and pull factors in Zambia militates against the notion of informal sector expansion as a 'voluntary' rejection of formal sector conditions (Meagher, 2010). Incidentally, the argument of voluntarism and choice presented by Maloney and others is not supported by evidence from Zambia (Maloney 2004; Perry et al. 2007). In particular, the phenomenon of 'straddling' – which refers to holding a formal economy job and carrying out one or more informal activities on the side is not widespread (Vandemoortele 1991; Mustapha, 1992). Similarly, the idea that the desire to evade taxes pushes people into the informal economy is weakened by the fact that most informal actors in Zambia pay a range of formal as well as informal taxes. Local government taxes are often collected through officials in the markets and bus stations where urban informal actors are concentrated, making evasion difficult. Moreover, many informal actors pay a range of informal taxes, such as association fees and extra-legal levies for other forms of service provision (toll fees for road repair, access to water and electricity, etc.) (Meagher 2013; Tokman 1992).

Thus, in the Zambian context, the major push factors have had more to do with compulsion than with voluntary exit, triggered by the restructuring of labour markets by liberalization and globalization of economic activity. Key among these push factors is the lack of formal sector employment opportunities, induced by global competition and the active downsizing of formal employment in the context of drastic economic restructuring. As shown in the previous section, this has involved massive public and private sector retrenchment, as well as the deindustrialization and enterprise collapse in the context of liberalization, devaluation and high inflation (Shikwe, 2003, Vandemoortele 1991; Mkandawire 2001, Meagher, 2013). The resulting escalation of unemployment has led to a mass influx into informal activities, necessitated by the lack of any form of unemployment insurance in the country (Heintz and Valodia 2008, Meagher, 2013).

A further restructuring-induced push factor involves the collapse of real wages even among those who remained in formal employment. As Meagher writes, "this has resulted in the intensification of 'multiple modes of livelihood' (Meagher, 2013:9). On the one hand, multiple modes in the Zambian case has involved hanging onto formal jobs where possible while starting up an activity in the informal sector, such as informal taxi driving, trading, or selling their services after hours. On the other, it has included the entry of previously non-employed household members, such as wives and dependents, into the informal labour market to make ends meet (Meagher, 2013, Bangura 1994; Meagher and Yunusa 1996).

The pressures of economic restructuring have created two further push factors, including the weakening of markets in the formal sector, and consequent pressures to cut costs. Owing in part to weak export shares, markets for formal sector firms in Zambia, have contracted owing to the collapse in wages and employment, and the intensification of import competition, mainly from South African and Asian firms (Mkandawire 2001). The weakened purchasing power of structurally adjusted consumers and mounting import competition has put many formal sector firms out of business, or forced them to cut costs by resorting to informal labour (employed on casual basis) or going underground themselves.

Finally, as Meagher observes, "the instability and unpredictability of formal institutions in the context of economic reforms has operated as a push factor"

(Meagher, 2013:9). In the face of incessant reforms in the formal economy over a period of two decades, many Zambian economic agents have withdrawn into the informal economy where institutions are less subject to drastic and unanticipated changes. Financial sector reforms and attendant bank failures at the peak of privatisation have frightened many successful informal operators out of the formal banking sector, and rapid changes in regulations and tax regimes over the past two decades have either forced or frightened formal operators into the informal sector (Meagher 2003). Commenting on the impact of economic reforms on African business development, Poul Ove Pedersen and Dorothy McCormick (1999:130) explain that 'the continuous changes in rules and regulations and their inconsistent enforcement create an instability in the economic system which is not supportive of long-term investment'.

Just as the push factors are more about compulsion than choice, the pull factors of Zambian informal employment are more about default options than attractions. The fabled 'ease of entry' of the informal economy is certainly a pull factor in that sense, since ease of entry only applies to the low-cost, low-income segments of the informal economy. More lucrative activities tend to have higher capital and skill requirements, and also involve more extensive informal arrangements that limit entry, such as associations or access to credit networks (Sethuraman 1998). This is evident in the fact that the women and the poor tend to be concentrated in already saturated activities at the low-income end of the informal economy, rather than moving into activities with higher income potential.

A further pull factor involves the creation of new opportunities by the crisis in the formal economy. Both the limited expansion in industrial subcontracting, and the shift of middle-class demand down to the informal economy as imports and formal economy goods and services become unaffordable, have created a more skilled and lucrative niche within the informal economy. In addition, the collapse of public services in Zambia has opened up informal opportunities for informal service providers, including garbage collectors, commuter transport, money lenders and private security services, etc.

A final pull factor involves greater access to business support services and economic institutions in the informal economy. The social embeddedness of informal economic institutions makes them more predictable and accessible to local business actors, particularly those that lack the levels of literacy and the contacts to access formal skill training and business services. This does not, however, mean that the quality of informal services is better, only that it is more accessible. Levels of credit available through informal mechanisms are often too low for significant enterprise investment, particularly in the case of rotating credit groups, and the technical quality of training has become inadequate even for the needs of informal actors (Adam 1999).

Contribution to Gross Domestic Product

Estimating the correct contribution of the informal economy to national output remains difficult in Zambia. This is largely because informal economic activities do not come under the ambit of national tax and regulatory authorities. In 2000, the World Bank estimated[5] that the contribution towards Gross National Product (GNP) of the informal economy in total was at 48.9 percent in Zambia (Schneider, 2002). As a percentage of non-agriculture Gross Domestic Product (GDP), the estimated contribution of the informal economy to GDP was estimated at 24 percent in 1998 (Xaba, Horn and Motala, 2002). How much the informal economy actually contributes to the national economy, however, remains a subject of great debate in Zambia. The output of the informal economy is always missing in the national accounts, including Gross Domestic Product (GDP). The attributed importance of the informal economy is deduced mainly from estimates based on observations of its tangible business and economic activities and, on contribution to employment creation.

Contribution to Employment in Zambia

Table 18 and Figure 29 below capture the proportion of the labour force in formal and informal employment in Zambia for the period 2005-2014. Evidently, informal employment has remained at a high of between 84 and 89 percent of the total number of the people employed during this period, attesting to its substantial contribution to overall employment levels in the country.

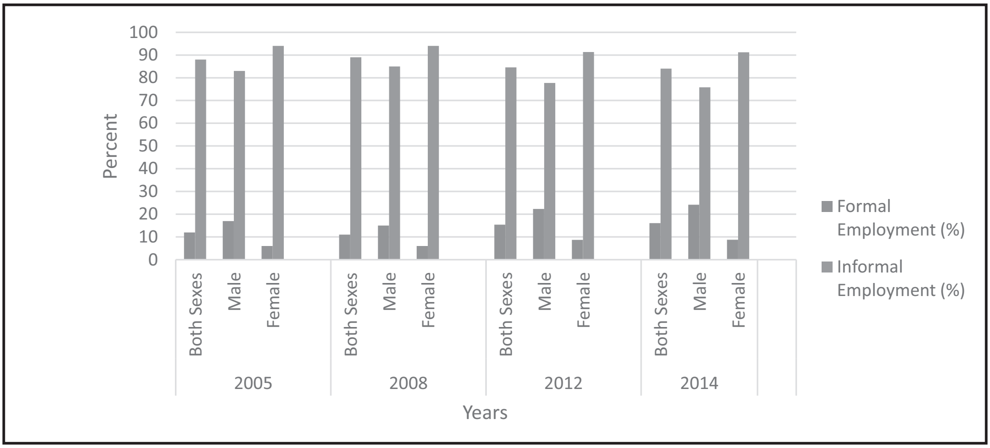
5 This was based on the Schneider Index which combines the dynamic (dynamic- multiple-indicator-multiple –cause) method, the physical input (electricity) method, and the excess currency approach for the estimation of the share of production that is not declared to tax and regulatory authorities.

Table 18: Proportion of Labour Force in Formal and Informal Employment, 2005-2014

Year		Formal Employment (%)	Informal Employment (%)	Employed Persons
2005	Both Sexes	12	88	4,131,531
	Male	17	83	1,941,820
	Female	6.0	94	2,189,711
2008	Both Sexes	11	89	4,606,846
	Male	15	85	2,391,785
	Female	6	94	2,215,061
2012	Both Sexes	15.4	84.6	5,499,673
	Male	22.3	77.7	2,702,410
	Female	8.7	91.3	2,797,263
2014	Both Sexes	16.10	84	***
	Male	24.2	75.8	***
	Female	8.8	91.2	***

*Source: CSO, Labour Force Survey (2014). *** denotes data not available*

Figure 29: Proportion of Labour Force in Formal and Informal Employment, 2005-2014



Source: CSO, Labour Force Surveys (2014).

Table 18 also reveals a gender dimension to informal employment in Zambia. In 2014, for instance, 91.2 percent of the females in employment were in informal employment compared to 75.8 percent of the males. In comparison, formal employment in 2014 was dominated by males who accounted for 24.2 percent of the total employment to 8.8 percent of the females in total employment. Besides, Table 1 reveals that between 2005 and 2014, there was a proportionately higher increase in males in formal employment (from 17.0 percent in 2005 to 24.2 percent in 2014) than in the females in employment (from 6.0 percent in 2005 to 8.8 percent in 2014). From a gender perspective, therefore, women have been the most affected by the limited formal sector employment opportunities.

National Legislation and the Informal Economy

Zambia has ratified 44 ILO Conventions including Convention No. 87 on Freedom of Association and Convention No. 98 on the Right to Organize and Collective Bargaining. Despite ratifying the Conventions only in 1996, the provisions and recommendations of these conventions were already incorporated in the country's industrial relations legislation. The basis of the legal framework for industrial relations in Zambia is founded on the fundamental rights in Part III of the Constitution of Zambia. Article 21 (1) of the Constitution states that: *"no person shall be hindered in the enjoyment of his freedom of association and in particular to form or belong to any trade union for the protection of his/her interests"*. (Government of the Republic of Zambia, 2009). These provisions have been incorporated and expanded in the Industrial and Labour Relations Act of 1997, the main labour legislation. The other legal instruments for industrial relations in Zambia include the Employment Act (1997), the Minimum Wages and Conditions of Employment Act (1991), and the Employment of Young Persons and Children Act (1991).

Industrial and Labour Relations Act (Chapter 269 of 1997)

The Industrial and Labour Relations Act was first enacted in 1971 and was replaced in 1990. The Act was later repealed in 1993 with the adoption of neo-liberal policies. The Act provides the legislative framework for the establishment, organisation and management of trade unions, employers' Organisations and their federations. It provides for collective bargaining, settlement of industrial disputes, defines the framework for the tripartite process, and the establishment and operation of the Industrial Relations Court.

The Act underwent massive changes in 1993 to accommodate, among others, the dictates of the liberalised political and economic environment. The changes entrenched the principles of freedom of association in accordance with the ILO standards and abolished the policy of "one union one industry" which somewhat promoted monopoly trade unionism. The massive changes in the legislation, has however, worked to weaken the bargaining position of trade unions.

The Industrial and Labour Relations Act provides detailed provisions on the rights of employees in respect of trade union membership and its activities, the establishment and organisation of trade unions and indeed employers' associations. In particular, section five of the Act as amended in 1997 provides every employee with, among others, the following rights:

- the right to take part in the formation of a trade union and to be a member of a trade union of his choice;
- the right to take part in the activities of a trade union including the right to seek and hold trade union office subject only to the rules of such trade union;
- the right to obtain leave of absence from work for the purpose of taking part in trade union activities;
- the right not to be prevented, dismissed, penalized victimized or discriminated against or deterred from exercising trade union rights;
- the right not to be a member of a trade union or be required to relinquish membership; and
- the right not to do work normally done by an employee lawfully on strike or locked out unless such work constitutes essential service.

In addition, it grants for registration and autonomy of trade unions and their officers by providing protection against manipulation by employers. However, the Act excludes employees in the Zambia Defence Forces, the Police and Prison Services, the Zambia Security Intelligence Service. Certain officers in the Judiciary are also excluded from participating in trade union activities. These include Registrars, Local Court Justices, Magistrates and Judges.

The Employment Act (Chapter 268 of 1997)

The Employment Act (Chapter 268) was first enacted in 1965 and is the basic employment law. It provides the legal framework for employment relationships. It provides for enforcement of contracts of employment, protection of wages and welfare of employees. This Act was also extensively amended in 1997 to take into account, among others, ILO Conventions which Zambia has ratified relating to the minimum employment age, termination of employment, protection of wages, and maternity protection.

The Minimum Wages and Conditions of Employment Act (Cap 276 of 1991)

The Minimum Wages and Conditions of Employment (Chapter 276) is an enabling law aimed at protecting employees not covered by collective bargaining processes and agreements. The Act empowers the state through the Minister of Labour to prescribe minimum wages and other conditions of employment for sectors where collective bargaining is not possible. This Act allows for the Minister of Labour, through the tripartite arrangement, to revise regularly, wages and conditions of employment for protected employees depending on the existing socioeconomic situation.

Employment of Young Persons and Children Act (Chapter 274 1991)

The Employment of Young Persons and Children Act provides for the protection of young persons, particularly in occupations that are hazardous or injurious to their health, safety and development. Zambia ratified the ILO Convention No. 182 on the elimination of the worst forms of Child Labour. Thus, the Act has undergone review to take account of and conform to the new ILO requirements.

The Factories Act (Chapter 272 of 1991)

The Factories Act provides for occupational safety and health in factories, construction sites and other workplaces. The Act empowers Factory Inspectors to enforce occupational safety and health regulations at workplaces.

Central Tripartite Structures

The Tripartite Consultative Labour Council (TCLC) is the highest dialogue structure and consists of an equal number of members from the trade unions, the employers and the Government, with no less than 21 members. The Council gives advice to the government on all issues relating to labour matters, manpower development and utilization and any other matter referred to the Council by the government.

The tripartite social dialogue structures normally do not include trade and related issues, which are a preserve of the ministry responsible for trade or foreign affairs. Outside of the TCLC, collective bargaining remains an important way of reaching comprehensive agreements on conditions of work, though this is confined to workers with membership to trade unions.

Legal Procedures for Registration and Issuance of Licences

In Zambia, being registered, in most cases, is what separates the informal economy from the formal one. Informal workers are frequently not registered for social security contributions while informal enterprises are not registered with the appropriate institutions as required by law. The most important state institution mandated for business registration is the Patents and Company Registration Authority (PACRA). However, it is not present in all the districts of Zambia.

The registration procedure for sole proprietorship business (usually micro and small- scaled business) has fewer requirements than companies. According to data collected by the World Bank's Doing Business, starting a business in Zambia requires 6 procedures, takes 7.50 days, costs 33.60 percent of income per capita and requires paid-in minimum capital of 0.00 of income per capita. This information is summarized in Table 19.

Table 19: Procedures for Starting a Business in Zambia, 2014

Nr.	Procedure	Time to complete	Associated costs
1	Check name at PACRA	Less than 1 day online	ZMK56 for name search/clearance; ZMK111 for name reservation
2	Register company at PACRA	3 days	
3	Register with Tax authority	1 day	No charge
4	Register with Pensions Authority	1 day	No Charge
5	Pay Business levy to local authority	1 day	ZMK450
6	Register for VAT	1 day	No Charge

Source: World Bank Doing Business Report (2015)

In practice, however, the registration process is fraught with challenges. It takes too long, sometimes up 6 months to register a business. The Patents and Company Registration Authority (PACRA) is often congested and chaotic. PACRA is centralized in Lusaka. The Western style registration procedures requiring knowledge of "English" is equally remains a potential hindrance.

Approaches to addressing Informal Economy

Stakeholders in Zambia have adopted various approaches to the informal economy. These approaches may not have been undertaken with the explicit goal of formalising the informal economy. The goal usually has been to improve the situation of operators including improving their productivity and earnings. Some approaches, largely from government have been designed to bring the informal economy into the tax net. In this section, some of these approaches are reviewed in order to lay out a trade union approach for formalising the informal economy.

Zambia Federation of Employers

For the Zambia Federation of Employers, there were no specific interventions in terms of addressing informal economy challenges that were mentioned. during stakeholders' interviews. One of the key respondents stated that: *"ZFE has no specific interventions in terms of addressing challenges associated with the informal economy".* ZFE, however, expressed the need for adequate and comprehensive information to establish the extent of informality and emphasized the need for workable solutions to address the phenomenon. ZFE also expressed reservations on some of the approaches used to address informality such as the official protection of domestic workers under minimum wages statutory instruments. The argument of ZFE was that domestic workers were predominantly employed by fellow workers and such workers who employed domestic workers were wrongly considered as employers when they were not.

From the discussion with the Zambia Federation of Employers, it seemed the case that they did not consider it a matter of priority that urgent interventions should be designed to address the challenge of informality in Zambia. This needs to be placed in context, however. The employers' federation draws all its membership from formally established businesses such as the mining companies, and other large scale manufacturing companies. A large informal economy characterized by irregular employment, therefore, offers some measured benefit to easily and cheaply hire and fire employees.

National Policy on Informal economy

The Zambian government has no official policy position on the informal economy. Nevertheless, various government documents including policy documents such as the national budget and the national labour and employment policy makes references to the informal economy. From a taxation policy perspective, various national budgets have identified the informal economy as a potential avenue for expanding the tax base. In pursuit of this, various interventions have been designed to ensure that the informal economy is captured in the tax net. These interventions have included introduction of various tax schemes and simplification of tax administration to meet the needs of operators in the informal economy. For instance, the Zambia Revenue Authority (ZRA) has an income tax component for all landlords owning houses to ensure that they pay appropriate income tax through their rental collection. Enforcement has been challenge though given that this is based on self-reporting. There have also been attempts in the past at implementing a presumptive tax for all informal commuter bus and tax owners.

In addition, the National Pensions Act makes room for the self-employed in the informal economy to contribute to pensions under the third tier of the pension scheme. Self-employed persons by the law can voluntarily join pension schemes and make contributions based on their declared earnings/income. This option provides greater opportunity for individuals in the informal sector to plan effectively towards their retirement. However, the response has not been noteworthy.

Other official efforts indirectly addressing the informal economy have included the development of Micro, Small Medium Enterprises policy. For instance, the target under the Joint Industrialization and Job Creation Strategy (JIJCS) and the MSMEs policy was to create One Million (1,000,000) new formal economy jobs over the next five years by targeting MSMEs and economic sectors that had a comparative advantage for expanding output, employment and value addition. Within this context, government implements measures to increase citizen participation in economic activities and growth of MSMEs through formalising existing informal clusters by providing policy direction and institutional support for business development services, improved product quality and facilitating market access. Specifically government intended to provide policy support to street vendors and other informal association groups with a view to formalisation using the cooperative model.

In an interview with an official from the Ministry of Commerce, it was evident that government had put in place measures and procedures for registration of MSMEs with the overall intention of formalizing informal businesses.

Trade Union Policies, Programmes and Activities on Informal Economy

After a wave of retrenchments and job losses that characterized the Structural Adjustment Programmes (SAPs) which were followed by public service reforms in the late 80s and early 90s respectively, the trade union movement suffered a drastic drop in trade union membership. A number of workers who had formal jobs lost employment and found themselves in the informal economy engaged in survivalist activities. These former workers lacked appropriate skills to operate successfully in the informal economy.

In response to this emerging challenge, the Zambia Congress of Trade Unions together with the Mineworkers Union of Zambia formed the Concept for Informal Sector Employment Promotion (CISEP) in 1998. CISEP was a nationwide approach and framework for training and organising informal sector workers. CISEP also worked closely with the Alliance for Zambia Informal Economy Association (AZIEA) and the Workers Education Association of Zambia (WEAZ). AZIEA and WEAZ have since been affiliates of ZCTU and have had close collaboration in addressing challenges of the informal economy.

Therefore, most of ZCTU's interventions into the informal economy have mainly been through AZIEA. AZIEA is an umbrella body for different informal economy associations. As at February 2015, the alliance had a membership of sixteen (16) associations and a total individual membership of 24,602 (AZIEA, 2015).

Informal Economy Associations

A key informal economy association that is acting to deal with challenges of the informal operators is AZEA. Through training, AZIEA develops its own local facilitators through the training of trainers and these trainers replace external educators. The alliance is also involved in lobbying and advocacy and policy dialogue with decision makers. Table 20 summarises AZIEA membership.

Table 20: AZIEA Membership by February 2015

Affiliates	Region	Sector	Membership
National Traders and Marketeers Association of Zambia	National	Market Trading	18,507
Zambia Bus and Taxis Workers Union	Luapula/Copperbelt	Market Trading	700
Cross Border and Integrated Business Association	National	Transport	1,250
Mansa Street Vendors	Copperbelt/Beyond	Cross Border Trade	2,740
Visual Arts Association of Mansa	Mansa District	Street Vending	378
Mansa Caterers	Mansa District	Arts	102
Mansa Carpenters and Joiners-	Mansa District	Hospitality	33
Tins Smith Association-	Mansa District	Manufacturing	43
Luburma Carpenters and Marketeers Association	Lusaka District	Manufacturing	36
Koseni Handicapped Women Club	Lusaka District	Market Trading	100
Kwazwana Women Association	Lusaka District	Street Vending	28
Watch Your Life Movement	Mazabuka District	Peasant Farming	32
Vendors Association of Ndola	Ndola District	Street Vending	52
Twapia Poultry and Farmers Women Association	Ndola District	Street Vending	218
Tuntemba Association of Zambia	Ndola District	Peasant Farming	73
Chibolya Carpenters Association	Kalulushi District	Street Vending	320
Total Membership			24,602

Source: AZIEA Membership Records, 2015

The operation of AZIEA is not without challenges. One key challenge relates to donor dependence for running programmes and activities. This brings into question the issue of sustainability. In addition, interviewees mentioned that members were more interested in money issues hence inclined to join organisations which were giving some financial incentives. Besides, it was the case that sustaining the spirit of struggle, solidarity, and voluntarism among AZIA members was difficult because most members were expected to leave their businesses and therefore were demanding payment for loss of income each time they participated in organisational activities. It was also apparent that non-formalisation of negotiations forums made informal workers representatives to be held at the mercy of those in decision making positions.

International Labour Organisation

Since 2007, Zambia with the support of the ILO has implemented decent work country programmes that have a special focus on the informal economy. The Zambia Decent Work Country Programme (DWCP) was officially launched in May 2007. The DWCP was spearheaded by the ILO with the involvement of tripartite partners.

Under the Decent Work Country Programme, the ILO has undertaken a number of projects. In particular, the ILO has been implementing the Law-Growth Nexus project which primarily aims at establishing existing challenges regarding registration and regulation of MSMEs. The ILO was also been running a project on organizing domestic workers. In addition the ILO has supported labour law reforms in the country to help address challenges of informality and irregular employment (ILO, 2012).

Southern Africa Trade Union Coordination Council

The Southern Africa Trade Union Coordination Council (SATUCC) is a regional trade union body drawing membership from SADC countries' member union centres. SATUCC works closely with SADC on the employment protocol. The SADC Protocol on employment is a regional employment code that binds member countries to pursue labour market policies that aim to attain the decent work agenda. A number of articles have been outlined in the Protocol. These include ensuring social protection for all, establishment of labour market information systems, attaining decent work for all and transitioning from the informal to the formal economy.

Conclusion

Informality, either of workers or of enterprises is widespread in Zambia. Latest estimates indicate that 84 per cent of the Zambian workforce is informally employed. In terms of enterprises, about eight (8) in ten (10) non-farm household enterprises are not registered with the appropriate authorities. However, estimating the correct contribution of the informal economy to national output remains difficult in Zambia. This is largely because informal economic activities do not come under the ambit of national tax and regulatory authorities. In 2000, the World Bank estimated that the contribution towards Gross National Product (GNP) of the informal economy in total was at 48.9 percent in Zambia. How much the informal economy actually contributes to the national economy, however, remains a subject of great debate in Zambia.

Besides, there is an absence of a pro-active official policy agenda towards the informal economy in Zambia. Policies, strategies and programmes of interventions regarding the informal economy and operators in Zambia are at best passive and disarticulate. Official policy statements on the informal economy have often been linked to expansion of the tax base. Other critical dimensions of the informal economy that requires coherent policies and strategies such the sector's contribution to national output and employment is downplayed. Incidentally, people engaged in informal economic activities in Zambia face significant decent work deficits such as long working hours, job insecurity, low wages, hazardous work environments and exclusion from social security coverage, among others. Informal enterprises on the other hand are faced with critical constraints. Most informal enterprises in Zambia do not have access to basic infrastructure and formal financial services such as access to credit.

Given these features of informal work and constraints affecting informal enterprises, a case can be made for the design of policies and programmes of intervention for facilitating decent work and formalisation of informal work as well as for facilitating the upgrade and transition of informal economic enterprises into the formal economy. Flowing from this, the paper concludes that a transition from informal economic activities to the formal economy would be desirable and ought to be pursued. On this basis, a number of specific recommendations are made.

Specific Recommendations

The following are some of the specific recommendations:

1. **Forging alliances with like-minded organisations**
   One of the focus areas should be to forge alliances and synergies with local, regional and international organisations that may help provide alternatives to challenges of recruitment, organising, financing and regulating the informal economy operations.
2. **Improve strategies for organising informal economy**
   For trade union organisations, there is need to create informal economy desks in trade unions which can be responsible for organising informal economy workers in specific sectors.

3. **Develop initiatives for credit facilities**
   (a) There is need to develop initiatives to organise credit schemes that will provide easy access to credit to the informal economy workers. Such schemes exist in some countries in the region and benchmarking and exchange visits can help inculcate such initiatives into the local informal economy.
   (b) On the other hand, trade unions and informal economy organisations should lobby government to necessitate establishment of such schemes by providing an enabling environment for establishment of a competitive market for micro-financing and ensure that interest rates are favourable to the informal economy workers.
4. **Sustained capacity building**
   There is need for trade unions and informal economy associations to have sustained capacity building programmes for staff and volunteers in order to retain organising skills.
5. **Affiliation of informal economy organisations**
   Informal economy associations should further be encouraged to affiliate to like-minded organisations such as Street Net and WIEGO in order to benefit from education, technical and logistical support, to be part of the formal tripartite structures, and generally, to make the informal economy organisations visible locally and abroad.
6. **Lobby for infrastructural development**
   Trade unions should lobby and advocate for Government to develop infrastructure for informal business to operate in and to ensure good easy of undertaking business activities.
7. **Establish a clear policy framework**
   There is need to establish a targeted policy framework and an inclusive coordinating and monitoring framework to oversee policy implementation and ensure effective feedback through effective evaluation mechanisms.

References

Adam, S., (1999). Competences and other factors affecting the small enterprise sector in Ibadan, Nigeria, in Enterprises in Africa. Between Poverty and Growth, eds. K. King & S. McGrath London: Intermediate Technology Publications, 179-90.

Bank of Zambia (2015), www.boz.co.zm

Becker, K.F. (2004). The Informal Economy: A Fact Finding Study, Swedish International Development Cooperation Agency (Sida), Stockholm Sweden.

Government of the Republic of Zambia (2011) The Monthly Bulletin, Lusaka: Central Statistical Office

Government of the Republic of Zambia (2005), Labour Force Survey, Lusaka: Central Statistics Office

Government of the Republic of Zambia (2008), Labour Force Survey, Lusaka: Central Statistics Office

Government of the Republic of Zambia (2012), Labour Force Survey, Lusaka: Central Statistics Office

Hart, K., (2006). Bureaucratic Form and the Informal Economy, in Linking the Formal and Informal Economy. Concepts and Policies, eds. B. Guha-Khasanobis, R. Kanbur & E. Ostrom Oxford: Oxford University Press.

Heintz, J. & Valodia, I. (2008). Informality in Africa: A Review, paper prepared for SIDA by WIEGO Network

International Labour Organisation (2006), Transitioning from the informal to the formal economy; Geneva: International Labour Office

ILO, (2002). Decent Work and the Informal Economy, Geneva: International Labour Organisation.

Maloney, W. (2004). Informality Revisited. World Development, 32(7), 1159-78.

Meagher, K., 1995. Crisis, Informalisation and the Urban Informal Sector in Sub-Saharan Africa. Development and Change, 26(2), 259-84.

Meagher, K. (2003). A Back Door to Globalisation? Structural Adjustment, Globalisation and Transborder Trade in West Africa. Review of African Political Economy, 39(95).

Meagher, K., 2007. Manufacturing Disorder: Liberalization, Informal Enterprise and Economic `Ungovernance' in African Small Firm Clusters. Development and Change, 38(3), 473-503.

Meagher, K., 2010. Identity Economics: Social Networks and the Informal

Economy in Africa, Oxford: James Currey.

Meagher, K. & M.-B. Yunusa, (1996). Passing the Buck: Structural Adjustment and the Nigerian Urban Informal Sector, in UNRISD Discussion Paper UNRISD: Geneva.

Ministry of Finance and National Planning (2011): Sixth National Development Plan,

Lusaka: Government of the Republic of Zambia

Ministry of Commerce and Industry: Industrialization and Job Creation Strategy; Lusaka:

Government of the Republic of Zambia

Mkandawire, T., 2001. Thinking about developmental states in Africa. Cambridge Journal of Economics, 25, 289-313.

Mustapha, A. R., (1992). Structural Adjustment and Multiple Modes of Livelihood in Nigeria, in Authoritarianism, Democracy and Adjustment: The Politics of Economic Reform in Africa, eds. P. Gibbon, Y. Bangura & A. Ofstad Uppsala: SIAS.

Perry, G., W. Maloney, O. S. Arias, P. Fajnzylber, A. D. Mason & J. Saavedra-. Chanduvi, 2007. Informality: Exit and Exclusion, Washington, D.C.

Schneider, F., (2002). Size and Measurement of the Informal Economy in 110 Countries Around the World, in Paper presented at Workshop of Australian National Tax Centre Canberra, Australia.

Sethuraman, S. V., (1998). Gender, Informality and Poverty: A Global Review, Washington, D.C.: The World Bank.

Shikwe A., (2003) Trade Union Country Report, Zambia; Lusaka: Friedrich Albert Stiftung

Tokman, V. (ed.).(1992). Beyond Regulation. The Informal Economy in Latin America, Boulder and London: Lynne Rienner.

Vandemoortele, J., (1991). Labour market informalisation in Sub-Saharan Africa, in Toward Social Adjustment: Labour Market Issues in Structural Adjustment, eds. G. Standing & V. Tokman Geneva: ILO.

War on Want, (2006), Forces for Change; Informal Economy Organisations in Africa:

London: War on Want

Xara, J., P. Horn & Motile, S. (2002). The Informal Sector in Sub-Saharan Africa, in Working Paper on the Informal Economy Geneva: ILO.

List of Statutes

Employment Act, Ministry of Labour and Social Security

Factories Act, Ministry of Labour and Social Security

Minimum Wages and Conditions of Employment Act, Ministry of Labour and Social Security

Industrial and Labour Relations Act, Ministry of Labour and Social Security

Local Government Act; Ministry of Local Government

Market Act, Ministry of Local Government

List of Interviewees

1. Beatrice Moonga, Vendor, Soweto Market, 23 February 2015
2. Betty Kaputu, Vendor, Soweto Market, 23 February 2015
3. Catherine Chibwe, Vendor, Soweto Market, 23 February 2015
4. Charity Mbewe, Vendor, Soweto Market, 23 February 2015
5. Derrick Nyirenda, Vendor, Soweto Market, 23 February 2015
6. Harrington Chibanda, Executive Director, ZFE, 11 March 2015
7. Innocent Melu, MSME field staff, ZDA, 22 January 2015
8. Judith Mundongo; Vendor, Soweto Market, 23 February 2015
9. Kelvin Matakala; Vendor, Soweto Market, 23 February 2015
10. Lameck Kashiwa, General Secretary, AZIEA, 13 February 2015
11. Mike Chungu, Executive Secretary, WEAZ, 13 February 2015
12. Moffat Mbuta, Vendor, Soweto Market, 23 February 2015
13. Moonde Mwiya, Vendor, Soweto Market, 23 February 2015
14. Wane Gondwe, Vendor, Soweto Market, 23 February 2015

ZIMBABWE

Labour's Approach to Formalising the Informal Economy in Zimbabwe

Nyasha Muchichwa

Labour and Economic Development Research Institute of Zimbabwe (LEDRIZ)

Introduction

This paper analyses the Zimbabwe's informal economy, detailing the extent of its formalisation in terms of size and the contribution to the economy (employment and national development). It also highlights government's, trade unions', employers' and the ILO's attempts to address issues pertaining to informality and the results of those attempts. The state of informal work in terms of income, wages and working conditions is also examined. The paper concludes by identifying possible strategies trade unions should explore or engage in to formalise the informal economy.

Our researched findings showed that Zimbabwe has been one of the few countries that had a relatively small informal economy upon achieving independence from colonial rule. At that point, it employed approximately 10 per cent of the nation's workforce. This low level of informality can be explained by three major factors: first, the existence and role of the informal economy was largely carved out by the dual and enclave nature of the inherited economy, wherein a highly protected and favoured formal economy co-existed with a largely ignored informal economy. Second, migration policies restricted blacks from moving from rural to urban areas unless they had secured formal employment.[1] Third, the colonial government manipulated statistics to indicate that there was an overall shortage of labour. It further denied the existence of the informal economy and refused to recognise the phenomenon of unemployment.

Following independence, the new government officially acknowledged the existence of the informal economy and scrapped the restrictive migration laws. This made the informal economy more visible, especially in urban areas. In 1960, it had previously accounted for 13 per cent of the total population; by 1992 it had risen to 23 per cent and by 1990 it stood at 30 per cent.

The government sees the informal economy as important for employment and poverty reduction. Consequently, it has implemented a number of initiatives to support this economy. However, according to the researchers, these have focused

1 This and other related policies created a reserve rural labour supply and controlled African urban settlements and their economic activity by inhibiting freedom of movement.

too much on roping the informal economy into the tax system rather than paying much-needed attention to improving working conditions and ensuring decent work. Furthermore, initiatives have been scattered across various government agencies and without proper co-ordination. Trade union efforts in the informal economy have concentrated on organising operators.

Background and Context

The Political Context

Zimbabwe achieved independence in 1980 following an armed struggle. The first decade saw the ZANU (PF) government addressing discrepancies in legislation and policies that exploited and discriminated against the black majority. In February 2000, after 20 years of uncontested one-party rule, ZANU (PF) suffered defeat in the referendum on the new draft constitution. Thereafter, and in partial response to demands by war veterans, it implemented the Fast-Track Land Reform Programme. Besides decimating commercial agriculture, it also resulted in farm workers losing their livelihoods and their homes. The majority moved to urban areas try to eke out a living in the informal economy. Others engaged in illegal gold-panning.

In 2008, Zimbabwe had Presidential elections; with no majority winner, a re-run was conducted and Robert Mugabe won. Within three months (June-August), the economy spiralled even deeper and food shortages reached alarming levels. At this time, the informal economy was by and large keeping the country going. The majority of the formally employed workers opted instead for the informal activities (cross-border trading and money-changing). This was due to the fact that Zimbabwe had become a cash economy with severe hyperinflation – 231 million per cent as of July 2008 – and waiting for month-end salaries was not sustainable. This led to the formation of the Inclusive Government under the Global Political Agreement (GPA) of 15 September 2008. It was inaugurated in February 2009.

At the July 2013 elections, ZANU (PF) won by a 62 per cent majority.[2] Thereafter, economic activities in the formal sector slowed even further. Less than a decade after 'Operation Murambatsvina', informal economy activities have re-emerged and are perhaps now even become more resistant. They have new shape, new scope and new dimensions and variations, with activities ranging from street vending, illegal transport operators *(mushika shika)*, money-changers, informal settlements, urban agricultural activities, educational informality (unregistered colleges) and small enterprises.

2 The opposition contested the results, claiming the elections were rigged.

The Economic and Social Context

The adoption of a multi-currency regime and cash budgeting, and the discontinuation of the quasi-fiscal operations of the Reserve Bank of Zimbabwe in 2009, killed off hyperinflation and helped restore price stability. By December 2009, the inflation rate stood at -7.7 per cent. Since then, the economy has recovered but has not been sustained: it declined from 11.4 per cent in 2010 to 10.6 per cent in 2012, falling further to 4.5 per cent in 2013 and approximately 3.8 per cent in 2014. The growth rate initially projected for 2015 – 3.1 per cent – was revised to 1.5 per cent.

This economic recovery has been anchored on mining and agriculture, with mining emerging as the most dynamic sector. These two sectors recorded cumulative growth rates of 95.2 per cent and 52.7 per cent, respectively, the period 2009–2013. Table 21shows the sectorial composition of real GDP for this same time-frame.

Table 21: Sector Composition of Real GDP of Zimbabwe (2009–2013)

Sector	2009	2010	2011	2012	2013	2014
Agriculture, hunting and fishing	37.6	7.2	1.4	7.8	-2.6	23.0
Mining and quarrying	18.9	37.4	24.4	8.0	11.7	-3.4
Manufacturing	17.0	2.0	13.8	5.3	-0.6	-5.1
Electricity and water	1.9	19.5	6.4	0.3	5.0	5.4
Construction	2.1	14.1	65.1	23.5	3.9	6.9
Finance and insurance	4.5	8.3	8.3	28.0	11.3	7.7
Real estate	2.0	4.9	48.9	59.0	0.7	4.7
Distribution, hotels and restaurants	6.5	8.8	4.3	4.3	3.9	2.5
Transport and communication	2.2	4.7	0.0	6.7	7.0	1.1
GDP at Market Prices	**5.4**	**11.4**	**11.9**	**10.6**	**4.5**	**3.8**

Source: 2015 National Budget Statement

The various Confederation of Zimbabwe Industries (CZI) Manufacturing Sector Surveys show that industrial capacity utilisation also declined during this five-year period.[3] This particular decline is attributed to low throughput of agriculture, liquidity challenges resulting in high borrowing costs, lack of competitiveness due to antiquated machinery, high utility charges and competition from cheap imports. As a result, retrenchments have increased, which in turn have sparked the growth of new entries in the informal economy.

3 Utilisation dropped by 33 per cent in 2009, 43.7 per cent in 2010, 57.2 per cent in 2011, 39.6 per cent in 2012, 36.9 per cent in 2013 and 34.6 per cent in 2014.

In 2014, the poverty level was as high as 85 per cent, with the number of those living in extreme poverty estimated as being 52 per cent. Seventy-seven per cent of those employed earned gross monthly primary incomes of less than US$300; the total consumption poverty line (TCPL) for a family of five in 2014 was US$500. This saw many households being forced to sell available assets. The per capita GDP declined from US$720 (2002) to US$265 (2008), but did recover to US$370 (2012). With the disappearance of the middle class, inequality has worsened.

The Labour Market

The 2014 Labour Force Survey (LFS) estimated the size of the population as 13.4 million, a 3.1 per cent increase since 2011. Of this figure, 48 per cent were male. Turning to the population aged 15 years and above, 91 per cent (6.3 million) were economically active. The strict unemployment rate stood at 4.8 per cent compared to 11.3 per cent for the broad unemployment rate. The latter increased from 10.7 per cent and the time-related underemployment rate by 3 per cent since 2011 level to stand at 16 per cent in 2014.

In terms of decent work, there is evidence of deficits in the Zimbabwean labour market. Eighteen per cent work excessive hours and 13 per cent have precarious employment. Income levels are low, resulting in the majority of those in employment being classified as ‘the working poor’. The percentage of paid employees receiving an income above the food poverty line (FPL) and the TCPL are 42 per cent and 4.1 per cent, respectively.[4] This has resulted in 11 per cent of workers taking up two jobs.

The percentage share of those in informal employment increased from 84.2 per cent in 2011 to 94.5 per cent in 2014. Ninety-eight per cent of employed youth were in informal employment. The female share in informal employment decreased from 52.9 per cent in 2011 to 48.6 in 2014, this is a result of the increase of retrenchment in the formal economy.

The 2011 Child Labour Survey Report indicated that although 9.8 per cent of children aged 5 to 14 years were economically active, this represented a significant decline from the 16.0 per cent recorded in 2004. Of these same children, 84.8 per cent were attending school, 1.9 per cent had never attended school and about 13.3 per cent had dropped out. The majority (82.9 per cent) were from households in which the head earned way below the average poverty datum line.

Industrial relations in Zimbabwe are guided by the Labour Act Chapter 28:01, which states that ‘every person who is employed by or working for any other person and receiving or entitled to receive any remuneration in respect of such employment or work shall be deemed to be under a contract of employment with that other person, whether such contract is reduced to writing or not’. The Act therefore advocates

4 The FPL and TCPL for five persons for the month of May 2014 stood at US$158.48 and US$507.97, respectively.

for social justice and democracy in the workplace by declaring and defining the fundamental rights of employees, providing a legal framework within which employees and employers can bargain collectively for the improvement of conditions of employment and promotes fair labour standards.

The Informal Economy in Zimbabwe: Its Growth and Development

We have already discussed the informal economy in the context of the immediate pre- and post-colonial area. This section analyses the situation from the last decade of the twentieth century onwards.

The Gemini study of 1991 estimated that there were about 845,000 micro-enterprises in the country employing 1.6 million people (27 per cent of the labour force) at that time.[5] This same study implies reflects a steady growth in informal economy employment, it having increased from about 10 per cent in 1982 to 20 to 23 per cent in 1986/87. Seventy per cent of all those running micro-enterprise had at least one wage-earner still in the formal economy. Roughly 42 per cent of participants indicated that they depended on income from their micro-enterprises for more than 50 per cent of their household income, implying for most micro-enterprise income is supplementary (Kanyenze et al., 2003). Women accounted for 67 per cent of those operating micro-enterprises in 1991, but only 57 per cent of those in informal employment, thus reflecting the tendency of male-owned enterprises to have more employees. In market places or other locations outside of the household, wholesale, retail and vending activities predominated. Not surprisingly, men were dominant in more complex and relatively larger activities such as carpentry, metalwork and construction.

Following the introduction of ESAP in 1991, Zimbabwe's economy saw a huge change. ESAP entailed a dramatic shift from a highly interventionist approach to a more market-driven economic system and also saw radical liberalisation of trade (ahead of schedule), finance, agriculture and labour markets. As ESAP failed to move the economy on to a superior and sustainable growth path, unemployment and retrenchment grew, leading to the start of a legacy of poverty and marginalisation. Throughout the ESAP period (1991-96), the informal economy continued to expand as more and more workers lost their jobs. However, even those who were not made redundant had to supplement their incomes from informal economy activities due to the fall in real income.

The Statutory Instrument 216 of 1994 effectively allowed for the development of non-residential activities in residential areas. Many activities such as hairdressing, tailoring, bookbinding and wood- or stone-carving were deregulated. Similarly, SMEs employing five to ten people in such areas as welding, carpentry, shoe repair

5 One of the two key studies that examined the evolution of the informal economy during the first decade of independence. The other study is ILO/SATEP 1985.

and small-scale vehicle repair were accorded special consent. It provided an excuse for local authorities to turn a blind eye to the explosion of the informal economy. Table 22 summarises the findings of the three Gemini surveys in terms of the number of SMEs.

Table 22: Number of Manufacturing, Commercial, and Service SMEs in Zimbabwe: 1991–1998

Stratum	Number of SMEs in Zimbabwe			Percentage change in SMEs, 1991-93	Percentage change in SMEs, 1993-98	Percentage change in SMEs, 1991-98
	1991	1993	1998			
Urban	254,667	255,541	331,251	0.3%	29.6%	30.1%
Rural	613,117	686,403	529,078	12.0%	-22.9%	-13.7%
Total	867,784	941,944	860,329	8.5%	-8.7%	-0.9%

Source: Gemini, 1991; 1993; 1998

The third Gemini study established that there were a total of 860,329 manufacturing, commercial, and service SMEs in the country, representing a decrease of 0.9 per cent since 1993. This figure is deceptive: the number of SMEs in urban areas grew by 30.1 per cent during this same period (Table 20).

Despite recording a negative growth in the number of SMEs in the country, the number of people they employed had increased by 22 per cent. Of the 1.7 million people working in the informal economy, 91.1 per cent were employed on a full-time basis. Table 23 reports the number of people employed in manufacturing, commercial and service SMEs between 1991 and 1998.

Table 23: Number of Persons Employed in Manufacturing, Commercial and Services SMEs between 1991 and 1998

Stratum	Number of persons employed in SMEs in Zimbabwe			Percentage change in employment, 1991-93	Percentage change in employment, 1993-98	Percentage change in employment, 1991-98
	1991	1993	1998			
Urban	408,319	400,210	620,036	-2.0%	54.9%	51.9%
Rural	942,589	1,146,728	1,027,628	21.7%	-10.4%	9.0%
Total	1,350,908	1,546,938	1,647,664	14.5%	6.5%	22.0%

Source: Gemini, 1991; 1993; 1998

After 1997, Zimbabwe's economy took a severe downward turn. This crisis was characterised by acute shortages of foreign currency, basic commodities, cash (ZWD), unsustainable budget deficits and domestic debt, an accumulation of repayment arrears on foreign debt, hyperinflation, un- and underemployment and rising poverty and the feminisation thereof. There was also a rise in company closures during the period, with virtually all foreign currency transactions, fuel purchases and basic commodities being bought and sold through the exorbitant parallel market, the nation's economy had effectively switched to informal mode.

The second Poverty Assessment Study Survey (PASS II), which was conducted in 2003, indicated that the informal economy accounted for 30 per cent of those employed at that time, up from 23 per cent in 1995.[6] PASS II also revealed that the informal economy was a hub of poverty in urban areas, particularly for females. A large proportion of the structurally unemployed people, estimated as constituting over 50 per cent of the labour force, were making a living in the generally insecure and poverty stricken informal sector. Informal economy activities included cross-border trading, vending, beer-brewing, mineral-panning, petty trading, currency trading, international migration (legal and illegal) to work menial jobs and prostitution.

The 2004 LFS also confirmed that 53 per cent of those employed in the informal economy were female. Women tended to be concentrated in health, distribution, restaurant and hotels, manufacturing and agriculture, whereas men were concentrated in education, transport, communication, construction, finance, insurance and real estate, mining and quarrying. It was also noted that 95 per cent had primary or secondary level of education.[7]

Our analysis of the location of businesses and enterprises in the informal economy revealed that 31 per cent operated from a permanent building and 30 per cent from home. Twenty per cent had no fixed location and 11 per cent used footpaths. In terms of numbers of employees, about 80 per cent of the informal economy enterprises had none, 18 per cent had between one and four employees and two per cent between five and nine.

In 2011, of the 5.4 million employed persons aged 15 years and above, 4.6 million (84 per cent) were considered to be in informal employment. Ninety-one per cent had unskilled jobs. In 2004, the figure was nearer 4.1 million (80.7 per cent), 90.2 per cent of whom were unskilled. The 2014 LFS showed a further increase in informal employment, the percentage rising to 94.5. The male share in informal employment also increased, rising from 47.1 per cent to 51.4 per cent, altering the notion that informal employment was female-dominated. The distribution of the informal employees by industrial sector indicated that the largest number of employees was located in the wholesale and retail trade, motor vehicle repair and manufacturing.

6 This contrasts with a level of 13.4 per cent in the 2004 LFS.
7 See Zimbabwe Employment Policy Framework, 2009.

Drivers of the Informal Economy

The growth of the informal economy in Zimbabwe has been driven by many factors. The challenge during the first decade of independence was that economic growth (the creation of formal employment) lagged behind that of the labour force. In an effort to stimulate economic growth, the government then adopted an ESAP. Unfortunately, this programme failed to stimulate growth and destroyed existing industrial establishments, which led to job losses.

Economic development also failed to keep pace with high population growth rates, leaving the formal sector unable to meet demand for jobs. As a result, the only opportunity to make a living was to seek work in the informal economy.

The liberalisation of the economy and the removal of most government subsidies resulted in a fall in real incomes. Increased hardships under and after ESAP saw a decline in urban–rural remittances. This led to even more numbers migrating to urban areas in order to survive.

Zimbabwe's economic meltdown during the period 1997 and 2008 had further and dramatic effects on the informal economy. The crisis began with the unbudgeted cash hand-outs to appease war veterans', which set off the massive depreciation of the Zimbabwe dollar. The military intervention in the conflict in the Democratic Republic of Congo led to domestic budgetary constraints and overspending, while the Fast-Track Land Reform Programme saw the crumbling of the agriculture sector and wide-scale and deindustrialisation.

All in all, diminishing international competitiveness, acute shortages of essential inputs (especially fuel, raw materials and intermediate inputs) resulted in the formal economy operating well below full capacity and huge retrenchments. High operating costs on account of infrastructural deficiencies led to formal ties between the formal and informal economy, being established in manufacturing, and building and construction.

After ESAP, most people in Zimbabwe had no option but to engage in informal activities as a means to financial ends. Initially, those engaged in informal activities for survival had been negatively affected by ESAP. The situation was further aggravated by droughts and then economic collapse, forcing more people into this sector.

Contribution of the Informal Economy to GDP and Government Revenue

The Poverty, Income, Consumption and Expenditure Survey (PICES) for the period 2011/12 showed that the total value added for the informal economy (including agricultural production by households) constituted 14.2 per cent of the nation's GDP.

This percentage translates to US$1.3 billion, of which sum, US$810.0 came from informal non-farm-based activities and US$446.7 million from households engaged in agricultural activities (Table 24).

Table 24: Value of Output and Input of the Informal Sector in Zimbabwe, 2011

Informal Sector Activities	Value in US$	Percentage contribution
Agriculture activities		
Household agriculture outputs	1,194,192,083	100.0
Total household inputs	747,463,912	62.6
Household agriculture value-added	*446,728,171*	*37.4*
Non-agriculture activities		
Household non-farm outputs	2,060,297,806	100.0
Total household inputs	1,250,274,186	60.7
Household non-farm value-added	*810,023,619*	*38.6*
Total informal activities		
Total outputs	3,254,489,889	100.0
Total inputs	1,997,738,098	61.4
Total value-added	*1,256,751,790*	*38.6*
GDP 2011	8,865,427,917	
Contribution of informal sector to GDP in 2011		14.2 per cent

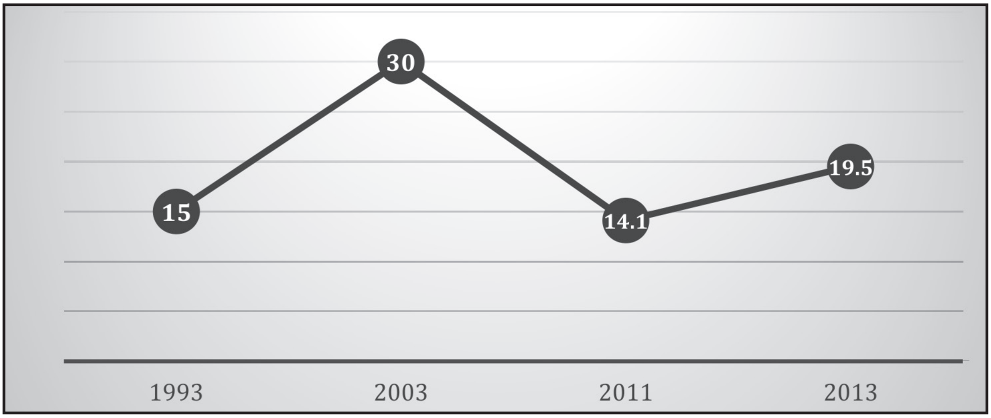
Source: PICES 2011/12.

The 2012 FinScope Macro, Small and Medium Enterprises Survey revealed that there were 3.5 million businesses (85 per cent of which were unregistered) and that their aggregate turnover was estimated to be at least US$7.4 billion. The GDP for this same year was US$12.5 billion. Thus, if the informal economy was fully accounted for, the national GDP would be estimated around US$20 billion in the year.

Figure 30 shows the percentage contribution to GDP of the informal economy during the period 1993–2013. In 2013, the informal economy contributed around 19.5 per cent of the Zimbabwe's GDP or a total value added of US$1.73 billion, with the value added from households engaged in agriculture at $921.4 million.[8] This also shows and acts as evidence for the linkages between the formal economy and the informal economy.

8 www.zncc.co.zw/2013/06/informal-sector-contributing-around-20-of-gdp-biti. Accessed 28 November 2014.

Figure 30: Percentage Contribution to GDP



Source: ZIMSTAT; Gemini, 1993; Makochekanwa, 2010

During the workshop on the 'Dissemination of the Compendium of Statistical Concepts and Definitions' held in May 2014, ZIMSTAT Director-General, Mutasa Dzinotizei, highlighted that the 2014 GDP was expected to be $13 billion, with the informal economy contributing up to 20 per cent of that figure.[9] His statement made it clear that the informal economy is now critical to national growth.

National Legislation and the Informal Economy (Labour Laws, Collective Bargaining Coverage and Taxation)

Labour Laws

The Labour Act, Chapter 28:01 covers all workers in employment, whether in the formal or informal economy. However, the low capacity at the Ministry of Labour and/or of Labour Inspectors to inspect the employment conditions in the informal economy and address the issues identified renders their enforcement a challenge.

The labour inspectors we interviewed highlighted the following difficulties in this area:

> *Informal traders are spread far and wide, and most are very small. Employment relations are complex – upon inspection, most employers claim that their workers are actually relatives assisting them. Some informal operators work from their homes, while others have no fixed area of operation. Without any contracts of employment, it is difficult to prove an employment relationship. Workers in Zimbabwe's informal economy are therefore at the mercy of their employers.*

9 www.herald.co.zw/smes-contribution-to-gdp-increases. Accessed 24 January 2015.

The other issue we noted during our study was the notion that the informal economy activities are sometimes regarded as illegal. This has made the provision of protection of workers in the informal economy even more difficult.

Collective Bargaining Coverage

Collective bargaining in Zimbabwe is largely based on industry and limited to the formal economy. There are no trade unions representing informal economy workers in collective bargaining, nor are there any collective bargaining platforms for them. As a result, workers have to negotiate on a one-to-one basis on wages and working conditions. Interviews revealed that the outcomes of such dialogue – if it exists – are always in favour of the employer, in most cases being a case of 'take it or leave'. For example:

> *Hapana kutaturirana, anokupa yaanoda. Nekuda raramo tinongoshanda.*

(There is no dialogue, the employer gives you what he wants. With the desire to earn a livelihood one just stays in employment)

Rudo Chikwa, tuckshop vendor.

> *Taizviziva kuindustry izvozvo, kuno zvataurwa nemurungu ndizvozvo.*

(We knew and participated in collective bargaining when we were formal employed, now what the employer says stand you do not object)

Simbarashe Shumba, carpenter.

Taxation

The majority of the businesses in the informal economy do not pay tax. The FinScope MSME Survey of 2012 (Ministry of Small and Medium Enterprises and Co-operative Development, 2012) noted that of the 3.2 million businesses recorded, only 15 per cent are registered and pay tax. Workers in the informal economy do not pay income tax as this is collected at source (the employer). The majority of the workers in the informal economy are not registered with the tax authorities.

An official from the Tax Department at the Ministry of Finance noted that the costs of collecting taxes from the informal economy would outweigh the benefits:

> *Informal traders are spread far and wide and most are very small, unregistered businesses. To be able to document them and tax them properly is difficult, if at all doable. Their profit margins are also very small, hence their propensity to want to evade tax is likely to be very high. Even if the Zimbabwe Revenue Authority did find a way to collect tax from these informal operators, that*

alone would be viewed as putting a stamp of approval on some of their illicit operations.

In March 2015, the Zimbabwe Revenue Authority (ZIMRA) Commissioner General Geshem Pasi said that 'ZIMRA was working with the Ministries of Small and Medium Enterprises and Local Government, Public Works and National Housing to come up with ways to tax the informal sector. They were in the process of redesigning and the new fiscalisation would take care of the Small to Medium Enterprises. This will be rolled out in by the second quarter of 2015. This will be another way that ZIMRA is putting in place to increase revenue by widening its tax base'.[10]

Legal and Administrative Procedures in Registration and/or Issuing Licenses

In terms of ease of starting a business, the World Bank's 2015 Doing Business Report once again gave Zimbabwe a low ranking. It was ranked 180 of 191, primarily due to the following: the process requires considerable paperwork, it is expensive to start up and operate and there are rigorous legal requirements. The World Bank (2015) noted that, on average, it takes 7.8 procedures and 27.3 days to start a business in SSA. In Zimbabwe it takes an average of 9.0 procedures and 90.0 days. As entering the informal economy is far easier, it is more immediately attractive to most operators.

Incomes and Wages

Zimbabwe does not have a stipulated national minimum wage. Rather, wages are set at the industrial level though the National Employment Council, but only for workers in formal employment. In the informal economy, wages are negotiated between the employer and the worker, again on a 'take it or leave it' basis. They also highlighted the fact that most income is on a commission basis. For example:

> *What you are given as a wage is what you take. We have tried to ask the employer to record the months that we don't get the full wage so that we are paid later. The employer said no, he said it would be our fault if we don't get customers.*" (Tinashe Chakari, a waiter at a Glenview takeaway)

Low incomes and harsh working conditions are the reality for the informal economy. Contrary to the media's impression that it is the domain for 'excess profiteering', average incomes are extremely low. The LFS 2011 established that paid workers in the informal sector took home US$200 or less per month, a sum far below the current poverty datum line of US$500.

One member of ZCIEA we spoke to works for an unregistered furniture-making firm stated that she has no employment contract and that her employer pays her as and when he likes. She stated that:

10 www.newsday.co.zw/2015/03/04/zimra-configure-devices-eyes-informal-sector/ Accessed on 6 March 2015.

He [the employer] makes sizable profits from the sale of the furniture but uses the money to buy cars, except paying us well and when he does, the money is too little. Workers who complain are said to be growing 'big heads' and are dismissed just like that. Nowadays, we can go for months without getting our wages on the notion that times are difficult and the economy is not performing, but yet we are still selling the furniture. Currently, our salaries are ranging between US$200 to US$250. If the environment is said not to be well we are paid US$150.

Social Protection

Workers in the informal economy are not covered by the national social security scheme. The National Social Security Authority (NSSA) administers national schemes and under the terms of the NSSA Act. The Act states that neither workers in the informal economy nor domestic workers are liable for coverage. Membership is strictly limited to formal economy workers.

The study noted that workers in the informal economy who fall ill or are injured at work are very seldom given any compensation. They lose out on income and have to self-fund all medical bills. Workers highlighted that days taken for sick leave are recorded as being absent from work.

Employment Relations

The Labour Act requires that any employment relationship be formalised through a contract of employment. Section 12(2) states that:

An employer shall, upon engagement of an employee, inform the employee in writing of the following particulars—

The name and address of the employer;

The period of time, if limited, for which the employee is engaged;

Particulars of the employee's remuneration, its manner of calculation and the intervals at which it will be paid;

Particulars of the benefits receivable in the event of sickness or pregnancy; and

Hours of work, among other provisions.

There are no such contracts in the informal economy. Most are verbal, making monitoring and enforcement difficult. In some cases, the worker is taken on as a 'member' of a family and the work they undertake is their contribution to sustaining the family unit. In other words, they become a contributing family worker.

Working Hours

The Labour Act prescribes no maximum or minimum hours of work, and those in the informal economy typically work long hours.

As one worker working for a food vendor stated:

> *As long as there are customers, we have to continue to work, and sometimes we go beyond 22:00 hours and are expected to be at work by 06:00 hours.*

Other workers remarked that due to the fact that they had no employment contract, their employers subjected them to unclear working schedules and even extra hours over weekends and public holidays.

Occupational Safety, Health and the Environment

The informal economy in Zimbabwe is characterised by poor working conditions. In spite of the health and safety risks that abound, factory inspectors seldom visit such premises due to a lack of resources. The study established that specific health problems were related to poor lighting, long work hours, poor workplace design and ignorance of chemical risks. Overcrowding and inadequate sanitation further compounded these job-related risk factors.

Workers are not provided with any protective clothing and must use their own clothes. Besides loss of pay, it was further noted that injuries at work also led to termination of employment.

The Challenges of the Informal Economy

The challenges in the informal economy differ for each stakeholder, i.e. operators, workers, government, trade unions and employers' organisations.

Enterprise-Level Operators

Operators cited politicised working space and police raids as key negative factors. The allocation of working space is also done on political lines; if they do not support the ruling party, they will not be given a working area. Those who are allocated space – land barons – subsequently divide it up and then rent it out. This means that the operator has to pay both the local authority and the land baron in order to run their business.

Police harassment is also the order of the day. In one interview, an operator noted that they have to pay bribes to municipal and national police to avoid having their goods confiscated. He also noted that this even takes place when they have a trading permit from the local authority.

Workers

For workers, the challenges include low wages, inhuman treatment, irregular working hours and the absence of contracts of employment. A member of ZCIEA noted that she is not clear on her actual occupation. In the mornings and evenings she is a domestic worker and a storekeeper in the afternoon, in the tuck shop owned by the very same employer.

Workers in the informal economy are also subject to police harassment and arrest; they often have to shut up shop and run when police raids occur. In Masvingo, in an attempt to flee the municipal police, a woman left her two-month old baby unattended. The municipal police's vehicle subsequently ran over and killed the infant.[11]

Trade unions

The biggest challenge for trade unions pertain to organising workers in the informal economy. Difficulties stem from the following:

The legal and regulatory framework: Most informal workers fall outside the legal framework, thereby lacking access to the rights and protections around which to organise and make gains.

Questioning attitudes from trade unions themselves: Are they really workers? They risk undermining our gains; they are too hard to organise.

Workers' isolation: This applies particularly to those who work from private households, whether their own or of others. Competition between self-employed workers can also interfere with building sustainable collaboration.

Government

The challenge for the government is how to harness its potential. The Ministry of Small and Medium Enterprise and Co-operative Development have noted that the country failed to capture substantial revenue from the informal economy. This is a difficulty of its own making: by refusing to formally recognise the informal economy and attacking operators within this economy, they have alienated operators and workers alike.

Employers' Organisations

The Employer's Confederation of Zimbabwe stated that their focus is on big business. Members of this organisation feel that their rights are being violated by informal operators, mainly because the latter now sell similar goods on the pavement in front of their shops. They noted that they needed protection, since they were paying taxes and the informal operators were not.

11 www.nehandaradio.com/2014/07/30/two-month-old-baby-killed-municipal-police/

Approaches to Addressing the Informal Economy and Informality at National Level

The National Policy on the Informal Economy

In 1981, in its first official economic policy statement, 'Growth With Equity' (Government of Zimbabwe, 1981), the government immediately identified employment-generation as one of its major immediate objectives. The document stated that government would, among other things, provide the informal sector 'with the necessary infrastructure and assistance to promote productive employment'. The Transitional National Development Plan for 1982-85 reaffirmed the status of the informal economy, analysed its origins, composition and problems and provided recommendations on the way forward. The TNDP recommended de-marginalising the informal sector, integrating it fully and deliberately with the formal economy.[12]

In reference to the ESAP, Godfrey Kanyenze et al. (2003) noted that the blueprint specifically allocated the informal economy the role of creating jobs for what it perceived as frictional unemployment. It proposed the liberalisation of 'regulations governing the licensing of small businesses, zoning and factory specifications.' This saw the government set up an Inter-ministerial Deregulation Committee in 1991 under the Ministry of Local Government, Public Works and National Housing in order to identify laws and bylaws that were hindering the growth and development of small enterprises and what changes needed to be made. These included:

- Developing enterprise culture programmes
- Ensuring legal guarantee schemes and other forms of credit facilities
- Providing guaranteed markets for goods and services
- Providing workspace
- Providing training in applied and business management skills
- Setting up business advisory centres
- Establishing business linkage programmes
- Establishing business mentorship programmes
- Enabling sub-contracting and providing business incubators.

Today, such government initiatives are managed by different ministries. These ministries include Ministries of Youth Development, Gender and Employment Creation; Public Service, Labour and Social Welfare; Industry and International Trade; Higher Education and Technology and recently, Small and Medium Enterprises.

12 See Mkandawire, 1985.

A national baseline survey carried out by the Ministry of Youth Development, Gender and Employment Creation found that there was no meaningful organisational pattern among informal economy operators at any level. According to the survey, most of these initiatives were neither ‘well-envisioned’ nor ‘well-executed’ and membership was concentrated in Zimbabwe’s three cities. The overall tendency was to operate individually on an ad hoc basis without any inter-linkages.

A major weakness of these initiatives is their lack of co-ordination, duplication, fragmentation, over-dependence on donor funding and lack of strategic vision. With donors being forced to withdraw as of 1999, most of these projects were left in limbo. Moreover, these initiatives focused on economics rather than industrial relations and decent work deficits.

The Official (National) Conceptualisation/Vision Formalisation of the Informal Economy

As already highlighted, government programmes aimed at improving and formalising the informal economy have been in place since Independence. However, at the turn of the millennium, the outlook changed. The informal economy was subsequently considered a hub of illegal activity, a view that culminated in the implementation of Operation Murambatsvina in 2005. A conservative estimate is that this attack left one million people out of work (Zimbabwe Human Rights Forum, 2005).

There is still no a clear government policy on the informal economy. When it became the lifeline of the economy (2006–2008), the government still remained quiet in terms of activism. After the end of the Inclusive Government of 2013, the focus has switched to working out how to tax this economic economy. To date, this has seen an increase in tariffs that have a direct impact on the informal economy:

> *Our economy is now informal…. That is the reality of our economy and it is a reality we must recognise and take measures on how to tap into this sector. (*Minister of Finance and Economic Development, Patrick Chinamasa, 2014.)

The government has thus recognised that the informal economy is a key part of the national economy. In some cases, it has claimed responsibility for the growth of the informal economy as a result of various empowerment programmes. Even so, it has yet to establish a set of supporting policies.

Box 1 captures statements by government officials regarding informal economy and informal economy traders.

Box 1

In his address to ZANU (PF) youth at Davies Hall in Bulawayo, Vice-President of Zimbabwe, Mr Phekelezela Mphoko said, 'I have got my own views regarding vending where you find an able-bodied man seated selling tomatoes. There are better things to do for someone who is fit, except for those who are indisposed and physically challenged. You should wake up and see what you can do for a living. We cannot accept a man who is fit sitting down and selling tomatoes. No, let's do something better.[13]

Local Government Minister, the Honourable Ignatius Chombo, declared that street vendors must be removed from the streets because they were compromising health standards. 'The role of the informal sector in our economy [and] the upsurge of indiscriminate vending in urban areas has acutely affected the ambience of our environs while compromising the health of the residents,' he said. 'Vendors are selling their wares from everywhere, including on pavements, open spaces and in front of shops. All local authorities are therefore required to immediately take necessary measures to remove the vendors from undesignated sites to alternative planned vending points'. Chombo was addressing Mayors and Council Chairpersons at the 73rd Urban Councils Association of Zimbabwe Annual General Meeting in Bulawayo.[14]

Trade Union Policies, Programmes and Activities on the Informal Economy

In 1995/6, the ZCTU analysed the potential role of the non-formal economy in its 'Beyond ESAP' study. By focusing exclusively on the formal economy as the engine of growth, ESAP neglected the sectors with greatest potential for employment creation: informal, small- and medium-sized enterprises. The study thus recommended the adoption of a two-pronged strategy that would promote the capital-intensive formal economy and integrate the labour-intensive non-formal economy into the mainstream economy, placing special emphasis on the importance of decent jobs.

In 2000, with the assistance of the ILO, the body organised a leadership workshop and invited the Bulawayo Upcoming Traders Association (BUTA) to assist participants with understanding the informal workforce's characteristics, problems and potential, as well as the likelihood of establishing linkages between ZCTU and BUTA. The ZCTU then developed a project proposal for strengthening of the voice of unorganised informal economy workers. Given the predominance of women in the informal economy, the Women's Department of ZCTU was involved in the design of the project.

As a result, a joint project between the ZCTU and the Commonwealth Trade Union Council was established and started operations in May 2001. Its expected outputs included:

- A ZCTU strategy for supporting informal economy workers and working

13 www.dailynews.co.zw/articles/2015/01/27/vp-mphoko-slams-vendors.
14 www.dailynews.co.zw/articles/2015/02/01/chombo-wants-vendors-off-the-streets

with them to bring about legislative change.

- Developing new methods of organising workers, for example, through communities and joint union/informal economy lobbying activities.
- Adjusting union structures to enable the participation of informal economy workers.

In 2002, under this project, a group of 22 Informal Business Associations came together to form an apex body – the Zimbabwe Chamber of Informal Economy Associations (ZCIEA). In 2003, it was agreed that ZCIEA and ZCTU should consolidate their relationship on a strong bipartite basis, and that ZCTU should to play a leading role in assisting ZCIEA. On this basis, the ZCTU and ZCIEA developed a Memorandum of Understanding.

ZCTU and ZCIEA agreed to work in tandem on the following issues: employment creation and employment security; job and labour market security; HIV AIDS information and related services; research; education and training; access to extension services; access to resources and decent incomes; recognition and representation; fair trade practices; access to information and information technology; housing, shelter and business premises; other social services; and local and international networking and exchange programmes.

The ZCTU has also promoted a networking arrangement between itself and the informal economy, the aim being to help the informal economy organise itself. It has assisted ZCIEA in establishing structures, resulting in the creation of 30 territories, and with forming links with other international organisations such as Netherlands People's Aid, StreetNet and the Danish Trade Union Council for International Development Co-Operation.

Employer Organisations' Policies, Programmes and Activities on the Informal Economy

In 1994, the Zimbabwe National Chamber of Commerce (ZNCC) formed the Micro Business Development Corporation, which aimed to develop secured incubator work sites for informal sector workers. The initiative included other organisations such as the Harare City Council, commercial banks and some international organisations. Unfortunately, the initiative never took off, as it relied too heavily on donor funding.

That same year, the Confederation of Zimbabwe Industries (CZI) introduced the concept of industrialists subcontracting activities and sub-letting to small and medium-scale entrepreneurs.[15] Through its Zimbabwe Enterprise Development Centre, the CZI has established the Zimbabwe Enterprise Development Programme (ZEDP), which was funded by USAID and the Norwegian Agency for Development.

15 See R. Mupedziswa and P. Gumbo. (1998).

Three years later the programme had only assisted 28 SMEs, of which 26 were based in Harare two in Bulawayo. The programme collapsed in the year 2000 following the withdrawal of its major funders.

In the post-2000 period, the CZI and the ZNCC continued to engage the informal economy, especially cross-border traders, although on a contradictory basis. On one hand, they appreciated forward and backward business linkages with the informal economy, as they helped them to survive the harsh economic conditions. On the other hand, some members felt threatened by the growth of the informal economy, which led to government tightening the operating environment for the informal economy in the name of plugging foreign exchange leakages and tax evasion.[16]

Informal Economy Associations and Other Stakeholders Policies, Programmes and Activities on the Informal Economy

Since its establishment in 2003, the ZCIEA has expanded to cover most of Zimbabwe, both urban and rural, and now has 30 territories as opposed to its 10 of 2004. Each territory has chapters, which are formed from zones. Each also has committees, which include the main committee for the territory, as well as those for women, youth, people with disability, people living positively with HIVand housing co-operatives. For most of the territories and chapters, these committee serve for an average of four years and elections/congresses are held to select new leadership. Each committee runs activities to assist its members as a group and as individuals.

Ms Lucia Masekesa, the ZCIEA President, highlighted that women's committees had set up revolving funds, grocery groups, bank accounts and women empowerment support groups. Youth committees were still developing, with some having established arts and culture activities. Committees for people with disability and people living positively had assisted members with financial resources to run their own business and for their upkeep. Housing co-operatives had helped members with obtaining stands, with some going even further by assisting members with building houses.

The ZCIEA has also undertaken the following activities:

- Education and training programmes, to include those on micro-credit, leadership, paralegal, rights awareness, HIV and AIDS awareness and setting up, establishing and running housing co-operatives.
- Specific areas of policy development, namely on gender and HIV/AIDS.
- It is currently working on a social protection policy focusing on pensions.

Other organisations in the informal economy, such as the National Vendors Union of

16 DB Ndlela. 2006

Zimbabwe (NAVUZ) and the Zimbabwe Cross-Border Traders Association (ZCBTA) have also provided services to their members. NAVUZ has provided training on business management, engaging local authorities, and ensure that working spaces are clean and safe. The union has also set up an initiative that will offer loans to members and has drafted a Vendors' Protection of Livelihood Bill, which they are lobbying for parliamentary consideration.

The ZCBTA has more than 10,000 members and over 65 chapters. It is also recognised by the South African government. In 2009, after five years of negotiations, the association successfully negotiated a one-year trading visa with the Republic of South Africa. Traders who previously relied on holiday visas can now have business visas to facilitate easy travel through border posts and allow them room for trading activities.

Activities/Programmes by the International Labour Organisation

In co-operation with both the government and the trade union movement, the ILO developed a programme to promote SMEs, namely the Start Your Own Business (SYOB) programme. Through training, it assists potential entrepreneurs with ascertaining their potential, analysing their business ideas and going through a practical plan with which to operate a viable small business. The uniqueness of SYOB lies in its institutional approach, which is aimed at building local capacity through institutions (Ndlela, 2006). Five groups of stakeholders are actively involved: training providers, credit providers, training sponsors, clients and the programme promoter(s).

Organising in the Informal Economy: Efforts by Trade Union and Informal Economy Worker Organisations

As already highlighted, Zimbabwe's trade unions have taken strides to organise the informal economy. They have facilitated the establishment of ZCIEA, and are still working with it through the Informal Economy Desk. The ZCTU has provided it with support for organising through training programmes on organising, membership recruitment and membership service. Through their own initiatives, ZCBTA, ZCIEA and NAVUZ have conducted membership recruitment drives. Currently these and other organisations now represent workers from all parts of the country. These areas include all major cities and towns and rural areas such as Gwanda, Seke, Gutu and Gokwe.

With no government-supported social security scheme for the informal economy, some workers have developed their own social safety nets to provide funds in times of sickness and help to pay school fees for children. There is also a micro-credit scheme known as *kufusha mari.* This is funded by members and helps them raise capital to boost their business. Money is loaned to members at a fixed rate of interest and profits are divided among them. A second scheme has more of a donation-type arrangement and is targeted at members living with HIV/AIDS and/or disabilities. Each month, affected members are given cash donations from other group members to ensure that they are able to buy the supplementary food they require.

Through the support of the housing co-operative initiative, members have been allocated residential stands by the local authorities. Chitungwiza, Kariba, Mutare and Kadoma are some of the territories where such allocations have taken place.

Conclusion

The informal economy in Zimbabwe has grown since independence and now plays a critical role in the development of the country. It is the largest employer, accounting for more than 80 per cent of those in employment, and contributes at least 20 per cent to the nation's GDP. In the words of the Finance and Economic Development Minister, when presenting the 2014 National Budget, 'the old economy is dead and a new one emerging based on the activities of small-scale players in key sectors of the economy.'

It is therefore surprising that the government has yet to establish policies to ensure that informal economic operations are formalised. So doing would benefit the economy at large, as it would ensure that the government can capture additional revenue, operators can access credit and working space and workers have decent work. The current stance of the government of viewing the informal economy as largely illegal and criminal is detrimental to development.

It is also worrying that where most other nations are trying to formalise the informal economy, or integrate it into the formal economy, Zimbabwe is going in the opposite direction. Wages and earnings in its informal economy are very low, with most workers earning an average of US$200 per month. This classifies the majority as the working poor.

As workers in the informal economy cannot neither access, contribute to or benefit from social security schemes, in cases of injury, loss of employment or death they do not have no cover nor financial cushion. This has contributed to rising poverty.

In terms of gender, there is more than enough evidence that the informal economy is female-dominated, although the number of male participants is increasing due to the ongoing closure of companies. The main reason why women are particularly active in the informal economy is that they have been historically disadvantaged in terms of access to education and formal job opportunities.

The interventions by the ZCTU are commendable and timely, having been implemented when the government and private sector were no longer active in the informal economy in terms of support and programming. ZCTU programmes and activities should be further encouraged and developed.

Specific Recommendations

Trade Unions

Strengthening the organisation of workers in the informal economy

This study established that organisation in the informal economy is weak, despite work to rectify this situation. Trade unions at affiliate level must work towards embracing and organising informal workers For example, although there is a trade union representing workers in the furniture manufacturing industry, workers in the informal economy conducting similar work have yet to benefit from proper recruitment drives. Trade unions thus need to come up with new strategies and packages and put new budget lines in place to allow them to also provide specific resources.

There is also need for the national centre to affiliate associations in the informal economy representing workers. This will ensure that their issues are covered during national development discussions, done, for example, at Tripartite Negotiating Forums.

Extending social security

The study also evidenced the absence or lack of social security in the informal economy. In this regard, trade unions should take advantage of the current work being undertaken by the Ministry of Labour to expand the coverage of the national social security, and advocate for the inclusion of workers. This will be a long-term strategy.

Business Development Services

Lack of adequate training on business development and management is an additional challenge to the growth of the informal enterprises. The study recommends that business development services be provided by the trade unions. In 1991, the ZCTU established a Projects Department. This short-lived department was expected to offer training for retrenchees who wanted to start their own entities and provide them with start-up capital. Such a department needs to be re-established to provide the necessary skills for business growth and management and the required training as well as guide in the registration of entities in the informal economy. This will also help and ensure that these entities promote decent work to workers.

*Extending Collective Bargaining Agreement*s

Workers in the informal economy are not covered by collective bargaining. In the short term it will be important to advocate and facilitate the extension of collective bargaining agreement. Trade unions should seek for the extension of collective bargaining agreement to the informal economy. For example, collective bargaining agreements made by the textile sector should extend to workers in the informal economy involved in the textile sector, thus the conditions of employment should be the same. This helps ensure that workers are not exploited and ensure that the formal companies do not subcontract to the informal economy on the basis of cheap labour and retrench their own workers.

Applying international labour standards

At present, there is no application of international labour standards. This must be rectified as a matter of urgency as it will ensure that workers enjoy their rights at work. One of the priorities of the 2012-15 Decent Work Country Programme for Zimbabwe is improving the application and implementation of international labour standards. It is therefore imperative that trade unions take advantage of this by pushing and advocating for the government to institute inspections in the workplace in the informal economy.

Outreach and Awareness Programmes

Lack of outreach and awareness programmes was also noted as a challenge. It is therefore recommended that unions develop these for informal economy workers, with the aim of informing workers on their rights and promoting decent work, and for organising and recruiting workers. To effect this, unions must first set up budgets for such activities. Within the outreach programmes, trade unions should also extend their services regarding workers' education and training in order to promote skills development for the economy, as well as literacy and health and safety programmes.

References

Confederation of Zimbabwe Industries. (2014). ‘The State of Zimbabwe’s Manufacturing Sector in 2013’.

— (2012). ‘The State of Zimbabwe’s Manufacturing Sector in 2011’.

— Confederation of Zimbabwe Industries. (2003). ‘The State of Zimbabwe’s Manufacturing Sector in 2002’.

Gallin, D. (2002). ‘Organising in the informal economy’, in ILO (2002) ‘Unprotected labour: What role for unions in the informal economy?’, Labour Education 2002/2, No. 127, ILO, Geneva.

Gemini. (1998). ‘Zimbabwe: A third nationwide survey of micro and small enterprises’, USAID, PriceWaterhouseCoopers, September.

— (1993). ‘Changes in the Small-Scale Enterprise Sector from 1991 to 1993: Results of a Second Nationwide Survey in Zimbabwe’.

— (1991). ‘Micro and Small-Scale Enterprises in Zimbabwe: Results of a Country-Wide Survey’, Gemini/USAID Technical Report No. 25.

Heintz, J. and Pollin, R. (2005). ‘Informalisation, economic growth, and the challenge of creating viable labour standards in developing countries’, in Neema Kudva and Lourdes Beneria (eds). *Rethinking Informalisation: Poverty, Precarious Jobs and Social Protection, Ithica,* : Cornell University.

International Crisis Group (ICG). (2005). ‘Zimbabwe’s Operation Murambatsvina: The Tipping Point?’. African Report 97, ICG, Brussels, August.

International Labour Organisation (ILO) (2013). ‘The informal economy and decent work: A policy resource guide: Supporting transitions to formality’. ILO, Geneva.

— (1994). Southern Africa Multi disciplinary Team (SAMAT). (1994). ‘The urban informal sector in Zimbabwe: Prospects for Employment’, TSSI Mission Report, ILO/SAMAT, Harare, September.

— (1985). ‘The Informal Sector in Zimbabwe’, ILO/SATEP, Harare.

Kanyenze, G., et al. (2003). ‘Giving voice to the unprotected workers in the informal economy in Africa: The Case of Zimbabwe’, ILO/SAMAT, Harare, November.

Luebker. M. (2008). ‘Employment, unemployment and informality in Zimbabwe: Concepts and data for Coherent Policy-making’, ILO sub-Regional Office for Southern Africa, Harare, July.

Makochekanwa. A. (2010). ‘Measuring the second economy in Zimbabwe’, USAID Southern Africa Trade Hub.

Mhone, G.C.Z. (1996). ‘Conceptual and Analytical Issues’: The Informal Sector in

Southern Africa: An Analysis of Conceptual, Research and Policy Issues'. Harare: SAPES Trust, pp. 1-19.

— (1993). 'The Impact of Structural Adjustment on the Urban Informal Sector in Zimbabwe', ILO, Geneva.

Ministry of Finance and Economic Development. (2014). 'The 2015 National Budget: "Towards an Empowered Society and Inclusive Economic Growth"', Harare, Zimbabwe.

Ministry of Public Service, Labour and Social Welfare. (2006). 'Zimbabwe 2003 Poverty Assessment Study Survey Main Report'. Harare.

Ministry of Small and Medium Enterprises and Co-operative Development. (2012). FinScope MSME Survey Zimbabwe.

Mkandawire. T. (1985). 'The Informal Sector in the Labour Reserve Economies of Southern Africa with special reference to Zimbabwe'. Working Paper No. 1, ILO/ SATEP.

Mupedziswa. R. and Gumbo, P. (1998). 'Structural Adjustment and women informal sector traders in Harare, Zimbabwe'. Research Report No. 106.

Ndlela. D.B. (2006). 'Informal cross-border trade: The Case of Zimbabwe'. IGD Discussion Paper No. 52, 2006.

Sachikonye, L. (1989). 'The Informal Sector in Zimbabwe', Zimbabwe Institute of Developing Studies, Cape Town.

World Bank. (2015). 'Doing Business 2015: Going Beyond Efficiency'. Washington.

ZEPARU (2013). 'The nexus between growth, employment and poverty in Zimbabwe: The Economics of Employment', ZEPARU, Occasional Research Paper No. 1, 2013, Harare.

Zimbabwe Human Rights NGO Forum. (2005). 'The aftermath of a disastrous venture: A Follow-up on Operation Murambatsvina'. Harare.

Zimbabwe Chamber of Informal Economy Associations. (2011). 'Zimbabwe Informal Economy Mapping', Harare.

ZIMSTAT. (2014). Labour Force Survey.

ZIMSTAT. (2012). 'Prices, Income, Consumption and Expenditure Survey (PICES) 2011/12'.

ZIMSTAT. (2011). Labour Force Survey.

ZIMSTAT. (2004). Labour Force Survey.

ALRN Secretariat
LEDRIZ
78 East Road, Belgravia
Avondale, Harare, Zimbabwe
Tel: +263 4 308846
Web: www.alrnetwork.org

ISBN: 978-0-7974-6114-7

MG Printers (Pvt) Ltd