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Women in Informal Employment Globalizing and Organizing

WIEGO Working Paper Nº 3 September 2008

Informality in Africa: A Review

James Heintz and Imraan Valodia

WIEGO Working Papers

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This paper was prepared for the Swedish International Development Cooperation Agency – Sida.

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Publication date: September 2008
ISBN number: 978-92-95095-19-9

Published by Women in Informal Employment: Globalizing and Organizing (WIEGO)
A Charitable Company Limited by Guarantee – Company No. 6273538, Registered Charity No. 1143510

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Cover photograph by: Patricia Carney

Table of Contents

List of Tables

Introduction

No discussion of employment in sub-Saharan Africa is possible without confronting the reality of informal employment in these countries since significant proportions of employment activity and income generation in Africa is done in the informal economy.

The concept “the informal sector” was first applied in Africa. It was used by Keith Hart and the ILO to describe the range of employment and income generating activity outside of formal enterprises that is evident in African countries. Hart (1973) used the concept to capture urban labour markets that he had studied in Accra, Ghana. He viewed the informal economy in terms of a dualist model of income opportunities of the urban labour force, based largely on the distinction between wage employment and self-employment. The concept of informality was applied to the self-employed. Hart emphasized the diversity of activities in the informal economy that went beyond “shoeshine boys and sellers of matches” (1973: 68).

Later, the ILO (1973) conducted further studies on the dynamic nature of the informal economy in the now famous Kenya report. Much of the ILO’s work viewed informality as related to poverty.

This paper is made up of eight sections. In the next section (section II), we present a statistical overview of informal employment in Africa. Section III considers issues of definition and measurement. We then proceed, in section IV, to look at statistical estimates in selected African countries that have the data to delve deeper into statistical consideration. Section V explores earnings and poverty issues in the informal economy. In section VI, we discuss the causes of informal employment in Africa. Section VIII considers some key characteristics of informal employment in Africa and focuses on economic policy considerations. In section VIII, we conclude.

Structure of Informal Employment in Sub-Saharan Africa: Statistical Overview

This section presents statistics on the structure of employment for a set of African countries that illustrate the nature of remunerative activities and livelihood strategies. In recent years, improvements in labour force statistics have allowed researchers to better understand the structure of employment in African countries, including the diversity of employment arrangements. Despite these improvements, we still do not have a comprehensive, or even a fully representative, statistical picture of informal employment throughout sub-Saharan Africa. Nevertheless, by featuring data from nationally representative surveys for a select group of countries, we construct an overview that provides a foundation for a broader understanding of informal employment in Africa.

The countries of sub-Saharan Africa have diverse patterns of employment and labour force participation. Therefore, it is difficult to generalize by describing a “typical” African country. Even basic labour market indicators differ significantly across the region. To illustrate, table 1 presents estimates of labour force participation rates, disaggregated by sex, for a wide range of African countries. Most of these estimates were compiled by the ILO and come from two sources: direct survey estimates of labour force participation and labour force projections calculated using the econometric model developed by the ILO’s EAPEP programme (Economically Active Population Estimates and Projections). In a few cases (e.g., Ghana, Kenya, and South Africa), we calculated the estimates directly from survey data or used the estimates of national statistics offices.

Table 1 Estimates of Labour Force Participation Rates, African Countries and Regions

Estimates based on survey data, sub-Saharan African countries					
Country	**Year**	**Age**	**Total**	**Men**	**Women**
Benin	2002	15+	71.8	78.9	65.6
Ethiopia	2006	15+	66.9	75.6	59.7
Ghana	1998/9	15+	88.2	89.6	87
Kenya	2005	15+	71.5	74.5	66.2
Madagascar	2005	15+	86.9	89.4	84.6
Mali	2004	15+	49.4	66.2	36.2
Mauritius	2006	15+	58.5	76.1	41.3
Namibia	2001	15+	54.4	60.1	49.3
Niger	2001	15+	62.7	87.4	39.3
Sierra Leone	2003/4	15+	66.1	66.3	65.9
South Africa	2007	15-64	56.5	64.3	49.2
Estimates based on survey data, North African countries					
Egypt	2005	15-64	52.4	79.7	24.4
Morocco	2005	15+	52.1	76.9	27.9
Tunisia	2005	15+	46.3	68.6	24.4
Estimates based on EAPEP projections, sub-Saharan African countries					
Angola	2008	15+	82.3	91.4	73.5
Botswana	2008	15+	55.1	66.6	44
Burkina Faso	2008	15+	83.2	88.7	77.7
Burundi	2008	15+	92.8	93.6	92.1
Cameroon	2008	15+	65.2	79.1	51.5
Cape Verde	2008	15+	53.5	75.5	34
CAR	2008	15+	79.2	89.1	70
Chad	2008	15+	71	76.4	65.8
Congo, Rep	2008	15+	71.2	86.7	56.2
Congo, DR	2008	15+	75.8	90.6	61.3
Cote d'Ivoire	2008	15+	64.2	88.6	38.5
Equitorial Guinea	2008	15+	70.5	90.6	51.2
Eritrea	2008	15+	73.4	90.1	57.9
Gabon	2008	15+	71.8	82.4	61.4
The Gambia	2008	15+	72.2	86	58.9
Guinea	2008	15+	83	86.5	79.2
Guinea-Bissau	2008	15+	76.6	92.6	61.3
Lesotho	2008	15+	56.8	71.5	44.9

Liberia	2008	15+	68.6	82.8	54.5
Malawi	2008	15+	87.4	89.1	85.9
Mozambique	2008	15+	83	81.9	83.9
Nigeria	2008	15+	65	84.8	45
Rwanda	2008	15+	81.9	84.4	79.7
Sao Tome and Principe	2008	15+	52.6	76	30.2
Senegal	2008	15+	68	80.9	55.9
Somalia	2008	15+	76.7	94.8	59.2
Sudan	2008	15+	47.4	71.2	23.6
Swaziland	2008	15+	50.5	72.1	30.9
Tanzania	2008	15+	87.6	89.8	85.5
Togo	2008	15+	69.5	89.8	50
Uganda	2008	15+	82.6	85.3	79.9
Zambia	2008	15+	78.4	90.7	66.1
Zimbabwe	2008	15+	73.9	84.3	63.5
Estimates based on EAPEP projections, regions					
All Africa	2008	15+	68.7	83.5	54
East Africa	2008	15+	81.3	87.9	74.9
Middle Africa	2008	15+	74.4	87.3	62
Soutern Africa	2008	15+	60.2	76.8	44.5
West Africa	2008	15+	69.4	85	53.8
North Africa	2008	15+	51.3	76.4	26.4

Source: ILO, LABOURSTA database.

From table 1, we can see that labour force participation rates vary widely across the African continent. Differences in women's labour force participation rates drive this variation. Although there are variations in male labour force participation rates, these are not nearly as pronounced as the differences among female rates.[1] Women's labour force participation rates in African countries are some of the highest (e.g., Burundi, Madagascar, Malawi, Mozambique, Tanzania) and lowest (e.g., Egypt, Morocco, Sudan, and Tunisia) in the world. Very low labour force participation rates among women are characteristic of the countries of North Africa – this region is not the main focus of this review. Nevertheless, social norms and cultural factors influence women's measured labour force participation rates, and such variations occur across the continent (i.e., it is not simply a difference between North Africa and sub-Saharan Africa).[2]

Meaningful generalizations about regions are difficult to make – that is, West African countries show a high degree of variation in labour force participation rates, particularly among women.

1 The coefficient of variation (the ratio of the standard deviation to the mean) for male labour force participation rates among all countries in table 1 is 0.11. The coefficient of variation for female labour force participation rates is three times as large at 0.33.

2 Stigma around women's participation in paid employment in North Africa and the Arab States, particularly outside the household, may contribute to under-reporting of women's participation in employment (Charmes 2007). Women's participation in economic activities that produce marketed goods and services (or goods consumed at home that could potentially be marketed) may not be considered "employment" in the same way men's work is.

Labour market indicators such as the unemployment rate and the employment population ratio are typically used to describe general labour market conditions. In sub-Saharan African countries, such indicators may not be terribly useful. Open unemployment is less of a problem than widespread under-employment in low productivity, informal activities. Often, the unemployed population includes a higher proportion of individuals from relatively privileged backgrounds. In the absence of a well-developed social safety net, only those people with the economic wherewithal can afford to remain openly unemployed. This is not to say that unemployment is not a problem in large cities and in particular countries (e.g., South Africa, where formal wage employment still dominates the labour market). However, the more significant social and economic context for understanding African labour markets and employment is the high degree of informality.

Definitions of Informal Employment and Measurement Issues

A large share of employed individuals worldwide does not earn enough to lift these individuals and their dependents above the poverty threshold (Kaspos 2004). As mentioned above, the quality of employment matters – not simply the quantity of opportunities. The quality gap between formal, regular employment and informal employment represents one of the principal cleavages in the overall structure of employment. Research has shown that workers in informal employment earn less, have more volatile incomes, lack access to basic public services and protections, and face higher risks of poverty compared to workers in formal employment (Chen et al. 2005). Therefore, the issue of informal and non-standard employment deserves special attention.

The concept of informal employment is meant to capture employment relationships that are not governed by formal economic regulations and/or basic legal and social protections. Often, the term "informal employment" is applied to the labour markets of developing countries. In higher-income economies, it is more common to speak of "non-standard" or "a-typical" employment. These two concepts are not the same. Informal employment typically refers to employment that is not subject to legal or economic regulations. That is, the emphasis is on the regulatory status of the enterprise or the job. "Non-standard employment" refers to variations in the employment relationship relative to a dominant or traditional form. In this case, the emphasis is on the economic arrangement and the nature of the employment contract (be it explicit or implied).

In some circumstances, non-standard employment is defined analogously to informal employment. However, non-standard employment more frequently refers to employment relationships that (a) are short-term and contingent in nature (e.g., short-term hires and day labourers) or (b) are characterized by partial employment or volatile work-time regimes (e.g., part-time and on-call employment). Depending on the specific labour laws, non-standard employment can also be associated with a reduced level of social and regulatory protection (that is, non-standard work is also informal).

Labour statisticians have devoted considerable effort in recent years to develop international recommendations for defining informal employment. Given the importance of the concept of informal employment in the analysis of African countries featured in this report, it is worth reviewing the relevant concepts and definitions in some detail.

There is an important conceptual distinction between *employment in the informal sector and informal employment*. The informal sector is comprised of all informal enterprises. Therefore, "employment in the informal sector" refers to all employment in enterprises that are classified as informal according to a common set of criteria. Employers operating informal enterprises, wage workers in these enterprises, informal own-account workers, and contributing family workers are included in this concept. In addition, informal partnerships and cooperatives would also be considered part of the informal sector.

To define the informal sector, informal enterprises must be distinguished from formal enterprises. In 1993, the 15th International Conference of Labour Statisticians (ICLS) adopted an approach for defining the informal sector that could be applied across countries. The resolution adopted by the 15th ICLS identified the following set of criteria for defining informal enterprises (Hussmanns and du Jeu 2002):

Legal organization of the enterprise. Informal enterprises are private unincorporated enterprises for which no consistent set of accounts are available that would allow the financial activities of the enterprises to be clearly separated from those of the owners. In most cases, informal enterprises are owned and operated by household members, although informal partnerships and cooperatives, whose ownership structures may extend across households, are also included.

Market production. A portion of the goods or services produced by the informal enterprise must be sold or bartered in market transactions. Household activities that produce exclusively non-market goods or services do not constitute informal enterprises.

Size and/or registration. Informal enterprises are frequently defined in terms of the number of paid employees – for example, if in informal enterprises the number of employees falls below a given threshold. Alternatively, informal enterprises may be defined in terms of their registration status with respect to national regulatory frameworks and legislation.

The full set of criteria may not be consistently applied in defining the informal sector. Often, the size criterion and/or the registration criterion are the primary indicators used to identify informal enterprises. When the full set of criteria is not used, the size of the informal sector may be overestimated.

In 2003, the 17th ICLS endorsed a framework that extends the concept of "employment in the informal sector" with a jobs-based concept of "informal employment." The new framework broadens the definition of informality by including workers in informal employment relationships, not only workers in informal enterprises.[3] Informal employment is defined to include employees in informal jobs regardless of whether those jobs are located in formal or informal enterprises. Informal jobs are generally defined as jobs that lack a core set of legal or social protections. The ICLS framework for defining informal employment includes the following guidelines (Hussmanns 2004):

Informal own-account workers, employers, and members of producer cooperatives. Own-account workers, employers, and members of producer cooperatives are engaged in informal employment if the enterprise in which they work is informal. For these employment status categories, the definition of informal employment corresponds to the definition of employment in the informal sector.

Contributing family workers. The 17th ICLS definition recommends that all contributing family workers are classified as being engaged in informal employment since this form of employment is rarely governed by legal and social protections.

Paid employees in informal jobs. Employees are considered to work in informal jobs if those jobs lack basic legal (e.g., enforceable contract) and/or social protections (e.g., legislatively mandated benefits), and/or if the employment relationship is not subject to national labour regulation or taxation.

Own-account workers producing goods for own-use. Own account workers producing goods for their (or their households') own final use are defined as working informally if they are also considered to be employed.

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[3] The definition of employment in the informal sector would exclude workers in informal jobs outside of informal enterprises. However, these workers would be included in the broader concept of informal employment that emphasizes the nature of the job in addition to the nature of the enterprise.

In the statistical overview, both concepts of informal employment are used – employment in the informal sector and informal employment. In general, the self-employed are classified as formal or informal based on the characteristics of the enterprise. Paid employees are generally classified based on the nature of the employment relationship. However, the surveys used to construct the estimates presented here vary significantly from country to country. Therefore, the criteria used to distinguish formal from informal employment are not identical across countries. We therefore focus on comparing relative patterns of employment across countries, not absolute statistics.[4] In the next section, we present estimates of employment in the informal sector and informal employment for a set of African countries. Specifically for the estimates of informal employment, details with regard to definitions and indicators used are contained in the appendix to this paper.

Informal Employment in Sub-Saharan Africa: Statistical Overview from Selected Countries

Employment in the Informal Sector

As discussed above, earlier concepts of informal employment focused on employment in the informal sector (i.e., employment in informal enterprises). Statistical estimates of employment in the informal sector exist for a reasonable number of African countries. The ILO Bureau of Statistics maintains a database of official estimates of employment in the informal sector as generated by national statistics offices. Table 2 summarizes the information available in this database on employment in the informal sector for African countries. The database includes official estimates of employment in the informal sector for a total of 20 African countries.

The information in table 2 suggests that a reasonable amount of information exists on employment in the informal sector in African countries. It should be noted that the countries included in table 2 only represent countries found in the ILO Bureau of Statistics database. That is, these are countries whose national statistics offices generated estimates of employment in the informal sector and shared these estimates with the ILO in the process of compiling the database over the years. Not all countries analyze the available data on informal employment and generate estimates. Therefore, the potential information on employment in the informal sector in African countries is greater than that captured in table 2. Nevertheless, the ILO database gives us a sense of the scope of existing statistics. In almost all cases, employment in the informal sector represents a significant share of total employment in African countries.

Caution must be exercised when comparing the estimates in table 2 across countries. The estimates differ across a number of dimensions:

(1) the definition of informal sector;
(2) the survey type used to develop estimates;
(3) the coverage (e.g., urban/rural, agricultural/non-agricultural, and employment status); and
(4) the degree of disaggregation by sex.

Perhaps most significantly, definitions vary across countries in ways that make comparisons or generalizations unreliable. In many cases, countries develop their own definitions of informal enterprises

4 The emphasis on making relative comparisons (instead of absolute comparisons) across countries should still be approached with some caution. Large differences across countries – for example, in measuring women's employment or labour force participation – will affect relative comparisons. For example, if women in the most precarious forms of employment are excluded from the datasets for particular countries, the analysis may suggest a relatively high degree of gender equality when the statistics would be, in reality, indicative of just the opposite: an extreme level of social exclusion.

Table 2 Employment in the Informal Sector, Selected countries, Urban and Rural, Disaggregated by Sex. Estimates from National Statistics Offices Collected by the ILO Bureau of Statistics

Country	Year	Source	Definition	Region	Number in Thousands			Percent of Total Employment		
					Total	Male	Female	Total	Male	Female
Benin	2002	Household survey	National	Total	2,425.3	1,196.8	1,228.6	94.5	92.1	97.1
Botswana	1999	Labour force survey	National	Total	222.6	99.6	123.0	n.a.	n.a.	n.a.
Cameroon	1993	Mixed	National	Urban	119.0	n.a.	n.a.	57.3	n.a.	n.a.
CA Republic	2003	Population census	Related concept	Total	18.5	19.0	16.0	16.2	13.8	2.5
Côte d'Ivoire	1996	Household survey	Related concept	Urban	414.2	167.7	246.5	52.7	37.3	73.4
Egypt	2003	Enterprise survey	Related concept	Urban	1,386.4	1,176.8	209.6	44.4	41.9	58.7
Ethiopia	2004	Labour force survey	National	Urban	1,088.6	528.1	560.5	38.1	32.5	45.6
The Gambia	1993	Household survey	Related concept	Urban	100.7	56.7	44.0	72.4	66.1	82.7
Ghana	1997	Household survey	National	Urban	n.a.	n.a.	n.a.	78.5	n.a.	n.a.
				Rural	n.a.	n.a.	n.a.	93.4	n.a.	n.a.
				Total	n.a.	n.a.	n.a.	89.0	n.a.	n.a.
Kenya	1999	Mixed	Small or micro	Total	1,881.0	1,090.4	790.6	36.4	43.9	29.5
Madagascar	1995	Mixed	National	Urban	239.0	n.a.	n.a.	57.5	n.a.	n.a.
Mali	2004	Mixed	National	Total	1,029.4	447.3	582.1	41.3	30.8	56.1
Mauritius	2004	Household	Related concept	Total	33.8	24.7	9.1	6.9	7.5	5.7
Niger	1995	Mixed	National	Urban	302.6	169.9	132.7	n.a.	n.a.	n.a.
Senegal	1996	Official estimates	Small or micro	Urban	665.0	n.a.	n.a.	n.a.	n.a.	n.a.
South Africa	2004	Labour force survey	National	Total	1,678.7	898.6	780.1	13.8	13.1	14.7
Tunisia	1997	Enterprise survey	Small or micro	Total	423.1	361.3	61.7	21.6	24.5	12.8
Uganda	2003	Household survey	Small or micro	Total	2,589.0	1,418.0	1,142.0	26.5	30.6	22.2
Zambia	1993	Household survey	Related concept	Total	2,300.0	n.a.	n.a.	80.7	n.a.	n.a.
Zimbabwe	1999	Labour force survey	National	Total	1,864.9	n.a.	n.a.	40.0	n.a.	n.a.

that adopt the international recommendations to varying degrees. In a few cases, statistics have been developed using a related concept that will not capture the full extent of employment in the informal sector. For example, the estimates for Côte d'Ivoire in table 2 capture self-employment in the informal sector, but do not capture the number of employees working in informal enterprises.

Another important difference is the source of the data for compiling the estimates. Two broad survey types are used for estimating employment in the informal sector: enterprise surveys and household surveys. Household surveys can be further disaggregated into labour force surveys and general purpose household surveys (often used to measure living standards and poverty rates among other variables). In many cases, general purpose household surveys contain modules on the labour force and/or unincorporated household enterprises. In these cases, the household survey is a mixture of a typical labour force survey and a general purpose household survey. Enterprise surveys, labour force surveys, general purpose household surveys, and mixed surveys collect different information on informal workers. Also, the coverage of the surveys may differ. For example, enterprise surveys may not identify very small household enterprises operating out of residences (e.g., home-based work) to the same extent as do household surveys. Similarly, household surveys may not have complete information on the enterprises where wage employees work.

Estimates of informal employment also vary in terms of the workers they include or exclude. For example, it is not uncommon for estimates to focus on only urban workers or workers in a particular metropolitan area. Given the importance of agricultural employment in many African countries, it becomes critical to understand whether agricultural employment is included or excluded from the estimates. As we will see in greater detail, patterns of informal employment are highly gendered – therefore, disaggregating statistics by sex is of critical importance.

Despite all these caveats, the estimates in table 2 are instructive. With the exception of a few countries that possess high levels of wage employment (e.g., South Africa and Mauritius), employment in the informal sector is clearly an important livelihood strategy across the African continent. For countries that have sex-disaggregated statistics, employment in the informal sector often accounts for a larger share of women's employment than men's (although exceptions exist in table 2). Moreover, the ILO estimates demonstrate that a foundation of statistical information exists for understanding the nature of informal employment in African countries. More progress is needed in analyzing the existing data (and collecting new data) in such a way as to produce a more comprehensive picture of the nature of employment in the informal sector in Africa.

Informal Employment

Statistics on the broader concept of informal employment have also been developed for several African countries. Informal employment generally includes workers in the informal sector and workers in informal jobs outside of the informal sector. Table 3 presents statistics on the structure of employment – including informal employment – for five countries in sub-Saharan Africa: Ghana, Madagascar, Mali, Kenya, and South Africa. These countries are diverse in terms of their geography, their level of economic development, and the structure of their economies. The statistics provide a snapshot of informal employment in these different contexts. Although the estimates in table 3 are indicative of the nature of informal employment in African countries, they cannot be taken to be truly representative of the situation in sub-Saharan Africa as a whole. As data is increasingly collected and analyzed, a more complete portrait will emerge.

Table 3 Structure of Employment in Five African Countries. Distribution of Formal and Informal Employment by Employment Status

	Kenya (2005)	Ghana (1998/9)	Mali (2004)	Madagascar (2005)	South Africa (2004)
Formal Employment					
Formal, private wage employment	6.9%	1.0%	n/a	2.5%	40.8%
Formal, public wage employment	5.4%	4.1%	n/a	2.7%	16.5%
Total formal wage employment	12.3%	5.1%	5.8%	5.2%	57.3%
Formal, self-employment	1.3%	3.6%	5.1%	1.6%	4.2%
Informal Employment					
Informal wage employment	18.0%	9.3%	11.0%	9.3%	22.8%
Informal self-employment	64.8%	81.6%	78.1%	83.8%	14.4%
Other/undeclared	3.6%	0.4%	0.0%	0.0%	1.3%
TOTAL	100%	100%	100%	100%	100%
… of which …					
Agricultural wage employment	n/a	1.2%	0.9%	3.3%	10.6%
Agricultural self-employment	50.0%	52.3%	41.2%	77.2%	4.7%

Source: Kenya, authors' calculations based on the 2005 Household Integrated Budget Survey; Ghana, authors' calculations based on the 1998/9 Ghana Living Standards Survey; Mali, ILO Bureau of Statistics; and South Africa, Heintz and Posel (2007). See appendix for more detail.

The estimates show that formal employment represents a small fraction of total employment in most sub-Saharan African countries. Formal employment, both wage employment and self-employment, accounts for an estimated 13.6 per cent of all employment in Kenya, 8.7 per cent of all employment in Ghana, 10.9 per cent in Mali, and 6.8 per cent in Madagascar. The notable exception is South Africa, where formal wage employment dominates. In South Africa, over 60 per cent of all employment is formal.

The statistics in table 3 show that informal self-employment is the single most important source of employment for many countries in sub-Saharan Africa. The high rates of informal self-employment are the result of the importance of agricultural employment in these countries. Informal self-employment in agriculture accounts for roughly 40-50 per cent of all employment in Ghana, Kenya, and Mali, and over 77 per cent in Madagascar. Given its size, the agricultural sector cannot be ignored in a comprehensive analysis of informal employment in sub-Saharan Africa. Again, of the countries featured in table 3, South Africa is an exception: informal self-employment in agricultural accounts for a relatively small share of all employment.

If we focus only on non-agricultural (i.e., non-farm) informal employment, the relative importance of informal wage employment (i.e., informal paid employees) and informal self-employment varies from country to country. Using the examples in table 3, in Ghana and Mali informal self-employment is relatively more important than informal wage employment. However, in Kenya, Madagascar, and South Africa, informal wage employment is more prevalent than informal self-employment *outside of the agricultural sector*. In South Africa, a large number of informal domestic workers contribute significantly to the overall number of informal wage workers.[5]

[5] Domestic work is also common in Kenya. However, in the survey results analyzed here "domestic worker" is not used as an employment status category. Domestic workers are identified by their industrial sector, which is comprised of domestic workers and laundry workers. Therefore, domestic workers cannot be specifically identified as an employment status category.

Gender differences are evident in the structure of employment and the distribution of informal employment. Table 4 presents the distribution of employment disaggregated by sex, using the same general categories as table 3. In all five countries, formal wage employment accounts for a larger share of men's employment than women's employment. If we focus only on formal wage employment, the public sector is often a more important source of formal wage employment for women than for men in terms of relative comparisons. This is true for Kenya, Ghana, and South Africa. Based on these estimates, the exception among the countries in table 4 is Madagascar (estimates of the public/private distinction were not available for Mali).

Table 4 Distribution of Men's Total Employment and Women's Total Employment by Employment Status

	Kenya		Ghana		Mali		Madagascar		South Africa	
	M	F	M	F	M	F	M	F	M	F
Formal employment (%)										
Formal, private wage employment	8.1	2.6	1.4	0.3	n.a.	n.a.	4.3	3.4	44.1	36.9
Formal, public wage employment	5.5	3.1	6.5	2.0	n.a.	n.a.	3.2	1.6	14.4	18.3
Total formal wage employment	13.6	5.7	7.9	2.3	5.5	5.4	7.5	5.0	58.5	55.2
Formal, self-employment	1.3	1.0	3.5	3.6	7.1	2.2	4.7	8.5	5.1	3.1
Formal, agricultural	2.5	1.3	0.5	<0.1	0.5	0.1	0.3	0.1	4.9	2.1
Informal employment (%)										
Informal wage employment	22.8	11.3	14.9	4.5	12.3	9.2	9.7	6.4	18.7	23.2
Informal-self employment	58.2	76.5	72.7	89.2	74.6	83.1	77.8	79.8	12.7	16.3
Of which …										
… informal own-account	34.7	47.4	61.6	66.4	n.a.	n.a.	53.8	12.6	8.9	14.0
… informal unpaid family	22.2	28.5	9.4	21.2	17.1	9.4	24.0	67.2	n.a.	n.a.
Informal employer	1.3	0.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	3.8	2.3
Other/undeclared	1.6	4.2	0.5	0.4	0.0	0.0	4.1	0.2	0.1	0.1
TOTAL	100	100	100	100	100	100	100	100	100	100
Informal agricultural wage employment	8.3	3.7	2.3	0.3	1.0	0.1	3.2	2.9	3.2	2.1
Informal agricultural self-employment	45.3	63.8	55.7	49.2	41.2	49.6	76.3	78.1	2.7	3.4

Source: See notes to Table 3.

In all five countries, informal employment accounted for a larger share of women's employment than men's. However, the nature of informal employment and the distribution of opportunities between employment women and men differ somewhat from country to country. One difference is agricultural employment. In Kenya, Madagascar, Mali, and South Africa, self-employment in agriculture accounts for a larger share of women's total employment than men's. In particular, a large number of women work in Kenya's small-holder agricultural sector. In contrast, Ghanaian men are more likely to work in agricultural self-employment than Ghanaian women. The distinction between self-employment and wage employment is critical here. In all five countries, wage employment in agriculture is more common among men than among women. In addition, the *type* of self-employment matters. In Madagascar, a large number of self-employed women work as unpaid contributing family members. A much smaller proportion of men work as unpaid family members. In this case, women are disproportionately self-employed in agriculture and work in more marginalized forms of self-employment.

In all countries except South Africa, informal wage employment accounts for a larger share of men's employment than women's. However, as has already been noted, South Africa is unusual in that it has a large number of domestic workers, the vast majority of whom are women. If we were to treat domestic workers separately, then South Africa would look more like the other countries in table 4 with regard to the gendered pattern of informal wage employment.

We can draw a number of broad inferences from tables 3 and 4 that should generally be indicative of the structure of employment in many sub-Saharan African countries, recognizing that South Africa remains an exception in many cases. First, informal employment accounts for a significantly larger share of total employment than formal employment. Second, the agricultural sector remains a critical source of employment opportunities and cannot be easily disregarded. Third, informal self-employment – both agricultural and non-agricultural – provides a large number of economic opportunities to men and women. Fourth, the public sector is often an important source of more formal jobs. Fifth, women tend to disproportionately work in informal employment and often more precarious forms of informal employment. Sixth, men tend to have greater access to wage employment – both formal and informal – than do women.

At the same time, there are differences between countries. The importance of agriculture in the structure of employment varies as does the gendered distribution of agricultural employment. Outside of the agricultural sector, the relative importance of wage employment and self-employment also varies from country to country. In general, informal wage employment accounts for a larger share of men's employment than women's. However, the importance of informal wage employment for men and women depend on the nature of the labour market – for example, do domestic workers constitute a significant fraction of total employment?

Employment status categories (e.g., "own-account worker" or "wage employee") give us a sense of the nature of the employment relationship, but they do not reveal the nature of the productive activities individuals are actually engaged in. Moreover, different employment relationships are more prevalent in certain industries than in others. We have examined the broad sectoral division between agricultural and non-agricultural employment, but not the variations within non-agricultural activities. Table 5 summarizes the dominant sectors/activities for non-agricultural informal wage employees and informal self-employed workers in Ghana, Kenya, and Madagascar. In all cases, trade (e.g., street vendors) and various informal services (e.g., hair cutting, repairs, etc.) account for the largest share of informal self-employment outside of agriculture. Only in the case of Ghana is informal self-employment in manufacturing activities a significant fraction of non-agricultural employment.[6] The variety of activities associated with informal wage employment is more diverse: construction, transportation, services, trade, and, in the case of Kenya, domestic work/laundry services.

6 Interestingly, in Ghana, women tend to be disproportionately represented in informal manufacturing self-employment while men are disproportionately represented in informal manufacturing wage employment.

Table 5 Most Significant Sectors/Activities for Non-Agricultural Informal Workers

Country	Employment category	Dominant sectors/activities
Ghana	Informal wage employee	Various services, transportation, manufacturing, construction
	Informal self-employment	Trade, manufacturing
Kenya	Informal wage employee	Trade, transportation, domestic work/laundries
	Informal self-employment	Trade, various services
Madagascar	Informal wage employee	Various services, construction, transportation
	Informal self-employment	Trade, various services

Source: See notes to Table 3.

The nature of the economic activities in which informal workers are engaged is critical for understanding the dynamics of informal employment in Africa. This evidence suggests that the majority of the informally self-employed in sub-Saharan Africa working outside of agriculture are engaged in the provision of services (including informal forms of retail trade). This has important implications for how we think about the determinants of earnings and productivity. Productivity in services is distinct from productivity in manufacturing and other industrial activities. Productivity in services, and by extension earnings in service activities, is strongly influenced by the level of demand and development of markets. For example, a street trader's productivity will be largely determined by the quantity of goods she sells within a given time period. In manufacturing, productivity is often thought of as a "supply-side" factor linked to the nature of production technology. In services, the boundary between the supply-side and demand-side is blurred in the determination of overall productivity.

The heterogeneity of informal employment is evident from this analysis. The character of informal employment varies across sectors and the nature of the employment relationship (wage employment, own-account work, etc.). Earlier studies have recognized that a wide range of class distinctions are evident within the informal economy as is a plurality of relationships with the formal economy, a situation that has forced a rethinking of approaches that assign a unified, invariable role to informal activities in the economy (Gerry 1987; Hart 1973; ILO 1973). Nevertheless, it is not uncommon to find analysis of informal forms of employment as if such employment were homogenous. Similarly, some studies focus on one segment of the informal labour market (e.g., employers or "entrepreneurs") and generalize to all forms of informal employment. Care must be taken to recognize the diversity of informal employment in the African context and limit the tendency to generalize when it is not warranted.

Employment, Earnings, and Poverty: Illustrative Statistics

The previous sections have provided a statistical sketch of the structure of employment in sub-Saharan African countries with a particular emphasis on informal employment and employment in the informal sector. However, we have not said very much about the relative quality of different employment opportunities. In this section, we illustrate some general patterns in the quality of employment for select African countries with a particular emphasis on earnings and poverty outcomes.

There are several challenges when comparing earnings and poverty rates across countries. First, the information on employment earnings differs from survey to survey. This is a particular problem with regard to self-employment earnings. In some cases, questions about earnings from agricultural self-employment may not be explicitly included. When there is a lack of reliable information on earnings, similar comparisons can be made by looking at living standard measurements and poverty indicators. The ways in which self-employment earnings are calculated also may differ. For example, some surveys may record self-reported net earnings from self-employment. Others may ask a series of questions about the revenues of household enterprises and major categories of expenses. Net earnings are then calculated as revenues less expenses. Since informal enterprises typically do not keep formal accounts, the earnings responses are subject to measurement errors.

With wage employment, estimated earnings are more straight-forward. Nevertheless, even here there are issues. For example, individuals in formal wage employment often receive various benefits that may or may not be included in estimated earnings (e.g., a housing or automobile allowance). For informal wage workers, earnings may be volatile. Therefore, it may be hard to know whether reported earnings are typical or not.

Poverty measurements suffer from similar problems. In addition, there are numerous approaches to assessing the prevalence of poverty in a particular setting. In some cases, measures of income poverty are used – e.g., does a household's income fall below a certain threshold. Given the problems with measuring income, many researchers argue that consumption expenditures constitute a better foundation for measuring poverty. Nevertheless, there can be problems with calculating total consumption. For example, people often have poor recall as to their actual expenditures over a particular period. Also, some categories of expenditure – e.g., consumer durables – occur infrequently, but have a huge impact on total spending when they do occur. Perhaps more importantly, apart from the choice of income or consumption as a basis for measuring poverty, the very definition of poverty varies across countries. All of these concerns make comparable estimates across countries difficult.

Despite these challenges, it is still worthwhile analyzing statistics on earnings and poverty in order to identify broad patterns. Finer distinctions may be impossible to identify accurately, so, as always, some caution is warranted in interpreting these results.

Earnings estimates are difficult to compare across countries for reasons other than those outlined above. Earnings will be measured in local currencies. They can be converted to a common currency using market exchange rates, but exchange rates may be subject to macro-economic factors that confound and blur comparisons of the domestic return to labour in different countries. It is hard to guarantee that a particular market exchange rate is the "right" one for comparison purposes. Similarly, prices may differ between countries in ways that are not fully reflected in the exchange rate (i.e., purchasing power parity adjustments). While conversion techniques are available, they introduce another set of assumptions and uncertainties into the statistics.

To minimize these various problems, we focus on comparing relative earnings – i.e., average earnings within a particular type of employment relative to average earnings across all employed individuals. In this way, we can see if the patterns of relative earnings are similar or different across countries. This exercise gives us some additional insight into the commonalities and differences in informal employment across African countries.

Table 6 presents relative earnings estimates for three of the five countries highlighted in the previous section based on average estimated hourly earnings. These relative earnings estimates are disaggregated by sex. The countries included are Ghana, Kenya, and South Africa. From these estimates, we can identify several broad patterns. Earnings are generally highest in formal non-agricultural employment and lowest in informal agricultural employment. Earnings in informal non-agricultural employment generally lie somewhere between these extremes. Not all formal employment is necessarily superior to informal employment. For example, formal agricultural employment may have lower average earnings than certain types of informal non-agricultural employment. Also, informal employers – as a subset of the informally self-employed – can earn, on average, more than formal wage workers in some countries.

Table 6 Estimated Hourly Earnings as a Per Cent of Average Hourly Earnings for All Employed Individuals by Employment Status and Sex

	Kenya		Ghana		South Africa	
	M	F	M	F	M	F
Formal employment						
Formal, private wage employment	155%	256%	n.a.	n.a.	112%	130%
Formal, public wage employment	156%	284%	173.5%	193.3%	167%	199%
Formal, self-employment	803%	290%	171.0%	123.5%	287%	325%
Formal, agricultural	56%	39%	n.a.	n.a.	79%	52%
Informal non-agricural employment						
Informal wage employment	40%	37%	150.5%	139.1%	34%	38%
Informal-self employment	n.a.	n.a.	116.3%	118.9%	n.a.	n.a.
Informal own-account	74%	63%	112.4%	119.3%	54%	43%
Informal employer	158%	123%	n.a.	n.a.	84%	61%
Informal agricultural employment						
Informal agricultural wage employment	19%	23%	n.a.	n.a.	19%	21%
Informal agricultural self-employment	n.a.	n.a.	82.1%	70.6%	6%	7%

Source: See notes to Table 3.

Gender differences are interesting. The estimates in table 6 suggest that the wage premium for access to formal jobs is higher for women than men – at least when measured relative to average earnings. Similarly, the penalty for informal employment is higher for women then men. This is not surprising when we consider that women are more likely to work informally and, when they do work in informal employment, are often employed in less favourable activities. However, we need to exercise some caution when interpreting these results. We are only examining three countries, and even within these three countries there are exceptions and differences.

We can examine gender earnings gaps more explicitly by looking at women's average earnings expressed as a per cent of men's for different categories of employment. Table 7 summarizes these estimates for our three illustrative countries. In general, we find evidence of a gender earnings gap across countries in many of the employment categories we are focusing on in this review. Women's hourly earnings are typically lower than men's. One exception is formal wage employment in Kenya – here, estimates of women's hourly earnings are actually higher than men's. This may be a consequence of the fact that women are significantly less likely to work in formal employment than are men. Therefore, the women who do manage to secure a formal wage job may have better qualifications *on average* compared to the average for men in the same broad employment category.[7]

Table 7 Women's Hourly Earnings as a Per Cent of Men's Hourly Earnings

	Kenya	Ghana	South Africa
	M	F	M
Formal employment			
Formal, private wage employment	131%	n.a.	92%
Formal, public wage employment	144%	84.2%	94%
Formal, self-employment	29%	54.6%	89%
Formal, agricultural	55%	n.a.	52%
Informal non-agricural employment			
Informal wage employment	74%	69.8%	88%
Informal-self employment	n.a.	77.2%	n.a.
Informal own-account	67%	80.2%	63%
Informal employer	62%	n.a.	57%
Informal agricultural employment			
Informal agricultural wage employment	93%	n.a.	84%
Informal agricultural self-employment	n.a.	65.0%	83%
ALL EMPLOYED	**79%**	**75.6%**	**79%**

Source: See notes to Table 3.

The variation in earnings across different categories of employment – both formal and informal – suggests that labour markets in African countries may be segmented. That is, working individuals face barriers to mobility that prevent them from receiving the best possible returns to their labour. While the tabulations presented here are suggestive of such segmentation, they are not conclusive. This is because the tabulations do not account for individual variations in terms of education, skills, experience, or other determinants of individual productivity. However, econometric studies have produced evidence suggesting that African labour markets are indeed segmented. Günther and Launov (2006) present evidence suggesting that the structure of employment in Côte d'Ivoire is segmented not simply between formal and certain types of informal employment but also within the informal labour market itself. Heintz and Posel (2008) show that many informal workers in South Africa could often improve their earnings if they were able to move into formal employment or a different category of informal employment. The early studies by Hart (1973) and the ILO (1973) describe the importance of kinship networks and social relationships in determining access to employment – factors that would lead to segmented labour markets.

7 For example, in Kenya, the average educational attainment of women in private formal wage employment is higher than that of men. 19 per cent of women working as formal private sector paid employees have completed secondary or higher levels of education compared to 11 per cent of men in the same category of employment.

We now turn from a discussion of individual earnings to poverty status. One approach to examining the relationship between different types of employment and poverty outcomes is to measure the "working poor" poverty rate. In this report, we define the "working poor" as those individuals who are (1) employed and (2) living in households whose income or consumption levels fall below a poverty threshold. The working poor poverty rate is simply the number of working poor in a particular employment category expressed as a percentage of the total number of people in the same employment category. This gives us one measure of poverty risk: a simple assessment of the likelihood that workers in particular types of employment will live in income or consumption poverty.

It should be highlighted that we are stressing, in this analysis, the connection between types of employment and poverty status. The focus is on the "working poor" population. Therefore, poverty rates among individuals who are not employed are not directly included in this particular analysis. Care must be taken not to confuse the estimated poverty rates of employed individuals with general poverty rates among all individuals in the population as a whole. For example, the gender differentials discussed in this section indicate how the poverty rates of employed women differ from those of employed men, but do not adequately capture the aggregate poverty risk of all women.

Table 8 presents estimates of the "working poor" poverty rate by employment status disaggregated by sex. Poverty risk by employment category follows a similar pattern to average earnings. That is, individuals in formal employment tend to have lower than average rates of poverty. The risk of poverty rises as we move from formal to informal employment. Informal agricultural workers experience some of the highest poverty rates. The exceptions to this general pattern are similar to the exceptions with regard to average earnings. For example, formal agricultural workers face a higher risk of poverty than workers in non-agricultural formal employment. Informal employers generally face a lower-than-average poverty risk.

Table 8 "Working Poor" Poverty Rates by Employment Status and Sex

	Kenya		Ghana		Madagascar		South Africa	
	M	F	M	F	M	F	M	F
Formal employment								
Formal, private wage employment	16.5	11.9	26.5	n.a.	21.3	12.9	24.7	32.7
Formal, public wage employment	18.5	8.0	43.9	36.5	27.5	24.1	18.0	20.2
Formal, self-employment	11.6	13.3	45.8	52.0	17.5	24.9	28.7	36.3
Formal, agricultural	32.1	27.8	n.a.	n.a.	31.6	33.0	45.4	45.5
Informal non-agric. employment								
Informal wage employment	34.6	29.4	43.8	40.3	51.2	53.1	52.3	64.9
Informal-self employment	n.a.	n.a.	58.8	57.4	n.a.	n.a.	n.a.	n.a.
Informal own-account	33.5	32.8	57.4	58.5	49.5	53.3	60.9	75.9
Informal employer	18.9	20.5	n.a.	n.a.	n.a.	n.a.	42.1	57.6
Informal unpaid family	30.5	35.2	60.0	70.0	48.5	53.2	n.a.	n.a.
Informal agricultural								
Informal agricultural wage employment	41.1	50.1	56.9	n.a.	79.1	79.9	65.6	70.2
Informal agricultural self-employment	45.2	54.0	72.9	74.4	68.0	62.2	95.1	94.2
Agricultural unpaid family	36.3	45.1	80.7	87.8	73.7	73.2	n.a.	n.a.
ALL EMPLOYED	**30.5**	**30.5**	**63.7**	**67.1**	**63.8**	**66.4**	**35.6**	**47.1**

Source: See notes to Table 3.

The differences between women and men in terms of average earnings are not necessarily reflected in a comparison of their respective poverty rates. Based on the estimates in table 8, we see that employed women may have a lower average poverty rate than employed men *in specific categories of employment*. This holds true even when women's average returns to labour are well below those of men. However, the pattern is not consistent even within a given country. In some employment status categories, women's poverty rates are higher than men's, while in other categories, the reverse holds true.

Why might employed women – who are disadvantaged in terms of earnings – actually have lower poverty than men in similar categories of employment? The answer has to do with the fact that poverty status is determined at the level of the household while analyses of labour market and employment dynamics focus on the individual. Employed women frequently have lower poverty rates on average because their contribution to family income makes the difference as to whether the household is poor or not – even when women's employment is of very low quality. In many cases, it is women's employment that keeps a family above the poverty line. This seemingly contradictory result emerges because aggregate household income (or consumption), not an individual's position in the labour market, determines poverty status.

Also, it is important to recall that women often earn less than men within the same broad employment status categories. However, women are concentrated in forms of employment with high risks of poverty – e.g., informal employment, particularly the more precarious forms of informal employment. If we look at a weighted average of the "working poor" poverty rate across all employed women and all employed men, then women's average poverty rate is often higher than men's (table 7). For example, in the four countries used for illustration here, employed women's poverty rates are higher than men's in three countries: Ghana, Madagascar, and South Africa. In Kenya, the average poverty rate is the same for women and men.

One of the key debates about the characteristics of workers in the informal economy is whether, as has often been argued by the ILO, informal work is primarily a function of poverty or whether, as de Soto (1989) and Maloney (2004) have argued for Latin America, the informal economy is made up of entrepreneurs who choose to operate in the informal economy in order to escape from the burden of having to comply with onerous regulations on small entrepreneurs. Our statistical overview and most of the detailed qualitative fieldwork that has been done suggests that for most sub-Saharan African countries while some pockets of high incomes might exist, most workers in the informal economy earn extremely low incomes – hardly the sorts of incomes that would need to be concealed from the tax authorities.

Besides South Africa, no African country has panel data that allows for explorations of entry and exit in the informal economy. The evidence from South Africa (see Valodia 2008) suggests high levels of churning between formal and informal employment over a relatively short period of time. This suggests that low-waged workers are unlikely to benefit significantly from shifting from informal to formal employment and vice-versa. Second, unlike the case in Latin America where Maloney (2004) and others have argued that workers *choose* to move into the informal sector to escape onerous legislative requirements, there are two arguments that appear to counter a free-choice view. First, the movements occur in both directions, not just formal to informal as one would expect if the free-choice view dominates. Second, as the gross incomes above suggest, there seems to be very little, if any, economic benefits associated with movements from formal to informal employment.

In summary, the estimates presented here give us a sense of the relative quality of employment opportunities. Earnings are higher and poverty risks lower in formal compared to informal employment – the one possible exception being formal agricultural employment. In general, earnings in agricultural activities are lower than those in non-agricultural, informal work, and the risk of poverty is correspondingly higher. There is evidence of a gender earnings gap that persists across employment arrangements including forms of self-employment. That is, women earn less than men. In the cases were the gender earnings gap disappears – e.g., formal wage employment in Kenya – it reflects the extent to which women have been excluded from formal wage employment and is not an indicator of gender equality. Differences in poverty rates between employed women and employed men are complex and consistent patterns may be hard to identify. This is because the very fact that women have access to paid employment may mean that the households where they live are less likely to be poor. Nevertheless, the combination of a gender earnings gap and women's marginalization in more precarious forms of paid work often means that, on average, employment women have higher rates of poverty than employed men.

Causes of Informality

The causes of informality in Africa are complex but related broadly to some key factors prominent in African economies of the last few decades: the lack of economic development and the deep-seating structural adjustment that has characterized economic policy since the 1970s.

First, most of the African continent has experienced extremely low and patchy rates of economic growth. Employment creation, in this environment, has been very poor. At the same time, labour force participation rates, particularly among women, are often high, and for some countries large numbers of new entrants, again particularly women (see Casale and Posel 2004 in South Africa), have entered the labour market. Many of these workers, unable to find employment in the formal sector, have had to subsist on low incomes generated in the informal economy. A number of studies in Africa have highlighted the rapid increase in levels of urbanization, which has contributed to a growth in the urban labour force. Many of these workers living in urban slum areas around the major cities earn their livelihoods in the informal economy.

Second, following structural adjustment policies implemented in most African countries, and these countries' integration into the international trading system, segments of the indigenous manufacturing economy in Africa have been undermined by cheaper imports. This is probably best illustrated by the decline in clothing manufacturing in many African cities and by the rise in informal manufacturing activity. Rogerson and McCormick (2004) provide a good overview of the clothing industry in Africa, and the rise of informal manufacturing activity. In addition, the deficit reduction and privatization components of structural adjustment programmes reduced public sector employment in government wage employment and in public enterprises. As we have seen, public employment is an important source of formal employment in most African countries. Private sector employment growth has not compensated for this loss of formal jobs, leading to higher rates of informalization.

Third, although there are significant differences from country to country, it would be safe to suggest that a not inconsiderable amount of informal production in sub-Saharan African countries is informal production in agriculture. The reasons why women continue to produce in this manner are multifaceted. Agricultural productivity has stagnated in many sub-Saharan African countries in recent decades. Lack of investment in basic infrastructure – including roads, transport, storage facilities, and sustainable irrigation systems – is probably an important contributing factor.

Fourth, and related, women continue throughout Africa to be significantly disadvantaged in the labour market (and in other spheres of social and economic life). As our statistical overview has highlighted, women are concentrated in the informal economy. For many women in Africa, disadvantaged in the education system and discriminated against in the formal economy, the informal economy offers the only opportunity for income generation.

Fifth, institutional and legal barriers may make it costly for small-scale, informal enterprises to formalize. Business licensing and registration procedures often fail to cater to the realities of informal self-employment. These processes may be overly complex and prohibitively expensive, leaving own-account workers and other small-scale enterprise workers no option but to work informally. Moreover, there is no incentive to formalize when public support for informal workers, through policy initiatives, service provision, and infrastructure investment, is underdeveloped or non-existent. Other critical sectors of the economy – commercial banks and the formal financial sector – may not extend credit to small enterprises, regardless of their informality status. Again, when the costs of formalization exceed the benefits, workers in informal activities – whose earnings already often fall below a basic poverty threshold – may find it impossible to operate formally.

Sixth, in a number of African countries, much of the population has had to earn their incomes in an environment characterized by high levels of violence. In some economies war has been endemic, leaving behind frayed social and economic relationships, ruined infrastructure, and fundamentally disrupted possibilities for remunerative employment. This has had the impact of not only undermining economic activity but has also displaced large numbers of Africans who, as political refugees, have had to earn their livelihoods in the informal economy.

One approach to explaining informalization stresses the costs of formal regulations. Enterprises in the informal sector choose to operate informally because the costs of formalization so outweigh the benefits (e.g., Maloney 2004; Levenson and Maloney 1998; Loayza 1996; Sarte 2000; Ihrig and Moe 2001). The cost-benefit approach has been used to explain why informalization is common among small-scale firms or within labour-intensive activities. For small firms and the self-employed, the transaction costs of formal regulation are likely to exceed the benefits these firms derive from the legal system. However, as firms grow in size or become more capital-intensive, the need to participate in social institutions that protect property, enforce contracts, provide access to low-cost credit, or pool risk expands. When the benefits of formality outweigh the costs, rates of informalization can be expected to decline.

The regulatory approach does generate useful insights into how a prevailing regulatory environment can influence pressures toward informalization. But this perspective overlooks some major facts about the conditions in which informalization has been rising, particularly in context of structural adjustment reforms that have embraced a strategy of market liberalization and deregulation. Despite pressures to reduce government regulations in developing countries over the past several decades – in the areas of labour markets specifically but more generally as well – evidence suggests that informalization has risen in many of these economies.

This suggests that there are "push" and "pull" factors relating to patterns of informality. The reforms pursued under structural adjustment may have been, in many cases, detrimental to employment creation, causing an increasing fraction of the population to rely on informal activities ("push" factors). At the same time, institutions frequently fail to encourage formalization – e.g., the cost of registration of small enterprises and lack of benefits from doing so – the "pull" factors, representing incentives to operating informally. It should be noted that many of the analytical studies that emphasize only "pull" factors and that assume informal employment is freely chosen focus on the more developed economies of Latin America and Asia, and not sub-Saharan Africa.

Case Studies and Policy Issues

Our statistical overview and a number of more detailed micro-level studies of informal activities in sub-Saharan Africa, for example by the ILO (2002), shows that services and in particular street vending is the dominant informal activity. According to the ILO report, in Angola, Nigeria, South Africa and Uganda, almost half of workers in the informal sector are involved in retail trade.

Skinner (2008) provides an excellent review of informal street trading in Africa. Her review highlights the dominance of street trading in informal employment in Africa and the high levels of growth in the numbers of informal vendors. She argues that this growth is a result of a combination of factors, especially economic development, urbanization and migration. Within sub-Saharan Africa, cross border trade is a significant element of informal activities. South Africa, for example, attracts a substantial proportion of temporary migrants who buy merchandise for resale in their home countries. Given the thriving informal market in Zimbabwe, it is estimated that a fifth of women in the informal sector in Zimbabwe are involved in cross border trade. Women from Zimbabwe mainly purchase merchandise from South Africa, Botswana, Zambia, and to a limited extent from Hong Kong and China for resale back home. In West Africa, whilst the bulk of trade is in the region, traders equally travel as far as Dubai to "purchase high quality goods" that are otherwise unaffordable in their home countries (ILO 2002).

Thus, the majority of the informally self-employed in sub-Saharan Africa are engaged in the provision of services. This has important implications for how we think about policies to improve earnings and productivity. Productivity in services is distinct from productivity in manufacturing and other industrial activities. Productivity in services, and by extension earnings in service activities, is strongly influenced by the level of demand and development of markets. For example, a street trader's productivity will be largely determined by the quantity of goods she sells within a given time period. In manufacturing, productivity is often thought of as a "supply-side" factor linked to the nature of production technology. In services, the boundary between the supply-side and demand-side is blurred in the determination of overall productivity.

In order to keep this policy discussion tractable, we focus here on economic policy that may facilitate productivity growth in the informal economy in sub-Saharan Africa. Specifically, we focus on market development, finance, and assets.

Market Development

For the informal self-employed and those working in very small enterprises, the domestic market is the primary source of demand for goods and services. Therefore, barriers to market access and/or insufficient local demand will limit the ability of these individuals to realize income from their productive efforts. As pointed out earlier, insufficient demand can limit productivity growth, particularly in service-producing activities. Relaxing other constraints – e.g., improving access to productive assets – may have limited impact when limited market access and insufficient demand are significant obstacles.

Empirical evidence underscores the importance of the domestic market for informal activities in sub-Saharan Africa. For example, research has found that, in Ghana, informal employment depends on domestic demand in local markets (Barwa 1995). This is not surprising since trading and service provision account for most urban informal employment. Similarly, survey evidence shows that less than one per cent of all household enterprises in Kenya produce mainly for export (author's calculations based on the Kenya Integrated Household Budget Survey). Domestic markets are of overwhelming importance to very small-scale operators. As observed in the classic ILO (1973) report on Kenya, improving the quality of informal employment requires a shift in the composition of demand growth from formal activities, products, and services to informal ones. This implies that the development of domestic markets and forging closer links between informal and formal activities is critical.

There are a number of targeted interventions that can increase access to domestic markets. For example, improvement in infrastructure and other forms of public investment are critical. Better roads will increase access to population centers where demand is more concentrated and will lower transportation costs through efficiency gains. When small-scale producers can access markets themselves, their reliance on intermediaries can be reduced and their terms of trade can improve. Provision of public assets in urban areas can also help to create markets or enhance market opportunities, often involving relatively small costs.

For example, the municipal government of Durban/eThekwini – in cooperating with organizations of informal sector workers – established buy-back centers in the city to purchase recyclable materials (e.g., cardboard) from self-employed waste collectors. Prior to the establishment of the buy-back centers, waste collectors often had to rely on intermediaries for market access, which reduced their terms of trade and the share of value-added they were able to realize. The establishment of such centers for marketing recyclables allowed the self-employed to sell their services more directly to the companies processing the materials collected. In this way, a targeted, municipal-level intervention was able to increase market access and to create a type of market exchange that was not prevalent before. The development of markets often exhibits economies of scale that reduce transactions costs. Operating individually, the informal self-employed cannot take advantage of these potential benefits. However, by consolidating the purchase and sale of recyclables by establishing marketing centers, self-employed individuals can improve access to markets, raise productivity, and improve their earnings. Cooperation between municipal government bodies and organizations of the informal self-employed was necessary to realize these collective benefits.

Although we have emphasized that the development of the *domestic* market is critically important for workers in very small-scale enterprises, there are specific examples where facilitating export linkages has been successful. In these cases, the informal self-employed generally operate at the base of a global supply chain (also called global commodity chains). Household and small-scale enterprises supply goods to intermediaries who, in turn, supply the products to transnational businesses. There are numerous examples of goods produced in this way: garments, sports equipment, and agricultural products. The structure of the supply chain determines market access and the terms of trade for the self-employed. Because of the reliance on various intermediaries for access to the markets, terms of trade are often unfavourable for self-employed workers in these situations. This can reduce incentives for pursuing productivity improvements since the gains of higher productivity may be captured elsewhere along the supply chain, where market power is more concentrated.

There are numerous examples of interventions to improve access to export markets on more favorable terms – often involving NGOs that foster “fair trade” relationships. These initiatives typically require coordination between the transnational corporation (ultimately selling to the consumer market), a “fair trade” intermediary that helps to facilitate sourcing arrangements, and organizations of producers. By securing market access and improving the terms of exchange, such programs raise earnings, encourage productivity improvements, and may be a step towards upgrading activities so as to move into higher-value added production. However, it is important to keep in mind that these export-oriented programs must necessarily be targeted at specific niches of the informal sector and are not a viable option for the majority of the informal self-employed in sub-Saharan Africa who rely on the domestic market.

The Financial Sector

The lack of private assets, both financial and productive, represents one of the key constraints facing the informal self-employed. As already discussed, the need to acquire assets is often cited as one of the most formidable barriers facing the informal self-employed. Moreover, the earnings and productivity of very small-scale enterprises improve when private productive assets increase. Private savings – including the savings of family members and relatives – is the single most important source of start-up finance used to establish small-scale enterprises. Once again using data from Kenya and Madagascar to illustrate this fact, table 9 shows the source of start-up capital for enterprises operated by own-account workers and unpaid contributing family members. Note that credit from financial institutions – formal, informal, and micro-lending – is a relatively unimportant source of start-up capital for these enterprises. Credit from financial institutions becomes somewhat more important as the enterprises increase in size. For example, in Kenya, 5.8 per cent of enterprises with 1 to 4 employees raised their start-up capital from SACCOs and 1.3 per cent raised the capital using commercial bank loans. Nevertheless, own-savings still dominated as a source of initial financing.

Table 9 Primary Source of Start-Up Capital for Enterprises Operated by Own-Account Workers and Unpaid Family Members

	Kenya 2005/6	Madagascar 2005
Savings	62.2%	77.3 %
Family/relatives	20.7	6.7
SACCO	1.8	
Microfinance		0.5
Commercial bank	0.5	0.1
Other	14.8	15.4

Source: Authors' calculations.

The importance of own-savings in providing the initial source of finance for these enterprises raises an important problem. If savings is the most important source of finance for these very small-scale enterprises and poor households lack sufficient financial resources, how can individuals successfully participate in these forms of employment? It is important to recognize that the savings of poor households may be small, but often such savings exist. The issue then becomes how to leverage small quantities of savings to realize real improvements in productivity and earnings. Informal savings schemes in sub-Saharan Africa often help solve this problem by allowing groups of individuals to pool savings. Pooled savings then can be used to finance small-scale enterprises and informal activities.

Financial services and financial intermediation are often seen as the means through which savings can be pooled and financial resources allocated to where they are needed. Research suggests that access to credit can be an important determinant of productivity. For example, in Ghana, a study of informal enterprises in Cape Coast has shown that the availability of credit has a significant influence on the enterprise's efficiency and, therefore, its income-generating potential (Bhasin and Akpalu 2001). But as we have seen, very small-scale enterprises are often cut off from such financial services. Therefore, it is helpful to examine why this may be the case and what could be done to alleviate the situation.

In most African countries, the developmental role of the financial sector is circumscribed by limited access to the appropriate type of financial services that would encourage an expansion of productive activities. Barriers to credit and financial markets are a particularly severe problem for smaller enterprises, those operating in the informal economy, and agricultural activities. Since these activities account for the vast majority of employment in the country, financial constraints have a negative impact on efforts to improve employment opportunities.

Not only is access to credit limited, the cost of credit is typically high throughout Africa. Many factors are frequently identified as contributing to the high cost of credit: large interest rate spreads, poor information systems, the asset portfolio of banks (including reserves), and high transactions costs, in some cases linked to inadequate information. Banks remain the dominant *formal* financial institutions in much of Africa. Therefore, we will focus primarily on the structure of the banking sector in this short discussion of institutional constraints. Interest rate spreads – that is, the difference between lending and deposit rates – tend to be high throughout much of Africa. The higher the spread, the higher the cost of credit for any given deposit rate. A high spread also may indicate that deposit rates are unusually low. Low deposit rates discourage savings and limit the resources available to finance bank credit, particularly in the absence of a highly developed financial sector.

Two factors are particularly important in explaining the relatively large spreads in African banking systems. First, the risk premium that borrowers must pay in formal credit markets is extremely high. This is due to perceptions, often incorrect, that most creditors are high risk borrowers and not bankable (Atieno 2001). The reliance on perceptions is important since many commercial banking sectors never developed the capacity to collect information on the creditworthiness of potential borrowers outside of their traditional clientele (Kimuyu and Omiti 2000; Nissanke and Aryeetey 1998; Steele et al. 1997). Risk premiums are therefore likely to be particularly high for small-scale and rural borrowers. This creates a situation in which lenders often only extend credit with excessively high collateral requirements relative to the resources at the borrowers' disposal (UNECA 2005).

In recent years, there has been notable growth in the number of credit registries in certain African countries that provide information on credit worthiness to commercial lenders (Mylenko 2008). Although credit registries have been used to assess the risk of consumer loans, these new credit reporting services often do not yet adequately cover other under-served segments of the population – particularly loans to support the productive activities of the informal self-employed. The nature of very small scale informal enterprises – e.g., they often lack formal accounts of their financial activities – can constitute a barrier to establishing their creditworthiness using standard methods.

A second contributing factor to the sizeable interest rate spreads observed in Africa is the fact that banking tends to be highly concentrated, with a few large banks dominating the sector. Under these conditions, banks have a degree of market power to raise lending rates and lower deposit rates.

For small-scale and rural borrowers, transactions costs frequently raise the cost of credit from commercial banks. A large number of small-scale loans are more costly to deal with than a few large ones. Because many commercial banks in Africa have traditionally extended credit to the public sector or to finance international trade, they may be inefficient in managing loans to small producers (Steele et al. 1997). Therefore, small-scale borrowers require more of the banks' time and resources in terms of monitoring.

The high cost of bank credit is only one aspect of the credit problem. Often, potential borrowers have no access to credit even if they were willing to borrow at the prevailing market rate. That is, credit is rationed. One reason behind the low levels of credit to the private sector is that banks in sub-Saharan Africa tend to hold large amounts of excess liquidity (Sacerdoti 2005; Mkandawire 1999; Steele et al. 1997). Banks frequently prefer to hold low-risk assets with strong real returns rather than extending loans to borrowers whom they perceive to be high-risk. Short-term government securities are often the asset of choice because returns are often high and such investments are virtually risk-free. Again, credit rationing is likely to be particularly severe for rural and small-scale borrowers for the same reasons that interest rates are extremely high: lack of credit information systems and perceptions of risk.

We have discussed, in some detail, the problems of the formal financial sector. However, formal financial institutions – and formal commercial banks – represent only a fraction of the financial institutions operating in African countries. The limitations of the formal financial institutions, and the rationing of financial services, have fueled innovation in informal financial institutions. In many cases, informal financial institutions have already solved some of the problems associated with the formal sector although they face constraints of their own. Similarly, various micro-finance initiatives, often run as NGOs, have aimed to fill the void in financial services for small-scale enterprises and the informal self-employed in sub-Saharan Africa. When strategizing about financial reform, it is important to recognize the institutional diversity that already exists throughout Africa.

Informal entrepreneurs and small-scale businesses that cannot access formal credit markets may rely on informal sources of credit. Research suggests that, in some circumstances, informal credit institutions have distinct advantages vis-à-vis formal financial institutions. Informal credit institutions frequently have more detailed knowledge of local conditions, their clients, and the communities in which they operate

(Aryeetey and Udry 1997). They often face lower transactions costs when extending credit to underserved communities and regions. Moreover, research suggests that default rates among informal borrowers are often low relative to those of the commercial banking sector (Steele et al. 1997). Informal credit institutions are able to extend credit to such credit-worthy borrowers when formal institutional fail to do so. In these respects, informal suppliers of credit have successfully relaxed some of the constraints that inhibit access to formal financial services for people working in small-scale enterprises or informal self-employment.

The historic development of banking in many African countries partially explains the duality between formal and informal financial institutions. As noted previously, lending to government and public enterprises dominated the extension of credit in the country during the decades following independence. Many banks never had an incentive to develop the institutional capacity to collect information and monitor small-scale private lenders (Kimuyu and Omiti 2000; Nissanke and Aryeetey 1998). Under these conditions, informal financial institutions helped to fill this gap.

Informal and small-scale suppliers of credit face constraints of their own. Informal suppliers of credit are seldom integrated into the banking system, limiting the resources at their disposal. Formal credit institutions enjoy economies of scale and can mobilize large amounts of deposits for credit extension. Informal credit networks lack the resources and scale economies of formal banks. However, large commercial banks currently cannot serve small-scale borrowers efficiently. By fostering linkages between formal and informal credit institutions, more financial resources could be made available to support the expansion and improvement of informal activities, with potentially large positive impacts on employment outcomes (Aryeetey 2003; Amoako-Tuffour 2002).

However, there are numerous institutional barriers that could prevent the realization of mutually beneficial coordination between formal and informal financial institutions. As has already been pointed out, the commercial banking sector in many African countries has few incentives to alter their current lending practices and asset portfolios. These incentives would have to change to make such formal-informal linkages viable. In addition, the lack of prudential regulations for informal financial institutions may hinder the ability to forge links between formal and informal institutions. Formal financial institutions may be reluctant to enter into a relationship with informal institutions if there are no safeguards in place to ensure stability in the informal financial sector. An appropriate regulatory framework will need to be developed in order to integrate the activities of the two types of institutions. Therefore, reform of public policies governing the financial sector may be necessary before informal financial institutions and other alternatives such as micro-finance can be more fully integrated into the formal financial sector.

Access to Assets

Access to assets is a critically important determinant of earnings and productivity for the informal self-employed. A lack of productive assets represents a potential barrier to entry into these activities. We have emphasized the role of private assets. However, access to public assets or the services generated by such investments – for example, economic infrastructure and utility services – also affects private productivity and earnings. We have already touched on the role of public assets, such as transportation infrastructure, in improving market access. However, public assets can also enhance supply-side performance in addition to facilitating access to sufficient demand. It has been well-documented that access to basic electricity and water services can make a crucial difference in productivity levels in sub-Saharan Africa (UNECA 2005). Similarly, urban amenities that aim to support the livelihoods of traders by providing safe market spaces with the necessary facilities can be effective in reducing risks and raising productivity for individuals engaged in these activities.

Nevertheless, investments in public assets may not always serve the needs of the informal self-employed and very small enterprises, and infrastructure priorities often reflect the demands of larger industrial producers. Spatial inequalities in the distribution of public assets may be a problem if infrastructure remains underdeveloped in areas where informal enterprises operate. Under these conditions, the informal self-employed are further marginalized, being asset-poor in terms of both private and public resources. Much has been written on the role of traditional infrastructure projects and the impact on private productivity. In many cases, similar relationships between public assets and private productivity apply to small-scale producers. For example, electrification programs that extend the power network to underserved households allow the adoption of productivity-enhancing equipment (e.g., sewing machines). Here we illustrate this central point by focusing on a particular category of public asset, one that often receives less attention, but is particularly relevant for the urban self-employed in informal enterprises in Africa – public space in urban centers. Similar issues, but from a different perspective, are also discussed in the accompanying background paper on legal issues and challenges.

The governance of urban space in general – and public space in particular – is central to the livelihood strategies of many of the informal self-employed. Moreover, the issue will only become more important in the future given the rates of rural-to-urban migration and the projected growth rates of the urban population in sub-Saharan Africa. The informal self-employed need more space in order to operate their enterprises. However, because the majority of these workers are asset-poor, they lack private property rights over such space. In some cases, it is possible to operate the informal business from a residential structure. Even then, the tenure rights of these households may be uncertain. In other cases, the activities cannot be restricted to private homes. For example, street traders need to go to their markets – their markets may not come to them.

To illustrate the importance of location and space, table 10 provides estimates of the distribution of household enterprises in Kenya by the location of operation (as reported by survey respondents). About a third of all informal household enterprises in Kenya operate out of a residence. Therefore, the supply of basic economic services to these homes and the state of urban infrastructure in poor areas is a potentially important determinant of productivity. Approximately 47 per cent of the informal self-employed work in locations in which access to and use of space (other than residences) is likely to be a significant issue – in local markets, along the roadside, in mobile activities, and in kiosks. The contrast with formal enterprises is instructive – over a third of these activities are located in a shop or relatively permanent establishment and an additional 14 per cent report "other locations" – many of which were considered by the respondent to be permanent. Nevertheless, even for formal enterprises, the use of urban space is likely to be a significant issue.

Table 10 Location of Unincorporated Household Enterprises, Kenya 2005/6

	Informal	Formal
Residence	33.6%	14.5%
Jua Kali Shack	1.7%	2.7%
Local Market	21.2%	15.8%
Shop/establishment	11.1%	35.4%
Roadside	12.1%	9.5%
Mobile	11.4%	5.8%
Kiosk	2.3%	2.1%
Other	5.8%	14.1%
Undeclared/unknown	0.8%	0.0%

Source: Kenya Integrated Household Budget Survey.
Jua Kali ("hot sun") typically refers to informal manufacturing activities and specific types of services (e.g., mechanics and repair shops). Informal enterprises are not registered with a government authority.

Urban public space may be considered a type of public asset – although with specific properties. For example, access may not be entirely unrestricted or non-monitored, so some level of exclusion is possible. Moreover, urban spaces are only partly non-rival. That is, the use of urban public spaces by one individual does not necessarily preclude its use by others (e.g., mobile roadside retailers), but issues of congestion and diminishing returns can become serious problems. One approach to addressing problems of congestion, insecure tenancy, and "tragedy of the commons" effects is to increase the excludability of such space by defining enforceable private property rights (de Soto 1989). In certain cases, such an approach may be effective – e.g., when the distribution of property rights is equitable and external benefits are minimal or non-existent.

However, privatizing public space may be socially sub-optimal in the presence of positive externalities (e.g., cluster effects that increase aggregate demand and the development of markets), economies of scale (e.g., when multiple uses of public space are possible without significantly raising costs/lowering productivity of other users), and concern over equity (if the poor are unable to secure access to privatized property rights). Nevertheless, as already discussed, urban space is unlikely to exhibit the characteristics of a "pure public good" since there will be limits to the number of users who can benefit. Therefore, a viable regulatory framework for the urban environment is needed, one that improves the security of access to public assets among the informal self-employed. Some of the approaches to the management of urban spaces, adopted by municipal governments in many African countries, that aim to "clean up the streets" can be disastrous for the livelihoods of the informal self-employed in very small enterprises. The available research highlights some examples of more innovative and facilitative urban spatial policies that take account of the role of the informal self-employed in urban development.

Nnkya (2006) discusses the 1992 Sustainable Dar es Salaam Project (SDP), which was a turning point in the city's previous approach to urban spaces that sought to repress and restrict informal trade. This project, in collabouration with United Nations agencies, identified informal trading in the city as an economic development issue. By the mid-1990s, as a direct consequence of the SDP, a Working Group on Managing Informal Micro-Trade was established. This group identified constraints street traders faced and made numerous recommendations to city planners. One example of appropriate urban planning that arose out of the recommendations was the development of 24 types of steel shelves for street traders to display their goods. This was a design solution that addressed concerns of the health authorities particularly with food traders but also facilitated the cleaning of public space. Another consequence of the SDP was the Guidelines for Petty Trade adopted by the City Commission in 1997, which set out the framework for managing street trade. Nnkya does, however, point out that there are implementation inconsistencies – with management being haphazard in parts – and that while some traders are included, others, most notably women traders, are not. This was particularly the case in the more lucrative trading sites in the centre of the city. In comparison to many other cities in African overall, he argues, Dar es Salaam has created an enabling environment for street traders.

Another case that has been cited as a better practice in the management of street trading is Durban, South Africa (Skinner 2008):

> *[a] particularly innovative approach has been adopted in the inner-city district that contains the main transport node – the Warwick Junction. On an average day the area is estimated to accommodate 460,000 commuters, and at least 5,000 street traders. In 1996 the city council launched an area based urban renewal initiative. In careful consultation with traders, trader infrastructure was established. For example nearly 1,000 traditional medicine traders were accommodated in a new market and corn-on-the-cob sellers and those cooking and selling the Zulu delicacy, boiled cows heads, were provided with tailor-made facilities. Through this, the Project piloted an economically informed, sector by sector approach to supporting street traders. In parallel with infrastructure development there was a focus on improving management of the area. The area-based team established a number of operations teams to deal with issues as diverse as curbside cleaning,*

ablution facilities, child-care facilities and pavement sleeping. In 2001 the local authority in the city – the eThekwini Municipality – adopted an Informal Economy Policy. This policy acknowledged the informal economy as an important component of the city's economy and, drawing on some of the lessons learned from the Warwick Junction Project, suggested a number of management and support interventions.

This was an attempt to standardize a progressive approach across the city. Like Dar es Salaam, the approach developed suggests inclusive approaches to design, planning and management of public space for street traders are possible.

Conclusions

Although there are significant gaps in the information available on the informal economy in sub-Saharan Africa and there is significant diversity in the nature, form, and contribution of the informal economy across countries, from the statistics that we have presented, we are able to draw a reliable picture of the key trends. Our estimates show that formal employment represents a small fraction of total employment in most sub-Saharan African countries. Employment in the informal economy is an important livelihood strategy in the continent. Informal self-employment, particularly in services and agriculture is the dominant activity in many African countries. Although there are variations across countries, women tend, in relative terms, to be over-represented in these activities (largely because they are under-represented in formal employment).

In terms of earnings, the estimates show that earnings are lower and risks much higher in informal employment. There is evidence of a gender earnings gap that persists across employment arrangements – including forms of self-employment. That is, women earn less than men. The cases in which the gender earnings gap disappears as in formal wage employment in Kenya reflect the extent to which women have been excluded from formal wage employment and are not an indicator of gender equality. Differences in poverty rates between employed women and employed men are complex and consistent patterns may be hard to identify. This is because the very fact that women have access to paid employment may mean that the households where they live are less likely to be poor. Nevertheless, the combination of a gender earnings gap and women's marginalization in more precarious forms of paid work often means that, on average, employed women have higher rates of poverty than employed men.

The causes of informality in sub-Saharan Africa are complex but related broadly to the lack of economic development and the structural adjustment programmes that many countries have undergone. In some cases, war and political upheaval have contributed to the displacement of large sections of the population who have migrated and now earn livelihoods in the informal economy. There are also important considerations related to women's disadvantaged position in the formal labour market and to institutional and legal barriers that discriminate against very small enterprises.

Our policy discussion has focused on identifying appropriate economic strategies to facilitate support for informal workers. We highlighted three issues: market development, finance, and access to assets. With respect to market development, we note that given the predominance of service and agriculture, the domestic markets are overwhelmingly important for informal workers. Improved infrastructure and the provision of public assets are possible ways in which market opportunities could be significantly enhanced. A lot of the literature on the informal economy in Africa has focussed on issues of finance. We have highlighted the fact that the issues are often more complex than simple access to finance. In relation to assets, we have highlighted the need for appropriate urban policy and provided some examples of successful policy in this regard.

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