



13th African Regional Meeting

Addis Ababa, Ethiopia, 30 November–3 December 2015

AFRM.13/D.4

Background note for the panel on “Transition from the informal to the formal economy in Africa: The way forward”

Context

1. In Africa, the vast majority of the labour force and micro- and small enterprises (MSEs) is operating in the informal economy.¹ According to the most recent estimates, 66 per cent of the workers in non-agriculture employment in sub-Saharan Africa are in a situation of informal employment while this percentage is about 50 per cent in North Africa, with great disparities between countries.² If subsistence agriculture is considered, the percentage of informal employment is even larger considering that more than half of total employment of the region is in agriculture.
2. Recent years were marked by a growing awareness among policy-makers, workers’ and employers’ organizations worldwide, including in Africa, about the need to move out of informality to promote inclusive growth and to achieve decent work for all. The adoption of a new international instrument, the Transition from the Informal to the Formal Economy Recommendation (Recommendation No. 204), by the International Labour Conference in June 2015, achieved through strong tripartite consensus, provides the framework and the guidance for transition from the informal to the formal economy. The 13th African Regional Meeting is the first opportunity after the adoption of Recommendation No. 204, to discuss the informal economy and its characteristics in Africa and to reflect on the practical ways forward to promote the implementation of Recommendation No. 204 concerning transition from the informal to the formal economy.
3. The large knowledge and evidence base produced, with a major contribution by the ILO, shows that drivers of informality are manifold, multidimensional and context specific. It shows also that workers in informal employment have lower earnings and face higher risks of poverty than workers in formal employment.³ Although some activities in the informal

¹ ILO, 2014, *Transitioning from the informal to the formal economy*, Report V(1), International Labour Conference, 103rd Session (Geneva: ILO); ILO, 2015, *Small and medium-sized enterprises and decent and productive employment creation*, Report IV(1), 104th Session (Geneva: ILO).

² ILO, 2013, *Women and men in the informal economy – A statistical picture* (Geneva: ILO).

³ ILO, 2002, *Report of the Committee on the Informal Economy*, 90th Session of the International Labour Conference, 3–20 June 2002 (Geneva: ILO); ILO, 2009, *The informal economy in Africa: Promoting transition to formality – Challenges and strategies* (Geneva: ILO); ILO, 2011, *Efficient growth, employment and decent work in Africa: Time for a new vision* (Pretoria, ILO), ILO, 2014, op. cit.; UNRISD, 2010, *Combating Poverty and Inequality: Structural Change, Social Policy and Politics* (Geneva: UNRISD).

economy offer much needed livelihoods and incomes, most people engaged in informal activities in Africa: (i) are exposed to inadequate and unsafe working conditions, and have high illiteracy levels, low skill levels and inadequate training opportunities; (ii) have less certain, less regular and lower incomes than those in the formal economy, suffer longer working hours, an absence of collective bargaining and representation rights and, often, an ambiguous or disguised employment status; and (iii) are physically and financially more vulnerable because of working in the informal economy, which is either excluded from or effectively beyond the reach of social security schemes or safety and health, maternity and other labour protection legislation.

4. In Africa, the challenge of the transition to the formal economy is closely linked to the challenge of development and productive transformation of the economy. The low levels of productivity and the lack of productive employment opportunities in the formal economy associated with an overt dependence on traditional agriculture and services sectors explain the deficiency of the current sustained growth episode in Africa in promoting structural transformation of the economies in a way that the pattern of growth becomes more inclusive and that the working-age population becomes more fully and productively employed.⁴
5. From this perspective, it is important to note that Recommendation No. 204 acknowledges that most people enter the informal economy not by choice but as a consequence of a lack of opportunities in the formal economy and in the absence of other means of livelihood. Therefore, in a context of poverty and multifaceted vulnerabilities, policy efforts to facilitate transition to formality should go hand in hand with ensuring opportunities for income security, livelihoods and entrepreneurship.
6. To facilitate transition from the informal to the formal economy, policy-makers need to pursue a threefold objective, as recognized in Recommendation No. 204, of: (1) the transition of workers and economic units who are already in the informal economy; (2) the creation, preservation and sustainability of enterprises and decent jobs in the formal economy; and (3) the prevention of further informalization of formal economy jobs. All these objectives, and in particular economic diversification and the acceleration of formal job creation, are particularly relevant for Africa.
7. Recommendation No. 204 is a landmark Recommendation, as it is the first ILO instrument to address the informal economy in its entirety. It encompasses a broad scope of application to wage and self-employment and to various types of economic units. It represents a powerful policy tool for the fulfilment of the 2030 development agenda and, in particular, the Sustainable Development Goal 8 “**Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all**” which stresses the need to support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage formalization and growth of micro-, small- and medium-sized enterprises.

The magnitude of the informal economy in Africa

8. The vulnerable employment rate in sub-Saharan Africa is estimated at 77.4 per cent, which is the highest rate of all regions while it is 35 per cent for North Africa.⁵ Moreover, in

⁴ Economic Commission for Africa, 2015, *Economic Growth in Africa – Industrialization through Trade* (Addis Ababa: ECA).

⁵ ILO, 2014, *Global Employment Trends 2014: Risk of a jobless recovery?* (Geneva: ILO).

sub-Saharan Africa, more than eight in ten workers remained either poor or near-poor in 2014. Importantly, while the past two decades have seen significant progress in reducing working poverty across the developing world, the share of workers living just above the poverty line (between \$2 and \$4) rose in the developing world as a whole and in the majority of developing regions, including sub-Saharan Africa.

9. The structure of employment in Africa is also marked by the very large share of informal employment in total employment. Facing underdeveloped or non-existent social protection systems, a large share of the working-age population in the region is obliged to work in the informal economy to provide a living to their families. Non-agricultural informal employment represents 66 per cent of total employment in sub-Saharan Africa and 52 per cent in North Africa; and if subsistence agriculture is considered, the percentage of informal employment is even larger considering the share agricultural employment in Africa and the incidence of informal employment in agriculture.⁶ Considering sub-Saharan Africa, informal employment is lower in southern Africa, where it is ranging from 32.7 per cent in South Africa to 43.9 per cent in Namibia. In the other sub-Saharan African countries for which data were available, the percentage exceeds 50 per cent and reaches as high as 76.2 per cent in the United Republic of Tanzania, 89.2 per cent in Madagascar and 93.5 per cent in Uganda.⁷ For North Africa, the share of non-agricultural informal employment varies from 40.7 per cent in Algeria to 47.3 per cent in Egypt, and 50.6 per cent in Tunisia.⁸
10. In sub-Saharan Africa, the majority of informal employment occurs in the informal sector.⁹ For instance, three out of four informal jobs are in the informal sector in Mali and Zambia. The middle income countries show the lowest percentages of informal sector employment: 9.3 per cent in Mauritius and 17.8 per cent in South Africa. However, a significant number of workers in formal enterprises are also informally employed. In fact, 10–25 per cent of workers in the selected countries are informally employed outside the informal sector. In Lesotho and the United Republic of Tanzania about one out of three informal jobs fall into this category (figure 1).

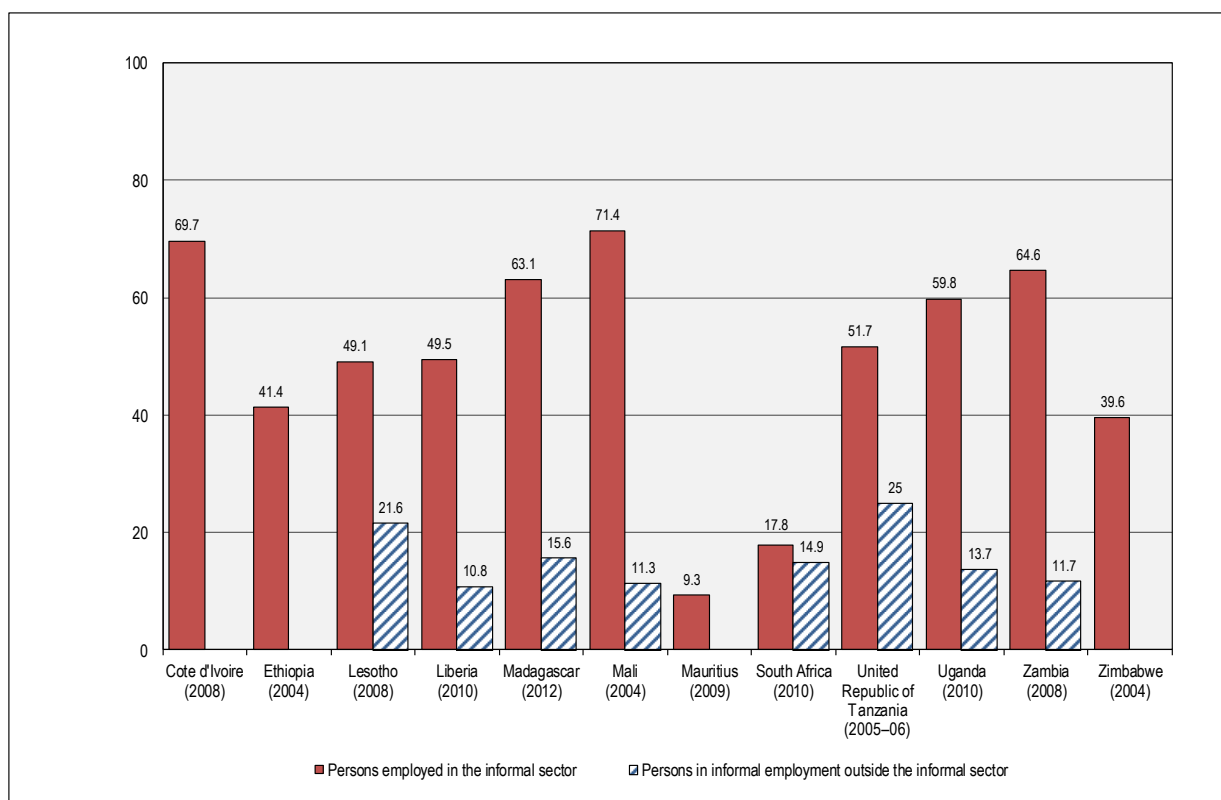
⁶ Charmes, J., 2011, “A worldwide overview of trends and characteristics of informal employment and informal sector in a gender perspective”, contribution to the update of the ILO, *Women and men in the informal economy*, ILO–WEIGO, Geneva (2013); Charmes, J., 2012, “The Informal Economy Worldwide: Trends and Characteristics in Margin”, *The Journal of Applied Economic Research*, 6:2 (2012), pp. 103–132. Countries include Algeria, Egypt, Morocco and Tunisia.

⁷ ILO, 2015, ILOSTAT database.

⁸ Charmes, J., “A worldwide overview of trends and characteristics of informal employment and informal sector in a gender perspective”, contribution to the update of the ILO.

⁹ The informal sector is composed of private unincorporated enterprises, i.e. enterprises owned by individuals or households that are not constituted as separate legal entities independently of their owners, and for which no complete accounts are available.

Figure 1. Persons employed in the informal sector and in informal employment outside the informal sector, percentage of non-agricultural employment (latest year available)



Source: ILOSTAT database, ILO Department of Statistics, 2015; ILO, *Women and men in the informal economy: A statistical picture*, Geneva, 2013.

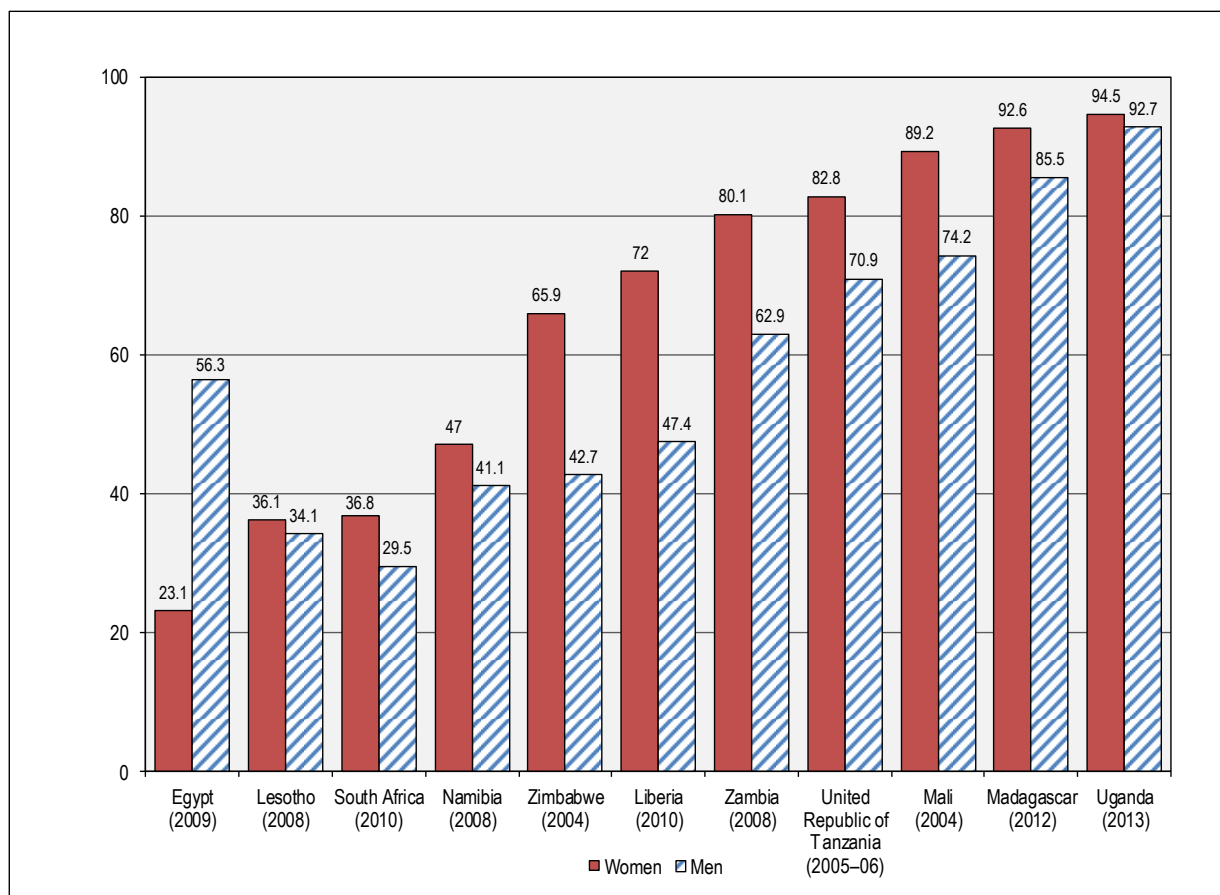
Characteristics of informal employment in Africa

- 11.** In most countries for which data disaggregated by sex are available, except Egypt, the share of women in informal employment in non-agricultural activities outnumbers that of men, particularly in Liberia, where it is 72 per cent for women compared with 47.4 per cent for men (figure 2). In sub-Saharan Africa, 74 per cent of women's employment (non-agricultural) is informal, in contrast with 61 per cent for men.¹⁰ Female vulnerable employment (typically unpaid family work) was also considerably higher than the rate for males, at 84.3 per cent compared with 70.1 per cent for males in 2014 in sub-Saharan Africa.¹¹

¹⁰ ILO, 2014, *Global Employment Trends 2014: Risk of a jobless recovery?* (Geneva: ILO).

¹¹ ILO, 2015, *World employment and social outlook: Trends 2015* (Geneva: ILO).

Figure 2. Informal non-agricultural employment (per cent), by gender (latest year available)



Source: ILOSTAT database, ILO Department of Statistics, 2015; ILO, *Women and men in the informal economy: A statistical picture*, Geneva, 2013.

12. Moreover, informal employment is the standard condition among most youth in sub-Saharan Africa where at least eight in ten young workers in all eight school-to-work transition survey (SWTS) countries fall into the category of informal employment.¹² The situation in North Africa shows a similar pattern with 91.1 per cent of young workers in informal employment.¹³
13. Self-employment constitutes a greater share of informal employment (non-agriculture) than wage employment. It accounts for as much as 70 per cent of non-agricultural employment in sub-Saharan Africa and 62 per cent in North Africa.¹⁴

¹² Elder, S. and Siaka Koné, K., *Labour market transitions of young women and men in sub-Saharan Africa* (Geneva: ILO); SWTS countries include Benin, Liberia, Madagascar, Malawi, the United Republic of Tanzania, Togo, Uganda and Zambia.

¹³ Barsoum, G., Ramadan, M. and Mostafa, M., 2014, *Labour market transitions of young women and men in Egypt* (Geneva: ILO).

¹⁴ ILO, 2009, op. cit.

Transition from the informal to the formal economy: The way forward

14. With an average rate of growth of 5 per cent per annum since the late 1990s, Africa is one of the fastest growing regions of the world which implies that for the first time in three decades, African economies are, on average, growing at a similar or higher pace to the rest of the world.¹⁵ In that context, some important changes are taking place in its demography; rapid urbanization is spreading, an African middle class is emerging, extreme poverty is decreasing and a more robust national and regional institutional landscape has also emerged.¹⁶
15. Although poverty rates are declining in the context of rapid growth, there are not enough jobs being created while the quality of jobs remains a challenge as evidenced by the high prevalence of informal employment, vulnerable jobs and working poor. In Africa, an increasing number of youth are entering the labour market, but there are few available formal jobs and decent work opportunities and most of them join the informal economy. Mass informal employment and a large youth unemployment coexisting with robust growth, this is the African paradox. As the formal sector – public and private – cannot absorb the increasing tide of jobseekers, informal employment usually drives job creation in most countries. In 2012, 77.2 per cent of workers in Central, Eastern, Southern and West Africa were estimated either self-employed, own-account workers or contributing family workers.¹⁷ In Kenya and Rwanda, three out of four workers are employed in the informal sector, a proportion that increases to over 80 per cent among women.¹⁸ Such high rates of informality are largely due to abundant labour supply compounded by inadequate social protection, making it hard for most low-skilled workers to quit the labour market. The coverage of social protection of informal workers in Africa today is estimated at around 10 per cent compared to over 50 per cent in Latin America and the Caribbean.¹⁹ Such informality is likely to trap people into poverty.
16. The fact that informality is gaining ground and remains a crucial development challenge does not mean absence of innovative policy frameworks to facilitate the transition from the informal to the formal economy and boost productive employment. African countries are searching for new policies and practical responses in order to promote decent work for a significant proportion of the working population who are engaged in the informal economy; and in many countries like in Algeria, Tunisia, Namibia, South Africa, Madagascar, Senegal or Cameroon, the ILO is assisting them in designing and implementing effective measures to tackle the issue of the informal economy and promote decent work conditions.
17. Beyond specific policies targeting some specific economic units or categories of workers in the informal economy, it is crucial for Africa to implement coordinated macroeconomic, sectoral, trade, industrial, fiscal and infrastructure policies which should be oriented towards achieving growth, productive employment and poverty reduction targets together with macroeconomic stability. In other words, macroeconomic policy should be focused

¹⁵ Economic Commission for Africa, 2015, op. cit.; World Bank, 2008, *Africa Development Indicators 2007* (Washington, DC, World Bank).

¹⁶ Economic Commission for Africa, 2012, *Putting Africa First* (Addis Ababa: ECA).

¹⁷ ILO, 2014, *Global Employment Trends 2014: Risk of a jobless recovery?* (Geneva: ILO).

¹⁸ ILO, 2014, op. cit.

¹⁹ ILO, 2015, op. cit.

not only on macroeconomic stability, but also on creating a supportive environment for employment generation, sustain rapid productivity growth, and economic structural transformation.

- 18.** In the coming years, the ILO will be fully committed to support its constituents in their effort to implement Recommendation No. 204 and promote the transition from the informal to the formal economy.

Suggested points for discussion

1. How to make good use of the momentum created by Recommendation No. 204 to promote social dialogue and implement effective policies to facilitate the transition from the informal to the formal economy?
2. What are the core priorities in Africa to promote formal employment and facilitate the transition to formality?
3. What are the opportunities and good practices in Africa for transition to formality?
4. What kind of technical assistance and capacity building would be required to support constituents to implement Recommendation No. 204?