

# The African Informal Sector at the Crossroads: Emerging Policy Options

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*Résumé: Certes, le secteur informel permet à des millions d'Africains de faire face à la privation et à la marginalisation et de survivre au jour le jour. Cependant, il a échappé aux mains des économistes, des statisticiens, des comptables nationaux et du fisc. C'est un secteur qui crée des emplois, assure revenu et formation, contribue au PIB tout en entretenant d'importants liens avec d'autres secteurs comme l'agriculture et la manufacture. Les économies occidentales étaient mal préparées pour s'accommoder des réalités en matière de production, d'emploi et de revenus, prévalant dans les économies africaines. L'application de ces théories à la planification a débouché sur une marginalisation totale d'une bonne frange des producteurs africains. Présentement ce secteur est devenu populaire et, sous la pression des programmes d'ajustement structurel, il a été obligé de se substituer au secteur public, pour ce qui est de l'appui aux services sociaux. Toutefois, l'euphorie ainsi créée comporte des aspects socio-économiques négatifs. En somme, les options de politique qui se dessinent, militent implicitement en faveur d'une attitude de laisser-faire envers le développement. Sous le manteau des notions d'"auto-suffisance", de "participation populaire", le secteur informel est en passe de devenir la décharge publique de la responsabilité de l'Etat.*

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## Introduction

Over the years, the informal sector has increasingly engaged the attention of development planners and policy makers throughout the Third World. In Africa, the informal sector came into the development literature when it was "observed" in Kenya, creating jobs, providing incomes and producing goods and services for the urban poor and disadvantaged. It was a fascinating discovery for development theorists: the sector had for decades eluded economists, statisticians, national accountants, taxmen, policy makers and planners. Yet it operated every day before their very eyes. Shoe-shine boys, street vendors, market women, currency exchange agents, "one-door" bar and restaurant owners, road-side mechanics and bicycle repairs, etc. all make up the informal sector. They provide transportation, food, drink, clothing, and a wide range of goods and services to a cross section of the African population, especially the poor. The informal sector, it was discovered, allowed millions of African urbanites to cope with deprivation and marginalization and to subsist from day to day.

With persistent pressures from the international community, particularly the International Labour Office (ILO), African governments were made to

acknowledge the merits of this sector and its potential contributions to development, and to change their attitudes - usually negative ones - towards operators in this sector. Initially the informal sector was held up for what it could contribute to easing unemployment problems in Africa's towns and cities. Then its other qualities began to surface: income generation, production of goods and services, a ground for training and skills development, a haven for out-of-school youths, an important contributor to GDP, etc.

During the decade of structural adjustment of the 1980s, the qualities of the informal sector came out in bold relief to the extent that none could question its importance in the African economy, and to the extent also, that important international development and financial institutions, which of late, exert a tremendous influence on public policy in African countries have been advocating for the informal sector to be given a greater role to play in development.

This paper proposes how policies could be formulated to assign a more prominent position to the informal sector in national development. In so doing, it begins first by examining the concept of the "informal sector" with a view to finding a common ground, a better understanding of the meaning of the term. It then goes on to review the contributions being made by the sector to growth and socio-economic development in Africa so as to underscore its importance in the African economy and make a case for it not to be neglected. The paper ends by proposing how the sector could be better integrated into the national economy and what public policy towards the sector should and should not do if African governments should attain their objectives of rapid socio-economic transformation of the region.

#### ***What is the Informal Sector?***

Most attempts to define the informal sector despair even before beginning to do so. They start by referring to it as "elusive", "indistinct" a "fuzzy" concept, fraught with too many "grey areas" etc<sup>1</sup>. This may be so because the informal sector does not seem to fit properly into the conceptual slots of development economies. From the conventional economists' point of view the sector appears to have little that can go into national accounting; it eludes government regulation, operates outside established fiscal arrangements and because its operations are so diverse it is difficult to locate

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1 See for example ILO - *Employment, Incomes and Equality: A Strategy for Increasing Productive Employment in Kenya*; Geneva, 1972; Lisa Peattie "An Idea in Good Currency and How it Grew: The Informal Sector" *World Development*, vol. 15 No. 7 July 1987; Kenneth King, *An Evaluation of Research and Policies on Informal Sector Employment in Developing Countries*, World Bank, 1989; ILO/JASPA *Employment Promotion in the Informal Sector in Africa*, Addis Abeba, 1985; H. Joshi et al: "Urban Development and Employment in Abidjan", *International Labour Review*, vol. III, No. 4, 1975.

in *en bloc* within the production sectors of the economy. The "discovery" of the informal sector set development economics into some amount of disarray.

It was Keith Hart who first discovered the informal sector in Ghana at the beginning of the 1970s, while conducting anthropological research among the urban poor<sup>2</sup>.

He observed that:

*Price inflation, inadequate wages and an increasing surplus to the requirements of the urban labour market have led to a high degree of informality in the income-generating activities of the sub-proletariat. Consequently, income and expenditure patterns are more complex than is normally allowed for in the economic analysis of poor countries. Government planning and the effective application of economic theory in this sphere has been impeded by the unthinking transfer of Western categories to the economic and local structures of African cities<sup>3</sup>.*

In other words, Western-based economics was ill-prepared to accommodate the realities of production, employment and incomes as they prevailed in African economies. The application of these theories to planning resulted in a total marginalization of a good chunk of Africa's producers. It took an anthropologist, not an economist, to point out this serious error.

Little wonder, therefore, that when the first real attempt was made to integrate these informal forms of production into prevailing economic theory, it met with a host of conceptual, definitional and measurement difficulties. That first attempt was made by the ILO in its Kenya employment report<sup>4</sup>. In an attempt to define the informal sector, the report found it easier to describe what it is not i.e. the formal sector. By describing the obverse of the characteristics of the formal sector, the report arrived at a description of the informal. According to the report, the informal sector is *not* characterized by any of the following which belong to the formal sector<sup>5</sup>:

- difficult entry
- frequent reliance on overseas resources
- corporate ownership

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2 Hart Keith - "Informal Income Opportunities and Urban Employment in Ghana", *Journal of Modern African Studies*, No. 11, 1973 pp. 61-89.

3 Ibid.

4 ILO, *Employment, Income and Equity: A Strategy for Increasing Productive Employment in Kenya*, Geneva, 1972.

5 Ibid.

- large scale of operation
- capital-intensive and often imported technology
- formally-acquired skills
- protected markets (through tariffs, quotas and trade licences).

Therefore, its characteristic are its:

- ease of entry
- reliance on indigenous resources
- family ownership of enterprises
- small-scale of operation
- labour-intensive and adapted technology
- skills acquired outside the formal school system
- unregulated and competitive markets.

Many other attempts<sup>6</sup> at a definition have fared little better than the ILO's. Some have defined it by the types of activities engaged in it namely street trading, shoe shining, petty craft activity; others by its size of capital, type of technology and scale of incomes, namely low capital intensity or high labour intensity, rudimentary or adapted technology, low wage and income levels, low skill levels; or its form of entry and methods of operation namely high unpaid apprenticeship, long and unregulated working hours; or its usual clientele, namely the urban poor; or vis-a-vis its relations with state authority and support namely the extent to which it contravenes government laws and regulations particularly regarding taxation, location of enterprises, minimum wages, etc., its access to formal sector financial and credit institutions, etc.

The informal sector is all things to all men. Robert Jourdain attempted a generalization which, unfortunately is quite inadequate, if not untrue definition, of the informal sector: "The informal sector encompasses all economic activities that are not governed by any laws or do not receive any assistance from the state<sup>7</sup>".

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6 See for example, J. Friedman and F. Sullivan - "The Absorption of Labour in the Urban Economy: The Case of Developing Countries". *Economic Development and Cultural Change*, vol. 22, No. 3, 1974, pp. 385-413; H. Lubell, "Urban Development and Employment: The Third World Metropolis", *International Labour Review*, vol. 117, No. 6, 1978; S.V. Sethurman, "The Urban Informal Sector in Africa" *International Labour Review*, vol. 116, No. 3, pp. 343-352.

7 Jourdain, R. - "Patterns and Situation of the Informal Sector in Africa" in ILO, *Employment Promotion in the Informal Sector*, JASPA, Addis Ababa, 1985.

Some other definitions are even more confusing, which is probably why Hans Singer gave up and declared that: "the informal sector is like a giraffe: it is very difficult to define, but once you see one, you know it is a giraffe".

One definition that probably comes close to an acceptable generalization is provided by Natrass: by that definition, the informal sector consists:

*of all those people outside formal wage employment in the large-scale officially recognized and regulated sector, as well as all enterprises which function outside government rules and regulations and which operate on a small scale using labour-intensive technology*<sup>8</sup>.

This definition, however, places stress on employment and production, thus limiting, informal sector activities only to their economic dimensions.

What is certain is that any attempt to define the informal sector within the traditional parameters of economics will engender imprecision and confusion. One should recall that it was an anthropological study on how the poor (the unemployed and underemployed "sub-proletariat") survive in cities of the periphery that uncovered this sector where goods and services are produced, incomes are generated, skills acquired non-formally and employment is provided for millions. For close to two decades now, economists have been trying, with little success, to factor the informal sector into the development planning equation. In the last 5 to 10 years when structural adjustment programmes have been forcing African governments to divest from the economy, conservative social scientists have found merit in using informal sector forms of economic survival to replace public sector support to welfare and social services. This suggests that the informal sector is important not only for the goods it provides or the employment it creates, but also for the social services it renders in situations of government neglect. Thus, the informal sector should not describe only those activities through which cooking stoves and hoes are manufactured in some run down shack in a slum area of the city, but should also include the system in which credit and loans are provided by groups of individuals (e.g. the tontine system of West Africa) who would ordinarily not have access to the normal credit and loans markets, the communal system of resource mobilization for the provision of social services such as education, health, roads (e.g. the harambee system in Kenya), or the traditional African ways of caring for the old, the very young and the mentally ill.

The informal sector should be defined around ways of doing things<sup>9</sup>. It is the quasi-subsistence mode of producing goods and rendering services for

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8 Natrass, Nicoli Jean - "Street Trading in Transkei - A Struggle Against Poverty, Persecution and Prosecution", *World Development*, vol. 15, No. 7, 1967, p. 863.

9 As suggested by Lisa Peattie op.cit.

pay, profit or communal and social well-being. The term quasi-subsistence is being used here to describe the notion of ways of doing things that are slightly less tenuous than subsistence production. In any case, most informal sector activities begin on a subsistence basis before gradually moving away into something more secure over time.

Such a definition would lump together a wide range of social and economic activities which cut across all sectors of the economy.

Some of the activities that could be classified under informal sector would clearly be illegitimate. For example, informal sector intra-African trade is called smuggling; informal sector bureaux de change are the black market. Many informal sector activities are socially and economically unproductive such as drug-dealing, prostitution, armed robbery, etc., which may provide an income to those engaged in them, but little of value to society and to the economy<sup>10</sup>.

The informal sector by our definition is present in manufacturing, the services, agriculture and - some have argued - in government (in the prevalence of rent-seeking, bribery, graft, "tempercentism" of public officials). In fact, because the majority of Africans are "informal sectorities", some have suggested that the term "informal" might be a misnomer; it would be more appropriate to refer to it as the "ordinary" sector or stick to the old Lewisian terms of "traditional" sector which categorizes into one, everything that does not fall within the confines of the modern/formal sector<sup>11</sup>. Be that as it may, the concept of the informal sector is here to stay. It is important to identify the sector's contributions to socio-economic development and to determine how its potentials could be exploited for socio-economic transformation and sustainable development.

### **The Importance of the Informal Sector**

There is no denying the fact that the informal sector has made invaluable contributions to economic and social life in Africa. It has provided employment, incomes, skills, education, health care, goods, communication, transport, child care, etc. to millions of Africans who would otherwise have been completely neglected in their needs for these goods and services by the formal sector.

Evidently, because the informal sector began featuring on account of its employment creation capacities and its being a haven for the poor and

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10 See L.P. Mureithi - "Employment Promotion in the Informal Sector, Conceptual and Theoretical Issues" in ILO/JASPA *Employment Promotion in the Informal Sector*, op. cit., p. 38.

11 See Kenneth King - *An Evaluation of Research and Policies on Informal Sector Employment in Developing Countries*, World Bank, Washington, D.C., 1989.

disadvantaged, most of the literature has concentrated on employment and income related indicators.

***Contributions to Job Creation***

According to ILO/JASPA<sup>12</sup>, employment creation in the informal sector increased by an average of 6.7% each year from 1980 to 1985. The informal sector employed twice as many people than did the formal sector and created six million new jobs against the formal sector's 0.5 million over the same period.

Table 1 gives an indication of the important contribution made by the informal sector in the creation of jobs.

**Table 1 - Urban Employment in Africa 1980-85  
(in millions)**

Indicator	1980	1985	Annual % Charge
Urban labour force	28.1	36.3	5.3
Urban wage employment	9.6	10.1	1.0
Urban unemployment	2.8	4.5	10.0
Urban informal sector employment	15.7	21.7	6.7

Source: ILO/JASPA, African Employment Report, 1988.

In 1989, the informal sector employed 59% of the urban labour force or 19% of the African wage labour force. As shown in Table II, its share in total employment in 1985 varied from a high of 72.6% in Burkina Faso to a low of 21.8% in Gabon. It generated permanent employment for 19 million people in the decade of the 1980s whereas the formal sector provided only 2 million new jobs<sup>13</sup>. The importance of the performance of the informal sector during the difficult decade of structural adjustment would be even more appreciated when one considers that the severe economic contractions throughout the region deprived Africa's labour force of 3.6 to 4 million new permanent jobs between 1985 and 1987<sup>14</sup>.

12 ILO/JASPA - *African Employment Report*, 1988, Addis Ababa, 1988, p. 21.

13 See ILO/JASPA/ECA/OAU - *Report on the African Employment Crisis*, E/ECA/PHSD/HRP/MFC/90/6, Addis Ababa, 1990.

14 ECA - "Long Term Development and Structural Change in Africa: Manpower Planning and Utilization", ECA/ICHD/88/32, Addis Ababa, 1988.

**Table 2 - Share of Informal Sector Employment in Urban Areas in Selected African Countries (1985)**

Countries	Total Labour Force ('000)	Urban Labour Force ('000)	Informal Sector Employment ('000)	Informal Employment as % of urban Lab. Force	Informal Employment as % of total Lab. Force
Benin	1763	661	480	72.6	27.0
Burkina Faso	3270	392	236	60.2	7.2
Burundi	2108	144	65	45.1	2.9
Congo	640	514	153	36.9	23.9
Côte-d'Ivoire	3608	2332	1539	60.8	42.6
Gabon	465	211	46	21.8	9.9
Ghana	4671	1820	911	83.3	19.5
Guinea	2500	500	306	61.2	12.2
Madagascar	3932	838	190	22.7	4.8
Malawi	2655	578	133	23.0	5.0
Mali	2149	395	130	32.9	6.0
Nigeria	32232	12797	8332	65.1	25.8
Niger	2743	317	217	68.5	7.9
Rwanda	2681	246	116	47.2	4.8
Senegal	2478	625	283	44.3	11.4
Togo	1070	316	191	60.4	17.8
Zaire	10373	4919	3255	66.2	31.3
Africa	79598	27706	16369	59.0	20.6

Source: ILO/JASPA, African Employment Report.

### *Provision of Incomes*

Some 40 million workers earn their livelihood in the informal sector. The incomes they earn allow an additional 200 million children, out-of-school youths, old people and the disabled to survive. This fact converges with recent evidence<sup>15</sup> on informal sector incomes, to show that the sector is making very important contribution - providing a livelihood to a great many African. In fact, it has come to light that incomes earned in the informal sector are not as low, relative to those in the formal sector as had previously been thought. This may have been caused by the deep salary and wage erosions that occurred under structural adjustment programmes.

15 See for example A.A. Aboagye - "An Analysis of Dar-es-Salaam's Informal Sector", JASPA, Addis Ababa, 1985, ILO, *African Employment Report*, 1988.



Entrepreneurs in the informal sector earn incomes "that are comparable to, if not higher than the wages of workers in the modern manufacturing sector"<sup>16</sup>. Although wages of semi-skilled workers are lower than their counterparts in the formal sector, they are adequate enough to keep them above the subsistence line. The real losers in the informal sector appear to be the apprentices who earn from 0% (Yaounde) to 33% (Kigali and Bamako) of what apprentices earn in the formal sector<sup>17</sup>.

### ***Provision of Training***

Most new entrants into the informal sector (83.5%) are young illiterates or primary school leavers. They are equipped with only the most basic numeracy and literacy skills which makes them unprepared for direct entry into production. Some form of training on the job is therefore required of them. Even the few who enter informal sector enterprises from the vocational school system need some form of skill adaptation through training, because formal vocational education is typically geared to the needs of modern sector enterprises. In an informal sector survey conducted in Dar-es-Salaam, Aboagye discovered that some 63% of informal sector apprentices acquired their vocational skills in that sector whereas only 7.9 and 10.7% received training in vocational schools or large firms respectively<sup>18</sup>. This may be quite representative of the situation prevailing throughout the region in respect of the informal sector's contribution to skill development.

### ***Contribution to GDP***

Table III gives an indication of the important contributions which the informal sector is making to the region's GDP. In 1985, it accounted for as much as 34.6% in Liberia and 24.5% in Nigeria. In the twelve countries for which data were available, it contributed some US\$ 16 billion to GDP representing a respectable 20% of the total.

The sector was also found to have contributed 50% of production in trade, 32% in industry, 14% in services and 4% in transport<sup>19</sup>

### ***Linkages with Other Sectors***

The informal sector has very important output linkages with agriculture, to which it provides tools, equipment, services, etc, as well as input linkages with it and with manufacturing from which it obtains raw materials, spare parts, etc. The linkages with the formal sector are equally as strong, providing it with a wide array of intermediate and final products. Studies

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16 ILO/IASPA, *African Employment Report* op. cit. p. 74.

17 *Ibid.*

18 Aboagye, A.A. - "An Analysis of Dar-es-Salaam's Informal Sector", op. cit.

19 ILO/IASPA, *African Employment Report*, op. cit. p. 71.

have established that there is more demand for informal sector goods from outside the sector than from within it. A JASPA study found that informal sector operators consume only 5% of their own products, whereas 50% are consumed in the formal sector and the remainder in subsistence agriculture<sup>20</sup>.

**Table III - Contribution of Informal Sector to GDP in Selected Countries in 1985**

	Total GDP Millions of \$	Informal Sector GDP Millions of \$	Share of Informal Sector in GDP
Benin	1375	226	17.7
Burundi	1065	139.4	13.1
Guinea	1962	94.9	4.8
Kenya	5757	1121.7	19.5
Liberia	1003	345.5	34.6
Madagascar	2697	123.4	4.8
Malawi	1077	104.4	9.7
Mali	1643	107.3	6.5
Nigeria	50681	12439.7	24.5
Somalia	2206	154.9	7.0
Tanzania	3984	409.8	10.3
Zaire	5060	390.4	6.6
Average	79310	390.4	6.6

Source ILO/JASPA, African Employment Report, 1988.

Equally in the same study it was discovered that the informal sector spent some 25% of its turnover in purchasing inputs from the formal sector. For example, 28% of the electricity production in Djibouti is consumed by the informal sector. These are the types of linkages that allow for the sectors to stimulate each other's growth and increase the labour demand.

***Provision of Employment and Incomes to Women***

Although gender-specific studies on participation in the informal sector are relatively few, even the casual observer would admit the high rate of participation of women in that sector: marketing, cross-boarder trade, food retailing, dress-making, etc.

Table IV summarizes the findings of a study on women in the informal sector, conducted in Congo, The Gambia and Zambia. It reveals that in Congo 68.4% of all female employment in manufacturing was informal

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20 JASPA The Informal Sector in Africa.

sector, in trade it was 94.1% and in services, 5.0%. For The Gambia, the shares were 71%, 88.9% and 36.2% respectively. Most female participation in the informal sector was in trade (88.8%, Congo; 86.3%, The Gambia; and 86.4%, Zambia).

**Table IV - Female Participation in the Informal Sector**

Indicators	Congo	Gambia	Zambia
% distribution of employment			
Manufacturing	10.3	6.1	15.3
Trade	86.8	60.4	78.0
Services	2.7	33.2	5.2
% distribution of informal sector GDP			
Manufacturing	8.4	8.6	10.9
Trade	88.6	86.3	86.4
Services	2.5	4.7	2.4
Others	0.5	0.4	0.3
% shares informal sector/ Total employment			
Manufacturing	68.4	71.0	80.3
Trade	94.1	88.9	90.6
Services	5.0	36.2	16.1
% Share in informal sector GDP			
Manufacturing	21.2	14.5	28.6
Trade	67.8	30.3	47.8
Services	7.2	14.2	10.1

Sources: ECA/IRTIAW/UN: Synthesis of Pilot Studies on Compilation of Statistics on Women in the Informal Sector, May 1990.

#### ***Provision of Social Services***

The informal sector also operates on the social welfare plane. In disadvantaged communities, self help schemes provide credit, build schools and run them and provide health care facilities. Particularly in rural communities and in the urban peripheries it is through these self-help schemes that dwellings are constructed, maintained or repaired, and children get cared for during the working day. All these activities, which have as yet not featured in national accounting or with any degree of prominence in social accounting contribute significantly to the life and welfare of millions

of Africans. All these ways of doing things have proved to be a most effective cushion against crises and abject poverty.

### **Emerging Policy Priorities for the Informal Sector**

In recent years, African governments, regional and international organizations and donors involved in development activities in Africa have come to realize and acknowledge the important role which the informal sector plays in the socio-economic development of Africa. The earlier pronouncements of public sector support for the sector started in East Africa - Kenya and Tanzania. Initially this support took the form of linking the educational and vocational training system to the needs for skilled manpower in the informal sector as well as to the need to make new school-leavers more easily employable. For years, this support was real only on paper.

In the decade of the 1980s however, when the informal sector demonstrated its tremendous strength and resilience in the face of the recession and the socio-economic crisis, many African governments have more explicitly expressed their support for it and have actually followed up their policy pronouncements with concrete programmes designed to activate the potentials identified in the sector. For example, in their recent development plans, Burkina Faso and Kenya have come up with programmes of support for enterprises in the informal sector, and for grassroots socio-economic development institutions. Côte-d'Ivoire and Senegal have extended special licensing facilities to informal sector businesses designed to assist them forge stronger linkages with the formal sector markets and commercial institutions.

The international institutions themselves, which "exposed" the informal sector have been refining their policy proposal vis-à-vis a fuller integration of informal sector activities into national development policy and planning. In the past a call was made to African governments to stop harassing the informal sector to do away with the negative policies formulated against it and to begin extending to it, development support in the form of improved infrastructure, access to credit markets, market protection, access to technology and improved production inputs, training etc.<sup>21</sup>.

It is true that over the years, the response of government policy in this regard, though gradual, has been positive all over Africa. The examples are many. Access to credit and financial markets have been opened in some countries to informal sector operators. The best example of this initiative is

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21 See for example, ECA - "The Crisis of Unemployment and Human Resources Management", E/ECA/SM.II/33, Addis Ababa, 1985; ILO/JASPA, African Employment Report, 1988, op. cit.

in Nigeria where the "People's Bank" provides credit without collateral to small entrepreneurs who would under the conventional banking practices, otherwise not be eligible to such a facility. In Kenya, the production needs of the "jua kali" workers - meaning those working under the sun - is increasingly being recognized by government.

Efforts have recently been made to improve their production environment by providing them with simple workshops, electricity, toilets, public telephones, etc. Senegal has recognized the need to provide management support to up-and-coming informal sector entrepreneurs by making available to the management training and start-up capital on an interest-free basis. Several such programmes exist in Nigeria<sup>22</sup>: the job creation loan guarantee scheme which provides collateral to prospective entrepreneurs with good business ideas but no access to bank credit; the mature people's programme which provides opportunities for self-employment to retrenched public servants; the school leaver's programme which is targeted to technical and vocational training of out-of-school youths for eventual employment in the informal sector. In the Gambia, the indigenous Business Advisory Service provides managements support and training to informal sector operators and also assists in mobilizing capital for their start-up operations.

The priority to the informal sector that has recently surfaced in government policy is indeed commendable. There appears, however, to be emerging, an over enthusiasm with this sector, which needs to be dampened somewhat because of the undesirable and negative socio-economic development perceptions that seem to be weaving themselves around the importance of the informal sector. The 1990 ILO/JASPA/ECA report on the Employment Crisis in Africa had this cogent observation to make:

*... The 1980s have witnessed a process of informalization of the labour markets in Africa. Labour market informalization has taken two different forms. First, the production structure has been informalized in the sense that an increased proportion of economic activity is taking place outside the formal sector. At present, formal wage employment represents merely 11% of the regional labour force. The second type of informalization concerns the conditions of employment in the formal sector. Modern sector labour standards have gradually been informalized. Money wages have declined in some countries while real wages have been flexible downwards in most countries, both in absolute and in relative terms. The high wage levels that prevailed until the early*

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22 See Ali D. Yahaya - "Employment Creation and Skills Development: A survey of the Nigerian Situation" in Crispin Grey-Johnson (ed) *The Employment Crisis in Africa: Issues in Human Resources Development Policy*, AAPAM, 1990.

*1970s have been replaced by near-starvation wages in the 1980s, specially in the public sector*<sup>23</sup>.

It could be argued that these adjustments are market-induced. If that were the case, there would be no need to talk of "informalization" of the African labour market. The sad reality, however, is that they are, in fact, policy-induced - a direct policy of structural adjustment e.g. compression of wages and reduction of the public sector wage bill, or a fall-out of the application of SAPs - reduction in demand or contraction of formal sector activities resulting in a greater search for refuge in the informal sector.

Any casual observer of the way things are being done in Africa's modern sector would agree that the amount of "moonlighting" among Africa's formal sector workers has increased tremendously. More and more people spend more of their working time engaged in secondary activities that are not related to those activities for which they are employed and are being paid. But that is the only way they can make ends meet.

In sum, the formal sector appears to be divesting more and more to the informal sector in so far as the provision of incomes and employment is concerned. There are strong pressures on African governments to begin doing the same on the social plane as well. A recent World Bank policy study on education in Africa<sup>24</sup> recommends that African governments should reduce the level of public financing of education by containing costs and encouraging a greater community involvement in the provision of education services. In carefully worded language, it instructs African governments on the ways of "diversifying" their sources of financing education:

*... diversification can be achieved through increased cost-sharing in public education and through increased official tolerance and encouragement of non-governmental suppliers of educational services. For many African countries, increased user charges in public education will be inevitable, but the policy should be directed especially at the tertiary level, where more than a third of public expenditure in the typical country, now covers student welfare costs, as distinct from pedagogical cost...*<sup>25</sup>.

The African way of doing things through communal/self-help initiatives should, in other words, be exploited further to finance education. Already, in many African countries, communities are made to build and equip schools,

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23 JASPA/ECA/OAU - *Report on the African Employment Crisis*, op. cit. p. 15.

24 World Bank - *Education in Sub-Saharan Africa: Policies for Adjustment, Revitalization and Expansion*, World Bank, Washington, D.C., 1988.

25 *Ibid.* p. 2.

pay teachers and conduct repairs and maintenance. Children taking their own chairs and desks to school is becoming a familiar sight in the rural areas of Africa. The informal sector is taking over more and more of the public sector's responsibility for providing educational services. The same holds true for the provision of health care services, water supply, transportation and housing for the poor.

The emerging policy thus seems to be one of shrinking government responsibility in providing economic and social protection to the African people and to let them, through their ways of doing things, fend for themselves. Frank Child sounded the warning alarm almost twenty years ago when he wrote:

*The informal sector should be the development planner's delight. It provides its own venture capital and trains its own skilled labour. It needs little of the expensive, high-level professional manpower so much in demand in the modern sector. Roads, utilities and communications provided for the modern sector, will benefit the (informal) sector at no extra cost... It is a low-cost development sector<sup>26</sup>.*

Over the years there has been a progressive distortion of the findings of informal sector studies, to the extent that some governments and very influential development and financial institutions are today exploiting their knowledge of the African informal sector to see through policies that amount to advocating a *laissez-faire* attitude to development. Governments are passing on the buck to the informal sector. As L.P. Mureithi says, when the full social and economic potential of the informal sector were brought to light, it was 'Eureka' for *laissez-faire* policy-makers<sup>27</sup>.

### **Developmental Policies for the Informal Sector**

The World Bank describes the African informal sector as "the most accessible and competitive part of African economies"<sup>28</sup>. There lies its strength, but also its emerging weakness. It can be used under the guise of "self-reliance", "popular participation", etc. as the dumping-ground of state responsibility, and yet, the informal sector can and should be used as a stimulus of socio-economic development. It has always existed by another

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26 Child Frank - "Employment, Technology and Growth: The Role of the Intermediate Sector", in F. Chilo and M.E. Kempe (eds) *Small Scale Enterprise, Occasional Paper, No. 6*, IDS, Nairobi, 1973.

27 Mureithi, L.P. - "Employment Promotion in the Informal Sector Conceptual and Theoretical Issues" in ILO/JASPA, *Employment Promotion in the Informal Sector in Africa*, Addis Ababa, 1985, p. 41.

28 World Bank - *Sub-Saharan Africa: From Crisis to Sustainable Growth*, Washington, D.C., 1989, p. 135.

name in all developing societies: from the *meiji era* in Japan to the wild west of the United States. In the latter, it was gradually and completely co-opted into the formal sector. In the former, it was used as the hub of industrialization with blacksmiths being the main agents.

Africa is now presented with an opportunity to use the creative energies of the informal sector to spearhead socio-economic transformation by coming up with policies and programmes that would promote indigenous entrepreneurship and industrialization, begin establishing lasting linkages between all the sectors of the economy, raise worker skill levels, produce goods and services for the domestic economy, provide significantly more jobs and greater incomes for the urban labour force and the non-farm rural producers, and begin the process of sustainable and self-sustained growth.

Conversely, Africa could choose to leave its growth prospects in the hands of semi-literate slum dwellers who produce for a market of the poor, with levels of productivity so low that they can have little impact on the livelihood of the community. The informal sector can be used to sustain poverty and as a means of coping with deprivation. It can be left to producing poor quality goods and sub-standard social services. The informal sector can be used to frustrate Africa's objectives of industrialization, middle- and high-level manpower development, the modernization of agriculture and the eradication of poverty.

Many recommendations have been put forth as to how the informal sector could be rendered more productive and how its labour-absorptive capacity could be enhanced. Later, reference will be made to some of these. But as a first step, it is important to situate the potentials of the informal sector within the policies and strategies for socio-economic transformation of the African continent, which African governments have collectively embraced.

#### ***Implementing the AAP/SAP in the Informal Sector***

It is significant that the AAP/SAP recognized that the informal sector occupies an important place in Africa's political economy:

*Africa's informal sector plays a significant and growing role in economic activity, particularly in production, distribution, finance and employment creation. It is estimated to account for about 20% of total output and over 20% of the total labour force and these ratios are expected to rise over time. This notwithstanding the sector is presently fairly underdeveloped and is characterized by low productivity. In part, this is due to government policy which has so far generally neglected or discriminated against this sector. Additional impediments include: poor interlinkages with the modern formal sector, competition from modern manufactures; lack of training and limited access to more productive*



*resources. It is important, therefore, to support the sector with clear policies aimed at increasing its productivity*<sup>29</sup>

For the informal sector to be instrumental in socio-economic transformation, the constraints identified in the AAP/SAP must be removed and clear policies and programmes aimed at making it an important engine of growth and development would need to be formulated.

The informal sector already displays the prerequisites identified in the AAF/SAP for socio-economic transformation:

*Increasing the productivity and efficiency of resources, decreasing the dependency on external resources and ensuring a broad-based participation of its people in the process of deciding on their needs and producing them*<sup>30</sup>. The AAF/SAP also advocates financial autonomy as a prerequisite to development and calls for the elimination of relationships of dependences:

*foreign exchange and aid dependence; reliance on foreign direct investment... and all the different types of financial dependence*".

The informal sector has all these attributes within it. It produces for domestic consumption. It relies only marginally on external resources. It is almost totally devoid of financial dependence and especially in the social sector it involves the people in articulating their needs and organizing themselves to meet them. With careful planning of enabling programmes, the informal sector could be made to bloom in these basic attributes.

In what follows, an attempt is made to adapt the policy instruments advocated in the AAF/SAP<sup>31</sup> to requirements for informal sector development.

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29 ECA - *African Alternative Framework to Structural Adjustment Programmes for Socio-Economic Recovery and Transformation*, Addis Ababa, p. 3.

30 Ibid, p. 13.

31 Ibid, table 5.2, p.38.

**Table V - AAP-SAP Policy Instruments and Measures  
and Informal Sector Development**

Description of Policy instrument and measure	Effects for adjustment with transformation	Impact on the informal sector
A.1. Land reforms for better access and entitlement to land for productive use; enhancement of the role of women as agents of change and the modernization of the food production sector;	Increased production and opportunities for gainful employment; poverty alleviation and more equitable income distribution of the labour demand; increased urban incomes; expansion of non-farm, informal sector employment	Stimulation of demand for informal sector goods & services stepped up production of agricultural tools and implements; stimulation
A.2 Devoting at least 20-25 per cent of the total of public investment to agriculture productivity; expansion of rural employment	Improved rural infrastructure and agricultural institutions; increased agricultural rural, non-farm employment; increase in incomes	Stimulation of informal sector construction and related activities? transport, expansion
A. 3 Allocation of an increasing share of foreign exchange for imports of vital inputs for agriculture and manufacturing sectors; expansion of agricultural and industrial employment; increased domestic output of essential commodities and avoidance of import strangulation; and increased interlinkages between agriculture and industry.	Satisfaction of critical needs	Greater demand for informal sector goods and services, stimulation of production, employment and incomes
A. 4 Sectorial allocation of credit using credit guidelines that would favour the food sub-sector and the manufacture of essential goods.	Increased production of food and essential manufactured goods, increased gainful employment	More opportunities to improve production technology and services higher levels of productivity
A. 5 Adoption of investment codes and procedures tailored to the promotion and development of small-scale industries.	Better enabling environment with greater involvement of local entrepreneurs	More active encouragement of informal sector expansion and efficiency increase of employment and incomes.

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| A. 6  | Use of selective nominal interest rates in such a way that interest rates on loans for speculative activities would be greater than the rates on loans for productive activities, and resulting weighted real interest rates for savings would be positive                                 | Increased mobilization of domestic savings; reduction of speculative activities; shifting resources to productive activities  | Greater support to enhance efficiency and productivity increases in the informal sector                                      |
| A. 7  | Creation and strengthening of rural financial institutions   | Increased mobilization of rural savings and improved financial inter-value of rural production  | Growth of rural, non-farm activities; increase of quality, quantity and  |
| A. 8  | Rehabilitation and rationalization of installed productive and infrastructural capacities and setting up of an effective national maintenance system.  | Fuller capacity utilization; economic growth; savings in foreign exchange.  | Greater demand for informal sector goods and services; favourable employment and incomes effect                              |
| A. 9  | Utilizing the existence of <i>de facto</i> multiple exchange rates systems in a rationalized manner and/or creating and streamlining such a system for purposes of resource transfers, resource mobilization and reversal of capital flight and ensuring availability of essential imports | Encouragement of capital inflows, especially by nationals working abroad, and discouragement of capital flight; improvement in balance of payments; satisfaction of critical needs. |  |
| A. 10 | Creation of a special fund for loans at subsidized interest rates to certain groups of economic operators.   | Encouragement of greater productive activity  | Improvement in quality of informal sector products and services, higher productivity; expanded employment and higher incomes |
| B. 1  | Enlarging the tax base, improving efficiency and probity of the tax collection machinery   | Increased government revenue  | Greater chances of providing better and more social, technical and infrastructural support to the informal sector.           |

*Africa Development*

B. 2	Reduction of government expenditure on defence as much as possible, and on non-productive public sector activities	Release of resources for investment; improvement in resource allocation; improvement in balance of payments	More resource support to the informal sector
B. 3	Removal of subventions to parastatals other than those in the social sector and nationally strategic basic industries	Release of resources for productive investments; better fiscal balance.	Transfer of demand to informal sector enterprises, increased output; higher labour demand
B. 4	Use of limited, realistic and decreasing deficit financing for productive and infrastructural investments that have little import content	Sustaining growth through support to relevant production units	Increased direct demand for informal sector goods and services; stimulation of production, stimulation of informal sector demand for formal and agricultural sector goods and services.
B. 5	Guaranteed minimum price for food crops managed through strategic food reserves.	Food production on a sustained basis, assured income to farmers; increased access to food for majority of the population; control of inflation	Stimulation of informal sector food processing industries; transport services; trade, etc. more informal sector business activities; higher incomes; higher labour demand.
C. 1	Expenditure-switching (without necessarily increasing total government spending) to raise government outlays on, the social sectors particularly those aspects of education, health and the integration of women in the development process that are likely to increase productivity, such that an average of 30 per cent of total annual government outlays is devoted to the social sectors; and, thereafter to maintain a growth rate in public outlays on these sectors at above the population growth rate.	Satisfaction of critical social needs, investment in human capital; raising living standards of majority of the population.	Higher standards of health, education and nutrition; a more technically skilled workforce; higher productivity.

C. 2	Selective policies through subsidies, pricing policies, etc., to increase the supply of essential commodities required for maintaining a socially stable atmosphere for development.	Increased affordability of essential goods and services as well as critical intermediate inputs; increased production of industrial raw materials; control of inflation.	Stepped-up demand for informal sector goods and services; increase in output employment and incomes
C. 3	Selective use of trade policy, including banning of certain specified luxuries; high tax rates on conspicuous consumption and competitive factor inputs that have domestic substitutes, and mass education towards consumption of domestic goods.	Changes in consumption patterns; enlargement of markets for domestic goods; changes in production patterns; internationalization of production of factor inputs improvements in balance	Protection of market for informal sector goods; increased demand for inputs from other sectors stronger integration of informal sector into mainstream of national economy.
C. 4	Strengthening intra-African monetary and financial co-operation as well as payments and clearing arrangements.	Increased self-reliance and capacities to finance adjustment with transformation.	Encourages the introduction of informal sector goods in intra-regional export markets.
C. 5	Limitation of debt service ratios to levels consistent with sustaining and accelerating growth and development of payments position.	Freeing of resources for productive activities to sustain adjustment with transformation, improvement of balance	Informal sector would benefit from the additional resource outlays for productivity increases
C. 6	Specific export incentives for processed exports and carefully-selected primary commodities.	Increased diversification; reduced vulnerability to fluctuations in commodity prices; export growth and increased export earnings.	A more important participation of the informal sector in export markets.
C. 7	Differential export subsidies; removal of trade barriers; and encouraging better trade to boost intra-African trade	Reduced external dependence and better product mixes and integration in Africa.	Lifting of restrictions on informal sector cross border trade; more prominence and protection to informal sector products; greater demand and output.
C. 8	Bilateral and multilateral agreements on primary commodities.	Improved and more stable balance of payments.	

## **D - Institutional Support for Adjustment with Transformation**

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|--|--|---|
| <p><b>D. 1</b> Creation of adequately funded "supervised food production credit systems" in rural areas with easy access by farmers in terms of limited collaterals, etc areas like small irrigation schemes.</p>  | <p>Sustained increase in food production and adoption of technologies to reduce vulnerability to weather through increased investments in civil works programmes.</p>  | <p>Promotion of innovation in the informal sector; improved indigenous technologies; home grown production techniques; greater participation</p>          |
| <p><b>D. 2</b> Strengthening agricultural research focussed on production; creation of extension services and for the diffusion, application and operationalisation of research.</p>                               | <p>Will accelerate process of achieving a green revolution in Africa especially in the five food crops that are basic to food self-sufficiency in the region, (maize, sorghum, millet, rice and tubers) as well as accelerate the building up of a viable industrial base.</p> | <p>Stimulation of growth and efficiency of informal sector industries, transport system, trade and services; higher levels of employment and incomes.</p> |
| <p><b>D. 3</b> Creation of rural institutions to support cottage industries and small scale industries with emphasis on indigenous technology, domestic finance, rural infrastructure and women participation.</p> | <p>Promotion of integrated rural development; enhancement of the attractiveness of rural areas; promotion of rural technological development; employment generation.</p>   | <p>Expansion of rural informal sector enterprises to support agricultural production; higher productivity in on-farm and off-farm activities.</p>         |
| <p><b>D. 4</b> Legislation of a clear framework of ownership and participation of the different socio-economic groups such as rural co-operatives, artisans, traders, etc</p>                                      | <p>Will enable popular participation in production, marketing and development in general; and the strengthening of the informal sector and its ultimate integration into the main-stream of development.</p>   | <p>More active informal sector participation in marketing, distribution and trade.</p>  |
| <p><b>D. 5</b> Establishment of community development institutions especially indigenous NGOs and self-help programmes.</p>  | <p>Will enable use of direct community labour on a voluntary basis for the provision of rural infrastructure such as feeder and access roads, health centres and dispensaries, school buildings and small irrigation schemes.</p>  | <p>Expansion of employment and incomes; stimulation of demand for informal sector goods and services.</p>   |

D. 6	Greater mass participation in decision-making and implementation of programmes.	Greater confidence of the people in their own societies and government; greater commitment to development; more efficient and highly motivated human resources.	Empowerment of people to articulate their needs and meet them.
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***Informal Ways of Developing the Social Sector***

Concern has been growing over the increasing neglect of the social sector in Africa. This is manifest in the many social issues that have been brought to the fore over the years by the international community: birth control or family planning, the aged, the youth, street children, integration of women in development, etc. Much of the concern however, addresses problems that have emerged over the last three decades in the course of formalizing, and modernizing traditional society in the name of "development". These problems are the result of development strategies that have marginalized traditional ways of doing things (the informal sector) to protect those who have now emerged as the victims of these development policies and strategies.

There are traditional means of birth-spacing, health care, care for the aged, the child and youths. In traditional Africa, orphanage was not a problem, neither was hopelessness. The extended family system was such as to allow all vulnerable members of society to enjoy some measure of social protection. This is the informal sector at work in the sphere of social welfare and development.

One problem with the traditional ways of doing things is that they may not be as efficient as one would like them to be. Some countries have recognized this shortcoming in the informal sector and have proceeded with policies and programmes to increase the sector's efficiency in the delivery of social services. Zimbabwe, for example, has officially recognized the National Association of Traditional Healers whose primary objective is to make informal sector operators in the health sector ("witch doctors") provide better services to their clientele. It also aims at making formal and informal sector health systems work with each other in a mutually reinforcing way. The success of such an initiative can only lead to a much improved national health care system.

Much of what needs to be done to make the informal sector operate more efficiently in the social sector requires nothing more than training. In The Gambia, for example, traditional midwifery systems have been used to combat problems of infant malnutrition, morbidity and mortality. They are also more actively involved in family planning programmes. The people involved have been provided with additional skills and used as change

agents to propagate among their constituency, more efficient forms of caring for mother and child. Thus maternal and child health care systems have been improved using the existing ways of doing things in the informal sector, and without negatively altering the structure and infrastructure of the sector.

Public policies which aim at increasing efficiency in the informal/social sector will help improve on the delivery of services, render workers in the sector more productive, reduce their underemployment and raise their income levels.

### ***Increasing Productivity and Incomes in the Informal Sector***

In the decade of the 1990s, with or without the assistance of government, the informal sector will be the most important labour sponge in Africa's urban labour markets, where it will provide some 60 to 70% of the new job openings. Nationally, it will be second only to the agricultural sector, creating between 20 and 25% of all new jobs in the economy<sup>32</sup>. It will also be responsible for providing incomes and skills to millions of young African workers.

But its productivity and labour absorptive capacities could be increased substantially, if certain policies and programmes were directed towards it for the purpose. The possibilities for doing so are discussed below.

### ***The Policy Environment***

The main constraints on the growth of the informal sector are its difficulty of access to formal sector capital markets and a discriminatory macro-policy environment. Credit and market policies have generally favoured formal sector enterprises; banks avoid lending to the informal sector for its usual lack of collateral and higher risks of default. Local authorities deny informal sector operators business sites and subject them to constant harassment.

To increase the informal sector's labour absorptive capacity, it would be most important for these constraints to be removed *a priori*. In this respect, Nigeria's People's Bank and Kenya's informal sector infrastructural support programme are worthy emulation by other African countries.

Bank lending policy should be made more flexible to accommodate the special features of the micro- and small entrepreneurs. They would be more responsive to needs if they placed greater emphasis on project viability, management skill levels, experience and character of the borrower rather than collateral. Government could also assist by ensuring that it extends a much higher percentage of its loan guarantees to informal sector operators.

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32 Diejomaoh, Vremudia, P. - *Enhancing Employment Prospects in Tanzania: The Challenge for Policies, Programmes and Institutions*, ILO/JASPA, Addis Abeba, 1990.



### *Skill Upgrading*

The main problem facing entrepreneurs in the informal sector is one of low productivity caused, in part, by the low skill levels prevailing in the sector. Yet evidence exists to show that most informal sector operators have the potential to perform at much higher skill levels than they currently possess. Programmes should therefore be formulated to assist as many of them as possible, particularly those in manufacturing enterprises, to acquire more modern production skills whose application in their enterprises would help improve the quality of their products.

Management is an area in which many informal sector entrepreneurs are found to be wanting. Their performance would be significantly increased if they were trained in basic book-keeping, procurement and supply management, staff supervision and marketing.

### *Market Protection*

The informal sector produces a lot of goods that are, in fact used by enterprises in the formal sector. Systematic policies designed to guarantee an outlet for informal sector goods in the formal sector have yet to be formulated. Such policies would have the effect of ensuring that resources are not wasted in importing goods which could be produced locally while, at the same time stimulating the demand for informal sector goods in the domestic economy, and pushing up the labour demand.

In like manner, a guarantee of access to foreign exchange resources for the importation of essential raw materials and other production inputs would also help informal sector operators to increase their access to technology as well as improve the quality of their products, their value and the demand for them. Such increase and improvements would result in a commensurate increase in the labour demand.

### *Special Programmes for Youth and Women*

Youths and women constitute the bulk of informal sector workers in Africa. Yet they face special difficulties with regard to credit, entry, ownership and training. One JASPA study<sup>33</sup> reveals that a young man entering the informal sector was most likely to do so as an unpaid, or low-paid apprentice and would require a minimum of 15 years service in the sector before striking out on his own.

These entry and setting-down difficulties could be significantly assuaged if training institutions began mounting special programmes for informal sector apprentices on a needs-specific basis, and if a special capital fund to help themselves establish in business were created.

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33 Ibid.

The problem of informal sector women workers is mainly one of illiteracy. Considering that they abound in retail and cross-border trade activities, it is important, for their greater efficiency, that their literacy and numeracy skills be upgraded. Special literacy and non-formal education programmes designed to attain this objective would meet this urgent need.

#### *Institutional Support*

The public institutions with responsibility for labour and employment matters have not as yet incorporated into their functions, the concerns of the informal sector. This goes not only for the way ministries of labour, employment, planning and education are structured and discharge their day-to-day responsibilities, but also in the way employers associations, workers unions and chambers of commerce and industry are constituted, draw their membership and serve their clientele. Their concern is almost exclusively for the formal sector labour force

With the incontrovertible evidence on the importance of the informal sector in job creation and the provision of incomes in Africa, and with the need for more explicit forms of government support growing every day, it is most important that a mechanism be installed in government to plan for, and monitor the growth and more efficient functioning of the informal sector. Ministries of labour, employment, human resources or planning would be the best locus for such a mechanism to be situated.

Equally, worker's and trade unions, employers' associations, etc., should be encouraged to broaden the scope of their activities to take in the needs of the informal sector.

Without such institutional support, it would be difficult for policies to be formulated or programmes designed and implemented in furtherance of national objectives for the promotion of the informal sector.

#### **Conclusion**

The AAF/SAP explicitly denounces any policies that result in the withdrawal or reduction of resources to the social sectors. In this paper it has been argued that informal sector social organization has been exploited to compensate for the growing neglect of social welfare concerns by African governments. The strengths of these informal social organizations should be exploited further not to fill in gaps created by the state shirking its responsibilities, but to complement the efforts of government to bring about rapid socio-economic development. To do otherwise would be to retard the pace of change and significantly limit Africa's development prospects.

Further, African governments should not attempt policies that end up formalizing the informal sector. Its credit institutions, trade networks, forms of production, health delivery systems, education and training, child care systems, etc., should not be disrupted, but rather be supported in ways that

would make them operate more efficiently in rendering services and producing goods.

In addition, the perception that the informal sector is there to cater to the poor and disadvantaged - true as it may be - should now be changed. The potentials of the informal sector are such as to make it the core of an integrated African economy, the hub of technology development and industrialization and a fertile ground for the acquisition of developmental skills.

Governments should formulate enlightened policies to allow the informal sector fulfill these most important roles, and eschew those policies that would make it perpetuate the vicious circle of poverty.

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