

# ► The Transition from the Informal to the Formal Economy in Africa

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## Summary

Eight out of ten workers in Africa are in informal employment, the highest share among all regions. Given the severe decent work deficits associated with the informal economy and the negative impact on inclusive and sustainable development, the transition to formality has occupied an important space on the policy agenda in Africa. While there is an increasing trend of informal employment in the region, some countries were able to reduce the share of informal employment in a given short period. The experiences of these countries indicate that formal employment growth with strong economic growth was the main engine by institutional policies promoting formalization. The type of institutional policies applied is diverse with some focussing on formulating specific strategies for enterprise formalization and improving regulatory environment. Others initiate the formalization process through extending social protection to informal workers or implementing specific programmes for promoting youth employment and their transition to formality. Even though not all policies implemented in countries with formalization episodes have been evaluated, some impact evaluations on formalization policies took place in Africa and prove to be effective for facilitating transition to formality. Given the current situation, high informality will remain a challenge to Africa in the near future, exacerbated by the dwindling ability of formal employment generation to absorb the increasing youth population in Africa. The youth population in Africa is projected to increase by 105 million people by 2030, 94 million of whom will live in the sub-Saharan subcontinent. This paper may not provide solutions to all but a revisit of those successful formalization episodes may provide some ideas for transition to formality in the new context of Recommendation 204 and 2030 Agenda for Sustainable Development Agenda.

## Introduction

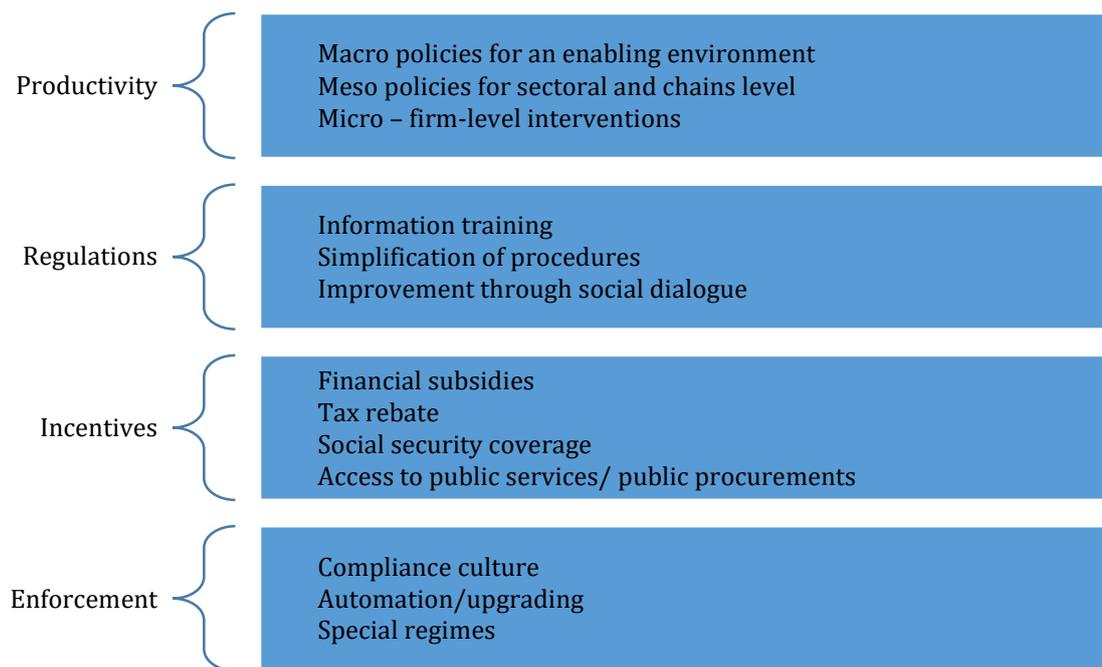
Eight out of ten workers in Africa are in informal employment, the highest share among all regions (ILO, 2018). Given the severe decent work deficits associated with the informal economy and the negative impact on inclusive and sustainable development, the transition to formality has occupied an important space on the policy agenda of the region. High informality will remain a challenge to Africa in the near future, even in a greater extent that requires more formal employment generation to absorb the increasing population as the youth population in Africa is projected to increase by 105 million people by 2030, 94 million of whom will live in the sub-Saharan subcontinent (ILO, 2017b). While there is an increasing trend of informal employment in the region, some countries were able to reduce the share of informal employment during the last few decades in different periods.

The transition to formality is taking place in a new context. The adoption of the Recommendation No. 204<sup>1</sup> by the International Labour Conference in 2015 was of strategic significance for the world of work and for the future of work as it is the first international labour standard to focus on the informal economy in its entirety and diversity and to provide practical guidance to address these priorities. This Recommendation clearly stresses the need to: (a) facilitate the transition of workers and economic units from the informal to the formal economy, while respecting workers' fundamental rights and ensuring opportunities for income security, livelihoods and entrepreneurship; (b) promote the creation, preservation and sustainability of enterprises and decent jobs in the formal economy and the coherence of macroeconomic, employment, social protection and other social policies; and (c) prevent the informalization of formal economy jobs.

This new consensus recognizing that transition from the informal to the formal economy is essential to achieving inclusive development and to realizing decent work for all is reflected in the 2030 Agenda for Sustainable Development Agenda<sup>2</sup>, notably Sustainable Development Goal (SDG) 8, which is to promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all, and, in particular, for the fulfilment of Target 8.3. This target aims to promote development-oriented policies that support productive activities and decent job creation, and to encourage the formalization and growth of micro-, small and medium-sized enterprises, including through access to financial services.

During the last decades, the ILO has observed an increasing number of countries that have implemented specific policies to facilitate the transition to formality. Analysis attributes their success in reduction in informality to constant economic growth, structural transformation and institutional policies in line with ILO Recommendation 204 (Salazar-Xirinachs et al., 2018). In particular, some countries pursue the policy pathway to formality that is mainly based on increasing productivity, improving regulatory environment and regulations, providing incentives and improving enforcement systems and measures as illustrated in figure 1.

**Figure 1: Main strategies applied for transition to formality**



Source: Chacaltana, J.; Leung, V.; Lee, M. 2018. New technologies and the transition to formality: The trend towards e-formality. Working Paper No. 247, Employment Policy Department, ILO (Geneva).

The main objective of this paper is to identify some formalization episodes and their approaches used for transition to formality. Section I revisits the concept of informality in Africa. An examination of the contemporary formalization policies in Africa reveals that the conceptualization of informality and its causes in Africa is much shaped by the historical development and socio-economic and political contexts during different periods. The consequences of such periodic development is reflected in the current magnitude, composition and characteristics of informal employment in Africa today shown in section II by using the latest ILO harmonized series data.

Section III tries to identify some countries with formalization episodes by looking at the trends. The paucity of data on informality remains to be a major challenge for policy makers in Africa, especially time series data. This section uses several sources of data, including the latest ILO harmonized series data, national reported data and Charmes (2016). Data show that there are a few countries that have managed to reduce the share of informal employment at different levels in different periods. These countries include Cameroon, Chad, Côte d'Ivoire, Democratic Republic of Congo, Ghana, Mali, Mauritius, Niger and South Africa in SSA and Algeria, Egypt, Morocco and Tunisia in Northern Africa.

In Section IV, we try to explore the reasons behind their success, in particular under what conditions and choice of institutional policies was the success achieved? One key observation from SSA has been the significance of economic growth as most of these formalization episodes took place during the period of strong economic growth. In North Africa, there is the counter-cyclical behaviour of employment in the informal economy. Apart from economic growth factors, countries in Africa have also implemented

institutional policies that facilitate transition to formality. While the majority of informal employment is in the informal sector, especially in micro, small and medium enterprises (MSMEs), many policies target supporting the development of MSMEs and increasing their registration through reducing costs. Extending social protection to informal workers, including self-employed, domestic workers and seasonal workers, through special social security regime and simplified contribution system is another common policy approach in Africa. Promoting youth employment and their transition to formality is another common strategy in the region. We will also look into what are the specific type and combination of institutional policies put in place in Africa during those successful experiences.

Section V explores the effectiveness of those formalization policies even though existing impact evaluations are limited. This is an area where more efforts need to be made in order to draw lessons on effective policies leading to formalization. Then, we conclude in section VI with those key elements in the recipes of success learnt from those formalization episodes and some emerging approaches in the region, showing country and regional commitments, which might become the new generation of formalization policies in Africa.

## I. A revisit of Informality in Africa

### Development and informality

Before examining contemporary formalization episodes and policies in Africa, the understanding of this contemporary period can only be derived from an overall examination of the development of the informal economy in the region which in turn cannot be isolated from the economic performance of countries in the region (Luebker, 2008). The socio-economic political contexts: pre-colonial, colonial, postcolonial and independent Africa shape the conceptualization of formality/informality and its relation to employment (table 1).

The historical aspect further helps understand the economic and social causes and drivers of informality in Africa. Shivji (2005) sums up the trajectory of the development discourse in Africa during the post-independence period as ‘from development to poverty reduction’ and continues to observe that the post-independence economies were typically dual economies. Development consisted in modernizing the traditional society.

**Table 1: Socio-economic political contexts and conceptualization of informality in Africa**

Period	Major development
<i>Pre-colonial (prior to 1800's)</i>	<ul style="list-style-type: none"> <li>• Employment relationships with barter trade instead of wage relationships where money played a role.</li> <li>• The non-market principle of Ubuntu - that the individual existence (and knowledge) is contingent upon relationships with others - in which the nature of exchange has been defined as an “economy of affection” and “networks of support, communications, and interaction among structurally defined groups connected by blood, kin, community, or other affinities such as religion.”(Hyden, 1983).</li> </ul>
<i>Colonial Period (mid-1800's to mid-1900)</i>	<ul style="list-style-type: none"> <li>• Period with deliberate development of the formal employment relationships.</li> <li>• Under the connection and appendage to European nations, colonial policies and institutions were established to secure the appropriation, extraction and export of resources — human and natural — in support of the expansion of manufacturing base and production in Europe.</li> <li>• This translated into an increased demand for labour. Taxation and forced labour were used as a means to deliver the needed labour force. But the success of these policies necessitated the needs to define its parameters and hence the formal employment relationships had to be developed.</li> </ul>

*Post-colonial and Independence*

- Conceptualization of formal/informal as related to employment continued and these policies became much better pronounced during this period.
- While the independent state could no longer guarantee the formal arrangement set by the colonial government in urban area, the informal economy began to fill in the gaps, by providing commodities, services and sources of income (Tripp, 1989).
- Some independent states, for example, Tanzania, Zimbabwe, Ghana and Kenya, introduced trade licenses, works permits and state-owned monopolies and other measures for formalization, however, without success due to different reasons.
- As described by De Soto (De Soto, 1989a) “informal economy ‘the people’s spontaneous and creative response to the state’s incapacity to satisfy the basic needs of the impoverished masses’ in particular through wage employment from which they could forge their livelihoods. While in the colonial period the formal/informal dichotomy signified difference in recognition by the colonial rule, in the postcolonial and independence period it evolved to signify access – to social services, to capital, to livelihoods. Again, while the former signified the onset of the legal recognition of the formal/informal, the demand and supply logic of the market is implicit in the later.”

During the first one-and-half decade of independence (1960’s), the African economies showed modest growth rates and investment and savings ranged between 15 to 20 per cent of the GDP. Primary and secondary school enrollment was expanded. Tertiary education was introduced. Medical and health statistics also showed improvement. But this growth and development was unsustainable (Shivji, I.G., 2006).

Growth in agriculture production was based on extensive cultivation rather than a rise in productivity through chemicalization, mechanization and irrigation. The growth in the manufacturing industry was heavily reliant on the import-substitution with little internal linkages and dependent on import of intermediary inputs. Investment was largely public while domestic private capital was stashed away in foreign countries. One estimate has it that by 1990, 37 per cent of Africa's wealth had flown outside the continent (Mkandawire, 1999). To top it all, foreign capital concentrated in extractive industries, which simply haemorrhaged the economy rather than contribute to its development.

The 1980's were largely described as the 'lost decade' in which Africa saw the decline of developmentalism and the rise of globalization. It was during this period that many African countries adopted the 'Washington Consensus' economic models of development that led to tight monetary policy to keep the inflation low, introduced free market economies and a circumscribed role for the state which translated into its withdrawal from much of the activities it used to perform. Many scholars who employ the developmental approach to informality have pinpoint this period, and the Structural Adjustment Programmes (SAPs) that followed as the main driver of informality in Africa. Their arguments have followed the logic that the policy environment supported free trade, financial liberalization, market deregulation, privatization, making labour markets more flexible, outsourcing production and the growth of temporary and casualized work. As a result of these changes, the continent witnessed an increasing labour market flexibilization (Fenwick et al. 2007), the weakening of the labour market contract and informalization of jobs, rising income inequality and worker differentiation, and gender-related socially ascribed positions in society and in the household.

These observations are supported by IMF (IMF, 2017) whose report observes that 'In the absence of sufficient opportunities in the formal sector, informal activity is an essential safety net that provides employment and income to a large number of people who might otherwise be bound to poverty'.

### Informality by choice or exclusion?

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 consequence 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. In the same perspective Gomez (Gomez, 2016) used the case of South Africa and Colombia to detail a taxonomy of informality, emphasizing the need to look at the root causes or motivation of the individual informal workers or informal units. He divided his taxonomy into voluntary, induced and subsistence informality:

1. **Voluntary informality** typifies workers who decide to be informal, given that the benefits of being informal are greater than those of being formally employed. This cost benefit analysis includes monetary variables such as income and taxes, but it can also include other 'amenities' of being informal such as labour flexibility, being one's own boss and independence.
2. **Induced informality** describes those informal workers who are willing to work formally and possess the necessary level of productivity to be employed freely in this market but are relegated to informal jobs because of excessive labour protection or implicit rules of the society, such as labour discrimination.

3. **Subsistence informality** is typified by those workers who are willing to work in the formal sector (or do not have particular preferences for informality) but do not possess the necessary skills to produce at the level required by the formal labour market. While these individuals may suffer from entry barriers to the formal labour market, a significant reduction in these barriers is not likely to generate an increase in their formal employment rates since the main driver of this kind of informality is their low productivity, coupled with a lack of demand for low productivity jobs in the labour market.

In the case of Africa, as said in Recommendation 204, it is obvious 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. In his conclusion, Gomez argued that informal workers cannot be treated as a single, homogeneous group and that even in instances where informality may promote inclusive growth for vulnerable groups, the cost of informality at a societal level should not be ignored.

### Informality beyond economics

While the developmental approach above places the onset of informality in Africa on the structural adjustment policies, the debate has moved beyond just the economics into the realm of the social consequences. What is interesting to note is that even as the social fabric of African societies was changing with the economic policy landscape, the informality that emerged was socially constructed. As Jenkins (2001) observes, the informality in the cities of the developing world often draws on norms and institutions derived from indigenous or pre-colonial socio-cultural orders in which

- The basis for social relations may be based more on kinship and community than the individual or nuclear family;
- The basis for political relations maybe based more on accepted authoritarianism or negotiated patronage than elected representation; and
- The basis for economic relations may be based on principles of social redistribution or reciprocity than utilitarian exchange.

These observations bring to the fore the need to understand the symbolically meaningful practices (Kiaga, 2012) or perhaps attempt to interpret meaning that people ascribe to such practices vis-à-vis informality. Seeking to explain informality beyond a mere economic approach affords the rediscovery of its interconnection with the social realm and hence provide a more holistic interpretation of information and its influence in various spheres of life.

The next section will examine in more detail the composition and characteristics of the informal economy in Africa. The importance of such an analysis lies in laying out a precursor for the understanding of the policy choices and responses on informality in the region.

## II. Magnitude, composition and characteristics of informal employment in the region

Today, informal employment remains to be the main source of employment in Africa, accounting for 85.8 per cent of total employment and 71.9 per cent, excluding agriculture. The share of informal employment is highest among all regions. Africa consists of SSA and North Africa with very different socio-economic development and difference levels of informal employment: 89.2 per cent in SSA and 67.3 per cent in North Africa. Non-agricultural informal employment accounts for 56.3 per cent and 76.8 per cent of total employment respectively (table 2).

Within SSA, there is substantial variation where the share of informal employment in Southern Africa (40.2 per cent) is twice less than Central Africa (91.0 per cent), Eastern Africa (91.6 per cent) and Western Africa (92.4 per cent).<sup>3</sup> In this subregion, employees represent 84.3 per cent of total employment compared to 37.2 per cent for SSA. The large variation applies among countries as well. While the share informal employment reaches its highest rate in Burkina Faso (94.6 per cent) and Benin (94.5 per cent), South Africa (34 per cent) and Cabo Verde (46.5 per cent) are with the lowest share (table 2 and figure 2).<sup>4</sup>

In Africa, 76.0 per cent of informal employment is in the informal sector and a relatively small proportion is in the formal sector (5.5 per cent) and households (4.3 per cent). Own account workers are the largest group within informal employment (94.3 per cent). More employers (77.9 per cent) tend to be informal than employees (56.8 per cent), especially in North Africa where 95.1 per cent of employers are informal compared to 46.7 per cent of employees.

Informal employment is a greater source of employment for women (89.7 per cent) and men (82.7 per cent). In SSA, except Southern Africa, more than 90 per cent of women are in informal employment compared to 86.4 per cent of men. North Africa shows the opposite situation where slightly more men (68.5 per cent) than women (62.2 per cent) are in informal employment (table 2). The young (94.9 per cent) and old (96.0 per cent) have especially high rates of informal employment. In Western Africa and Central Africa, almost all young people and older persons are informal (table 2).

The level of education is closely linked to informality in Africa where 94.0 per cent of those with no education are in informal employment. The rate of informality decreases from 88.6 per cent with primary education to 68.1 per cent for those with secondary education. Those with tertiary education (27 per cent) tend to be less likely in informal employment. This negative relationship is less obvious in Western Africa where still almost half of the employed population with tertiary education (49.4 per cent) are informal (table 2).

Informality is the main feature in the labour both in rural (88.3 per cent) and urban area (76.3 per cent). Almost all of the agricultural sector in Africa is informal (97.9 per cent).

The rate of informality is lower in the industry (77.4 per cent) and the service (70.2 per cent) sectors, but still very high (table 2).

Considering the size of enterprise and informality, the majority of own-account owner (94.4 per cent) and micro, small and medium enterprises (MSMEs), employing 2-9 persons, (90.4 per cent) are informal. MSMEs in Northern Africa (77.9 per cent) and Southern Africa (64.4 per cent) tend to be less informal than the regional average (table 2).

**Table 2: Africa (circa 2016). Total informal employment (agricultural and non-agricultural) (in percentages)**

	World	USA & Canada	LAC	Africa						Arab States	Asia & the Pacific	Europe & Central Asia		
				Total	Northern	Sub-Saharan	Central Africa	Eastern	Southern				Western	
Share of informal employment	61.2	18.1	53.1	85.8	67.3	89.2	91	91.6	40.2	92.4	68.6	68.2	25.1	
In the informal sector	51.9	16.0	37.4	76	58.1	79.2	83.5	82.9	27.6	79.6	60.9	58.6	19.4	
In the formal sector	6.7	1.7	11.6	5.5	8.4	5.0	6.9	4.8	4.9	4.4	7.5	6.9	5.3	
In households	2.5	0.5	4.1	4.3	0.7	5.0	0.6	3.8	7.7	8.3	0.2	2.5	0.5	
<b>Status in employment</b>	Employees	39.7	12.7	37.2	56.8	46.7	59.6	57.4	65.7	31.8	62.2	54.3	49.8	15.4
	Employers	50.7	5.5	43.4	77.9	95.1	67.1	83.4	70.8	40.6	60.2	75.1	53.6	39.9
	Own-account	86.1	68.6	84.1	94.3	96.9	94.1	97.5	91.3	88.8	96.0	94.3	86.2	60
	Contributing family workers	100	100	100	100	100	100	100	100	100	100	100	100	100
<b>Gender</b>	Male	63	18.9	52.3	82.7	68.5	86.4	87.1	89.1	38.4	89.8	70.2	70.5	26.4
	Female	58.1	17.3	54.3	89.7	62.2	92.1	95.2	94	42.4	95	61.8	64.1	23.6
<b>Age</b>	Youth (15-24)	77.1	12.8	62.4	94.9	87.5	95.8	95.1	96.7	56.4	97.9	85.1	86.3	35.7
	Adults (25+)	58.7	19.5	52.5	82.8	63.7	86.6	90.5	89.1	40.5	92.4	61.1	67.1	21.8
	25-29	62.6	17.5	46.4	85.5	71.6	88.2	90.3	89.4	47.2	94.3	68.8	70.8	26.4
	30-34	58.6	18.5	47	83.1	68.2	86.1	90.1	86.7	40.8	93.8	61	67.3	21.8
	35-54	55.7	19.1	51.3	79.7	58.1	84.4	88.9	88	38.3	90.6	56.9	63.8	20
	55-64	59.2	21.2	59.9	84.2	64.1	88.6	94.7	92.2	37.1	92.8	62.8	72.4	21.5
	65+	77.9	23.7	78	96	94	96.2	98	96.8	64.2	96.7	71.7	86.3	40.8
<b>Education</b>	No education	93.8	13.6	82.2	94	86.7	95.4	97.9	95.7	63	96.2	88.6	94.9	77.1
	Primary	84.6	32.8	72.5	88.5	78.3	89.6	96	94.7	48.6	92	77	89.7	40.9
	Secondary	51.7	18.2	50.8	68.1	57.4	71.9	83.5	82	27.2	73.7	51.9	58.9	23.3
	Tertiary	23.8	18.5	33.5	27	27.4	26.7	40	34.1	12.2	49.4	22.4	30.7	15.2
<b>Area of residence</b>	Rural	80	23.4	68.5	88.3	75.6	90.1	84.8	90.6	57.1	95.2	69.3	85.2	33.2
	Urban	43.7	17.6	47	76.3	58.1	80.8	89	80	32.7	87.3	63.9	47.4	19.4
<b>Industrial sector</b>	Agriculture	93.6	50.7	79.2	97.9	95.5	98.1	98.2	98.4	73.7	98.3	95.6	94.7	71.6
	Industry	57.2	16.7	49.1	77.4	69.7	80.6	84.8	83.2	34.1	91.5	80.9	68.8	21.9
	Services	47.2	17.9	49	70.2	49.4	75.8	75.9	76.2	37.8	85.4	57.3	54.1	20.2
<b>Size of enterprise<sup>1</sup></b>	Own-account	86.1	68.6	84.1	94.4	96.9	94.1	97.5	91.3	88.8	96.0	94.3	86.2	60
	2-9 persons	74.2	-	72.4	90.4	77.9	93.1	96.5	95.1	64.4	95.9	76.6	80.7	35.9
	10-49 persons	49.9	-	29.1	64.5	27.9	73.6	88.6	67.9	25.7	79.7	29.2	57.5	20.9
	50 + persons	32.9	-	15.3	40.6	11.0	47.1	58.2	44.7	16.1	49.5	19.1	38	15.6

Note: Global and regional estimates based on 119 countries representing more than 90 per cent of the world employed population. Applied a harmonized definition of informal employment and employment in the informal sector to national labour force or similar household survey micro datasets. Missing values have been estimated for key indicators on the size and composition of the informal economy for all ILO member States for which micro data were not available, with the exception of high-income countries in the Arab States region due insufficient coverage from existing data. <sup>1</sup> Informal employment by size of enterprise: global and regional estimates based on a smaller set of countries. Data available for 92 countries representing 71 per cent of the world employed population. No data available for North America. Source: ILO, Women and men in the informal economy: a statistical picture (third edition), ILO: Geneva, 2018; Harmonized series ILO and Bonnet, F

### III. Trends and formalization episodes

The major challenge for policy makers to track formalization progress in Africa is the paucity of time series data. We use different sources of time series data to identify formalization episodes in reducing informal employment, including ILO harmonized series, data reported by countries based on national definitions and Charmes (2016). Whereas there is conflicting data between sources because of using different indicators and methodologies to measure informal employment, we further look into the trends of proxy indicator, i.e. share of vulnerable employment, to identify formalization episodes in reduction of informality (see Annex figure A1). While the level of informality may fluctuate along several years or decades within a country, we will focus on the period with reduction of informality.

One of the most detailed recording of what continues to be the contemporary trend in the informal economy in Africa is by Charmes (2016). In his 2012 analysis, he observes that until the end of 2000s, there was a consistent rise of the informal economy as a proportion of non-agricultural employment in sub-Saharan Africa while Northern Africa achieved some positive results in reducing informality between 2005 and 2014 (table 3).

**Table 3: Employment in the informal economy in % of non-agricultural employment by 5-year periods**

Regions	1975-79	1980-84	1985-89	1990-94	1995-99	2000-04	2005-09	2010-14
<b>Northern Africa</b>	39.6	-	34.1	-	47.5	47.3	53.0	48.7
<b>Sub-Saharan Africa</b>	-	<i>67.3</i>	<i>72.5</i>	<i>76.0</i>	<i>86.9</i>	63.3	72.3	73.8
<b>Western Africa</b>	-	-	-	66.4	-	-	75.6	81.1
<b>Middle Africa</b>	-	-	-	-	-	-	80.5	78.3
<b>Eastern Africa</b>	-	-	-	-	-	-	-	72.2
<b>Southern Africa</b>	-	-	-	-	-	-	62.7	42.7

Source: Charmes, J. 2012. 'The informal economy worldwide: trends and characteristics', Margin—The Journal of Applied Economic Research, 6:2 (2012): 103–132, updated with new countries.

Note: Figures in italics are based on a too small number of countries to be representative.

Despite an overall increase in informal economy in the last decade or so in SSA, the data above indicates a period of significant reduction in the period between the year 1995 and 2004. Charmes (2016) also provides a more detailed Table 4 below which groups sub-Saharan Africa countries by decades in order to have more observations for each period (17 countries for the years 2000s, 7 for the years of 1980s and 8 for the years of 1990s). He notes that the data for the last decade was characterised by a numerous set of countries (17), but only 5 of them provided estimates for the previous periods, making it difficult to assess the trend for the region. Finally 25 countries have collected data for the last 5-year period. The quoted figures for the region give an image of a continuously

growing informal economy (from more than 60 per cent in the 1970s to more than 70 per cent during the three following decades), until the years 2010s, which seem to be characterised by a sharp increase. Between 1990 and 2014, Cameroon, Chad, DR Congo, Mali, Nigeria, South Africa and Tanzania experienced reduction of informal employment at different levels.

**Table 4: Share of employment in the informal economy (non-agricultural employment) by decade in Sub-Saharan Africa.**

Regions/Countries/Years	1975-79	1980-89	1990-99	2000-09	2010-14
Sub-Saharan Africa	<b>63.0</b>	<b>70.0</b>	<b>71.7</b>	<b>71.8</b>	<b>73.8</b>
Benin	-	-	92.9	96.3	96.2
Burkina Faso	-	70.0	77.0	90.5	-
Burundi	-	-	-	-	83.1*
Cameroon	-	-	-	79.5	67.3
Chad	-	-	95.2	-	90.7
Cote d'Ivoire	-	-	-	73.8	81.9
Democratic Republic of Congo	-	59.6	-	77.0	71.7
Gambia	-	-	-	-	83.7
Ghana	-	-	-	65.3	77.7
Guinea	-	64.4	86.7	-	-
Kenya	-	61.4	71.6	76.8	-
Lesotho	-	-	-	70.7	-
Liberia	-	-	-	56.4	60.5
Madagascar	-	-	-	73.7	90.7
Malawi	-	-	-	-	75.4
Mali	63.1	78.6	94.1	82.7	81.3
Mauritania	-	80.0	-	-	96.0
Mauritius	-	-	-	56.9	-
Mozambique	-	-	73.5	87.2	-
Namibia	-	-	-	43.8	43.9
Niger	62.9	-	-	88.8	88.5
Nigeria	-	-	42.9	78.6	71.5
Rwanda	-	-	-	-	56.2
Senegal	-	76.0	-	-	-
Seychelles	-	-	-	-	55.8
Sierra Leone	-	-	-	-	79.4
South Africa	-	-	39.1	32.7	41.4
Sudan	-	-	-	-	31.9
Tanzania	-	-	57.7	76.7	73.1*

Regions/Countries/Years	1975-79	1980-89	1990-99	2000-09	2010-14
Uganda	-	-	-	73.5	93.5
Zambia	-	-	58.3	76.3	76.4
Zimbabwe	-	-	-	51.6	85.6

Source: Charmes, J. 2012. 'The informal economy worldwide: trends and characteristics', Margin—The Journal of Applied Economic Research, 6:2 (2012): 103–132, updated with new countries.

Note: Non-weighted averages. Figures in italics refer to employment in the informal sector only. Figures in italics and with \* refer to employment in the informal sector and secondary activities. Figures in bold and italics mean that the average is based on a too small set of countries to be representative.

In Northern Africa (table 5), Charmes (2016) data show that there was an increasing trend of informal employment between 1975 and 2009 and it decreased during the period of 2010 and 2014. At the national level, Tunisia and Egypt experienced formalization episodes earlier between 1995-99 and 2000-04. During that period of time, the share of non-agricultural informal employment in Tunisia decreased from 47.1 per cent to 35 per cent while it decrease from 55.2 per cent to 45.9 per cent in Egypt. After that, Algeria (from 45.6 per cent to 37.3 per cent) and Morocco (from 78.5 per cent to 69.2 per cent) managed to reduce the level of informality during the period of 2005-09 and 2010-14.

**Table 5: Share of employment in the informal economy in total non-agricultural employment by 5-year period and by year since 2010 in Northern Africa.**

Regions/ Countries/ Years	1975 -79	1980 -84	1985 -89	1990 -94	1995 -99	2000 -04	2005 -09	2010 -14	2011	2012	2013	2014	2015
Northern Africa	39.6		34.1		47.5	47.3	53.0	48.7		48.2			
Algeria	21.8		25.6		42.7	41.3	45.6	37.3	40.7	37.7	37.3		
Morocco		56.9			44.8	67.1	78.5	69.2	70.9	71.5	69.2		
Tunisia	38.4	35.0	39.3		47.1	35.0	36.8	38.8		33.9	37.8	38.8	40.8
Egypt	58.7		37.3		55.2	45.9	51.2	49.6		49.6			

Source: Charmes, J. (2012) 'The informal economy worldwide: trends and characteristics', Margin— The Journal of Applied Economic Research, 6:2 (2012): 103–132, updated with new countries.

Note: Non-weighted averages. Figures in italics refer to employment in the informal sector only.

According to the ILO harmonized series data and data reported by countries based on national definitions (table 6), five countries experienced formalization episodes during the last two decades. South Africa achieved the most impressive results. According to the national data<sup>5</sup>, the share of non-agricultural informal employment dropped by 28.4 percentage points between 2001 and 2015. The ILO harmonized series data also recorded significant reduction of the share of informal employment including and excluding agriculture in South Africa between 2001 and 2018. In Côte d'Ivoire, the share of informal employment started decreasing from 97.7 per cent in 2013 to 92.8 per cent

in 2016. If excluding agriculture, formalization result was even more performing, decreasing from 96.2 per cent in 2013 to 87.7 per cent in 2016. Mauritius reduced the share of informal employment, including and excluding agriculture, by 2.5 percentage points (decreased from 54.7 per cent to 52.2 per cent between 2014 and 2017). Ghana and Mali achieved the same formalization results with the reduction of informal employment by 1.7 percentage points. However, it took Ghana for 13 years from 2006 to 2013 and Mali for 3 years from 2014 to 2017 to achieve the same results, reduction of informal employment by 1.7 percentage points. Formalization episode in Cameroon was a light one, decreasing from 91.0 per cent in 2007 to 90.2 per cent in 2014.

**Table 6: Trends in share of informal employment including and excluding agriculture (%), harmonized series**

Country		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Angola	Total				79.2							84.3							
	Non-agriculture				68.2							68.1							
Cameroon	Total							91.0							90.2				
	Non- agriculture							79.2							82.4				
Côte d'Ivoire	Total												94.8	97.7				92.8	
	Non- agriculture												92.2	96.2				87.7	
Egypt	Total								55.8	55.4	57.6	58.7	55.9	57.6		59.8	62.0	63.9	
	Non-agriculture								38.3	39.4	43.1	43.8	41.6	42.9		47.2	50.6	53.0	
Ghana	Total						93.8							92.1					
	Non- agriculture						87.1							86.0					
Madagascar	Non-agriculture*					73.6							89.3						
Mali	Total														96.3	96.1	94.9		
	Non-agriculture														89.9	91.2	90.5		
Mauritius	Total												51.3	51.5	54.7	53.3	52.9	52.2	
	Non-agriculture												49.7	51.5	54.7	53.3	52.9	52.2	
Namibia	Total												54.2	59.4	56.5		67.0		
	Non- agriculture												41.5	46.3	44.0		61.1		
South Africa	Total	55.9	51.7	51.3	51.1	53	54.1	53.7	35.5	33.7	34.1	33.0	32.1	32.6	32.5	34.8	34.3	34.6	35.3
	Non- agriculture	52.8	47.6	47.5	47.8	50.9	52.2	51.9	35.1	33.4	33.9	32.7	31.7	32.4	32.3	34.6	34.3	34.5	35.2
	Non- agriculture *	46.2				39.1					32.7					17.8			
Uganda	Non-agriculture										69.4			93.5					

Source: Harmonized series ILO and Bonnet, F. ILOSTAT database, 2018.

\*Note: Data are reported by countries based on national definitions.

With different data sources, we observed some formalization episodes in reducing the level of informal employment in Africa (table 7). Despite the constant rising trend in SSA, Cameroon, Chad, Côte d'Ivoire, Democratic Republic of Congo, Ghana, Mali, Mauritius, Niger and South Africa experienced formalization episodes at different levels during different periods. South African and Cameroon were able to achieve a double digit reduction of percentage points according to different sources. Even though Charmes (2016) and ILO harmonized series data show opposite trend in Ghana with Charmes (2016) data showing an increasing trend between 200 and 2014 and ILO data showing decreasing trend between 2006 and 2013, a further look at the share of vulnerable employment (Annex figure A.1) shows a decreasing trend.

In Northern Africa, Algeria, Egypt, Morocco and Tunisia recorded reduction of informal employment during different periods of time according to Charmes (2016). Tunisia is the champion with the reduction of non-agricultural informal employment by 12.1 percentage points between 1995 and 2004 but Algeria, Egypt and Morocco also reduced by more than 8 percentage points within a decade.

As seen in Latin America (Salazar-Xirinachs and Chacaltana, 2018; Maurizio and Vásquez, 2019) and Asia (Mehrotra, 2020), formalization episodes took place during the period of strong economic growth. We observe the same in Africa. The rate of annual GDP growth in most of the countries with reduction of informal employment is higher than the regional average (table 7).

**Table 7: Some cases of reduction of informality in Africa**

Country	Period	Evolution (p.p)	Indicator	Source	% annual variation in GDP
Algeria	2005-2013	↓ 8.3	Share of non-agricultural informal employment	Charmes (2016)	↑ 2.7
Cameroun	2000-2014	↓12.2	Share of non-agricultural informal employment	Charmes (2016)	↑ 4.2
	2007-2014	↓ 0.8	Share of total informal employment	ILOSTAT database and F. Bonnet (ILO harmonized series)	↑ 4.2
Chad	1990-2014	↓ 4.5	Share of non-agricultural informal employment	Charmes (2016)	↑ 6.2
Côte d'Ivoire	2013-2016	↓ 4.6	Share of total informal employment	ILOSTAT database and F. Bonnet (ILO harmonized series)	↑ 8.5
		↓ 8.5	Share of non-agricultural informal employment		
Democratic Republic of Congo	2000-2014	↓ 5.3	Share of non-agricultural informal employment	Charmes (2016)	↑ 5.6
Egypt	1995-2004	↓ 9.3	Share of non-agricultural informal employment	Charmes (2016)	↑ 4.6

Country	Period	Evolution (p.p)	Indicator	Source	% annual variation in GDP
Ghana	2006-2013	↓ 1.7	Share of total informal employment	ILOSTAT database and F. Bonnet (ILO harmonized series)	↑ 8.1
		↓ 1.1	Share of non-agricultural informal employment		
Mali	2014-2016	↓ 1.7	Share of total informal employment	ILOSTAT database and F. Bonnet (ILO harmonized series)	↑ 5.9
Mauritius	2014-2017	↓ 2.5	Share of total informal employment	ILOSTAT database and F. Bonnet (ILO harmonized series)	↑ 3.7
		↓ 2.5	Share of non-agricultural informal employment		
Morocco	2005-2013	↓ 9.3	Share of non-agricultural informal employment	Charmes (2016)	↑ 4.7
Nigeria	2000-2014	↓ 7.1	Share of non-agricultural informal employment	Charmes (2016)	↑ 7.3
South Africa	2001-2015	↓ 28.4	Share of non-agricultural informal employment	ILOSTAT database (Data are reported by countries based on national definitions)	↑ 3.1
	2001-2018	↓ 20.6	Share of total informal employment	ILOSTAT database and F. Bonnet (ILO harmonized series)	↑ 2.8 (2001-2017)
		↓ 17.6	Share of non-agricultural informal employment		
	1990-2009	↓ 6.4	Share of non-agricultural informal employment	Charmes (2016)	↑ 2.6
Tunisia	1995-2004	↓ 12.1	Share of non-agricultural informal employment	Charmes (2016)	↑ 4.9

Source: Harmonized series ILO and Bonnet, F. ILOSTAT database, 2018. Charmes, J. (2012) 'The informal economy worldwide: trends and characteristics', Margin— The Journal of Applied Economic Research, 6:2 (2012): 103–132, updated with new countries.

## IV. What happened during those formalization episodes?

In this section, we try to look into some of the countries identified in the previous section with formalization episodes. What are their pathways to formality? What are the conditions and institutional policies that contributes to their success? The aim of this section is to demonstrate different strategies and policy measures used during those formalization episodes in some country cases. Most relevant policy measures for transition to formality are selected in each country and the type of policy measures in each country may not be exhaustive.

### Sub-Saharan Africa

Sub-Saharan Africa (SSA) achieved considerable growth since mid-1990. In 2010, the famous 'Lions on the Move' report was published by McKinsey Global Institute (MGI) (Roxburgh et al., 2010). The report showed that Africa's economy was growing at a very fast pace<sup>6</sup>. Real GDP rose by 4.9 percent a year from 2000 through 2008, more than twice its pace in the 1980s and 90s. The most recent report by the Africa Union Commission (AUC; OECD, 2018) indicates that Africa has the second highest rate of growth of GDP in the world (estimated at approximately 3.7 per cent in 2018).

A combined analysis of economic and growth factors and institutional policies in SSA for the last two decades, reveals that rather than focusing on the reduction of informal employment, policy choices were determined by three key factors:

1. Redressing the impact of colonial and post-colonial economic and growth policies<sup>7</sup>
2. Responding to the need for decentralization of economic governance<sup>8</sup>
3. Participating in the regional plans and strategies<sup>9</sup>

With those formalization episodes in SSA, South Africa's strategy includes an array of policy areas in line with the above regional trend, including measures on enterprise formalization, bringing domestic workers under social insurance coverage, recognizing prior learning and decentralization to local level. Cameroon and Tanzania focus enterprise formalization, including reforms for improving business environment, appropriate regulatory framework and access to credits. Even though Cameroon considered enterprise formalization as a driver, the Government also implemented specific programmes for young transitioning to formality and ensures that employment formalization is linked with enterprise formalization. Ghana formalization experience takes an unusual approach in Africa to extend social protection to the informal economy and uses social dialogue as a tool.

### South Africa<sup>10</sup>

After South Africa's political transition in 1994, the informal economy grew and there were large increases in both informal wage and self-employment and high rates of open unemployment. The official unemployment rate<sup>11</sup> was 18 per cent in 1995 while seven years later, in 2002, it had increased to 31 per cent. A key reason for this has been the high number of new entrants into the labour force, coupled with low rates of labour

absorption. Given relatively stagnant growth in formal employment, informal employment became a buffer for millions of unemployed and underemployed South Africans (WIEGO, 2009).

Meanwhile, the informal economy is considered to be a significant contributor to the economy and to employment. The estimated contribution of the informal economy to GDP is about 7 per cent and it varies depending on different calculation methods. Based on the Labour Force Survey in 2007, the informal economy contributes 11.1 per cent to total incomes earned in main jobs across all employed persons. If the agricultural sector is excluded from the calculation, the informal economy's contribution is 10.7 per cent (WIEGO, 2009).

South Africa enjoyed a healthy pace of economic growth before the crisis hit in late 2008, with real GDP averaging 5.5 per cent during the period 2005 to 2007. However, the country's integration in the world economy made it vulnerable to the effects of the global financial and economic crisis and by the end of 2008 the South African economy went into recession for the first time in 17 years. Modest GDP growth returned in the second half of 2009.

Surprisingly, employment in the informal sector as a percentage of total employment fell over most of the crisis period, from 17 per cent in the second quarter of 2008 to 15.5 per cent in the third quarter of 2009. Of the 4.1 million unemployed in the second quarter of 2009, only 154,312 were registered against 111,692 registered claimants for the same period a year earlier. In the final quarter of 2009, employment in the informal sector rebounded by 116,000, compared with 41,000 in the formal sector, although the agricultural sector and private households continued to shed jobs (ILO, 2010). Even though GDP growth continued in the post-crisis period, it slowed to 1.5 per cent in 2014. Unemployment continues to pose significant challenges, reaching 24.3 per cent by the end of 2014; youth unemployment is particularly worrying, at an even higher rate of 49 per cent (Kumo, Omilola and Minsat, 2015).

To respond to the large increases in informal wage and self-employment and high rates of open unemployment after South Africa's political transition in 1994, the Government published the White paper on Small Business in 1995 with the primary objective of creating an enabling environment for Small, Medium and Micro-sized Enterprises (SMMEs), including informal enterprise (Rogerson, 2000). Since 2000, the South African Government has adopted integrated strategies on formalization that aim at facilitating formal job creation and formalizing the informal jobs and enterprises.

### **Formalizing informal enterprises**

South Africa adopted the National Informal Business Upliftment Strategy (NIBUS) in February 2014. The Strategy specifically targets entrepreneurs in the informal economy and its focus is mainly on women, youth and people with disabilities. It also prioritizes five economic sectors for intervention, including retail, manufacturing, services, agriculture and construction and maintenance. The strategic intervention pillars include

creating an enabling legal and regulatory environment; enterprise development and promotion; facilitating intergovernmental relations for delivery; partnership and stakeholder management; and empowerment through information and knowledge management. The implementation of the NIBUS starts rolling out from 2015 to provinces and local authorities.<sup>12</sup>

### **Extending the coverage of social insurance**

South Africa adopted measures to bring domestic workers, who were previously uncovered, under the umbrella of social security legislation. Domestic workers were included under the Unemployment Insurance Fund (UIF) in 2003. The Fund provides unemployment, maternity and adoption benefits as well as benefits in case of illness or death and covers all domestic workers, including housekeepers, gardeners, domestic drivers and persons who take care of any person in the home. The employer must register their workers and provide contributions. Lack of compliance is a punishable offence. The employer is responsible for the payment of unemployment insurance contributions of 2 per cent of the value of each worker's pay per month, of which the employer and the worker each contribute 1 per cent.

The UIF has streamlined registration procedures and provided free online registration to minimize administrative hurdles for employers and workers. From 2003–08 the Fund registered more than 633,000 domestic workers and more than 556,000 domestic employers have collected R395 million. By 2008 over 324,000 temporarily unemployed workers had received social security payments, the vast majority being women (ILO, 2013b). In 2010, 642,007 domestic employees were registered, compared to 7,109,462 commercial employees in the formal sector. In 2010, the UIF had 7.8 million declared and effectively registered participants.<sup>13</sup>

Complementing social insurance schemes, South Africa's set of tax-financed social grants also play an important role in enhancing income security for certain categories of the population. For example, the child support grant contributes to enhancing children's health and education, which can have a positive impact on their ability to access formal employment in later life (DSD, SASSA and UNICEF, 2012).

### **Establishing presumptions of employee status and regulating particular employment relationships**

In 2002, a rebuttable presumption of employment was introduced in the Basic Conditions of Employment Act. The law presumes that a person is an employee if one factor is present, for instance, the person has worked for an enterprise or another person for an average of at least 40 hours per month over the last three months. The worker only has to prove that one or more of those factors are present and the burden of proof shifts to the employer to rebut (contest and prove otherwise) this presumption (ILO, 2013b).

Employment relationships through the use of temporary employment services (TES) are regulated through the Labour Relations Act. Section 198 provides that the TES is the employer. However, the TES and the user are jointly liable if the TES contravenes the

terms and conditions of employment of a collective agreement, a binding award, provisions of the Basic Conditions of Employment Act, or a wage determination flowing from the Wage Act. The Labour Relations Amendment Bill, 2012, furthered defined temporary employment as limited to genuine temporary work that does not exceed six months. The amendments also introduce regulation of fixed-term contracts for those who earn below the threshold. An employee may be employed on a fixed-term contract for longer than six months only if the work is of limited duration or the employer can demonstrate a justifiable reason for fixing the term of the contract. An employee who is employed for longer than six months is deemed to be employed for an indefinite period and must be treated no less favourably than a permanent employee doing the same or similar work.

### **Recognizing prior learning**

The South African Qualifications Authority has developed guidelines and procedures for the recognition of prior learning within its National Qualifications Framework. Guidelines include assessment, feedback and quality management. Industry-specific plans have been developed which include skills verification systems and the organization of upgraded training; a number of these specifically target the informal economy in order to facilitate entry to the formal economy (ILO, 2013b).

### **Addressing vulnerable groups' needs working in the informal economy**

The Basic Conditions of Employment Act of 1997 provides domestic workers with access to the Commission for Conciliation, Mediation and Arbitration. It also provides that the employer “must display at the workplace where it can be read by employees a statement in the prescribed form of the employee’s rights under this Act in the official languages which are spoken in the workplace”.

Concerning street vendors, the Self-employed Women’s Union (SEWU), launched in 1994, and the Informal Trade Management Board, established in 1995, lobbied and negotiated with the Durban local authorities to obtain infrastructures for street vendors. Their activities ensured the incorporation of vendors in city planning. The acclaimed policy on Durban’s informal economy made a number of suggestions for improving street vending with regards to, for example, registration (simplification of the registration process and reduction of its cost), site allocation (criteria for allocation should be negotiated with stakeholders and the allocation of sites should then be done by officials), and operating charges (different transparent fees should be set according to location, size and services provided; payment should be simplified). It also established framework principles for by-laws.

### **Supporting municipal government infrastructure development via local tendering**

Under the Gundo Lashu Programme, the Limpopo provincial government collaborated with local municipalities to implement and identify rural infrastructure projects. The programme aims to utilize local resources rather than a central government public works or road authority to construct the roads and bridges. As a result, 24 local businesses were

contracted to build roads, bridges and other related infrastructure. After the process, local businesses were knowledgeable in the public tendering processes and were able to garner additional contracts, resulting in increased local employment.

The programme achieved its aim by engaging with municipal government and local businesses to build business-enabling infrastructure while creating jobs locally and stimulating the local economy. The municipal government played a crucial role as it had the managerial capacity and local knowledge to engage smaller formal and informal sector businesses in the immediate area, more so than provincial or central government which would have contracted a large infrastructure development company (ILO, 2013b).

### **Integrated support for the informal economy at local level**

In 2000, the Informal Economic Policy was adopted by the eThekweni Municipality, of which Durban City is a part, with the aim of including informal trade organizations and being responsive to the needs of the informal economy. The Durban Metropolitan Council recognized that the informal economy would require access to services and infrastructure. The city worked with informal economy workers to upgrade local infrastructure, strengthen business development and microfinancing services, and improved the business licensing system.

Through the council's infrastructure initiatives, workers in informal economy have better places of work and increased access to marketplaces. Moreover, the council has been working to increase the breadth and depth of business development and micro-financing services by strengthening linkages between service providers so as to deliver a comprehensive package of vocational and business training, technical assistance, and access to finance to firms.

In the area of business licensing, the Durban Metropolitan Council has been striving to simplify and consolidate the licensing process and introduce incentives, such as vocational training and lower utilities tariffs, for informal businesses. Moreover, the council has worked to develop the capacity of organizations in the informal economy to increase community-level advocacy and to ensure sustainability by verifying that the services provided by the council were truly needed by the beneficiaries (ILO, 2013b).

### **Cameroon**

Since the economic crisis in the mid-80s in Cameroon, the informal sector gained an important space in the labour market and became the main source of employment. The choice of focussing on enterprises formalization in Cameroon is mainly due to the large size of the informal sector employing the majority of the working population and the positive correlation between the formality of enterprises and employment.

Firstly, in 2003, data showed that the informal sector contributed 57.6 per cent to the GDP. The second Employment and Informal Sector Survey (EESI 2) revealed that there were 2.5 million of informal sector enterprises, excluding agriculture, in 2010 and the ratio between formal and informal enterprises was around 1:25 according to the General

Census of Enterprises in 2009 with only 93,969 enterprises formally registered, including the agricultural sector.

Besides, the EESI 1 and 2 show that employment formality rate in formal enterprises increased overtime. the proportion of formal employees in the formal sector who benefit from social protection and paid leaves increased from 50.9 per cent in 2005 to 73.2 per cent in 2010 (Van Doorn and Tall, 2017).

### **Integrating enterprises formalization in national development strategy**

The national development strategy (Le Document de Stratégie pour la Croissance et l'Emploi (DSCE) 2010-2020), formulated in 2009, recognizes the challenge of transitioning the informal sector to the formal sector through the development of the productive sector. It emphasizes on providing support to MSMEs in the informal sector through (i) flexible taxation regulation; (ii) facilitation of administrative registration, including social security; (iii) booking keeping training and (iv) assistance on installation and financing (ILO, 2017a).

### **Implementing reforms for improving business environment**

In line with the DSCE to provide support for MSMEs, the Government implemented a series of reforms aiming at improving the business environment, mainly in reducing the costs and number of procedures to create formal enterprise. These measures include the promulgation of a law on the promotion of SMEs, the creation of the Formality Centres of Enterprises Creation (Centres de Formalité des Entreprises (CFCEs)), the Chartered Management Centres (Centres de gestion agréée (CGA)), the SMEs Promotion Agency (Agence de promotion des PME (APME)) and some fiscal and non-fiscal measures in favour of transition to formality.

The law on the promotion of SMEs aims at supporting the creation of formal enterprises (see more in the next section). This law also allows the creation of the CFCE in 2010. The CFCE provides services as a one-stop-shop<sup>14</sup> to facilitate the registration of new enterprises within 72 hours. The legislation envisages the inclusion of four administrations in the centre, including the Ministry of Small and Medium Enterprises, Social Economy and Crafts (Ministère des Petites et Moyennes Entreprises, de l'Economie Sociale et de l'Artisanat MINPMEESA), the Ministry of Finance (Ministère des Finances (MINFI)), the Ministry of Justice (Ministère de la Justice (MINJUSTICE)) and the National Social Security Fund (Caisse Nationale de Prévoyance Sociale (CNPS)). This one-stop-shop allows entrepreneurs to register their business and fulfil their fiscal responsibility regarding social protection. Currently, ten CFCEs are in operation in Douala, Yaoundé, Limbé, Maroua, Garoua, Ebolowa, Bamenda, Bertoua, Ngaoundéré and Bafoussam. Recently, an online registration platform has been launched ([www.MyBusiness.cm](http://www.MyBusiness.cm)). The objectives of CFCE have been achieved quickly with the increasing number of new enterprises created each year. In its first two years of operation, the number of newly created enterprises has been more than a double each year, from less than 3,000 new enterprises created in 2010 (outside CFCE) to 7,441 in 2012. At the end of 2014, 32,773

enterprises were created in CFCE with the majority of them in Yaoundé and Douala (Van Doorn and Tall, 2017).

The CGAs were created to support informal enterprises in terms of their structuring and organization. They are associations who promote administrative culture for business development. They provide financial and tax management assistance and tax reduction of 50 per cent on taxable profits and other tax benefits for these small businesses (annual turnover of 15 to 100 million FCFA (26,750 to 178,334 USD)), provided that the latter keep formal bookkeeping record. The tax advisory services are provided directly by tax inspectors. The CGAs provide assessment and prevention services to informal enterprises in addition to their corporate compliance responsibilities. The CGAs are under the general responsibility of the Ministry of Finance but may be created by a consular chamber or a professional organization.

The SMEs Promotion Agency (Agence de Promotion des PME (APME)) aims at simplification of enterprises creation procedures and development of partnerships between the public and private sectors, and within the private sector by bridging the gap between SMEs and large companies. The agency is also responsible for reducing administrative burdens for SMEs, supervising the development of business projects and assisting in the management of existing businesses, offering assistance, advice and training to SMEs, and to facilitate SMEs' entry in the markets.

Other fiscal measures include the fee waiver for applying and renewing the social security contribution cards for new enterprises. This measure also reduces the cost of operating in the formal sector. New enterprises can benefit from exemption from the business licencing tax for the first two years of operation.

Non-fiscal measures include the facilitation of tax payment by bank transfer or electronic payment. In such case, these informal enterprises could open a bank account with partner financial institutions which allows them to have records of transactions and motivate them to formalize when reaching a certain sales amount.

### **Adopting appropriate regulatory framework for formalization of enterprises and employment**

Cameroon adopted several laws which are favorable for formalizing enterprises and employment. Law n°2010/001 of 13th April 2010 on the promotion of SMEs focuses on the creation, the incubation, the development assistance and the support of financing. This law promotes particularly business incubators which aim at disseminating corporate culture, providing guidance for start-up entrepreneurs in all necessary operations to strengthen their capacity, project ideas and other initiatives. The law states precisely that the business incubator institutions need to target enterprises created less than five years through:

- Supporting the founders of SMEs
- Identifying the entrepreneurial potential of SMEs and developing the talents of their founders or promoters

- Providing support to SMEs for establishing networks of contacts
- Informing SMEs on business opportunities and institutions providing business services
- Exposing the founders or promoters of SMEs with concrete experience linking to the business world

This law also reminds the obligation of all business owners to regularize their activities at the fiscal, social and financial level (Art. 42). The Agency for promoting SMEs was created thanks to this law (ILO, 2017a).

Law 2007/004 of 3<sup>rd</sup> July 2007 governs the crafts sector and defines its activities by three types, including craftsmanship, production and service. They all refer to "mining activities, production, processing, maintenance, repair or rendering of mainly manual and primary services, and whose manufacture is manual and does not give rise to an industrial standardization ". The craftsman is self-employed who manages his/her own business and rely on assistance from family members or apprentices. Article 21 of the law also prescribes the creation of a National Council of Crafts, a platform for public-private dialogue to promote crafts (Van Doorn and Tall, 2017).

Law No. 96-06 of 18<sup>th</sup> January 1996 allows the revision of the Constitution of 2<sup>nd</sup> June 1972 that invokes the right to work for all ("everyone has the right and the duty to work." The Cameroon Labor Code resonates with it and puts the State with more responsibility to guarantee full employment (Article 2, paragraph 1) and entrepreneurs with the responsibility to declare their activity to the labor inspectorate (Article 114, paragraph 1) (Van Doorn and Tall, 2017).

### **Specific programmes for youth transitioning to formality**

The main objective of the Integrated Support Programme for Actors in the Informal Sector (PIAASI) is to contribute to the transition from the informal sector to the formal sector, through supporting young people operating in this sector with a view to creating productive and productive jobs. The Programme started in 2005 and the intervention strategy is divided into three areas: (i) support for the organization of informal sector actors; (ii) support for the training of informal sector actors and (iii) support for financing of small projects of these actors. People operating in the informal sector or having economic projects are eligible for participating in the Programme. By the end of 2010, the Program had trained 11,064 informal actors, 456 crafts masters, financed 9,125 projects of informal operators and created more than 27,000 jobs. The Programme focuses on agriculture, livestock breeding, commerce, office automation, crafts, catering, food, fishing, hairdressing and carpentry which are mostly informal.

The Rural and Urban Youth Support Programme (PAJER-U) has its overall objective to promote the socio-economic integration of all young Cameroonians between 15 and 35 years old, no matter in school or not and graduates or not, through social mobilization and technical and financial support. The Programme was initially intended for the unemployed, out-of-school and unskilled. Today, PAJER-U has expanded to the informal

sector entrepreneurs who operate in the following sectors: agriculture, breeding, carpentry and small business. The main missions include training through the organization of internships, support for business ideas and strengthening of technical and entrepreneurial capacities. The Programme offers finance solutions, such as grants and loans to project leaders and supports them by offering assistance in the process of creation and management of operations. During the pilot phase (2008-2011), the Programme provided financial support for 4,000 young people and created 15,000 direct and indirect jobs. Since 2012, the Programme has funded nearly 1,000 young people through the resources of the public investment budget. In total, 5000 young people have received PAJER-U support to date.

### **Tanzania**

In 2004, Tanzanian government started implementing a 20-year programme titled Property and Business Formalization Programme (PBFP), famously known by its Swahili acronym MKURABITA. The programme focuses on formalization of land through which to promote access to credit for the small enterprises in line with the De Soto's theory on the recognition of property titles as a mechanism to have access to credit. Here the focus was on simplifying the release of a legal property title and adapting it to prevalent conditions of de facto ownership. It entailed disregarding contractual prerequisites and providing proof of property using alternative means of recognition, such as long-term usufruct, calling on witnesses (preferably neighbours when housing or land are involved) and having boundaries recognized by third parties when there are conflicts of interest. Thus, entitlement responds to a major obstacle to having access to credit, since collateral requirements, which usually involve assets, represent a further hurdle to a sector where 'property' is not formalized.

### **Ghana**

In Ghana, the revised Poverty Reduction Strategy Paper 2006-7 specifically addresses employment creation in the context of the need to up-grade the informal economy through the concept of Decent Work. The formalization episode in Ghana also reflects well the concept of decent work with formalizing employment through the extension of social security coverage to informal workers and using social dialogue.

#### **Extending the coverage of social protection to informal workers**

Informal workers have benefited from different institutionalized social security schemes since 2003 in Ghana. The Government launched the National Health Insurance Scheme (NHIS) in 2003 which aims at ensuring universal access to health services without upfront payment at health facilities. The District Mutual Health Insurance schemes receive direct financial support from the Government as part of the Poverty Reduction Strategy. The community based model of NHIS is a strong point for building the national health programme. The NHIS premiums are based on participants' ability to pay. Community Insurance Committees identify and categorize residents into four social groups, namely the core poor, the poor, the middle class and the rich, and determine their

respective contributions accordingly. The core poor (or the indigent), together with those aged 70 years or more are exempted from paying any premiums or contributions. Contributions vary slightly in different districts and members in the informal economy generally pay about ₵72,000 (or New GH₵7.2; about USD 5). Workers in the formal economy become members of the NHIS automatically and just have to register with their respective District Mutual Health Insurance Schemes. For members in the formal economy, who participate in the Social Security and National Insurance Trust (SSNIT), 2.5 per cent is deducted from their monthly salary as their health insurance contribution. The Government has also introduced a 2.5 per cent sales levy to support the funding of the NHIS. For all contributors, coverage is extended to their children and dependants under the age of 18 (ILO, 2013b). The Government also established free maternal care policy through the NHIS in 2008. By 2009, 4,132,783 premium contributors (presumably informal workers) were registered with the NHIS, representing about 29 percent of the scheme's total membership. The number represents about half of estimated informal sector workforce in Ghana. (Osei-Boateng and Ampratwum, 2011).

Apart from health insurance coverage, informal workers also benefit from the Informal Sector Fund which began full operation in 2008 after three years pilot. The Fund is a subsidiary pension scheme operated by the SSNIT. The National Pensions Act (2008) reinforces the payment of social security by employers and employees. Self-employed persons by the law can voluntarily join pension schemes and make contributions based on their declared earnings/income. By March 2011, the Informal Sector Fund and the National Insurance Trust (SSNIT) had enrolled 83,448 and 85 percent of which were informal sector members. (Osei-Boateng and Ampratwum, 2011).

### **Social dialogue as a tool for transition to formality**

Social dialogue has been used as an important tool during the formalization episode in Ghana, especially those initiatives are from social partners. The participation of small enterprises in Ghana Employers' Association (GEA) and the adoption of a policy by the Ghana Trades Union Congress (TUC) to encourage its affiliates to organise informal workers show how enterprises and workers in the informal economy voices have been included.

The GEA was established to represent private business on matters of industrial relations. To overcome the challenge to expand its representation to small enterprises and maintain its core mandate of industrial relations, the GEA decided to work through the Associations of Small-Scale Industries, an umbrella organization organizing small enterprises in Ghana to promote formalisation, labour standards and health and safety. Moreover, the GEA strengthened the representation of small enterprises in its governing council by assigning a seat to the Associations of Small-Scale Industries. The governing councils are composed of 40 seats with different sectoral interested groups represented, for instance, mining, banking and shipping. Each group has one or two seats except for manufacturing with seven seats and commerce with four seats. Small enterprises were represented by their respective sectors and by a specific SME Interest Group which had

one seat. The GEA further expanded the representation of small enterprises by amending the constitution and granting an additional discretionary seat to the Associations of Small-Scale Industries in November 2012. This gives greater responsibility to the small enterprise representatives to analyse the needs of their constituency and to make proposals on how to assist informal enterprises to formalize.

The GEA created an SME Desk to serve as a direct point of contact within the association on small enterprises which are existing service providers with the appropriate expertise. The GEA also sees its role as encouraging the formalisation of informal activities and promoting respect for labour standards and occupational safety and health. As an example, it has cooperated with two informal sector associations for specific activities; namely, the Ghana National Association of Garages and the Ghana National Association of Small-Scale Gold Miners (ILO, 2013b).

In terms of organizing informal workers, the Ghana Trades Union Congress (TUC) adopted a policy in 1996 which seeks to encourage its affiliates to organize in the informal economy. The TUC also established an Informal Sector Desk at its national headquarters to assist the national unions of workers in the informal sector. The TUC re-stressed its commitment in organizing workers in the policy document for the 2008 – 2012 quadrennial. The objectives of this policy include increased union membership in the informal sector and application of minimum labour standards in the informal economy. The TUC has also granted associate membership to five informal sector associations, including the New Makola Traders Union, the Ga East Traders Association, Actors Guild, the Greater Accra Tomato Traders Association and the Musicians Association of Ghana (MUSIGA).

### North Africa

Regarding the linkage between informality and economic growth, Charmes (2016) reveals an interesting finding in North Africa where there is the counter-cyclical behaviour of employment in the informal economy: it increases when the rate of economic growth is decelerating, and contracts when the rate of growth increases. He illustrates it with the example of Tunisia where the level of informal employment started from a relatively high level (38.4 per cent of total non-agricultural employment) during the period of 1975-1979. Then, employment in the informal economy dropped to 35 per cent) in the mid of the 1980s only for a short period of time. The implementation of structural adjustment programmes induced its growth until the end of the 1980s reaching 39.3 per cent and even at 47.1 per cent until the end of the 1990s. In the mid of the 2000s with the rapid growth of the Tunisian economy, the level of informality dropped dramatically to 35 per cent and started growing again until 2007 (36.8 per cent). After the revolution of 2011, the new authorities expanded its civil service to absorb the unemployed leading to a decreased level at 33.9 per cent in 2012. However, this hiring policy did not last long and after this short remission, the informal economy regained its growing momentum.

In such case, institutional policies played a more important role during those formalization episodes in North Africa. Algeria chose to launch a national action plan for creating employment to absorb the unemployed on one hand and applied the sticks and carrots approach on taxation issues to discourage informal activities. Egypt adopted a specific law on the promotion of SMEs to encourage business registration. Morocco implemented measures as part of the economic development strategy to help those with qualifications to find formal employment and to alleviate poverty in order to facilitate transition to formality.

## **Algeria**

According to Charmes (2016), in Algeria, after an administered and centralised economy, the informal economy has grown a double from 21.8 per cent in the mid of the 1970s to 45.6 per cent at the end of the 2000s, with a small and short decrease to 41.3 per cent at the beginning of the 2000s. Given the growing trend, the authorities implemented policies targeting employment creation for the youth that brought the level of informality down to 37.3 per cent in 2013.

### **Implementing a national action plan to promote young employment**

Algeria implemented the Action Plan for Promoting Employment and Combating Unemployment in April 2008 which proved to effectively reduce informality (see more in section V on impact evaluations). Its main axes are to promote youth employment by supporting the development of entrepreneurship and provide incentives for enterprises to create jobs. The National Employment Agency (ANEM) manages the new program called the “Dispositif d’Aide à l’Insertion Professionnelle (DAIP), which is vocational integration assistance mechanism designed to assist young new entrants to find jobs, including active labour market programmes<sup>15</sup>. The Ministry of National Solidarity administers social inclusion programmes<sup>16</sup> which are designed to fight poverty and youth unemployment.

In addition, the Action Plan provides incentives for enterprises to create formal employment and retain workers after the introductory period. The benefits include reduction of social security contributions for creating employment and for one year for non-employees to master artisans who are recruited after the introductory period, reduction of income tax (IRG) and taxes on corporate profits (IBS) for four years for the master artisans and extension of IBS exemption period from three to five years for companies creating 50 to 100 jobs and up to seven years for those creating more than 100 jobs (Souag and Assaad, 2017).

### **Both sticks and carrots approach**

On one hand, the Algerian authorities applied the sticks approach since 2005, especially on taxation issues through the Complementary Finance Law (Loi de Finances Complementary (LFC)). This Law includes a provision that import of materials, products and goods intended for resale needs to be carried out by enterprises (legal entities) whose capital is equal to or above certain amount. Importers are obliged to establish a

formal enterprise, registering with a bank and fiscal services. The LFC 2005 also obliges limited liability companies (a common form of enterprise which is founded by at least two persons and it is estimated that there are between 45,000 and 50,000 of them in 2005) to use the service of auditors from January 2006. This measure aims at improving the management and accounting of enterprises especially fighting against tax fraud. The Algerian authorities implemented the sticks approach with some measures against tax evasion, including increased penalties for violation of billings, sanctions against fraudulent or unlawful practice, introduction of a tax identification number and establishment of an inter ministerial committee for the coordination of actions to fight against tax fraud and tax evasion.

On the other hand, the carrots approach followed with simplifying regulatory procedures and taxation for formal sector activities. In 2007, the number of documents required for business registration reduced from 12 to 8 and the time of registration process reduced from two months to 24 hours. The simplification of taxation systems is implemented by two measures. The first one is the single tax system for income tax and corporate tax. The second one is the lump-sum tax that groups several taxes into one flat rate payment (Hammouda, 2010).

### **Egypt**

Egypt also experiences counter-cyclical behaviours in the growth of the informal economy since the end of the 1990s (Charmes, 2016). In 2004, the Egyptian government passed Law No. 141 – commonly known as the Promotion of Small Enterprises Law, with the central aim to encourage MSEs to formally register. The 2004 law provides a three-year tax exemption (beginning one year after registration) for new businesses and offers open tax forgiveness for existing firms leaving the informal economy. In parallel, penalties for tax evasion are increased. One-stop shops were set up, minimum capital requirements were eliminated, and flat fees were introduced. Tax reforms passed in 2005 reduced the income and corporate tax rates. As a result, the number of businesses formally registering in Egypt grew 35% between 2005 and 2012 (Magdi, 2012).

### **Morocco**

Charmes (2016) data show that Morocco is characterised by a continuous increase in the informal economy throughout two decades, from 56.9% at the beginning of the 1980s up to 78.5% at the end of the years of 2000s. The inverse trend started from 2010 with the level of non-agricultural informal employment decreased to 69.2 per cent.

The transition to formality approach in Morocco is through the economic development strategy which aims at transforming the national economy into a structured market economy. The Government implemented a series of measures as part of the strategy to help those with qualifications to find work and alleviate poverty that could provide further impetus in facilitating transition to formality although most of these measures are

designed to strengthen the development of the formal sector rather than to promote transition from the informal to the formal sector (Ibourk, 2012). These measures include:

- Facilitating access to credit for workers either through self-employment support programmes in the formal sector or through micro-credit programmes which target jobs in the informal sector;
- Introduction of income-generating activities as part of local development programmes. These activities usually include a training component to develop the capacities of local actors and give them opportunities to access the formal sector. The local development programmes were given a large boost after 2005 with the launch of the National Initiative for Human Development (INDH);
- Giving businesses easier access to the funding they need to upgrade (Fonds National de Mise à Niveau programme (FOMAN), ISTITMAR fund<sup>17</sup>, Hassan II Fund<sup>18</sup>);
- Improvements to the institutional framework for promoting SMEs (SME Charter) and entrepreneurship in general (Investment Charter, Hassan II Fund);
- Creation of a favourable climate for profitable investment in strategic sectors (Emergence Plan, tourism programme contracts, construction and public works, textiles, leather, craft trades);
- Development of human resources in businesses, management skills and employability of those with qualifications (the three flagship programmes under the active employment policy: IDMAJ<sup>19</sup>, Taehil<sup>20</sup> and Moukawalati scheme<sup>21</sup>);
- Development and diversification of the supply of education and training directly linked to the needs of the labour market (university reforms, development of vocational training, functional literacy in the working environment);
- Gradual extension of health insurance and pension schemes to occupations mainly carried out in the informal sector (scheme for craft workers, farmers, etc.)

The approaches used during those formalization episodes are diverse. Some choose to integrate the issue of formalization in national strategies (Cameroon and Morocco) and bring those strategies from national to local level (South Africa). Some focus on enterprises formalization with specific strategies and improving regulatory environment through adopting specific laws for promoting SMEs and taxation issues (South Africa, Cameroon and Egypt), simplification of implementing regulations through simplifying business registration procedures and fiscal declaration (South Africa, Cameroon and Algeria). Some countries emphasize the needs of specific groups, for instance the extension of social protection to informal workers (Ghana) and the inclusion of domestic workers in the unemployment insurance fund (South Africa) and specific programme for promoting youth employment and their transition to formality in South Africa, Cameroon and Algeria.

## V. Analysis and assessment of impact evaluations of formalization policies in Africa

After examining the institutional policies and policy instruments applied for formalization, the next question is how effective are they? Since most of the policies are newly enacted, it may be premature to evaluate them and existing impact evaluations are very limited.

Among the very few existing impact evaluations of formalization policies (table 7), some focus on the impact on business, tax registration and financial inclusion (Benin (Benhassine et al., 2016) and Malawi (Campos et al., 2015)). Those initiatives include disseminating information on the registration process, free registration, support to open bank accounts and tax registration. Both evaluations find that dissemination of information has a limited impact on business and tax registration. However, if supplementary efforts are made, for instance, in-person visit and explanation on the registration process, business and tax registration rate increases. Also, business registration will not automatically improve financial inclusion and access to credits. It needs the combination of formalization assistance, for example, training programme and the bank information session. This can result in significant impacts on having a business bank account, financial practices, savings, and use of complementary financial products.

Two other impact evaluations (South Africa (David et al., 2009) and Algeria (Souag et al., 2017)) focus on employment formalization. In South Africa, three policy options were considered and the results show that trade liberalization reduces national employment. However, it increases formal employment, hurts informal producers and favours informal traders, who benefit from lower import prices. Wage subsidies on low-skilled formal workers increases national employment, but hurts informal producers by heightening competition in domestic product markets. Also, unconditional cash transfers stimulate demand for informally-produced products, thereby raising informal employment without undermining formal producers. These findings underline the importance of distinguishing between the formal and informal sector implications of socioeconomic policies.

The impact evaluation in Algeria is particularly interesting to evaluate the impact of the Action plan for promoting employment and combating unemployment, focussing on formalizing informal employment in formal enterprises. The evaluation also aims at evaluating its impact on informal employment for existing wage and salary workers and for new entrants into employment. One of the main axes of the Action plan was promoting youth employment by supporting the development of entrepreneurship through active labour market programs and social inclusion programs. Another axe was providing incentives for firms to create jobs through reduction of social security contributions and reducing the income tax (IRG) and taxes on corporate profits (IBS). In this evaluation they found that the Action Plan did, in fact, reduced informality for employees of establishments of 10 workers or more but had no significant effects on informality for those working in enterprises of 5 to 9 workers. In spite of the existence of various

incentives for the recruitment of new job-seekers, the impact of the plan on newly recruited workers proved statistically insignificant.

**Table 7: Summary of some impact assessments of formalization policies**

Author(s)	Formalization indicator	Initiative/country	Methodology	Effect on formalization indicator
Souag, A. and Assaad, R. (2017)	Formalization of jobs in formal enterprises	Action plan for promoting employment and combating unemployment. Its main axes were promoting youth employment by supporting the development of entrepreneurship and providing incentives for firms to create jobs. (Algeria).	Difference in difference  Household Survey on Employment conducted by the Algerian National Statistics Office (ONS) for the period 1997-2013.	Reduce the probability that workers are employed informally, but only in enterprises with at least 10 workers.
Benhassine, N., McKenzie, D., Pouliquen, V., and Santini, M. (2016)	Business registration	Introduction of the entrepreneur legal status with a simple, free registration process, and supplementary efforts to enhance the presumed benefits of formalization by facilitating its links to government training programs, support to open bank accounts, and tax mediation services. (Benin)	Randomized experiment	<ul style="list-style-type: none"> <li>• Few firms register when just given information about the new regime</li> <li>• 9.6 percentage points more register when they were visited in person and the benefits were explained</li> <li>• The full package of supplementary efforts boosts the impact on the formalization rate to 16.3 percentage points</li> </ul>
Campos, F., Goldstein, M. and McKenzie, D. (2015)	<ul style="list-style-type: none"> <li>• Business registration</li> <li>• Tax registration</li> <li>• Business bank accounts</li> </ul>	<p>a) a group offered assistance for costless business registration;</p> <p>b) a group offered assistance with costless business registration and (separate) tax registration; and</p> <p>c) a group offered assistance for costless business registration along with an information session at a bank that ended with the offer of business bank accounts. (Malawi)</p>	Randomly allocated firms into a control group and three treatment groups	<ul style="list-style-type: none"> <li>• All three treatments had extremely large impacts on business registration, 75 percent of those offered assistance receiving a business registration certificate.</li> <li>• Information and assistance has a limited impact on tax registration</li> <li>• Business registration alone has no impact for either men or women on bank account usage, savings, or credit</li> <li>• Combination of formalization assistance and the bank information session results in significant impacts on having a business bank account, financial practices, savings, and</li> </ul>

				use of complementary financial products
Davies, R. and Thurlow, J. (2009)	Formalization of labour	Examine the economy-wide linkages between formal and informal economies while accounting for different types of informal activities. (South Africa)	Multi-region empirically-calibrated general equilibrium model	<ul style="list-style-type: none"> <li>• Trade liberalization reduces national employment. However, it increases formal employment, hurts informal producers and favours informal traders, who benefit from lower import prices.</li> <li>• wage subsidies on low-skilled formal workers increases national employment, but hurts informal producers by heightening competition in domestic product markets</li> <li>• Unconditional cash transfers stimulate demand for informally-produced products, thereby raising informal employment without undermining formal producers.</li> </ul>
Djomo, J.M.N., Koudjou, S.R.N., Nzouckio, C.F.N., Moukam, C.Y. (2016)	<ul style="list-style-type: none"> <li>• Household purchasing power</li> <li>• Poverty rate</li> </ul>	Reduced taxes on basic products and an increase in employment opportunities in the formal sector, especially in the public sector (Cameroon)	General equilibrium (CGE) using a Social Accounting Matrix (SAM) ECAM3 and EESI2 survey data	<ul style="list-style-type: none"> <li>• An increase in skilled employment in the formal sector generates a decline in economic activity in the informal sector. This results in improved growth of GDP at market prices and a significant reduction of poverty</li> <li>• Fiscal policies do not have strongly differentiated effects between the formal and informal sectors.</li> <li>• A taxation of products in the informal sector amplifies poverty.</li> </ul>

As mentioned before, a number of policy initiatives in Africa are not specifically targeting formalization per se but have impact on increasing the productivity, earnings and reducing poverty of informal workers. Djomo et al. (2016) evaluates the impacts of policies undertaken by the government in Cote d'Ivoire to improve the household

purchasing power and that involves employment and tax policies that they evaluate in terms of their impacts on the informal sector and poverty. The simulation results show that an increase in skilled employment in the formal sector generates a decline in economic activity in the informal sector. This results in improved growth of GDP at market prices and a significant reduction of poverty. By contrast, fiscal policies do not have strongly differentiated effects between the formal and informal sectors. In addition, a taxation of products in the informal sector amplifies poverty.

Another example is drawn from South Africa, in waste recycling in Durban. The municipal government of Durban/eThekweni – in cooperation with organizations of informal sector workers – has established buy-back centres in the city to purchase recyclable materials such as cardboard from self-employed waste collectors. The establishment of such centres 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 which was not prevalent before. In their evaluation of this initiative, Heintz and Valodia (2008) found out that 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 centres, 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 realise these collective benefits.

## VI. Conclusions

Despite the current magnitude and increasing trend of informal employment in Africa, some countries successfully reduced the share of informal employment during the last few decades in different periods. The experiences of these countries indicate that formal employment growth with strong economic growth was the main engine by institutional policies promoting formalization. The type of institutional policies applied is diverse with some focussing on formulating specific strategies for enterprise formalization and improving regulatory environment. Others initiate the formalization process through extending social protection to informal workers or implementing specific programmes for promoting youth employment and their transition to formality. Even though not all policies implemented in countries with formalization episodes have been evaluated, some impact evaluations on formalization policies took place in other countries and prove to be effective.

Given the lack of time series data and limited formalization episodes in Africa, it is difficult to conclude the African approach for success. One of the characteristics in Africa is that policy approach is not targeting formalization per se as in Latin America and Asia but rather focussing on development and using formalization as a means for poverty reduction. In such case, formalization policies incline towards development policies promoting economic growth and addressing the historical aspect of informality. The perception towards informality is also quite different from other regions that informal enterprises are considered as complementary to formal enterprises in Africa and the articulation of labour informality is not straightforward as the formal systems in some countries are not able to provide the benefits of being formal.

The formalization prospect in Africa is challenging with persistent high level of informal employment and the rising trend of informality. The imminent challenge for policy makers is how to ensure the absorption of increasing population in the labour market as the youth population in Africa is projected to increase by 105 million people by 2030, 94 million of whom will live in the sub-Saharan subcontinent.

To achieve transition to formality, African countries will need to maintain strong economic growth but in an inclusive and sustainable way which should focus on employment intensive growth and avoids relies heavily on extractive sectors with low employment content. There is also the need to reactivate the structural transformation process through industrial policies.

While agricultural sector will remain the dominant sector in most African countries, especially sub-Saharan Africa, for a number of reasons, especially food security vis-à-vis the increasing population, increasing the productivity of this sector and transforming this sector into a more attractive sector for young people can be a solution for transition to formality.

Due to the characteristics of informal employment concentrating in the informal sector in Africa, most institutional policies emphasize on formalizing MSMEs through reducing

costs of registration, the next mission will be how to translate enterprises formalization into employment formalization. While talking about employment formalization, extending social protection to informal workers is a key element.

Lastly, all the efforts on formalization policies need to be better known in terms of their effectiveness for future policy making. The current situation of limited impact evaluations of formalization policies does not allow countries to draw lessons learnt. More efforts on impact evaluations in Africa can ensure those lessons learnt are more specific to the region.

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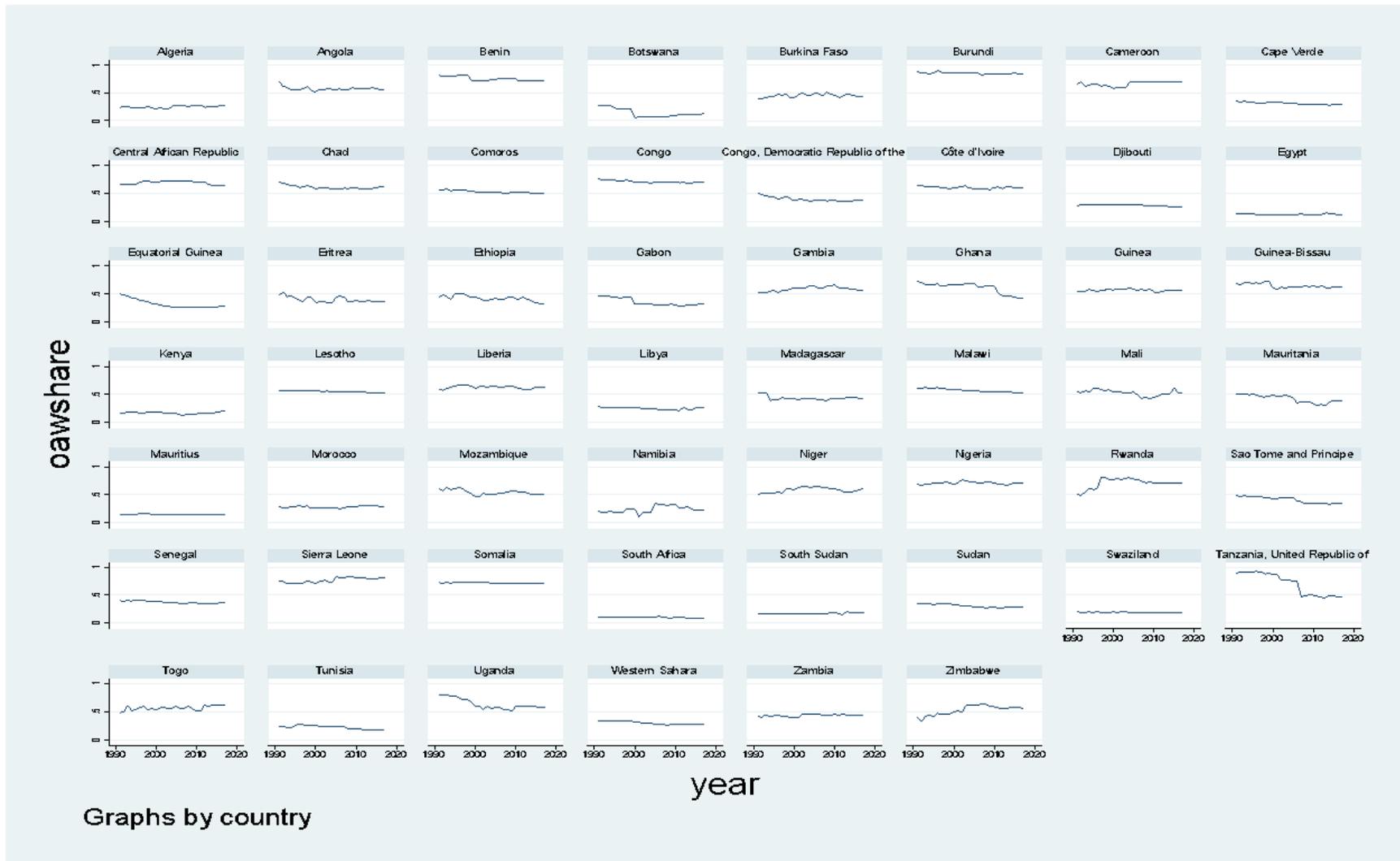
## Annex

**Figure A1: Evolution of share of vulnerable employment in Africa.**



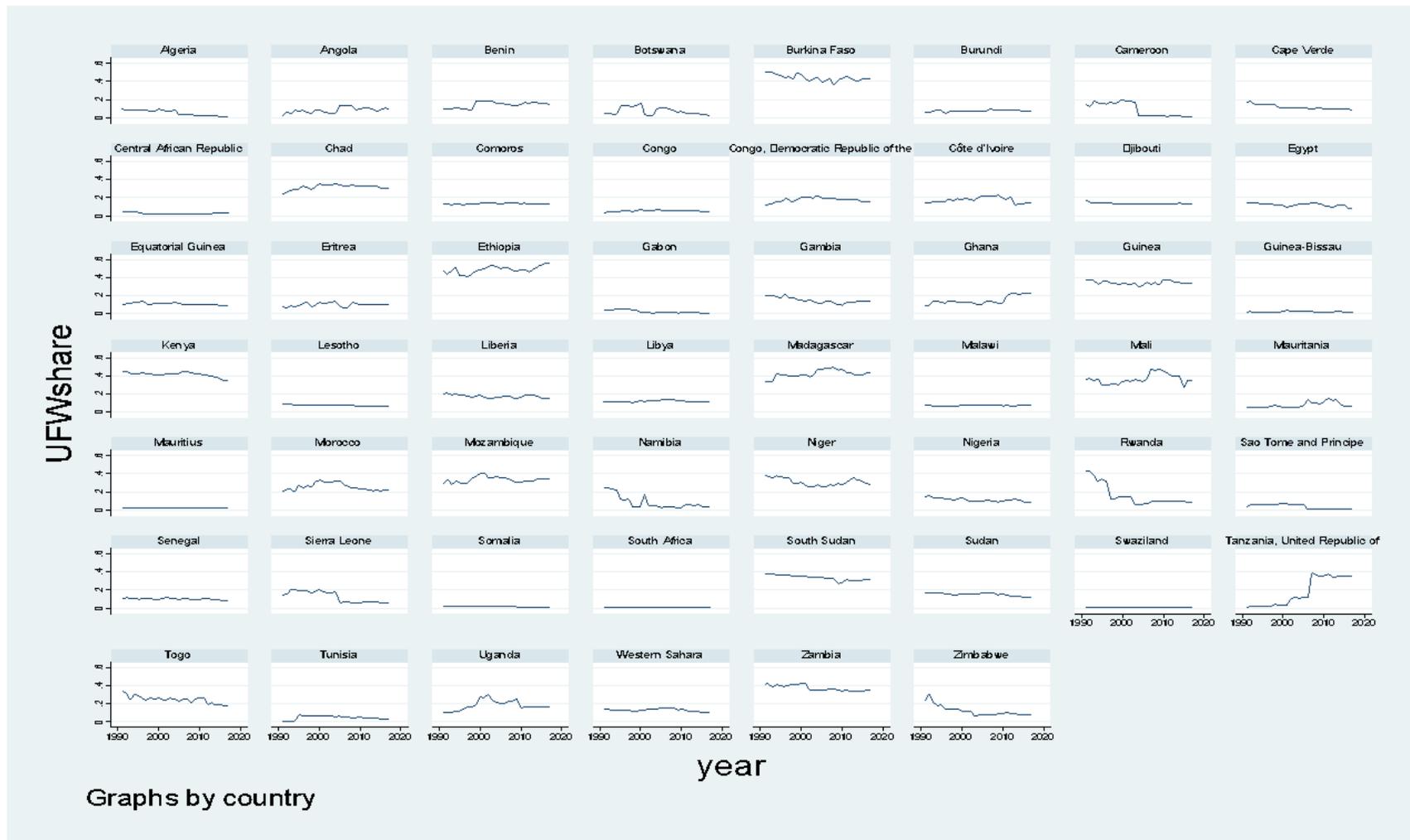
Source: ILOSTAT Database.

Figure A2: Evolution of share of own-account workers in Africa.



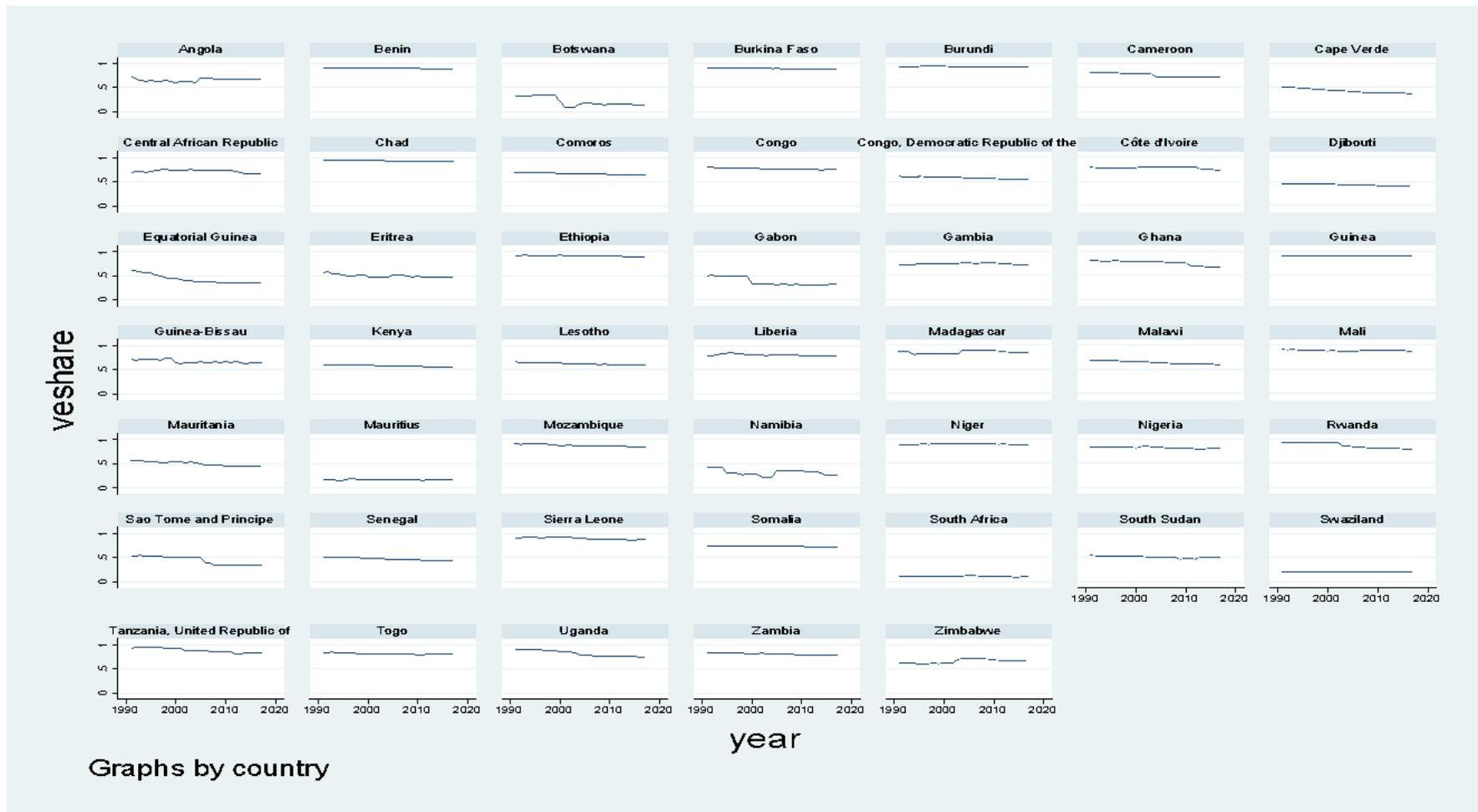
Source: ILOSTAT Database.

Figure A3: Evolution of share of unpaid family workers in Africa.



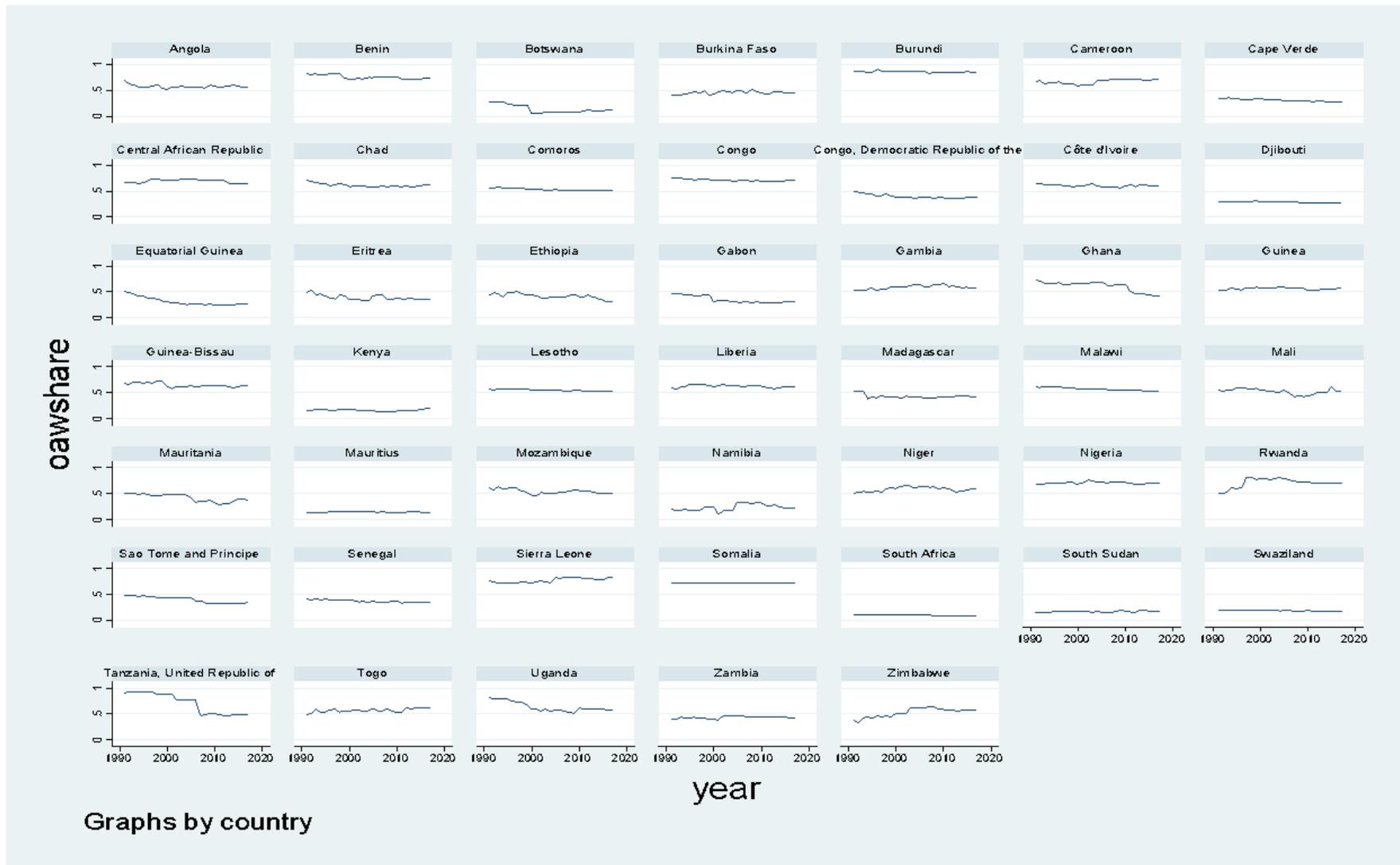
Source: ILOSTAT Database.

Figure A4: Evolution of share of vulnerable employment in sub-Saharan Africa.



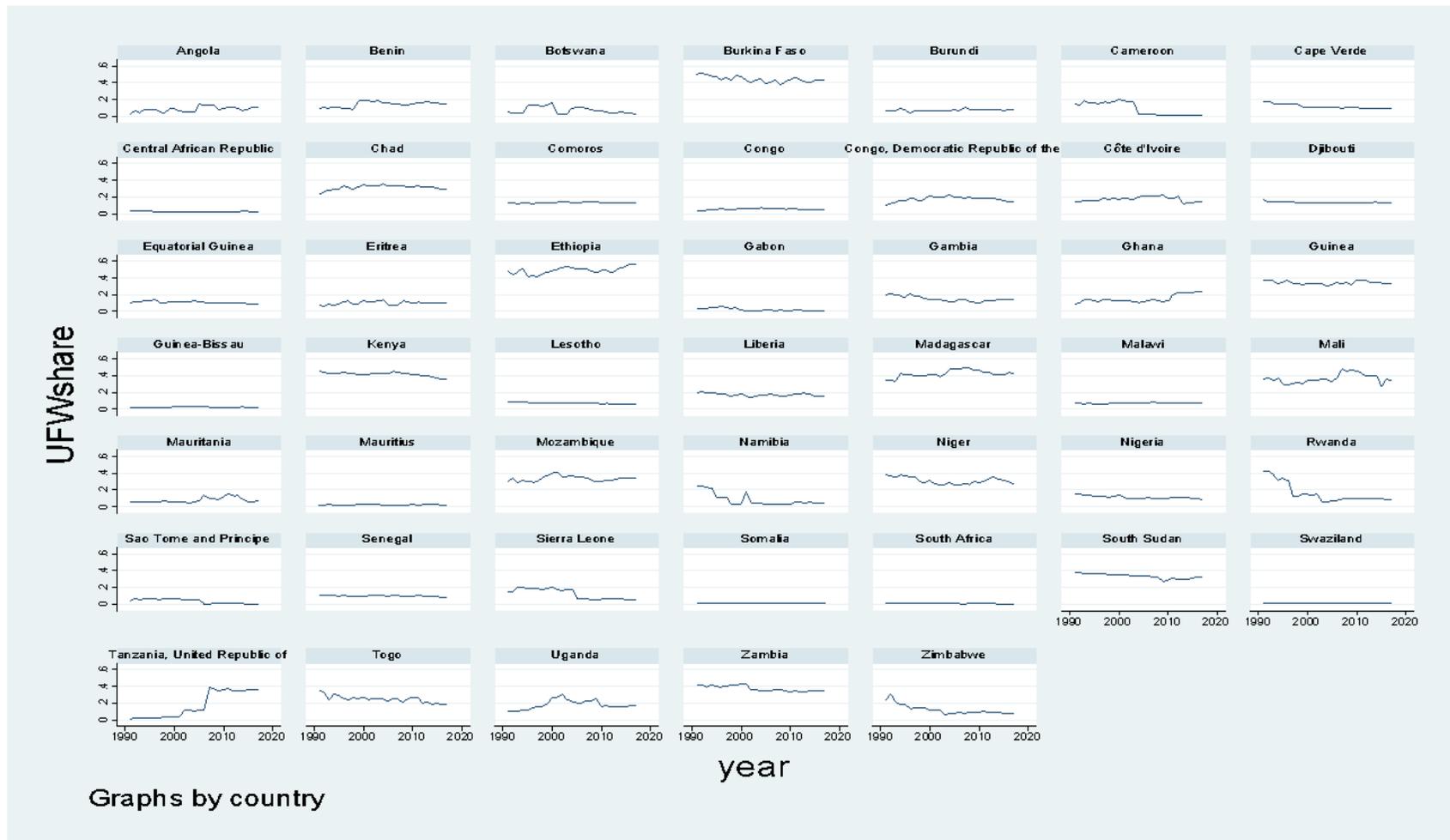
Source: ILOSTAT Database.

**Figure A5: Evolution of share of own-account workers in sub-Saharan Africa. Source: ILOSTAT Database.**



Source: ILOSTAT Database.

**Figure A6: Evolution of share of unpaid family workers in sub-Saharan Africa.**



Source: ILOSTAT Database.

**Table A1: Policies suggested to promote the urban informal sector**

1970s	1980s	1990s	2000s
Government should eliminate constraints	Structural adjustment policies & deregulation	Private sector development & use branch organizations	Competitive is private sector development Solve illegality
Provide credit and marketing opportunities	Liberalization & legalization	Decentralization to local & regional level to create conditions	Go for incorporating informality
Technical assistance, technologies & vocational training	Deregulation policies at different levels of government	Using existing informal organizations	Local government deregulates, provides space & infrastructure

Source: Van Dijk, M.P. (1997) Issues in small enterprise development: an overview, Indian Journal of Entrepreneurship, vol. 6, no. 2, pp. 41-52.

## Box A1: Decentralisation in SSA: a historical overview

### Decentralisation in SSA: a historical overview

It is neither necessary nor possible to provide a detailed account of the history of decentralisation in SSA. However, in order to understand the relationship between decentralisation and service delivery in the region, some historical background is required. At the risk of considerable oversimplification, six main historical periods may be noted:

**1 Pre-colonial** During the pre-colonial period, African government was relatively decentralised, consisting either of small chiefdoms or of much larger but loosely organised kingdoms or states. However, within these administrative entities, there was an element of centralisation, in that individual leaders, such as chiefs or kings, held a considerable amount of personal power

**2 Colonial** Although there were significant differences between the various colonial powers, there were two common characteristics of colonial regimes: first, power was highly centralised in the colonial authority; and second, this power was exercised through some form of 'indirect rule' so elements of the decentralised pre-colonial systems remained

**3 Transition** During the last few years of the colonial period, Western-style local governments were established in many countries, particularly those under British rule, where local government was seen as a means of introducing people to Western concepts of democracy and thus preparing them for self-government

**4 Post-independence 1: Centralisation** In most countries the period immediately after independence was one of centralisation. This was justified (both by governments and by external funders and advisers) on the grounds that central policymaking and planning were necessary to bring about the rapid economic and social transformation required

**5 Post-independence 2: Deconcentration** After a few years, however, many governments began to adopt some degree of decentralisation, primarily as a means of improving the quality of local service delivery. During this period, decentralisation tended to take the form of deconcentration rather than devolution, in that powers were transferred not to semiautonomous local governments but to institutions over which the central government retained control. Particularly common, especially in the one-party states that characterised much of the region at the time, was the decentralisation of power to regional and local development committees, comprising a combination of centrally appointed and locally elected officials

**6 Post-independence 3: Devolution** Over the last two decades, decentralisation has maintained its popularity but there have been significant changes in both its objectives and its form. Although still advocated as a means of improving service delivery, decentralisation has also been seen (by governments, external actors and the increasingly influential civil society lobbies) as a means of enhancing democracy and citizen participation and (by governments and external actors) as a way of reducing the role, and in particular the expenditure, of the central government. This has been reflected in a change in emphasis from deconcentration to devolution (often known as 'democratic decentralisation') during this period.

Source: Conyers, Diana. 2007. Decentralisation and Service Delivery: Lessons from Sub-Saharan Africa, IDS Bulletin Volume 38 Number 1 January 2007, Institute of Development Studies, UK.

## Endnotes

1. Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204), Available at: [http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO:12100:P12100\\_INSTRUMENT\\_](http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO:12100:P12100_INSTRUMENT_)
2. Available at: <http://www.un.org/sustainabledevelopment/>
3. For the SADC countries whose data was not available under the ILO (2018) analysis above, and for further interrogation of the status of informal economy in the SADC countries (gender, age and etc.), this paper has relied on some proxy indicators, although it does not allow cross country comparisons due to different data sources. For example, from INCAF 2012/2013, Mozambique has an estimated 80 per cent of workers engaged in the informal economy. This data further indicates that women represent 73 per cent of informal workers in the south of the country. Data also shows prevalence of child labour in which 2 per cent of the informal workers are aged between 0-14 years and another 10 per cent under 20 years, but the majority of informal workers between 20 and 55 years. Despite its Middle-Income Country status, the Labour Force Survey findings (2016) indicate that Namibia is faced with a growing informal employment. 67 per cent of the employed population are in informal employment compare to 41 per cent in 2014. These comprise 66 per cent of male and 68 per cent of female. It is also estimated that 57 per cent of the employed population are in urban area with 81 per cent in rural area were in informal employment. The age bracket in the informal sector is between 15 – 45 years. About 6 per cent of own account workers are between 15-19 years and nearly 70 per cent of the own account workers were female and only 31 per cent were male. This finding is consistent with the literature that the proportion of females engaged in informal employment is higher than that of men. Seychelles is one of the countries in SADC region with modest informality. The Labour Force Survey 2011/12 estimates 45 per cent of informal employment, with 50 per cent males and 39 per cent females. Own account workers are largely employed in the informal sector (98 per cent). In 2005 Labour Force Survey, the highest share of informal employment was among adults. In Zambia, the Central Statistics Office 2014 Labour Force Survey indicates that about 84 per cent of the working population was employed in the informal sector (91 percent females and 76 per cent males). The gender difference is accounted for by the higher rate of rural female dwellers than males who migrate to urban centres in search of work. As for Zimbabwe, approximately 95 per cent (with females constituting 49 per cent and males 51 per cent) were employed in the informal economy. Meanwhile, Madagascar reported that 80 per cent of its working population is employed in the informal economy, especially in agriculture and livestock (INSTAT, 2013).
4. When excluding agriculture, ILO (ILO, 2018) data indicates that the share of informal employment in total employment in the SADC region ranges from 34 percent (South Africa) to 89.5 percent (Angola). However, when agriculture is taken into account, the share of informal employment in the total employment changes almost dramatically for some of the countries, an increase between 10 – >20 percentage points, for example Tanzania (from 69.3 per cent to 90.6 per cent) or Zimbabwe (from 64.4 per cent to 86.3 per cent) and no increase at all for South Africa. No data is available for Lesotho, Mauritius, Swaziland, Mozambique and Seychelles. Notably, the difference in the share of informal employment in the total employment is very small when including or excluding agriculture (+ or – 1 to 3 %) except for Malawi where the share of employees in informal employment decreases by more than 20 per cent when excluding agriculture (ILO, 2018).
5. ILOSTAT Database related note: Data reference period : Fourth quarter [2010]; Population coverage : Excluding both institutional population and armed forces and/or conscripts [2010, 2015]; Age coverage - maximum age : 64 years old [2010]; Workers in informal employment : Employees holding informal jobs, entrepreneurs in the informal sector, and all contributing family workers [2015]; Informal employees : Do not have social security coverage nor paid vacation nor paid sick leave [2010]; Economic units in the informal sector : Are not registered [2015].
6. For a detailed review of the SSA growth patterns, refer to Ndulu, Benno J. and Stephen A. O'Connell. 1999. Governance and Growth in Sub-Saharan Africa, *Journal of Economic Perspectives*—Volume 13, Number 3, Summer 1999, pp. 41–66
7. The independence and post-independence period saw many SSA countries implementing a number of inward-looking and state-sector economic strategies in which the informal economy was in direct contradiction. Another feature of the post-independence period is the looming economic crises which necessitated vast economic adjustments and restricting leading up to the 1980's and 1990's. Throughout these periods, the government maintained some ambivalence on the role of the informal sector in the national economy even though there is evidence that policies to promote the sector as it emerged to be a key sector for generating employment and income for the urban poor. Van Dijk (1997) summarizes the evolution of policies and strategies that promoted the urban informal sector as it helps redress the unequal access to income, through discriminatory labour policies, and limited means of production that were legalized during the colonial period (see Annex table A1). Then the economic crisis of the 1980's flamed the expansion of the informal sector and the composition of workers engaged in it. Ownership and entry into the informal sector was no longer confined to the rural migrants and urban dwellers but also includes skilled workers. SSA countries focused on redistributing the means of production which were also interrupted during the colonial period. Another

aspect of the redistribution is visible in the rethinking of the urban planning policies, many of which were at the heart of defining the formal/informal dichotomy and is closely related to the issue of land. Examples include street vendors in SSA (Skinner, 2008) in Dar es Salaam, Tanzania, and Durban, South Africa where street traders have been issued licences to operate. The last distributional agenda item has been access to a selected productive sectors for which during colonialism indigenous populations were not allowed to venture into. In Zimbabwe, Spiegel (2015), in the 1990s, several measures were taken by the government of Zimbabwe to decentralize the control of mining and support local artisanal and small miner's populations. In Ghana, the path of formalizing the artisanal and small-scale mining sub-sector started 1989 when the government of Ghana embarked on a structural adjustment of the economy with technical support from international financial institutions. The Precious Mineral's Marketing Corporation (PMMC) Law (PNDCL 219) was enacted, establishing a government corporation that was solely responsible for the buying of all precious minerals and stones from artisanal and small-scale miners. Thus by law, gold and other minerals produced on a small-scale level cannot be sold or exported without having gone through the PMMC. A paper by Debrah et al. (2014) indicates that only slightly over 300 small-scale miners are registered or are licensed with the Minerals Commission and receive some form of assistance from the government.

8. According to David et al. (2012), one of the restructuring demanded in the economic reforms of the 1980s was decentralization of economic governance (see Annex box A1). Since then, many of the powers previously in the hands of the central government have been transferred to lower government layers and local governments are gradually emerging as development actors. As a result, a number of formalization policies implemented at the local government levels where the informal economy operators have their first entry into the formal economy. For example, in Nairobi, Kenya, the local government investing USD 9 million in the Muthurwa Market, as one of the common approaches of constructing markets as a solution for the hawkers 'problem'. In Bamako, Mali, the implementation of the delegated management of markets approach in the Commune I led to increased tax collection and established a dynamic and fruitful partnership between informal traders and the municipality. Other examples of decentralization of economic governance include the transformation of informal street vendors into formal local business investors in Rwanda in which Gasabo District mobilised not only the vendors, but the financial institutions and the Government of Rwanda itself to play their respective roles in establishing the Duhahirane Gisozi Cooperative. In South Africa, the South African Local Government Association (SALGA) has developed guidelines to adopt a more developmental approach towards the informal economy in view of the very poor state of communication among the various stakeholders. Lastly, in Arusha, Tanzania, local government officials no longer perform arbitrary evictions of informal businesses, instead the city council assists the informal economy actors and is trying to strengthen its relations with informal business operators by providing them with loans and helping them to find alternative business premises.

9. One informality trend that is also more pronounced in the SADC region and East African Community is cross-border trading. Cross-border trade is mainly practiced by the unemployed, Small and Medium Enterprises and some large firms, and even formal worker desiring to supplement their salaries. As such, there is considerable overlap between informality and formality. The new continental free trade area (CFTA) offers a stepping-stone for Africa's regional economic communities (RECs) to boost regional integration. On 21 March 2018 in Kigali, Rwanda, the head of 44 African countries signed the CFTA, one of the world's largest free trade areas. SSA governments have placed a lot of emphasis on formalizing cross-border trade. Brenton and Soprano (2018) outlines several examples of such initiatives. For example, Common Market for Eastern and Southern Africa (COMESA) has adopted and is supporting the implementation of regulations which define the rights and obligations of small-scale traders, and is funding Trade Information Desks which assist traders in crossing borders. It has also developed a Simplified Trade Regime (STR), which introduces customs duty exemption and simplified clearance procedures for low-value transactions typically conducted by small-scale traders. A number of governments are also implementing projects that specifically focus on small-scale trade. With support from the World Bank, the governments of the DRC, Rwanda, and Uganda, in cooperation with COMESA, are implementing the Great Lakes Trade Facilitation Project. This project seeks to facilitate cross-border trade by increasing the capacity for commerce and reducing the costs faced by traders, especially small-scale and women traders, at key borders in the Great Lakes region. It also introduces a workers' code of conduct to prevent and mitigate risks of gender-based violence (GBV) in trade-related infrastructure development works. This is of particular importance to small-scale women traders, as it allows them to better organize their trading activities around family commitments.

10. This section is based on the BRICS Country Note: Transition to Formality in South Africa prepared by Vicky Leung for the Preparatory Group Meeting for the Meeting of the Ministers of Labour and Employment of BRICS Countries, Moscow, Russia, 18–19 November 2015.

11. The official definition of unemployment used in South Africa identifies individuals as unemployed if they i) did not do any work prior to being interviewed, ii) wanted and were available to work within a week from the interview, and iii) had taken active steps to search for work or start a business within a month prior to the interview.

12. The National Informal Business Upliftment Strategy: <http://www.thedti.gov.za/DownloadFileAction?id=844>

13. <http://www.social-protection.org/gimi/gess/ShowWiki.action?wiki.wikiId=855>

14. Malawi, Tanzania and Zimbabwe have all instituted online 'one-stop-shop' registrations.

15. These programmes include graduate integration contract (CID), professional integration contract (CIP), training Insertion contract (CFI) and subsidised work contract (CTA).

16. These programmes include insertion program for graduates (PID) and allowance for activity or community service (AIG).

17. It is designed for small and micro enterprises. This fund targets investments projects that are favourable for industrial transformation.

18. For supporting industrial investment

19. Programme for helping in finding first job

20. Programme for training leading to a qualification

21. Support for self-employment through the creation of small businesses