



# Inter-regional Expert Group Meeting “Placing equality at the centre of the 2030 Agenda”

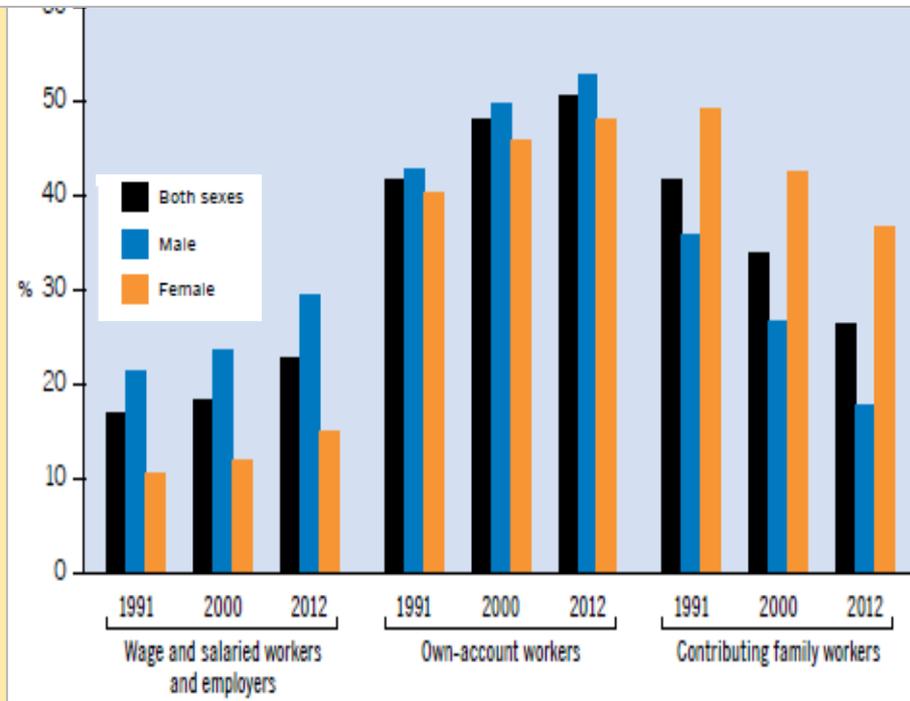
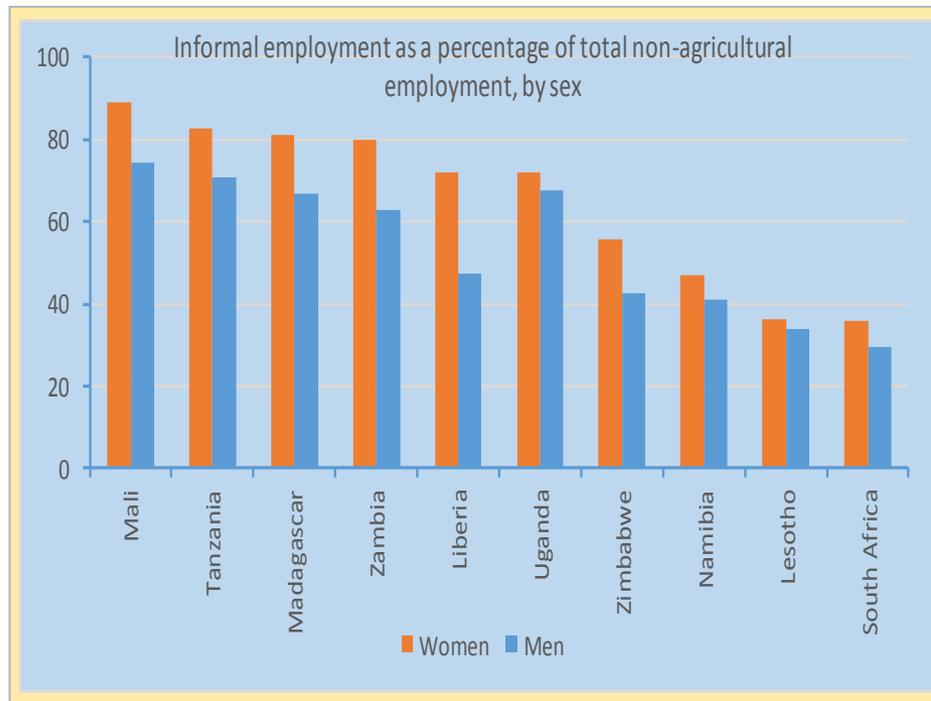
## Session 2: Social protection, informality and inequality



### Informality and Inequality in Africa

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# 1. Informal employment is high in Africa



- **Informality contributes 55% of the GDP in Africa other than North Africa, and 60-80% of its labour force is in informal employment.**
- **Women and youth are more likely to be employed informally. Of women in the labour force, 74% are informally employed compared to 61% of men.**
- **Over the next 10 years, one in four youths will find a wage job, and only a small fraction of those jobs will be 'formal' in the modern enterprises.**



## 2. Nature of informality in Africa

Informal workers, mostly youth and women, range from

- highly educated young urban adults who may choose to be 'voluntarily' employed in the informal sector, or run informal enterprises, to avoid cumbersome regulations or taxes, to the
- poorly educated individuals for whom informality is the only alternative to unemployment (the 'involuntarily' informal)  
[Subhramanyam (2015) calls it “forced choice”]

### 3. Constraint addressed by informality

Types of informality*	Constraint addressed by informality	Features	Job category [cell no.]**
Subsistence	Low skills; Unemployment	Workers without requisite skills to work in the formal labour market; low wages; low productivity	Own-account workers [9] Contributing family workers [1], [5] Employees [2], [6]
Induced	Legislation/regulations; Gender and other discriminations; Low demand for jobs in the formal sector	Workers or employers with comparable productivity levels to formal sector workers are forced into informality by explicit or implicit barriers	Own-account workers [3] Employees [7]*** Employees [10] Employers [4]
Voluntary	Taxes; Legislation/regulations	Workers with comparable productivity levels to formal workers and no barriers to formality, choose to work informally for higher (untaxed) earnings or market regulation evasion	Employers [4]
	Scale diseconomies		Members of producers' cooperatives [8]

\* This classification is as hypothesized by Fernandez *et al* (2016).

\*\* The cell no. refers to the notation in Table 1.

\*\*\* Very rare that employees in informal enterprises have formal contracts or social protection coverage.



## 4. What does informality really do?

Informality essentially seeks to *avoid, or mitigate the impact of, one or more of the labour market constraints* such as:

- Legislation/regulations }  
• Taxes } → “Voluntary informality”  
• Scale diseconomies }
  
- Unemployment → “Involuntary informality”



## 5. Link between informality and inequality

Informality and inequality interact in a number of ways, though the link is not easy to establish given data constraints.

### **In the short term, informality may reduce inequality**

- as those who would have otherwise remained unemployed, because of low skills, find jobs even if these are less productive and with low earnings.
- With low and poor quality education and limited skills, and other constraints such as limited access to credit, those involuntarily in the informal sector are stuck in an ‘informality trap’ with limited prospects of competing in the formal labour market.

### **Over time, informality may lead to increased inequality**

- as formal sector wages increase with increased productivity, whereas the earnings of those in the informal sector increase far less than the average.



## To summarise

- Understanding the relationship between informality and inequality is critical for successful policy formulation to improve living standards and reduce poverty.
- Policy matters but one policy does not fit all. ***The informal sector in Africa is highly heterogeneous***, and policy needs to take this into account.
  - “Involuntarily” informal – Poorly educated informal workers, mostly young people and women, for whom informality is the only alternative to unemployment.
  - “Voluntarily” informal – Highly educated young adults living in cities, choose to work in the informal sector or run informal enterprises to avoid cumbersome regulations or taxes.
- Limited education outcomes is a good predictor of an individual’s probability of being employed informally.



## 6. EDUCATION, EDUCATION, EDUCATION (especially for girls)

- In spite of improvements in educational outputs in recent years, most children in Africa leave school with low learning achievements that are inadequate to meet the requirements of the labour market.
- Of the 17 countries with comparable data over the entire school cycle,
  - 6 percent of those enrolling at the primary stage in Swaziland and 11 percent in Ghana complete the full cycle of school education.
  - In four other countries only 1-2 percent, and in the remaining countries less than 1 percent, complete the full cycle.
  - Most children dropout after the primary stage.



## 7. Policy Conclusions

- Accord the highest priority to increasing access to **quality education and skills** (across location, gender and quintiles) to increase job opportunities, reduce inequalities and promote inclusive growth.
  - Technical and vocation education has shown high rates of return, and its curriculum should be aligned with labour market requirements. Mauritius and Namibia provide good examples.
- Urgent need to improve the collection of regular, reliable and robust data for better monitoring and evidence-based policies, especially, gender-disaggregated data.

