



**Economic Commission for Africa
Committee on Gender and Social Development**

Second session

Addis Ababa, 11 and 12 October 2017

Item 5 of the provisional agenda*

**Parallel sessions: (a) informality
and inequality in Africa****Informality and inequality in Africa: exploring the linkages****I. Introduction**

1. Africa experienced a period of annual sustained economic growth of nearly 5 per cent on average during the period 2001-2014, with approximately one quarter of the countries in the region growing at 7 per cent or more. Notwithstanding this dynamism, there are few “good” jobs that offer secure employment and social protection, and an estimated 268 million people, or nearly 63 per cent of all those with jobs, were in vulnerable employment in 2016, working in a self-employed capacity or as unpaid family workers.
2. The informal economy contributes approximately 55 per cent of the gross domestic product (GDP) of Africa excluding North Africa and 80 per cent of its labour force, including in agriculture. Informal employment in many countries now exceeds employment in the formal sector, given that wage-paying jobs accounted for only 42 per cent of employment growth in Africa during the period 2002-2012.
3. A high level of informal employment affects the current living standards and working conditions of the population and constrains household enterprises trapped in the informal economy from increasing their productivity and finding a route out of poverty. Promoting employment opportunities for young people and women and reducing inequalities are important steps towards meeting human aspirations and achieving inclusive growth.
4. Africa is the second most unequal region in the world after Latin America. A total of 7 of the 10 countries with the highest inequality in the world are in Africa, mostly in Southern Africa. The high level of inequality may explain the slow rate of poverty reduction on the continent since the early 1990s. Inequality is at the centre of the global development discourse, with calls for action and for the adoption of more progressive social protection, labour and fiscal policies to reduce it.
5. Against this backdrop, the forthcoming *African Social Development Report* is intended to explore the relationship between informality and inequality in Africa. Economic inequalities are most obviously shown by people’s different positions with regard to income, wages and wealth. Income

*E/ECA/CGSD/2/1

inequality is the metric used most often and is used in the present report.¹ It is the extent to which income is distributed unevenly in a group of people and is commonly measured using the Gini coefficient, which varies between 0 (complete equality) to 1 (complete inequality).

6. People's different positions, however, also arise out of non-monetary characteristics, such as education, disability, ethnic background, location or gender, which manifest themselves in peoples' limited access to public services, such as health, education and labour markets. The present report contains an analysis of informality and inequality in a single framework to develop suitable policies for inclusive and sustainable development.

7. The current focus of the Economic Commission for Africa (ECA) on inclusive and equitable development in Africa places a high premium on addressing all forms of inequality on the continent, in line with the global and continental development frameworks, such as the 2030 Agenda for Sustainable Development and the African Union's Agenda 2063. Addressing inequality in all its forms is also a social imperative and necessary for sustainable and equitable growth in Africa because of a possible negative effect on social and political stability.

8. African Heads of State and Government have affirmed their commitment to pursuing structural transformation to create shared growth, decent jobs and economic opportunities for all, and ECA member States have urged the Commission to develop programmes and tools to help them to monitor and assess progress in achieving equality and inclusiveness on the continent.

9. This report is an abridged version of the *African Social Development Report*.² It will be presented at the second session of the Committee on Gender and Social Development to inform the Committee on the key policy messages that highlight the need to increase access to quality education and skills, especially for young people and women, to reduce both informality and inequality in Africa.

II. Growth experience and development challenges in Africa

10. Africa's recent growth has reduced poverty, but to an insufficient degree. Both Africa excluding North Africa and Asia and the Pacific had close to 60 per cent of their populations below the \$1.90 a day (purchasing power parity) poverty line in the early 1990s. By 2012, Asia and the Pacific had reduced the proportion of its population below this level to 7.2 per cent. On the other hand, Africa excluding North Africa continued to have almost 43 per cent of its population below the poverty line.

A. Inequality trends in Africa

11. The slow pace of poverty reduction in many countries throughout Africa maybe the result of a high level of inequality in most countries. The unweighted average Gini coefficient in Africa is 0.44, which is the second-highest in the world, after Latin America (approximately 0.50). The average inequality masks wide-ranging variations, from 0.31 in Sao Tomé and Príncipe and the Niger to 0.63 in South Africa. Close to 60 per cent of the African population lives in countries with inequality in excess of 0.40.

12. Although high, the average Gini coefficient in Africa has declined since the early 1990s, with variation among countries. Analyses of inequality trends

¹ The focus of this report is primarily on income inequality, that is, consumption inequality, given that most household surveys measure consumption rather than income.

² The report was prepared by the Social Development Policy Division of ECA. All references and acknowledgements are provided in the main report.

in 29 countries for which comparable data were available during the period 1993-2011 reveal that countries are almost evenly split in terms of rising and falling inequality in recent years. During the period 2001-2011, the Gini coefficient fell on average by 3.8 points in 17 countries, while, in 12 countries, it rose by 4.4 points, suggesting that inequality is influenced by public policy. A good understanding of its possible causes and dynamic nature is essential to design suitable policies to reduce inequality.

13. Inequality trends vary across different subregions. In West Africa, inequality fell steadily in 9 of 12 (mostly agrarian) economies, while a modest decline was recorded in some East African countries. By contrast, Southern and Central Africa have shown an increase since 2003. Since the early 2000s, there was therefore a divergence in inequality trends, given that most low-inequality countries experienced a decline and the high-inequality ones an increase or stagnation at high levels. A total of 6 of the 10 countries with the highest Gini coefficient in Africa are in Southern Africa, while, in 3 (Botswana, South Africa and Zambia), inequality increased between 2001 and 2011.

14. In analysing non-monetary inequality, it is seen that education is a predictor of employment and enhances the earning potential of the poor. Differences in access to education and to other basic services lead to differences in skills, productivity and earnings. Most people who never finish primary school work in agriculture. Those with a primary or lower-secondary education work in non-farm household enterprises and the informal sector, whereas those with higher levels of education are more likely to enter the formal wage sector.

15. Africa excluding North Africa has seen a rapid increase in the number of children who complete primary school, from approximately 50 per cent in 1991 to 70 per cent in 2011. The region, however, lags behind others in terms of primary school completion. While the young people entering Africa's labour force right now have more schooling than any previous generation, they still have little overall schooling. Nearly 60 per cent of young people between 15 and 24 years of age have completed only primary school.

16. Completion is a good indicator of quality of education, and there is a wide gap across quintiles, gender and location in the proportion of young people between 15 and 19 years of age who have completed grade 6. In 35 countries for which data are available, 82 per cent of young people between 15 and 19 years of age on average have completed grade 6 in the top quintile but only 39 per cent in the bottom quintile, and 77 per cent in urban areas but only 52 per cent in rural areas. There is some parity with regard to gender, with 62 per cent of boys and 61 per cent of girls completing grade 6. As a result, no more than one in three children complete primary school with sufficient numeracy and literacy skills, which severely compromises their transition to the secondary level.

17. Students with secondary school education increase their chances of formal employment and improved livelihoods, given that many unfilled jobs require education and training above the primary level. While working adults with primary education were 20 per cent less likely to be poor, secondary education reduced the chances of being poor by almost 60 per cent.

B. Employment challenge in Africa

18. Contrary to popular perceptions, measured unemployment in low-income countries in Africa is only 3 per cent. Even in lower-middle-income countries, such as Ethiopia, Ghana, Uganda and the United Republic of Tanzania, unemployment ranges from between 1 and 5 per cent. Vulnerable, low-paying employment in the informal sector and smallholder agriculture is, however, predominant in most low-income countries. The International Labour Organization (ILO) estimates that three in four jobs in Africa excluding North Africa are vulnerable. With low household incomes and non-existent or limited unemployment insurance and safety nets, few Africans can afford not to

participate in the labour force at all or to remain completely unemployed if they do want to work.

19. Young people are particularly worse off in access to employment opportunities. They constituted some 35 per cent of Africa's working age population in 2015, but three fifths of the total unemployed. In most countries, the unemployment rate for young people is more than twice that for adults. (In Nigeria, it is more than five times.) In Botswana, the Congo and South Africa, more than one in three young people is unemployed, and the average unemployment rate for them in North Africa is approximately 30 per cent, compared with the world average of 14 per cent.

20. During the past 10 years, Africa has created more than 37 million wage-paying jobs. The pace of job creation, however, has not kept up with nearly 11 million young people joining the workforce annually, pushing those seeking work, especially young people and women, into informal self-employment and family labour. The lack of decent jobs, along with the low learning outcomes, pose a serious barrier to future entry into the labour market.

21. It is contended in the *African Social Development Report* that employment in the informal sector is often the only option for young people, most of whom are from poorer households with deficiencies in the quality of education and lack the requisite skills to compete in labour market. They work in the informal sector at low productivity, low wages and with little or no access to social protection or prospects of moving out of informality, thereby strengthening and perpetuating inequality.

III. Informality in Africa

A. Nature of informality

22. Notwithstanding its importance, there is little agreement on how to define informality. Each country has its own definition, and the multiplicity of definitions, sources and typologies of informal employment makes it difficult to draw a unique picture or undertake consistent cross-country analysis. ILO has set international standards to disentangle the overlapping concepts of "informal economy", "informal sector" and "informal employment". The term "informality" is used to refer broadly to any or more of the three categories.

23. According to the definition by the International Conference of Labour Statisticians, the informal economy includes both the informal sector and informal employment. The concept of informal sector uses the enterprise-based definition and looks at production units (enterprises and firms) as the observations units that are not covered or insufficiently covered by formal arrangements. On the other hand, informal employment uses jobs as the observation unit and includes all jobs in the informal economy or all persons who, during a given reference period, were employed in at least one informal sector enterprise, irrespective of their status in employment and whether it was their main or a secondary job. They also include jobs done by persons engaged in the formal sector but in a capacity (and, therefore, the entitlements) similar to that in the informal sector.

24. The various categories of employment (e.g., formal, informal and in and outside the informal sector) are shown in table 1.

Table 1
Classification of informal employment

Production Units, by type	Jobs by status in employment								
	Self-employed workers		Employers		Contributing family workers	Employees		Members of producers' cooperatives	
	Informal	Formal	Informal	Formal	Informal	Informal	Formal	Informal	Formal
Formal sector enterprises					1	2			
Informal sector enterprises	3		4		5	6	7	8	
Households	9					10			

Source: *Measuring the Informal Economy: From Employment in the Informal Sector to Informal Employment* (Geneva, International Labour Organization, 2004) and *Measuring Informality: A Statistical Manual on the Informal Sector and Informal Employment* (Geneva, International Labour Organization, 2013).

Note: Cells shaded in dark grey refer to jobs, which, by definition, do not exist in the type of production unit in question. Cells shaded in light grey refer to formal jobs. Unshaded cells represent the various types of informal jobs. Informal employment is shown in cells 1 to 6 and 8 to 10. Employment in the informal sector is shown in cells 3 to 8. Informal employment outside the informal sector is shown in cells 1, 2, 9 and 10.

25. As shown in table 1, self-employed workers (cells 3 and 9) are engaged in solo activities or work with family members or non-family workers (e.g., street hawkers of perishable and non-perishable goods, small garage operators, tailors and shoeshine boys). Wage-employed workers (cells 2, 6 and 10) work with no contracts, no defined tenure or work standards and no reference to a minimum wage. They are typically in construction and auxiliary activities such as canteens, transport, cleaning or activities that do not form the core of the business of the employers. Unpaid family workers (cells 1 and 5) work with no contracts, no defined tenure or work standards and no reference to any remuneration. Employers (cell 4) choose to work informally, in which case they run informal enterprises that are not registered but which may hire workers informally. Only very few informal enterprises may be hiring employees on formal contracts (cell 7). Nevertheless, given the heterogeneity of status and employment activities, jobs are sometimes found on the border of employment categories.

26. The various informal employment categories depicted in table 1 essentially reflect attempts to avoid or mitigate the impact of one or more of the constraints faced by people in the labour market, such as unemployment, legislation/regulations or other structural discriminations, taxes and scale diseconomies.

27. These can be grouped under four broad categories, depending on which constraint people aim to overcome by operating (as an employer, employee, self-employed worker or contributing family worker) in the informal sector (see table 2). This taxonomy provides a useful framework for organizing and structuring discussions about informality and inequality and drawing out relevant policy implications.

28. It is important to distinguish between those people who enter informal employment voluntarily and those who work informally because of limited opportunities arising from structural constraints. The subsistence or involuntary informality of a street vendor with few skills and the voluntary informality of a qualified entrepreneur evading taxes cannot be handled in the same way. Both are “informal”, but the motivation of the two groups is very different.

Table 2
Types of informality

<i>Types of informality^a</i>	<i>Constraint addressed by informality</i>	<i>Features</i>	<i>Job category^b</i>
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 discrimination; 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	Self-employed workers (3) Employees (7) ^c 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)

^a This classification is as hypothesized in *Rethinking the Effect of Informality on Inclusive Growth: Lessons from Colombia and South Africa for Their Regions* (Lima, ELLA Network, 2016).

^b The numbers in parenthesis refer to the cell numbers in table 1.

^c It is very rare for employees in informal enterprises to have formal contracts or social protection coverage.

29. Identifying the type of informality in various countries is useful to establish the direction of the impact of informality on inequality and to make policy recommendations relating to the functioning of formal and informal labour markets.

30. For those keen to avoid unemployment, the informal labour market with low barriers to entry acts like a sponge. If they were not working informally, they would most likely be unemployed. In this way, subsistence or induced informality is a “default option to unemployment”. For the poor in low-income countries, unemployment is not an option. Individuals have to self-employ or work in subsistence agriculture or the urban informal sector in order to survive. It is for this reason that unemployment rates in much of Africa are low, while the rates of informal employment are high.

31. There is a high degree of heterogeneity among countries with respect to the nature of informality. Self-employed workers comprised more than half of total employment in Zambia, Burundi, Uganda and the United Republic of Tanzania in 2012. In the Republic of the Congo and the United Republic of Tanzania, household survey data indicate that the primary reason for entering the informal sector was because individuals were unable to find wage employment. A high level of subsistence and induced informality in these countries suggests the need to eliminate the structural causes by enhancing access to quality education.

32. On the other hand, middle-income countries, such as South Africa, tend to have more sophisticated social protection systems that act as a security net for the unemployed. Employment in the informal sector is very low in South Africa, even though the unemployment rate is high.

33. Each type of informality requires different policy responses, and it is important to take into account the distribution of informality in the labour market when formulating policy. For example, if subsistence or induced informality is most prevalent and workers are better off in this employment than if they were unemployed, then the informal labour market is affecting the lives of these informal workers in a positive manner.

B. Extent of informal employment in Africa

34. The informal sector in Africa excluding North Africa contributes 55 per cent of total GDP (including agriculture) and 38 per cent of non-agricultural GDP. While the bulk is represented by small-scale businesses and retail traders working in manufacturing and agro-processing, some large-scale firms also operate in the informal sector. Only 16 per cent of those in the labour force in Africa excluding North Africa have wage-paying jobs, sometimes with associated benefits. The majority work on family farms (62 per cent) or in household enterprises (22 per cent), which, together, make up the informal sector.

35. For the African region as a whole, informal employment has been estimated to be some 66 per cent of total non-agricultural employment. Approximately one third of informal employment is wage employment and two thirds is self-employment. Vulnerable groups such as women and young people are more likely to be employed informally. Of employed women in Africa, 74 per cent are informally employed, compared with 61 percent of men.

36. Informal employment accounts for a significant percentage of total non-agricultural employment, but the pattern differs between Southern Africa and the other subregions. In Southern Africa, informal employment is much lower, ranging from 32.7 per cent in South Africa to 43.9 per cent in Namibia. It is most prevalent in Côte d'Ivoire, Madagascar, Mali, Mozambique, Uganda, the United Republic of Tanzania and Zimbabwe. Except in Botswana, Nigeria and South Africa, all of which have high unemployment rates among young people, less than 20 per cent of Africa's young workers find wage employment. More than 70 per cent of young workers in the Democratic Republic of the Congo, Ethiopia, Ghana, Malawi, Mali, the Republic of the Congo, Rwanda, Senegal and Uganda are either self-employed or contribute to family work.

37. A large section of the non-farm employment is in the urban informal sector. Table 3 displays the proportion of informal employment in select countries. Except Botswana, Mauritius and South Africa, all other countries have a significant share of women and men working in informal employment. This reflects the nature of the labour markets (largely formalized) and economic conditions of these countries, compared with the rest of the continent.

38. The informal sector is Africa's mainstay, and a majority of young people will continue to work in the informal sector. It is estimated that, in the coming 10 years, at best only one in four young persons will find a wage job, and only a small fraction of those jobs will be in the formal sector. This has implications for young peoples' transition to adulthood, which is often delayed as they struggle to navigate the school-to-work transition to find stable, remunerative employment and support a family.

C. Women in informal employment in Africa

39. In most African countries, women are overrepresented in informal sector activities. Some 70 per cent of women in the African labour force are in low-paying and unprotected informal jobs. Of these, 80 per cent are working poor, with critical consequences for human capital development and economic empowerment.

Table 3
Share of informal employment in total non-agricultural employment by gender, select countries (Per cent)

Countries	Share of persons employed in the informal sector in total non-agricultural employment	
	Women	Men
Benin (1999)	41.0	50.0
Botswana (2006)	18.2	10.8
Côte d'Ivoire (2008)	82.8	60.5
Egypt (2009) ^a	23.1	56.3
Ethiopia (2004) ^b	47.9	36.3
Lesotho (2008)	48.1	49.9
Liberia (2010)	65.4	33.4
Madagascar (2005)	63.8	40.7
Mali (2004)	79.6	62.9
Mauritius (2009)	6.7	10.6
Namibia (2008) ^a	47.0	41.1
South Africa (2010)	16.8	18.6
Uganda (2010)	62.2	57.9
United Republic of Tanzania (2005/06)	49.8	53.2
Zambia (2008)	70.3	60.9
Zimbabwe (2004)	53.1	31.2

Source: *Key Indicators of the Labour Market*, eighth edition (Geneva, International Labour Organization, 2014).

^a Indicator refers to the share of persons in the informal employment in total non-agricultural employment.

^b For urban areas only.

40. Women's participation in the labour market varies greatly across countries, reflecting differences in economic development, social norms, education levels, fertility rates and access to childcare and other supportive services. In the United Republic of Tanzania, the informal sector employs between 40 and 60 per cent of the urban women labour force and between 70 and 80 per cent of women in rural areas. In Namibia, 60 per cent of informal sector businesses are controlled by women entrepreneurs, and women dominate in informal sector activities, both in urban and rural areas.

41. As with the formal sector, the informal sector is stratified by gender. Of the total number of workers engaged in retail trade and personal services, 65 per cent are women workers, with gender segregation in jobs. Women are more visible in lower value-added activities paying the lowest returns (e.g., selling cooked food, brewing beer and making baskets or crafts), while men are more often self-employed workers, dominating activities with high profit margins, such as micro-enterprises or middle-level trade.

42. Women bear the additional burden of unpaid care work and household responsibilities. Their domestic responsibilities and lack of access to assets such as credit, land and skills constrain their ability to engage in productive employment, even when they are part of the labour force, although it may be more compatible with their needs, time use and capabilities. These are, however, dead-end jobs, with the risk of some of these activities shutting down and with little prospect of receiving business assistance or bank loans.

43. Among the self-employed, women are much more likely than men to be self-employed rather than employers and to be in the informal rather than formal economy. The available evidence suggests that, for women, self-employment is more out of need than choice, and that those who work from economic necessity have higher fertility than those who work because they want to do so.

44. The reasons for the preponderance of women in informal employment are apparent. On average, women in Africa receive 4.3 years of schooling, compared with men, who have 5.7 years of schooling. West Africa is the worst off, with girls on average having 2.5 years of schooling, or 2 years less than what boys receive.

45. Informal trade is the most important source of employment among self-employed women, providing 60 per cent of non-agricultural self-employment, and features prominently among women's strategy for self-employment, poverty reduction and income generation. In the Southern African region, 70 per cent of informal cross-border traders are women. In Benin, the share of women in informal trade is estimated to be more than 90 per cent, with most of them working in cross-border activities with Nigeria and representing more than 60 per cent of total value added in trade.

46. Informal cross-border trade contributes substantially to jobs for women. For example, official sources report an average value of informal cross-border trade in the Southern African Development Community (SADC) region of \$17.6 billion annually. It contributes between 30 and 40 per cent of intra-SADC trade, with 70 per cent of informal cross-border traders being women.

47. Cross-border trade, however, takes place against a backdrop of a lack of infrastructure, corruption and high insecurity, including robbery and violence. In Liberia, close to one third of women in cross-border trade reported experiencing gender-based violence. Notwithstanding these challenges, cross-border trade is deeply rooted in some regions, in particular in West Africa, where it remains the most efficient and organized system of trade and an invaluable source of employment for women. Deliberate steps to create a supportive policy and regulatory environment are needed to reap its benefits, provide social protection to informal cross-border traders and gradually incorporate the sector into the formal economy.

48. Street vending, in particular food sales, is the second most important form of trade in Africa and the largest source of income for most African women. It employs more than 37 per cent of the labour force and contributes to more than 38 per cent to total GDP.

49. The flexibility of street vending also offers women an opportunity to combine work with care responsibilities. In Côte d'Ivoire, more than half of the women engaged in street food vending bring their children with them. Women, however, face numerous challenges, including insecurity, physical harassment, corruption, lack of capital, low levels of skills, poor regulations and urban planning, and a lack of property rights.

D. Interaction of informality and inequality

50. While informality and inequality interact in a number of ways, the link between them is not easy to establish, given data constraints and because causality can go both ways. For example, informality may reduce inequality by providing employment to those who might otherwise be unemployed, allowing individuals to engage in the economy and potentially benefit from economic growth.

51. In addition, informality may increase inequality by providing lower quality employment and generating lower productivity in the informal sector and by limiting opportunities for mobility to a higher income (locking the informal workers in an "informality trap"), especially for women workers, because of structural constraints such as limited education and lack of access to credit. Their levels of productivity are so low, owing to low levels of education, that they are unlikely to find a formal job.

52. Consistent with this, lack of education is found to be a significant determinant of an individual's probability of being in the informal labour market. The validity of the latter hypothesis is tested using data from the United

Republic of Tanzania. Using education as a measure of productivity results in consistently large differences in informality rates. The analysis reveals considerable inequality between formal and informal sector workers, with the former earning approximately six times more than the workers in informal employment. The disparities in earnings (income inequality) are attributed mostly to various levels of education. The analysis from South Africa is equally revealing. Between 55 and 60 per cent of those without any secondary education are informally employed. The figure falls to 21 per cent if the worker has completed 12 years of schooling. Tertiary education reduces the likelihood of informal employment to less than 10 per cent.

53. Causality can also go the other way. Researchers have developed a model and tested it with data from Mexico, in which an increase in income inequality causes a bigger informal sector by lowering the relative benefits from becoming formal, with the effect being stronger when the institutions and the protection of property rights are weak in the formal sector.

54. Understanding the two-way nexus is of paramount importance in order to define the right mix of policies to reduce the structural constraints that trap workers in informal employment and reduce inequality.

IV. Policy conclusions

55. Given the centrality of the labour market within countries and its far-reaching effects on poverty and inequality, understanding the relationship between informality and inequality is critical for successful policy formulation to improve living standards. For Africa, with its young population, the absorption of a growing labour force into productive employment is fundamental to capitalize on the demographic dividend.

56. The informal sector in Africa is highly heterogeneous, and policy needs to take this into account. Informal workers, mostly young people and women, range from poorly educated individuals for whom informality is the only alternative to unemployment (or the “involuntarily” informal) to highly educated young adults living in cities, who may choose to be “voluntarily” employed in the informal sector or run informal enterprises to avoid cumbersome regulations or taxes. These groups show a very different relationship between informality and inequality.

57. The focus of this report has been on the large majority of “involuntary” informal workers in order to analyse the channels through which informality contributes to inequality in Africa. Informality may reduce inequality by providing employment and livelihoods to the involuntarily informal workers who might otherwise have remained unemployed, especially young people and women from poorer households. Most of them work in agriculture, in the urban informal sector as self-employed workers or in household enterprises with low productivity and low wages and without access to social protection. Through employment in the informal sector, they at least have an opportunity to benefit, even in part, from economic growth.

58. Over time, however, informality can increase inequality. With low productivity caused by poor-quality education and limited skills and a lack of access to credit, the informally employed are often stuck in an “informality trap”, with few prospects of competing in the formal labour market. Unable to move out of informality, they strengthen and perpetuate inequality as they fall further behind the formal sector workers who earn competitive wages and have access to social protection and other benefits.

59. There are twin implications of the heterogeneity of the informal sector. One, the informal sector should be supported to reduce unemployment and poverty. Two, policymakers should aim to formalize the large informal enterprises. This requires policies to ensure access to basic services such as finance and infrastructure and space for informal businesses to run.

60. Analysing data from the United Republic of Tanzania, for example, confirms that limited education is a predictor of an individual's probability of being employed informally. Using education as a measure of productivity results in consistently large differences in informality rates. Similarly, considerable inequality between formal and informal sector workers exists in South Africa.

61. Notwithstanding the expansion of education coverage throughout Africa, there are wide differences in access by gender, location and wealth quintile. Member States should accord the highest priority to increasing access to education. There should be a stronger focus on improving the quality of learning outcomes 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.

62. There is an urgent need to improve the collection and quality of labour statistics, with an emphasis on three Rs, namely, regular, reliable and robust, for better monitoring and evidence-based policies, and, especially, gender-disaggregated data.

63. Informal employment is a significant contributor to the economy and employs a large number of people. It is also very heterogeneous. One policy cannot fit all. Policymakers should aim to increase access to quality secondary education and skills, especially for women and young people, to enable them to avoid the "informality trap" and thus reduce inequality. At the same time, large and profitable informal enterprises should be provided access to credit and infrastructure to encourage them to move into the formal sector.
