

# AFRICAN SOCIAL DEVELOPMENT REPORT



United Nations  
Economic Commission for Africa

## INFORMALITY AND INEQUALITY IN AFRICA



**EXPLORING THE LINKAGES**



**AFRICAN SOCIAL  
DEVELOPMENT REPORT**



United Nations  
Economic Commission for Africa

**Informality and Inequality in Africa**  
Exploring the Linkages

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# Executive summary

Sustained growth in most countries in Africa in recent years has boosted per capita incomes and reduced poverty, albeit slowly, and led to steady progress in education, health and living standards. But the pace of progress has been slow and hampered by high levels of income inequality within countries.

Excluding North Africa, the informal sector on the continent contributes an average of 55 per cent of gross domestic product (GDP) and employs 80 per cent of the labour force. Africa is also the second most unequal region in the world after Latin America, with 7 of the 10 countries with the highest levels of inequality in the world. High levels of both informal employment and inequality can make it difficult for people to find a route out of poverty and may explain the slow rate of poverty reduction in Africa since the early 1990s. Informal workers, mostly youth and women, range from poorly educated individuals for whom informality is the only alternative to unemployment (involuntary informality), to highly educated young urban adults who may voluntarily choose to be employed in the informal sector or to run informal enterprises so as to avoid cumbersome regulations and taxes.

The present report is a synthesis that draws on existing data and research on a range of interrelated themes relating to youth and women's employment, informality and inequality. It focuses on the large majority of involuntary informal workers to analyse the channels through which informality contributes to inequality in Africa. 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

designing suitable policies to reduce inequality by reducing the constraints that trap workers in informal employment.

Informality may reduce inequality by providing employment and livelihoods to those who might otherwise have remained unemployed, especially young people and women from poorer households. Most of those who work informally in rural areas do so in the agricultural sector, while those in urban areas work as own-account workers or in household enterprises with low productivity, low wages and without access to social protection. In such roles, they have limited opportunities to benefit from economic growth.

Over time, informality can increase inequality. With low productivity, caused by poor quality education, limited skills and 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.

An analysis of data from the United Republic of Tanzania confirms that limited education is a predictor of the probability that an individual will be informally employed. There are consistently large differences in education and incomes between informal sector workers and formal sector workers, with the latter earning about six times more than the former.

The report concludes that:

1. The slow decline in fertility rates, combined with a rapid decline in child mortality rates, has led to a youth bulge, with 20 per cent of the population of Africa between 15–24 years of age. Given that more than half of the continent's population is of working age, there is a great need for decent jobs in order for Africa to benefit from its demographic dividend.
2. In spite of improved educational outcomes in recent years, most children in Africa leave school with low levels of learning achievement that are inadequate to meet the requirements of the labour market. For the 17 countries with comparable data over the entire school cycle, of the total number of those enrolling at the primary stage, only 6 per cent in Swaziland and 11 per cent in Ghana complete the full cycle of school education. In four other countries, only 1 to 2 per cent complete the full cycle, and in the remaining countries less than 1 per cent do. Most children drop out after the primary stage.
3. The informal sector is heterogeneous, with poorly educated individuals with low skills involuntarily in informal employment, in addition to highly educated, young urban adults, many of whom may voluntarily be in the informal sector in order to avoid regulations and taxes.
4. Informality and inequality interact in a number of ways:
  - In the short-term, informal employment reduces inequality since those who would have otherwise been unemployed because of low skills find jobs, albeit jobs with low productivity and low earnings.
  - Owing to low levels and poor quality of 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.
  - As a result, over time, informality can 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.

The link between informality and inequality is not easy to establish, however, given data constraints and that the direction of causality can go either way. Much more research needs to be conducted at the country level.

Notwithstanding the expansion of education coverage across 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. At the same time, there should be a stronger focus on improving the quality of learning outcomes and improving secondary completion rates with a view to increasing job opportunities, reducing inequalities and promoting inclusive growth.

In Africa, students drop out at each stage of the school cycle, with the transition from the primary to the secondary cycle being the most difficult. More than half the children completing the primary cycle do not enrol in secondary cycle and are lost in transition, which is more than twice the level witnessed in the region with the next highest, South Asia. Those not completing the secondary cycle have few employment options other than to join the informal labour market.

Thus, there is an urgent need to strengthen the secondary school system in Africa to improve both educational outputs and learning outcomes. Particular emphasis should be placed on girl students and children from rural areas and lower-income groups, so as to leave no one behind.

African member States should set up systems to encourage workers in the informal sector to upgrade their skills in order to improve their chances of finding employment in the formal sector. Technical and vocation education shows high rates of return, and its structure should be aligned with labour market requirements by increasing the involvement of the private sector in decisions regarding subjects of study and curricula. In addition, there should be a stronger emphasis on apprenticeship schemes to facilitate the school-to-work transition. Mauritius and Namibia serve as good examples in that regard.



The empirical analysis provided in the present report uses data from the United Republic of Tanzania. Because of the paucity of comparable data, the analysis could not be extended to more countries. That highlights the urgent need to improve the collection and quality of labour statistics, especially gender-disaggregated data, for better monitoring of progress and design of evidence-based policies.

For Africa, with its young population, the absorption of a growing labour force into productive employment and reducing inequality are important steps towards ensuring

that its youthful demographic profile translates into a demographic dividend. It is hoped that the issues analysed in the report will be debated, discussed and encourage further research to help to formulate suitable policies for promoting youth and women's employment and reducing inequality across Africa in order to achieve inclusive growth.



# Introduction

## 1.1 Background

From 2001–2014, Africa experienced a period of sustained economic growth, with average annual growth of nearly 5 per cent and about a quarter of African countries growing 7 per cent or more per year. However, that dynamism has generated few 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 as own-account or unpaid family workers (AfDB, 2013).

That problem is compounded by rapid population growth, specifically growth in the working-age population (ILO, 2017). Driven by a delayed demographic transition, the population of Africa has been rising rapidly, with growth higher than in any other part of the world. Africa has the youngest population in the world, with a median age of 18 years. According to projections, the number of young people (15–24 years of age) will double from the current 200 million by 2045. Although the continent's young population offers an unprecedented opportunity for economic and social development, the continent risks foregoing any gains from the potential demographic dividend unless sufficient productive opportunities are provided to those young people.

Across most of Africa, the lack of productive opportunities meant that 268 million people were in vulnerable employment in 2016, equivalent to about 63 per cent of all those with jobs. The outlook is particularly challenging for women, who are more likely to be in vulnerable employment, largely as contributing family workers (ILO, 2017). According to recent data, excluding North Africa, the share of the informal economy in total non-agricultural GDP in

Africa ranges between 45 and 60 per cent (Chen, 2010), employing about 80 per cent of the total labour force. Informal employment in many countries now exceeds employment in the formal sector; wage-paying jobs accounted for only 42 per cent of employment growth in Africa in the decade up to 2012.

Informality in Africa, like elsewhere, has important implications for welfare, labour productivity, economic performance and income inequality. High levels of informal employment affect living standards and working conditions of the population and constrains household enterprises that are trapped in the informal economy from increasing their productivity and finding a route out of poverty. Promoting employment opportunities for youth and women and reducing inequality are important steps towards meeting the aspirations of the people and achieving inclusive growth.

At the same time, Africa is the second most unequal region in the world after Latin America. Seven of the ten countries with the highest inequality in the world are in Africa, and most of those are 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 made to adopt more progressive social protection, labour and fiscal policies to reduce it.

The current focus of ECA on inclusive and equitable development in Africa places a high premium on addressing all forms of inequality on the continent, in line with global and continental development frameworks such as the 2030 Agenda for Sustainable Development and Agenda 2063 of the African Union. Given its potential negative effects on

social and political stability, addressing inequality in all its forms is also a social imperative and necessary for sustainable and equitable growth in Africa.

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

Against that backdrop, the African Social Development Report explores the relationship between informality and inequality in Africa. Economic inequality is most readily observed in the variation in positions along the economic spectrum owing to incomes, wages and wealth. Income inequality is the most often-used metric and is used in the present report<sup>1</sup>. It is the extent to which income is distributed unevenly within a group of people, and is commonly measured using the Gini coefficient, expressed as a value between 0 (complete equality) and 1 (complete inequality).

Inequality also can also be attributed to non-monetary factors, such as education, disability, ethnic background, location and gender, which manifest themselves in the limited access that people have to public services such as health, education and labour markets. The report analyses informality and inequality in a single framework to inform policies to promote inclusive and sustainable development.

## **1.2 Preparing the report**

The research on which the African Social Development Report is based included an extensive review of existing empirical literature, backed by comprehensive data collected from selected countries. Both quantitative and qualitative data have been used to generate evidence-based policy recommendations. The report is based primarily on three background papers on specific themes and two country case studies (on Namibia and the United Republic of Tanzania), each containing an in-depth analysis of relevant issues in each country.<sup>2</sup>

The background papers, prepared in-house by the Social Development Policy Division, review what Governments and other key actors have been doing to ensure that policy and service delivery achieve meaningful results for youth, especially those who are disadvantaged and marginalized. The report draws on the analyses contained in those papers. The country case studies, prepared by national consultants, contain in-depth country analyses using available data sources. The countries selected for detailed study were chosen on the following criteria: (a) regional representation; (b) level of inequality and size of the informal sector; (c) availability of relevant and up-to-date statistics on the issues covered in the report; and (d) earlier studies carried out by academic institutions and think tanks in the country.

Work on the report started in 2015 and was prepared through a participatory approach. A series of consultations were organized at various stages. Inception workshops at the start of the work in the selected countries in August 2015 were followed by an inception seminar at ECA in September 2015 to elicit wide participation from all divisions within ECA. Preliminary results of the study were shared at a work-in-progress seminar in November 2015 and at an expert group meeting in December 2015. Different parts of the report and the background papers were presented at various conferences and seminars, which helped improve the overall analysis. Finalization of the report took longer than expected, given the challenge of organizing the vast amount of material on informality to develop a coherent storyline and tease out the link between informality and inequality. It is hoped that the quality of the final product justifies the delay.

## **1.3 Data limitations**

A study on informal employment in Africa faces a number of challenges. The foremost challenge arises from the use of different definitions for describing informal employment and the informal sector in different countries. Some use the enterprise-based definition while others use the job-based definition, which makes cross-country comparisons difficult. Other specific data challenges relate to:

<sup>1</sup> The focus of the report is primarily on consumption inequality, since most household surveys measure consumption rather than income.

<sup>2</sup> A complete list of background papers and country case studies is provided in Annex I.

- Characterizing the overall employment structure of a country (employment information at the national level doesn't fully reflect the employment structure of a given country);
- Informal employment and employment in the informal sector are new topics in labour force surveys, hence many of the large-scale surveys at the national level do not collect information on informality;
- The nature of the sector makes it difficult to capture accurate information on the links between informality, income, expenditure and taxation;
- Collecting detailed data relevant to the analysis of informal employment and the informal sector is usually very time-consuming and costly;
- Data on employment rates is available for only 12 countries in Africa: Burkina Faso, Côte d'Ivoire, Ethiopia, Ghana, Malawi, Mali, Morocco, the Niger, Nigeria, South Africa, Uganda and the United Republic of Tanzania. Some of those countries have data sets that are very old, which makes comparison across countries more difficult. For example, those of Côte d'Ivoire, Morocco and South Africa date from 1988, 1991 and 1993, respectively;
- Sometimes only a limited number of observations regarding informality are available per survey;
- Lack of data over time within a given country makes comparison more difficult or impossible over time across countries.

To overcome those constraints, researchers often have to take recourse to internationally compiled data that rely on simulations and extrapolations to fill gaps and discover trends, but which are based on assumptions that may not correctly reflect reality. The international databases on employment include ILOSTAT and the Key Indicators of the Labour Market database, which compile data on 17 key indicators.

## 1.4 Structure of the report

The introductory section provides background on the issues and highlights the need to address the interconnected challenges of high levels of inequality and informality in Africa.

Section 2 provides context for the report by reviewing key development challenges in Africa, including high fertility rates and limited employment options for the continent's youth and women. The discussion in that section helps to frame the analysis in the rest of the report.

Section 3 reviews the various definitions that reflect the vast heterogeneity of informality and helps to distinguish between the informal economy, the informal sector and informal employment, before analysing the nature and extent of involuntary informality in Africa and women's role in informal employment. It also provides an overview of the drivers of informal employment in Africa, including lack of access to education and skills by youth in Africa, and highlights key challenges facing youth.

Section 3 develops a systematic understanding of why a large proportion of youth and women in Africa work in involuntary informal employment and the challenges facing young people, especially young women, in getting stable, decent jobs. The analysis highlights the fact that, notwithstanding improvements in educational outputs in Africa in recent years, most children leave school with low levels of learning that are inadequate to meet the requirements of the labour market.

Section 4 undertakes an empirical analysis of level of education as a predictor of informal employment and economic inequality. Using national data from the United Republic of Tanzania, the analysis confirms that the higher one's educational status, the higher the likelihood that one will participate in formal labour markets. Notwithstanding the heterogeneity of informal employment in the United Republic of Tanzania, the analysis finds that the wider the gap between levels of education, the greater the income inequality between individuals.

Section 5 concludes with a number of policy recommendations for Governments in order to conceptualize, design and implement public policies that reflect local realities and enhance sustainable and equitable development.

# 2

## Development challenges in Africa

### 2.1 Demographic challenge

The population of Africa grew at an average rate of 2.6 per cent per year during the period 1990–2015, or more than twice the world average, which was accompanied by declines in infant and child mortality (ECA and UNFPA, 2016). The transition to lower birth and death rates, also known as the demographic transition, has important implications for the size of the continent’s working age population. Consequently, the African youth cohort (15–24 years of age) is now more than 20 per cent of the population, higher than in any other part of the world, and will continue to grow. Africa today is the youngest region of the world, with a median age of 18 years, which is expected to increase to 24 years by 2050.

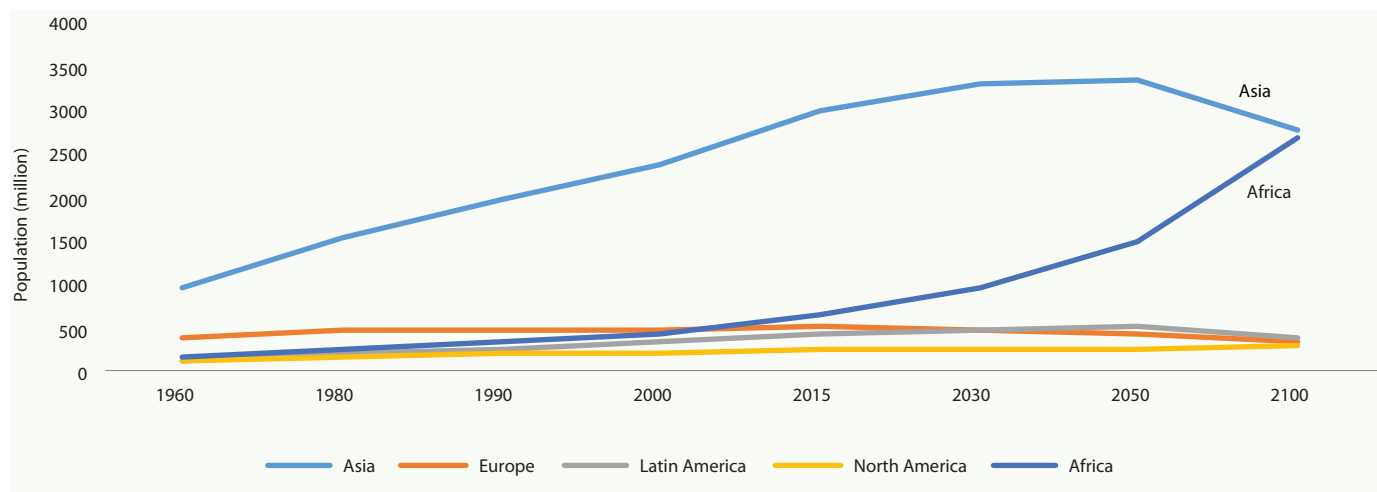
The United Nations estimates that the size of the 15–24 age cohort will increase from 187 million in 2015, to 244 million in 2025, 304 million in 2035, and to nearly 400

million by 2050. That trend is not expected to decline soon because a rapid, systematic reduction in fertility rates has yet to occur in many African countries.

The biggest shift in the demography of Africa is the growth of the working age population (15–64 years of age). Africa has the world’s fastest growing working-age population, and in 20 years it is expected to be second only to Asia in its share of the working-age population. Between 1960 and 2010, the working-age population in Africa is estimated to have more than quadrupled, from 154 million to almost 650 million, and will continue growing over the next 40 years (see figure 1).

In 2015, 54 per cent of Africans were between 15 and 64 years of age. This is in contrast to the global trend, as the working-age population is projected to contract in Europe and to experience single digit-growth in North America (see

Figure 1: Growth in the working-age population in Africa (15–64 years of age)



Source: United Nations, World Population Prospects: the 2012 Revision.

figure 2). By 2050, close to 60 per cent of the population in Africa will be in the working-age group. Africa will have more working age people than any other region, and will replace China as the biggest contributor to the global workforce (IMF, 2013).

By 2050, one in every four workers in the world will be African. In fact, the working-age population in Africa is projected to continue to increase until 2100, by which time the working-age population in all other regions will be contracting.

The projected increase in the working-age population in Africa during the twenty-first century and the resulting decline in the dependency ratio will lead to an increase in output, savings and investment. It will represent a dramatic shift in the continent's labour force and offer an unprecedented opportunity for economic and social development. The magnitude of those demographic developments will be transformational for Africa and will have major implications for the global economy.

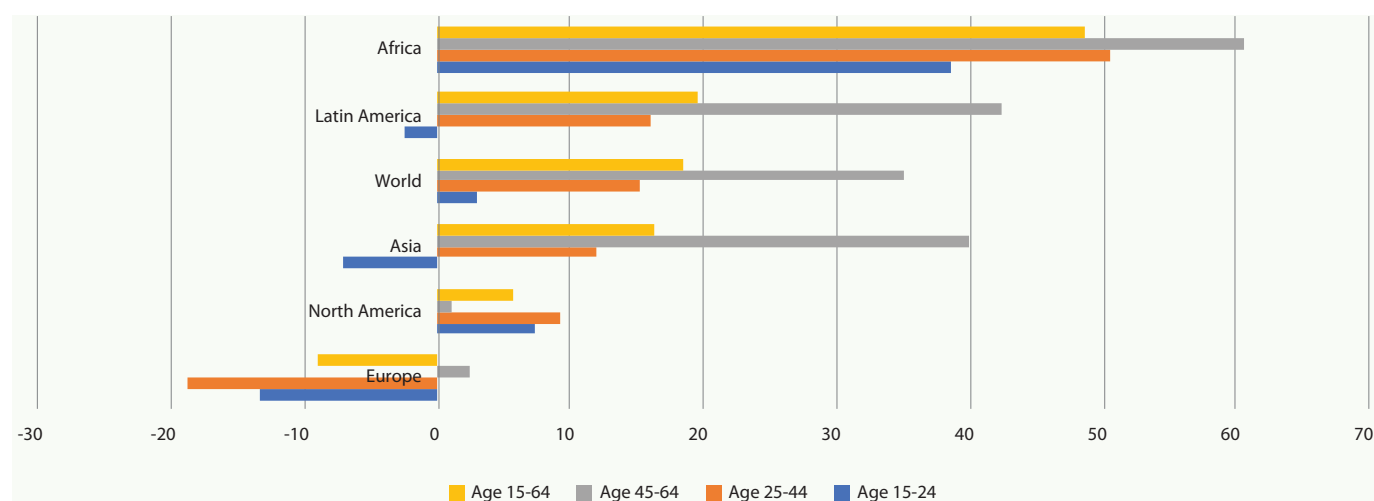
While youth can be a great force for economic and political change, there is a common misperception that a large youth population is itself an indicator of a coming demographic

dividend. Before thinking about a demographic dividend, countries must first achieve a demographic transition and focus on lowering fertility. Lower fertility can yield its own demographic dividend, with the proportion of the working-age population increasing relative to the proportion of children and the elderly.

However, not only is the annual population growth rate of Africa the highest in the world, it has remained in the range of 2.4–2.6 per cent since 1990, increasing marginally since 1995 from 2.44 to 2.55 per cent. In 10 African countries, it has been consistently in excess of 3 per cent since 2000.<sup>3</sup> In five of those countries, the population growth rate increased over a ten-year interval (2000–2010 or 2005–2015).<sup>4</sup>

Although population growth rates are slowing in many African countries, the average total fertility rate in 2011 stood at 4.4 per cent (see figure 3). Excluding North Africa, the average was 4.9 per cent, ranging from 1.6 and 2 in Mauritius and Tunisia, respectively, to 6.2 in Mali, 6.7 in Somalia and 7 in the Niger. In comparison, the average for the Asia-Pacific region is close to the replacement level, at 2.1 per cent.

**Figure 2: Growth in the working-age population, by age group, 2010–2030**



Source: Lam and Leibbrandt (2013) using data from ILO (2011), cited in Borhat and Naidoo (2013).

<sup>3</sup> The 10 countries are Angola, Burundi, Chad, the Democratic Republic of the Congo, Equatorial Guinea, the Gambia, Mali, the Niger, South Sudan and Uganda.

<sup>4</sup> The five countries are Burundi, the Democratic Republic of the Congo, the Gambia, the Niger and South Sudan.

Worryingly, the population growth rate has increased since 2011 in 28 African countries, or more than half of the countries on the continent. Those countries, spread across the five subregions, make up more than 60 per cent of the continent's population (ECA, 2017).

## 2.2 Employment challenge

In addition to the demographic challenge, African countries also face an enormous challenge in creating a sufficient number of decent jobs for the young and expanding workforce to realize their demographic dividend. In the period 2005-2015, Africa created over 37 million wage-paying jobs. However, the pace of job creation has not kept pace with the number of people joining the workforce each year. A lack of decent jobs, paired with low learning outcomes, poses a serious barrier to entry into the labour market, resulting in a large number of unemployed or inactive youth, a smaller share of wage-earning workers and a growing informal sector.

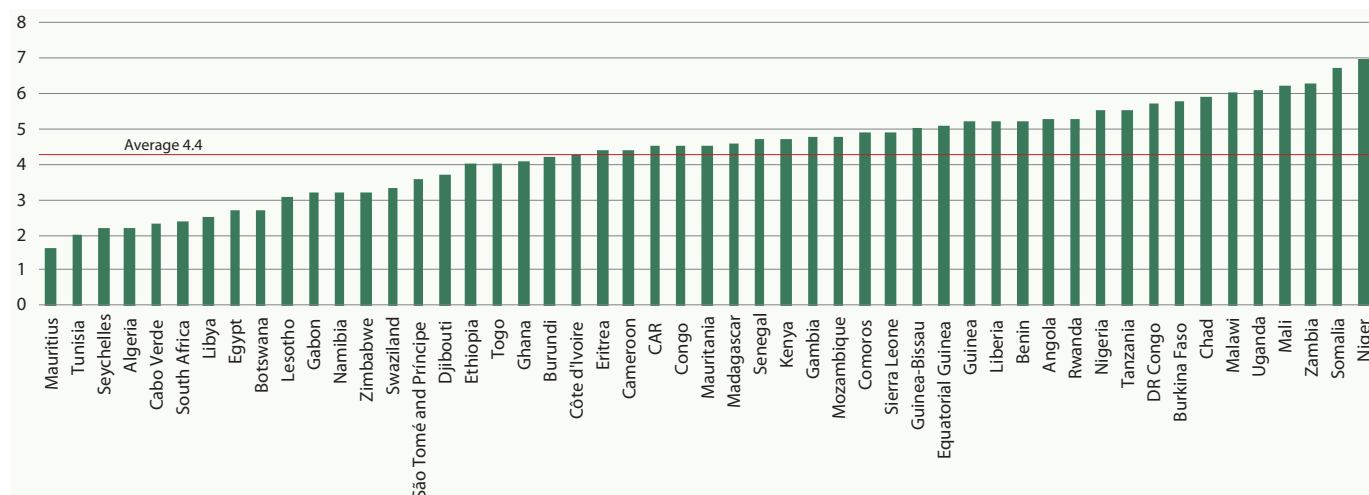
On the face of it, Africa excluding North Africa does not appear to have a severe employment problem (Page, 2012). Contrary to popular perceptions, the measured unemployment rate in low-income countries in the re-

gion is only 3 per cent.<sup>5</sup> Even in lower-middle-income countries, unemployment is quite low. For example, in Ethiopia, Ghana, Uganda and the United Republic of Tanzania, unemployment is in the range of 1 to 5 per cent (Fox and others, 2013).

However, conventional indicators of employment do not describe labour market outcomes very well in low-income settings. One reason stems from how participation, employment and unemployment are defined in labour force surveys. Because household incomes are low and unemployment insurance and safety nets are non-existent or very limited, at best, few Africans can afford not to participate in the labour force at all. Moreover, employment rates do not capture employment quality and underemployment.

Vulnerable, low-pay employment in the informal sector and smallholder agriculture are predominant in most low-income countries. According to estimates by the International Labour Organization (ILO), three out of four jobs in Africa excluding North Africa are vulnerable (see figure 4).<sup>6</sup> The poor quality of employment in most of the region is also reflected in the high share of the working poor among total employment. In 2011, more than 80 per

Figure 3: Fertility rates across Africa (percentage)



\* Data available for 51 countries.

Source: United Nations Statistics Division, 2011.

<sup>5</sup> Defined as not having worked at all in the last seven days and actively looking for work (ILO 1982).

<sup>6</sup> Vulnerable employment is defined as the percentage of employed people engaged as unpaid family workers and own-account workers (ILO, 2011).



cent of workers in Africa were classified as working poor, compared to the global average of 39 per cent (ILO, 2011).

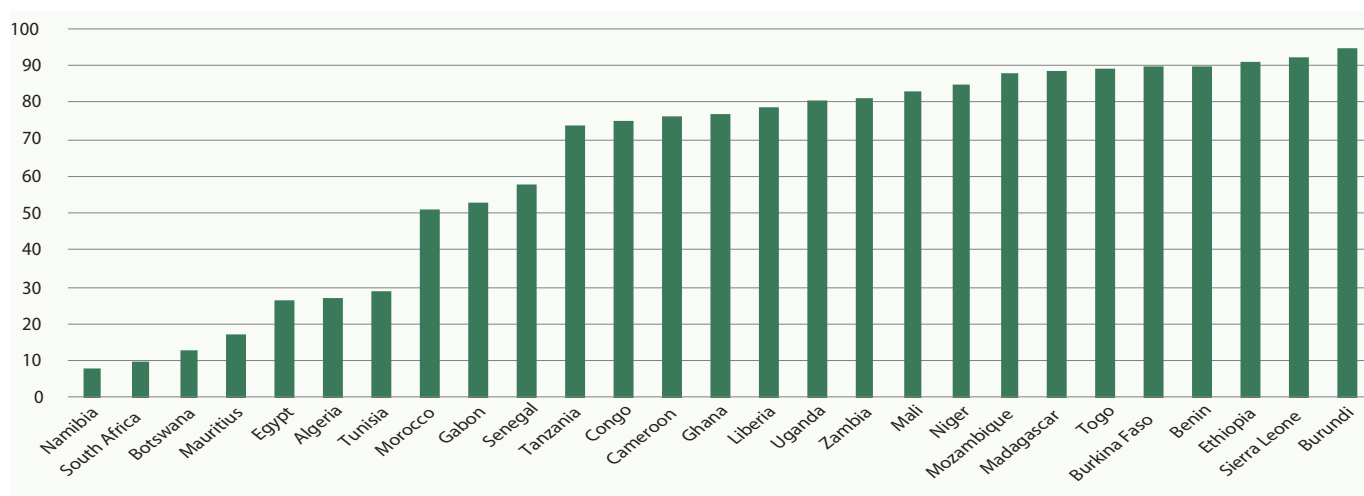
## Youth unemployment

Youth in the 15-24 age cohort fare particularly poorly in when it comes to having access to employment opportunities. While they constituted about 35 per cent of the working-age population in Africa in 2015, they represented three fifths of those who were unemployed. In most countries, the youth unemployment rate is more than twice that for adults; in Nigeria, for example, the youth rate is more than five times the adult rate. In Botswana, the Congo and

South Africa, more than one third of young people are unemployed, and the average youth unemployment rate is about 30 per cent in North Africa, compared to the world average of 14 per cent (Page, 2012).

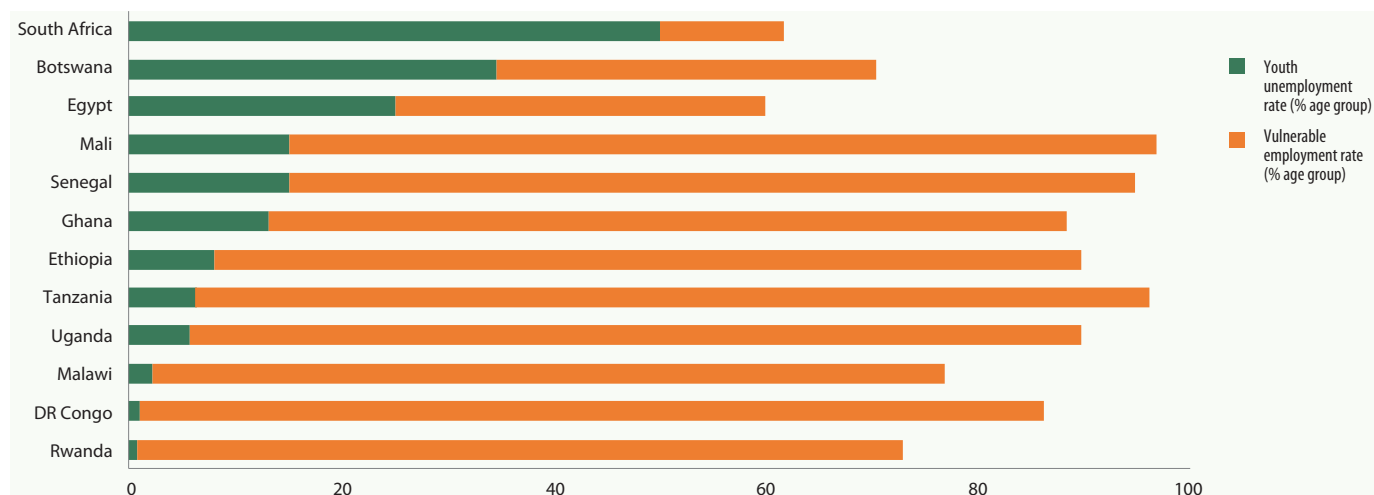
Figure 4 shows how the incidence of unemployment and vulnerable employment among youth varies across a selection of countries in Africa that are at different income levels. Unemployment predominates in higher-income countries like Botswana and South Africa, whereas in the lower-income countries, unemployment rates are low.

**Figure 4: Extent of vulnerable employment (percentage)**



Source: Compiled by the African Social Development Report team with data from HDR 2015 using data from the ILO (2015) Key Indicators of the Labour Market database, eighth edition.

**Figure 5: Youth unemployment and vulnerable employment in selected countries, 2004-2011 (percentage of age group)**



Source: Hamaguchi and others (2013), based on ILO Key Indicators of the Labour Market database.

Lower-income countries tend to have a large informal sector (Page, 2012), in which almost all employment is vulnerable and where youth unemployment, as conventionally measured, is extremely low. Countries such as Kenya, Zambia and Zimbabwe are in the middle, with high unemployment and high vulnerable employment (AfDB, 2012).

The African Social Development Report contends that a growing young population, with unequal access to high quality education and skill-building opportunities, is a key driver of informal employment. As mentioned above, employment in the informal sector is often the only option for those young people, most of whom are from poorer households, have not received a high-quality education and lack the requisite skills to compete in the labour market. They work in the informal sector in jobs with low productivity and low wages, with little or no access to social protection and few prospects of moving out of informality, a dynamic that strengthens and perpetuates inequality.

## Women's employment

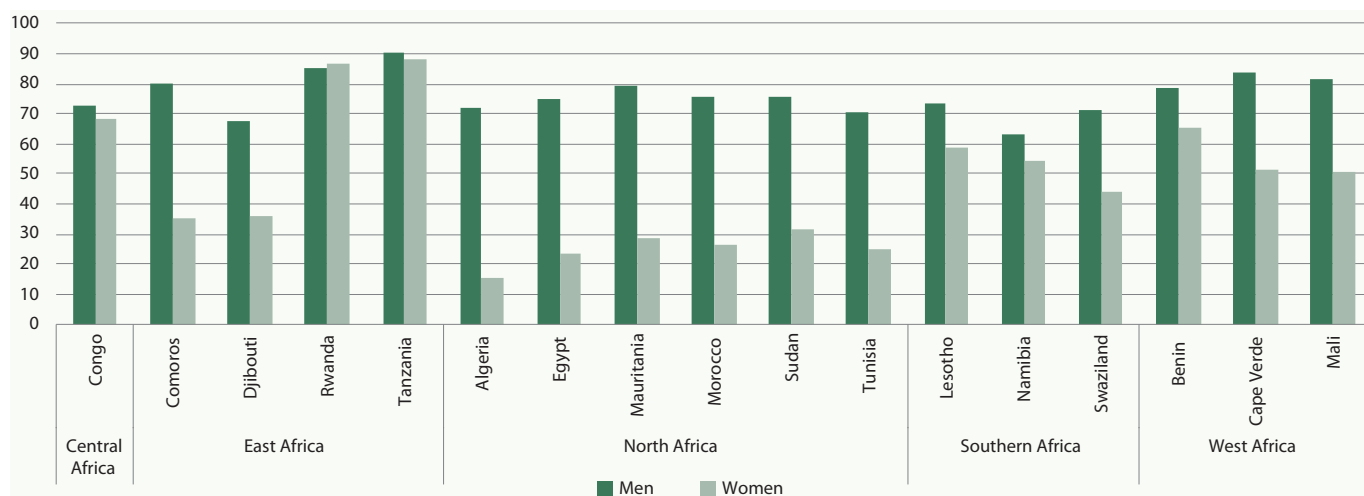
African women still face considerable challenges when it comes to the world of work. Women's participation in the labour market varies greatly across countries, reflecting differences in economic development, social norms, education levels, fertility rates and access to childcare and other sup-

portive services. Labour force participation is lower among women than among men in all African countries. With the exception of Burundi, Malawi, Mozambique and Rwanda, the rate of participation for women is approximately 10 to 15 per cent below that of men, with some countries displaying differences of 30-40 per cent (see figure 6).<sup>7</sup>

The gender gap is particularly striking in North Africa, where strong cultural norms and stigma around women's participation in paid employment limit women's choices and integration into the labour market. It is estimated that women in North Africa hold fewer than 1 of every 65 paid jobs in the nonagricultural sector (United Nations, 2014).

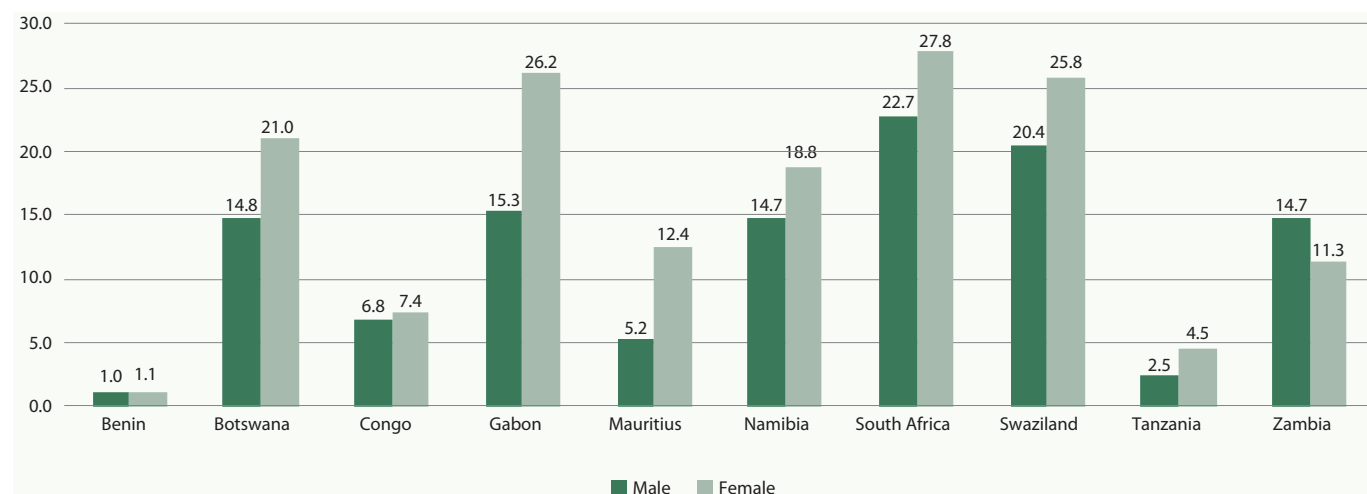
This is a critical hindrance to economic performance, as large gender gaps in labour market participation are found to reduce overall productivity, with an estimated income loss of 20 per cent in North Africa and 8.5 per cent in Africa excluding North Africa (Bandara, 2012; Teingner and Cuberes, 2013). This is partly explained by the disproportionate amount of time that women devote to childcare and domestic activities. It is estimated that women spend 2 to 10 times as many hours caring for children, the elderly and the sick as compared to men (UN-Women, 2013).

**Figure 6: Labour force participation in selected African countries (2012)**



Source: ECA calculations using Key Indicators of the Labour Market database, eighth Edition (ILO, 2014).

<sup>7</sup> See Annex II for a full list of labour force participation rates, by gender.

**Figure 7: Unemployment rates in selected African countries, by gender (percentage)**

Source: ECA calculations based on Key Indicators of the Labour Market database, eighth Edition (ILO, 2014). Latest data available.

Unemployment rates are also higher among women than men, although results are to be interpreted with caution, given differences in methodology and definitions of unemployment across countries (see figure 7).

Limited skills or lack of skills, especially technical skills, along with the burden of unpaid care work, limited access to and control over resources are among the many factors that limit women to the informal sector and trap them in situations characterized by inequality of opportunity and outcome. In the United Republic of Tanzania, the informal sector employs 40–60 per cent of the urban female labour force and 70–80 per cent of women in rural areas. In Namibia, 60 per cent of informal sector businesses are controlled by female entrepreneurs, and women dominate informal sector activities in both urban and rural areas. Women also earn sig-

nificantly less than their male counterparts. For instance, the women-to-men wage ratio is as low as 0.6 in countries like Algeria, Côte d'Ivoire and Mauritania, and just above 0.8 in Egypt, which has the highest women-to-men wage ratio on the continent (United Nations, 2014).

Labour markets in African countries are highly segmented, with women and men performing different types of jobs, based on location, employment status and sector of activity. From a sectoral point of view, agriculture remains a major source of work for women, and they are only slowly shifting towards more productive, value-added activities. At the regional level, the share of women in non-agricultural paid employment rose only from 35.3 to 39.6 per cent between 1990 and 2011, far behind South Asia and Latin America.

**Table 1: Employment by sector and sex, in selected countries**

Country	Sex	Agriculture (%)	Industry (%)	Services (%)
Benin (2003)	Male	53.1	9.8	34.5
	Female	32.7	9.2	57.5
Congo (2005)	Male	31.3	20.0	45.9
	Female	39.3	21.2	38.7
Namibia (2012)	Male	28.1	21.6	50.2
	Female	26.6	5.3	68.0
United Republic of Tanzania (2006)	Male	72.7	6.6	20.7
	Female	80.0	2.1	17.9

Source: Key Indicators of the Labour Market database, eighth edition (ILO, 2014).

There are also large gender differences in the distribution of employment (see table 1).

In Benin and Namibia, women are largely engaged in the service sector (57.7 and 68 per cent respectively), although the sources and types of employment might differ, with Beninese women typically engaged in formal and informal cross-border trade, while Namibia's tertiary sector is driven to a greater extent by communication and banking services (NIES, 2001). The United Republic of Tanzania is still a highly agricultural economy, and this is visible in the high share of women's and men's contribution to the sector. Employment in the Congo is more equally distributed across the three sectors, pointing to the faster pace of industrial development that has started to emerge in the country.

When disaggregated by status in employment, the gender differences become more evident. As depicted in figure 8 wage workers are predominantly men, yet with significant variations across countries. Women comprise a large share of own-account workers, in particular in Benin (77.5 per cent), the Congo (84.7 per cent) and the United Republic of Tanzania (69.3 per cent). Arguably, informal female workers account for a large part of that share.

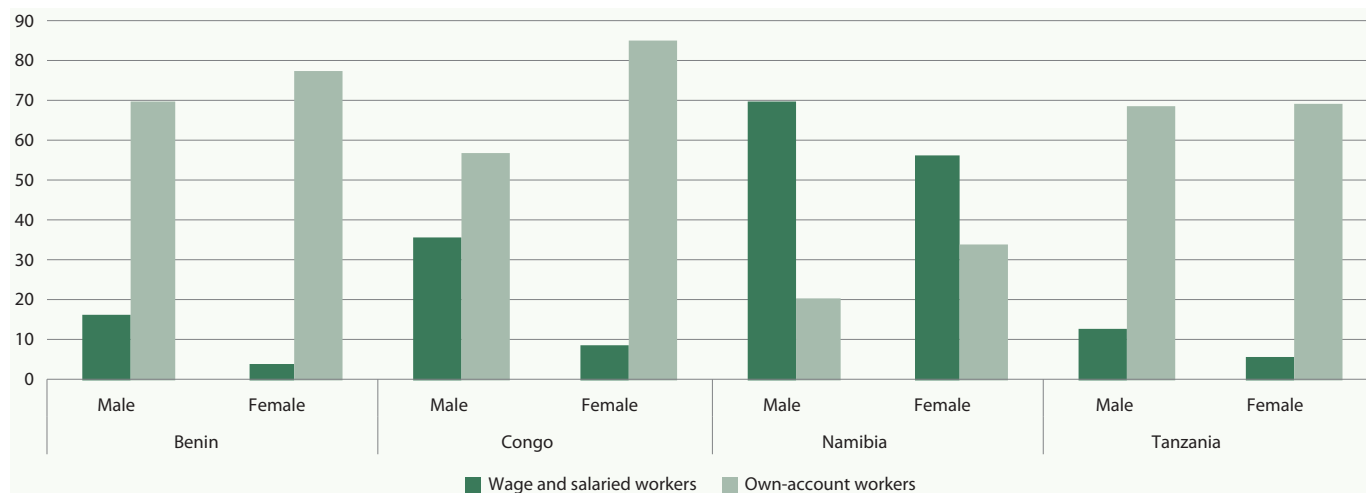
Rapid economic growth in Africa in recent years has not created enough good jobs, pushing those seeking work into informal self-employment and family labour. Although Africa has created over 37 million wage-paying jobs over the past 10 years, the pace of job creation has not kept up with the addition of nearly 11 million young people to the workforce annually, pushing those who seek jobs in the formal economy but who lack the requisite skills into vulnerable employment (i.e., informal self-employment and family labour).

### 2.3 Challenge of high inequality in Africa

The period of sustained growth in most African countries has boosted per capita incomes, reduced poverty (although slowly) and led to steady progress in education, health and living standards. But the pace of progress has been slow and hampered by high levels of income inequality within countries.<sup>8</sup> Economic growth delivers less poverty reduction when the initial level of inequality is high since the absolute increases in income associated with rising average incomes will be smaller for the bottom quintiles (Chandy, 2015).

The unweighted average Gini coefficient in Africa is 0.44, which is the second highest in the world (after that of Latin America) and nearly 12 per cent higher than the coeffi-

Figure 8: Status in employment, by gender



Source: ECA calculations based on the Key Indicators of the Labour Market database, eighth Edition (ILO, 2014).

<sup>8</sup> While there are various measures of inequality, including wealth, opportunities and gender, the focus of most studies is on income inequality, which is reflected in measures of consumption inequality that are gathered through household surveys.

cient for the rest of the developing world, at 0.39. Seven of the ten most unequal countries in the world are in Africa (AfDB, 2016). While the average Gini coefficient for Africa has declined steadily since the early 1990s, there is substantial variation across countries, from 0.31 in São Tomé and Príncipe and the Niger, to 0.63 in South Africa. Around 10 per cent of the population in Africa live in the 10 most unequal countries, which have coefficients in excess of 0.50. Another 50 per cent live in countries with coefficients in the range of 0.40 to 0.50. In other words, close to 60 per cent of the continent's population live in countries with high to very high levels of inequality (ECA, 2017).

The high level of inequality hampers the poverty-reducing effects of growth and may explain the slow rate of poverty reduction on the continent (Ravallion, 1997; Bourguignon, 2004; Fosu, 2009). Higher levels of inequality typically result in economic growth having a weaker impact on poverty reduction (Loayza and Raddatz, 2010; Fosu, 2011) given that the more unequal the distribution of income, the lower the share of additional income that goes to the poor. Calculations by Fosu (2009) of the income growth elasticities for 30 countries in Africa over the period 1977-2004 revealed substantial variations, from 0.63 in Namibia, a highly unequal country, to 1.4 in Ethiopia.

A highly unequal income distribution often reflects a polarized economy, where economic growth has a narrow base, with weak connections to the rest of the economy (ILO, 2016). In addition, it is not only growth that matters, but also where the sources of growth are located. Evidence has shown that growth in labour-intensive sectors such as agriculture and manufacturing typically lead to greater poverty-reduction than growth in capital-intensive sectors such as mining (Ravallion and Datt, 1996; Khan, 1999; Ravallion and Chen, 2007; Loayza and Raddatz, 2010).

Monetary measures provide only a narrow conception of well-being because they do not take into account certain factors that have utility but which are not quantifiable, such as non-market goods and non-material dimensions of the human condition (Ravallion, 1996; Lachaud, 1998; Deaton, 2003). The measurement of non-monetary attributes

such as education, health and nutrition provide relevant information on well-being that allows for a broader view of the implementation of policies to address inequality.

While inequality in access to health and nutrition are no less important, the following section analyses inequality in access to education and quality of schooling because of their direct impact on employment prospects.

## 2.4 Education inequality<sup>9</sup>

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. Although Africa has made significant strides in raising the average level of educational achievement, considerable inequality remains, as discussed below.

### (a) Primary education

Africa excluding North Africa has seen a rapid increase in the percentage of children who complete primary school, from about 50 per cent in 1991 to 70 per cent in 2011. Nevertheless, it lags behind other world regions in rates of primary school completion. Young people entering the labour force in Africa right now have more schooling than any previous generation. However, they still have insufficient levels of schooling. While nearly 60 per cent of 15-24 year-olds have completed only primary school, there is a steep fall of nearly 40 percentage points in enrolment beyond the primary school level.

Some countries have made exceptional progress. Burkina Faso, Chad, Ethiopia, Madagascar, Malawi, Mauritania, Mozambique and the Niger more than doubled their primary school completion rates in the period 1991-2011; Benin, Guinea, Guinea-Bissau and Mali more than tripled theirs in the same period. However, while differences in quantitative measures of educational attainment in Africa (e.g., years of education) have been substantially reduced, differences in qualitative measures remain larger.

Completion rates are also a good proxy for quality of education. The data on education in Africa shows that there

<sup>9</sup> This section is based on the background paper by Adrian Gauci and Amal Elbeshbishi "Putting education to work in Africa: Aspirations and reality in skill acquisition".

is a wide gap across quintiles, genders and locations in the proportion of 15-19 year olds who have completed Grade 6. The differences in access to education across income groups, genders and locations start at the primary level, and a vicious circle of inequality, poverty and exclusion is created (see table 2). Girls, rural dwellers and those from the bottom quintiles start to lose access to education while in primary school, and that loss of access continues to later stages. Such individuals ultimately have to settle for low productivity and low-paying jobs in the informal sector, thereby perpetuating inequality.

In 35 countries for which data are available, an average of 71 per cent of 15-19 year olds in the top two quintiles have completed Grade 6, but only 42 per cent of those in the bottom three quintiles have done so. In urban areas, 72 per cent of 15-19 year olds have completed Grade 6, while only 45 per cent in rural areas have done so. There is some parity in respect of gender, with 57 per cent of boys and 53 per cent of girls in that age group completing Grade 6.

### (b) Secondary education

Given the impressive strides that African countries have made in moving towards universal primary education, it is critical that greater access to secondary education be provided. Secondary education is essential in preparing students for higher education and provides important life skills. Starting from a very low base, with policy concen-

tration on universal primary education, Africa excluding North Africa achieved the greatest gains in secondary education participation of any world region between 1999 and 2012. After completing primary school, however, many students find it difficult to transition to secondary schools that are close to home. Across Africa, secondary schools can accommodate only less than half of eligible students (African-American Institute, 2015).

In relation to employment opportunities, secondary education is critical. Secondary school is the terminal point from which graduating students can either go on to higher education or branch off into jobs. It is thus important to analyse access to secondary education and the extent to which youth (15-24 years of age) are prepared for the world of work. Students with secondary school education increase their chances of formal employment and improved livelihoods, as they are then equipped to fill jobs requiring education and training above the primary level that would otherwise go unfilled (Vespoor, 2008).

### *Gender equality in secondary education*

Providing girls and women access to education contributes to the acquisition of knowledge and skills that lead to increased participation in the labour force. Women in Africa receive an average of 4.3 years of schooling, compared with men, who receive 5.7 years of schooling. Girls in West Africa are worst off in that regard, receiving an average of

**Table 2: Access and completion rates at the primary level, by social characteristics (from 35 African countries), 2006-2011**

	Total	Gender		Location		Quintile of wealth		Gender x Location				
		Girls	Boys	Rural	Urban	Q123	Q45	RG	RB	UG	UB	
Access	81.6%	80.0%	83.1%	77.5%	91.2%	76.2%	90.4%	75.4%	79.4%	90.0%	92.4%	
Completion	54.8%	52.5%	57.1%	44.6%	71.5%	41.7%	70.9%	41.4%	47.3%	69.0%	74.2%	
		Gender x Location x Wealth						Disparities				
		RGQ123	RGQ45	RBQ123	RBQ45	UGQ123	UGQ45	UBQ123	UBQ45	B/G	U/R	Q45/ Q123
Access	73.1%	83.8%	77.3%	87.9%	80.5%	92.1%	83.9%	94.4%	1.04	1.18	1.19	
Completion	36.2%	57.2%	42.4%	63.0%	48.8%	73.4%	52.1%	78.9%	1.09	1.60	1.70	

Source: ECA (2013). Estimates are based on EDS surveys. RG= rural girls; RB= rural boys; UG = urban girls; UB = urban boys; Q123=quintiles 1, 2 and 3; Q45 = quintiles 4 and 5.

only 2.5 years of schooling, 2 years less than that received by boys. The gender gap for the continent in mean years of schooling is 1.4 years, although in Algeria, the Democratic Republic of the Congo, Equatorial Guinea, Liberia and Togo, the gap is 3-3.3 years. In the Niger, girls on average receive less than one year of schooling. In Libya, Madagascar, Gabon, Lesotho, Namibia and Swaziland, there is a reverse gender gap in mean years of schooling; women receive more years of schooling than men.

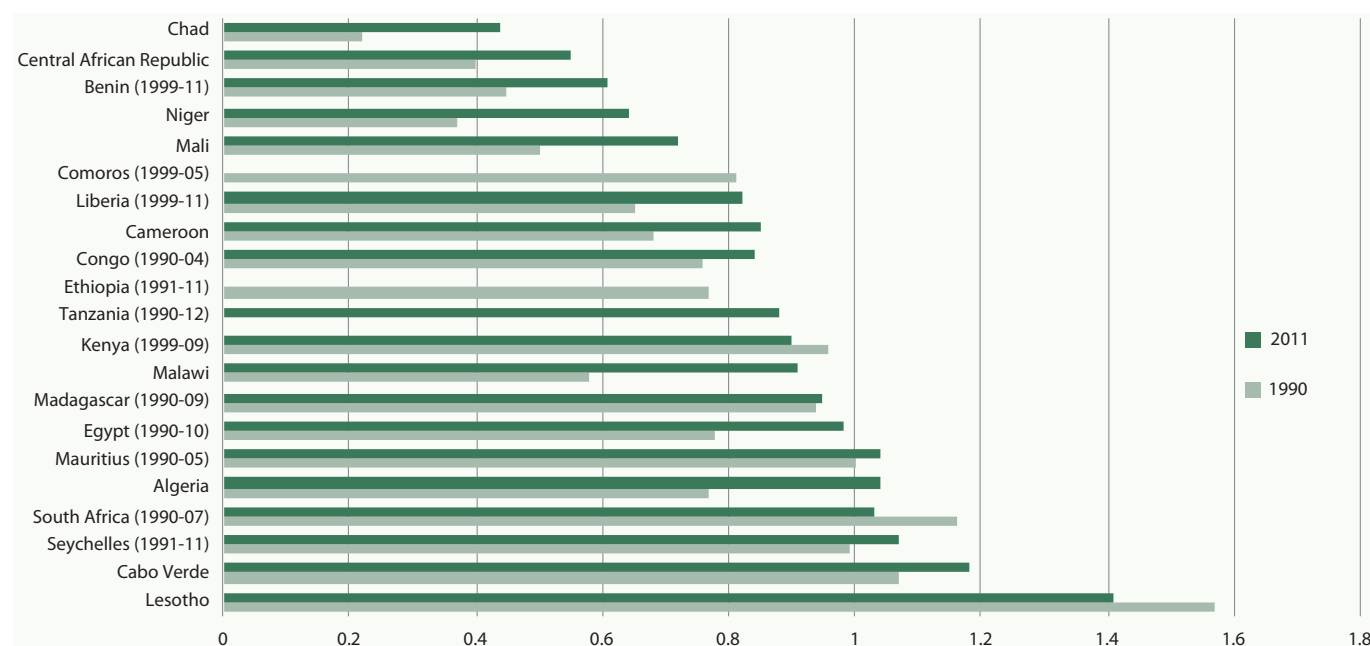
As expected, the years of schooling received by women increases with income. Women in higher income countries such as Botswana, Gabon and South Africa receive 9-10 years of schooling, a figure higher than the average for East Asia and Latin America and the Caribbean and close to the average for Europe and Central Asia. Globally, more than half (54.5 per cent) of women 25 years of age and older have had some secondary education, but have not completed the secondary cycle. Given the low level of mean years of schooling in Africa, only 23 per cent of women in Africa have had some secondary education, although there is some variation across subregions.

Gender gaps in primary education in Africa have largely narrowed, with the ratio of female-to-male primary enrollment reaching 0.92 although wide variations exist across countries. In Eritrea, less than half (47.1 per cent) of girls were enrolled in primary school in the period 2010-2015 (AEO, 2016). In Angola and South Sudan, there are fewer than 70 girls per 100 boys in primary school.

The gender gap in primary completion rates narrowed during the period 1999-2014 in all subregions except Southern Africa, where it increased marginally. West Africa and Central Africa recorded the sharpest declines. Still, 18 per cent more boys completed primary education in Central Africa in 2014 (ECA, 2017).

Access to secondary schools for girls remains a challenge, although there are variations among countries, with some performing very well, while others experiencing large gaps between boys and girls. Data for 2011 (the latest available) on gender parity in secondary education enrolment for 43 countries show that 12 countries, namely Algeria, Botswana, Cabo Verde, Lesotho, Mauritius, Rwanda, Sao Tome and Príncipe, Seychelles, South Africa, Swaziland and Tunisia have achieved parity in the recent years (see figure 9). Sev-

**Figure 9: Progress on gender parity in secondary enrolment, 1990-2011**



Source: Computations from databases of the United Nations Statistics Division.



en countries – Botswana, Cabo Verde, Lesotho, Namibia, Seychelles, South Africa and Tunisia – had a Gender Parity Index value that surpassed the parity target of 0.92.<sup>10</sup> Many countries such as Ghana, Kenya, Malawi, Mauritania, Nigeria, and Uganda also made appreciable progress in the period 1990-2011, with Gender Parity Index ratios ranging from 0.80 to 0.94. However, seven countries – Angola, Benin, Central African Republic, Chad, Guinea, the Niger and Togo, – had Gender Parity Index ratios of less than 0.7.

The average Gender Parity Index ratio for Africa excluding North Africa remained at 0.82 for secondary education between 1999 and 2011, while the average for all low-income countries combined increased from 0.91 to 0.97. For East Asia, the average rose from 0.94 to 1.03 during the same period.<sup>11</sup>

Most countries that have achieved gender parity are in Southern Africa, where it has been driven partly by the protocol on education and training of the Southern African Development Community (SADC). A specific initiative known as the Programme on Advanced Girl Education facilitates the coordination of the member States of the sub-region in the implementation of gender equity policies to get girls who have dropped out because of pregnancy or other reasons back into school and to raise awareness regarding cultural norms that perpetuate gender exclusion.<sup>12</sup>

Analysis at the country level confirms aggregate figures on educational achievement and various forms of inequality, including in relation to gender, while providing deeper levels of information. Table 3 shows the completion rates of secondary education for boys and girls by wealth quintile, for urban areas in Benin, the Congo, Namibia and the United Republic of Tanzania.

In the countries for which data are available, children from the bottom wealth quintile are unable to complete secondary school. In the Congo, no one from the lowest quintile had completed secondary education. For the lowest two quintiles, completion rates were extremely low, at less than 10 per cent; for the Congo, the rate is at about 14 per cent. The completion rate progressively increases along the wealth brackets. While in the United Republic of Tanzania, over 80 per cent of the richest complete secondary education, in Benin and Namibia, the range is 40-60 per cent, and in the Congo it is a little over 25 per cent.

With regard to gender, overall completion rates are slightly higher among males, although differences are seen when the data are split by wealth quintiles. For example, in the richest quintile, girls outperform boys in three of the four countries, with the exception being the United Republic of Tanzania. Children from upper quintiles completed secondary education in far greater proportions than children

**Table 3: Secondary completion rates by gender and wealth quintiles in urban areas in selected countries**

	Gender	1st quintile (bottom)	2nd quintile	3rd quintile	4th quintile	5th quintile (top)
Benin	Male	2.2	6.5	13.6	31	46.7
	Female	2.4	3.3	9.7	29.4	55.2
United Republic of Tanzania	Male	1.7	0.6	1.7	14	82
	Female	1.1	0.5	3.3	14.5	80.6
Congo	Male	0	14.3	28.1	30.6	27
	Female	0	14	28	29.8	28.3
Namibia	Male	1.5	7.8	17.4	34.7	38.6
	Female	0.7	7.6	17.3	32.9	41.4

Source: Computations from demographic health surveys data from 2011.

<sup>10</sup> Gender Parity Index reflects the ratio of the number of girls to the number of boys at admission. Achieving gender parity requires a minimum score of 0.92.

<sup>11</sup> Source: <http://data.uis.unesco.org/>.

<sup>12</sup> See, [http://www.sadc.int/files/8713/5292/8364/Protocol\\_on\\_Gender\\_and\\_Development\\_2008.pdf](http://www.sadc.int/files/8713/5292/8364/Protocol_on_Gender_and_Development_2008.pdf).



### Box 1: Gender and equity public interventions in Burkina Faso produce positive results

In Burkina Faso, a package of policy interventions was implemented to address equity and gender concerns, in particular in respect of secondary education. Designed by the Forum for African Women Educationalists to promote the creation of gender-responsive schools, the intervention package included: bursaries for needy girls; gender-responsive pedagogy and management training; information and communication technologies training; science, mathematics and technology programmes for girls; the "Tuseme" ("Let us speak" in Swahili) girls' empowerment programme; the creation of guidance and counselling desks; a programme focused on sexual maturation; community participation; and gender-specific facilities.

The implementation of the programme led to a 5 per cent increase in the enrolment of girls in lower-secondary education over a 10-year period (1999-2010). Furthermore, the involvement of rural communities and young people in designing the public interventions contributed to increased incomes, improved educational outcomes for girls and the acquisition of additional skills.

from the bottom quintiles. Even for children in the richest quintile, however, completion rates never reached 100 per cent in any of the countries in question.

To address the gender gaps in education in Africa, new programmes have been initiated in some countries. For example, in Burkina Faso, the World Bank and the United Nations Children's Fund (UNICEF) have assisted the Government in developing programmes for girls from low-income households to provide access to lower-secondary education, resulting in a 5 per cent increase in girls' enrolment between 1999 and 2010 (see box 1).

#### (c) Technical and vocational education and training

Students engaged in technical and vocation education and training in Central, East, Southern and West Africa represent only 3 per cent of the school-age population and 8 per cent of those enrolled in secondary education. In 2011, only 3.6 million students were enrolled in such programmes in the entire African region, while in Asia 27 million students were enrolled, out of a population of 1.6 billion. The extent of enrolment in technical and vocation

**Table 4: Enrolment in technical and vocation education and training in selected African countries, 2011**

Country	Percentage of school-age population	Percentage of secondary school enrolment
Burkina Faso	1	4
Burundi	1	4
Egypt	13	18
Ethiopia	2	8
Ghana	1	7
Kenya	0.2	0.4
Tunisia	11	11

*Source:* Computations based on data from UNESCO databases (see: <http://data.uis.unesco.org/>).

education and training varies across countries, but overall it does not feature much as a major skill provider (see table 4). In North Africa, enrolment in those programmes is higher than in the other subregions. In Ghana and Ethiopia, some 7-8 per cent of secondary school students participate in technical and vocation education and training, which is the average for the African region. Burkina Faso and Burundi, which are among the least developed countries, show much lower proportions.

The stock of technical workers could be increased by upgrading technical education and further training low-trained technicians to increase their polytechnic knowledge. For example, Mauritius has an extensive programme in technical and vocation education and training, with 50 per cent of secondary school enrolment being in technical schools. Mauritian officials plan to scale up such programmes and also permit two entry points: one for technicians at the secondary level and the other for middle management personnel at the polytechnic institution level. That approach could be emulated elsewhere.

The gender imbalances at the secondary education level that were mentioned above are also evident in the area of technical and vocation education and training (see table 5). In five of the six countries (Kenya being the exception), girls comprise fewer than 50 per cent of students in that stream of education. However, there is need for caution in

**Table 5: Percentage of girls in the technical and vocational stream**

Country	Percentage
Burkina Faso	36
Burundi	46
Egypt	43
Ghana	44
Kenya	58
Tunisia	35

Source: UNESCO 2014.

**Box 2: Ghana: success of a community-based technical and vocational programme**

The Integrated Community Centres for Employable Skills were assessed in regard to the creation of employable skills. The assessments were conducted in rural Ashanti and Brong Ahafo areas and women represented more than 70 per cent of the participants. The study assessed the skills before and after the training in terms of improvements to the employment situation of participants and to overall livelihoods in the community.

The courses provided trade-specific training in electrical work, woodworking, agricultural practices, bee keeping and food processing, and lasted an average of 3-6 months. The results were very positive, as the training imparted basic skills and matched the demand for skilled labour. The study also reported increased welfare within the rural communities.

Source: Pongo and others (2014).

interpreting the data. The area of technical and vocation education and training comprises a wide range of vocational courses, from engineering, to tailoring and stitching, to the provision of personal care services. It is not known which disciplines the girls choose, although it is likely that they more often take courses in the latter rather than in engineering and technology disciplines.

A survey conducted in eight African countries (Benin, Liberia, Madagascar, Malawi, Togo, Uganda, the United Republic of Tanzania and Zambia) suggests that, although

there was little or no difference in earnings for own-account workers and self-employed youth whether they had completed primary, secondary or tertiary education, the earnings of such individuals improved if they had been passed through the technical and vocational education and training stream (see box 2). This conclusion was confirmed in another study, which focused on Cameroon, which showed that vocational education generated higher returns than general education did. Even in the informal sector, many occupations require technical skills, and workers with such training earn more than those with general training only.<sup>13</sup>

In Africa, as elsewhere in the developing world, more young people acquire technical and vocational knowledge through on-the-job traditional apprenticeships than through formal technical and vocation education and training channels. For instance, a survey in Senegal found that only 10,000 young people had attended formal technical and vocational institutions, compared with 444,000 who had been trained through traditional apprenticeships (Walther, 2011). Similarly, a survey in Ghana found that only 5-10 per cent of technicians had attended formal vocational institutions, whereas 80-90 per cent of technicians had gone through traditional channels of social networks and connections. While such on-the-job apprenticeships increase the supply, the demand for such skills outside small garages (or other work places where they learn) is small, given that the exposure received is limited and often is not backed by sufficient knowledge of relevant theory. That limits the career paths of the majority of those who learn primarily through on-the-job training.

A large number of young people opt for informal on-job channels because access to formal skill-acquisition is expensive and is accessible to only relatively high-income people. A formal technical and vocational school requires that students complete secondary education. However, as most of the poor young people do not complete secondary education, formal channels for technical and vocational education and training are out of their reach. Even in informal (on-the-job) training, there is an income bias. A survey in Ghana in 2008 found that, of informal apprentices, only 11 per cent belonged to the poorest quintile in the country.

<sup>13</sup> ILO (2013).

In contrast, as many as 47 percent of apprentices in this channel came from the wealthiest quintile in the country.

It is often the case that the poor miss out on both formal and informal training. That is, inequality of opportunity<sup>14</sup> can result in inequality of outcome. Evidence to this effect was seen earlier. Any technical training yields better returns than no training at all.

#### **(d) Tertiary education**

Good quality higher education is at the centre of growth for many economies, in particular as knowledge becomes one of the drivers of improved development prospects. One of the key impediments preventing Africa from joining global value chains and meeting the high quality standards of global markets is a lack of operational competence arising from the low prevalence of high-end skills (Kedir, 2014).

Excluding North Africa, tertiary enrolment across Africa has grown by an average of 8.4 per cent per year over the past four decades, nearly double the global average of 4.3 per cent. There were nearly 4.8 million higher education students in the region in 2010, a 20-fold increase since 1970. However, only 6 per cent of students in the tertiary education-age cohort are enrolled in tertiary institutions, compared with the global average of 26 per cent, although there are variations across countries. If current rates of enrolment are sustained, this will translate into 137 million of 20-24 year olds with a secondary school education and 12 million with a tertiary school education by 2030. All the same, as of 2015, nearly 20 per cent of that age cohort had not been educated at all; that number is expected to decline only gradually, to 12 per cent by 2030.

Globally, changing patterns of participation in tertiary education between 1990 and 2012 gave rise to significantly greater gender disparities. In 1990, more men than women were enrolled in tertiary education, as reflected in that year's global Gender Parity Index ratio of 0.90. Since then, the rate of women's participation has increased faster than that of men, resulting in tertiary enrolment ratios reaching parity around 2000. In 2012, the global average for the Index reached 1.28 for developed regions; 1.22 for North Africa; 1.28 for Latin America and the Caribbean; 1.08 for

East Asia; 1.12 for South-East Asia; and 1.07 for the Caucasus region and Central Asia. However, despite large variations across countries, the trend for Africa excluding North Africa bucked that trend, with a Gender Parity Index ratio of 0.64. At the same time, women who had enrolled in science, engineering, manufacturing, construction, agriculture and service-related disciplines were less likely than men to graduate. That has been particularly the case for those majoring in science, technology, engineering and mathematics (United Nations, 2015).

## **Conclusion**

The challenges associated with education at the secondary level are much greater than those of the primary level. However, receiving a secondary school education is crucial to entering the labour market and obtaining a decent job. Compared to primary school, far fewer students enrol in secondary school and still fewer graduate. When it comes to having access to and completing secondary school, there are also imbalances in respect of gender, location and wealth. The story is much the same when it comes to technical and vocational education and training. Fortunately, there are projects run by non-governmental organizations and donors to train young people that have had positive results and could be scaled up. Those projects also provide pointers on how to proceed to further upgrade the skills of young people.

There is an urgent need to promote secondary and technical and vocational school enrolment to help young people escape the traps of low productivity and informal employment. For that to happen, various barriers must be removed in order to reduce the cost of acquiring education at those levels. In addition, innovative and effective approaches need to be found to keep boys and girls in school and to provide them access to technical and vocational education.

The present report contends that a growing young population with limited access to education and skill-building opportunities is a key driver of informal employment. That topic will be explored in depth in subsequent sections.

<sup>14</sup> A fuller discussion on inequality of opportunity is beyond the scope of the present report.

# Informality in Africa

## 3.1 Nature of informality

Despite 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 make it difficult to draw a unique picture or undertake consistent cross-country analyses. 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 one or more of the three categories.

According to the definition provided by the ILO International Conference of Labour Statisticians, the informal economy includes both the informal sector and informal employment. The concept of the informal sector uses an enterprise-based definition and looks at production units (i.e., enterprises and firms) that are not covered or insufficiently covered by formal arrangements as the unit of observation. On the other hand, the concept of informal em-

ployment uses jobs as the unit of observation and includes all jobs in the informal economy or all persons who, during a given reference period, were employed by at least one informal sector enterprise, irrespective of their status in employment and of whether it was their primary or secondary job. The informal employment concept also includes jobs done by persons who are engaged in the formal sector but in a capacity and with entitlements similar to those existing in the informal sector.

The various categories of employment, including formal, informal, inside and outside the informal sector, are depicted in table 6 below.

- Informal employment: cells 1 to 6 and 8 to 10.
- Employment in the informal sector: cells 3 to 8.
- Informal employment outside the informal sector: cells 1, 2, 9 and 10.

**Table 6: Classification of informal employment**

Production units, by type	Jobs by employment status								
	Own-account workers		Employers		Contributing family workers	Employees		Members of producer 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: Hussmanns (2004), ILO (2013b).

Note: Cells shaded in dark grey represent jobs, that, by definition, do not exist in the type of production unit in question. Cells shaded in light grey represent formal jobs. Non-shaded cells represent the various types of informal jobs.

As shown in table 6, self-employed (own-account) workers (cells 3 and 9) are engaged in solo activities or work with family members or non-family workers (for example, 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 with no reference to a minimum wage. They are typically in construction, auxiliary activities like canteens, transport and cleaning, or activities that do not form the core of the business of their employers. Unpaid family workers (cells 1 and 5) work with no contracts, no defined tenure or work standards, and with no reference to remuneration. Employers (cell 4) choose to work informally, running enterprises that are not registered and that may hire workers informally. Very few informal enterprises may be hiring employees on formal contracts (cell 7). However, given the heterogeneity in status and in employment activities, jobs sometimes straddle the boundary between employment categories.

The informal employment categories depicted in table 6 essentially reflect attempts to avoid or mitigate the impact

of labour market constraints arising from one or more of the following:

- Unemployment
- Legislation, regulations or other structural forms of discrimination
- Taxes
- Scale diseconomies

These can be grouped under four broad categories, depending on which constraint people aim to overcome by operating in the informal sector as an employer, employee, own-account worker or contributing family worker (see table 7). This taxonomy provides a useful framework for organizing and structuring discussions about informality and inequality and for drawing out relevant policy implications.

It is important to distinguish between the types of informality in different countries to establish the direction of the impact of informality on inequality and to make policy recommendations related to the functioning of formal and

**Table 7: Types of informality**

Types of informality*	Constraint addressed by informality	Features	Job category [cell number]**
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-based and other forms of discrimination; low demand for jobs in the formal sector	Workers or employers with productivity levels comparable to formal sector workers who 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 productivity levels comparable to formal workers and no barriers to formality, who choose to work informally for higher (un-taxed) earnings or to evade market regulation	Employers [4]
	Scale diseconomies		Members of producer cooperatives [8]

\* This classification is as hypothesized by Fernandez and others (2016).

\*\* “Cell number” refers to the notation in table 6.

\*\*\* Rarely do employees in informal enterprises have formal contracts or social protection coverage.



informal labour markets. The subsistence or involuntary informality of a street vendor with few skills and limited opportunities arising from structural constraints is very different from the voluntary informality of a qualified entrepreneur who wishes to avoid paying taxes or for whom informality offers greater benefits than formality and/or because the benefits of operating formally do not outweigh its costs. Although both groups are engaged in the informal sector, their motivations are very different.

Informality becomes a forced choice when vulnerable groups that need to work are excluded from the formal sector owing to a lack of opportunities, lack of resources and/or discrimination (Subrahmanyam, 2015). Formal sector opportunities may be scarce because of rapid labour market growth, slow job creation and/or formal sector redundancies during periods of economic downturn, crisis, reform or transition (Bosch and Maloney, 2008; Klasen and Pieters, 2012). In some cases, individuals lack the resources needed to obtain formal sector positions, be it the skills required by employers or the capital needed to run their own businesses, which is especially problematic where barriers to entry into the formal economy are high (DeSoto, 1989; Gerxhani and Van de Werfhorst, 2013). In some cases, discrimination prevents groups from gaining access to the formal economy. For some vulnerable groups, self-employment in the informal sector may be the only option for earning an income in order to survive (ILO, 1972; Hart, 1973).

The informal labour market, with low barriers to entry, is able to absorb many of those who are keen to avoid unemployment. If those individuals were not working informally, they would most likely be unemployed. In this way, subsistence or induced informality is a default alternative to unemployment. For the poor in low-income countries, unemployment is not an option. Individuals have to choose between self-employment, working in subsistence agriculture or working in the urban informal sector in order to survive. It is for this reason that labour statistics reveal low unemployment rates in much of Africa, while rates of informal employment are high.

However, being informally employed does not automatically mean being poor, having low productivity or being excluded from social services and social security. In many parts of the world, the informal economy also includes small-scale entrepreneurs who are not poor, have a large capacity for innovation and have sizeable growth potential. They may be in the informal economy voluntarily if it offers them greater benefits with fewer restrictions (Maloney, 2004; Oviedo and others, 2009; Chen, 2012) or if doing so allows them to avoid paying taxes and complying with regulations (Maloney, 2004; Perry and others, 2007). Workers may prefer being informally employed if they perceive the costs of social protection to outweigh the expected future benefits or if they prefer a higher take-home wage in lieu of employer social security contributions (Chen, 2012). For some workers, the informal sector may offer better wages and perquisites than the formal sector, especially for those engaged in illicit activities.<sup>15</sup> The present report limits its analysis to involuntary informality.

There is a high degree of heterogeneity across countries with respect to the nature of informality. Own-account workers comprised over half the total of those employed in Burundi, Uganda, the United Republic of Tanzania and Zambia in 2012. In the Congo and the United Republic of Tanzania, household survey data indicate that the primary reason for entering the informal sector was that individuals were unable to find wage employment. High levels of subsistence and induced informality in these countries suggest the need to eliminate structural causes by enhancing access to high-quality education. Middle-income countries like South Africa, tend to have more sophisticated social protection systems, which 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.

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 policies. For example, if subsistence or induced informality

<sup>15</sup> The propensity of individuals to engage in informal (including illegal) activities increases when rule of law is weak, trust in government is low, and/or regulations are weakly monitored and enforced, or are tightly enforced by corrupt officials who demand payment for getting things done through formal channels (Torgler and Schneider, 2007).

is most prevalent and workers would be better off in that type of employment than if they were unemployed, then the informal labour market is positively affecting the lives of these informal workers.

### 3.2 Extent of informal employment

Reliable data on the extent of informal employment is difficult to access for reasons mentioned in section 1.3. It is estimated that 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 jobs, i.e., those that pay a regular wage, sometimes with associated benefits. The majority of them work on family farms (62 per cent) or in household enterprises (22 per cent).

For the African region as a whole, informal employment is estimated to be about 66 per cent of total non-agricultural employment. About a third of informal employment is wage employment, and two-thirds is self-employment (i.e., own-account work). Vulnerable groups like women and youth are more likely to be employed informally. Of employed women in Africa, 74 per cent are informally employed, compared to 61 per cent of men.

Although informal employment accounts for a significant percentage of total non-agricultural employment in Africa, the pattern in Southern Africa differs from that in 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 youth unemployment rates, less than 20 per cent of

**Table 8: Share of informal employment in total non-agricultural employment in selected countries, by gender**

Countries	Share of persons employed in informal sector in total non-agricultural employment (percentage)	
	Female	Male
Benin (1999)	41.0	50.0
Botswana (2006)	18.2	10.8
Côte d'Ivoire (2008)	82.8	60.5
Egypt (2009)*	23.1	56.3
Ethiopia (2004)**	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)*	47.0	41.1
South Africa (2010)	16.8	18.6
United Republic of Tanzania (2005/2006)	49.8	53.2
Uganda (2010)	62.2	57.9
Zambia (2008)	70.3	60.9
Zimbabwe (2004)	53.1	31.2

Source: Key Indicators of the Labour Market database, eighth edition (ILO, 2014).

Notes: \* Refers to the percentage of persons in informal employment as a share of total non-agricultural employment.

\*\* For urban areas only.

young workers in Africa find wage employment. Over 70 per cent of young workers in the Congo, the Democratic Republic of the Congo, Ethiopia, Ghana, Malawi, Mali, Rwanda, Senegal and Uganda are either self-employed or contributing to family work.

A large section of non-farm employment is in the urban informal sector. Table 8 displays the proportion of informal employment in selected countries. With the exception of Botswana, Mauritius and South Africa, all countries in Africa have significant shares of women and men working in informal employment. The situation in Botswana, Mauritius and South Africa reflects the largely formal nature of their labour markets and economic conditions in those countries as compared to the rest of the continent.

The informal sector is the continent's mainstay, and most young people will continue to end up working in the informal sector. It is estimated that, over the next 10 years, at most only one in four young people will find wage-paying

jobs, only a small fraction of which will be in the formal sector. This has implications for the transition of young people into adulthood, a transition that is often delayed as they struggle to navigate the move from school to work, find stable remunerative employment and support a family.

### 3.3 Women in informal employment<sup>16</sup>

In most African countries, women are overrepresented in informal sector activities. Seventy per cent of women in the African labour force are in low-paying and unprotected informal jobs. Of those, 80 per cent are working poor, with critical consequences for human capital development and economic empowerment. For example, in Namibia, 60 per cent of informal sector businesses are controlled by female entrepreneurs, and women in the 25-44 age range dominate informal sector activities, in both urban and rural areas (see table 9).

Like the formal sector, the informal sector is stratified by gender. As shown in figure 9, women are more visible in lower-value-added activities that pay the lowest returns

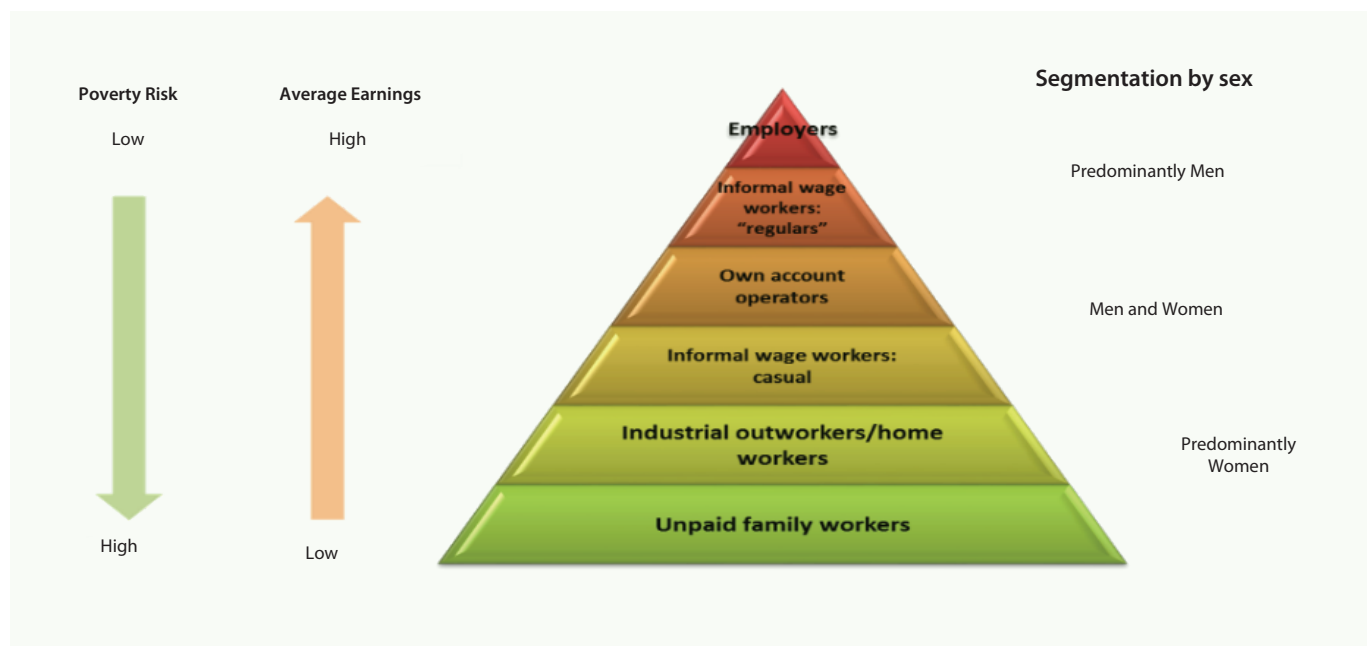
**Table 9: Age structure of informal economy operators, by sex (percentage)**

Age	Namibia			Urban			Rural		
	Total	Female	Males	Total	Female	Males	Total	Females	Males
15-19	0.9	1.1	0.6	1.0	1.4	0.6	0.8	1.0	0.6
20-24	3.9	5.3	2.3	5.2	7.2	3.0	3.2	4.3	1.9
25-29	10.9	12.9	8.7	14.8	17.4	12.0	8.8	10.6	6.9
30-34	12.9	13.4	12.4	17.0	15.8	18.1	10.7	12.1	9.2
35-39	15.2	16.3	13.9	20.0	20.0	20.0	12.6	14.4	10.5
40-44	12.5	14.1	10.7	12.0	13.0	11.0	12.8	14.8	10.6
45-49	11.1	9.9	12.4	10.8	8.9	12.8	11.3	10.5	12.2
50-54	8.9	7.2	10.9	7.4	5.9	9.0	9.8	7.8	11.9
55-59	5.4	4.5	6.4	4.0	3.4	4.6	6.2	5.1	7.4
60-64	6.8	6.0	7.7	3.9	3.5	4.4	8.4	7.3	9.5
65+	9.8	7.5	12.3	3.2	2.8	3.6	13.4	10.0	17.2
Not reported	0.8	0.8	0.7	0.6	0.4	0.8	0.9	1.0	0.7
Unknown	0.9	0.8	0.9	0.2	0.3	0.1	1.2	1.1	1.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Namibia informal employment survey (2001).

<sup>16</sup> This section is based on the background paper by Ngone Diop and Iris Macculi "Women in informal employment in Africa: Addressing the gender inequality trap".



**Figure 10: Segmentation of the informal economy, by average earnings, poverty risk and sex**

Source: Chen (2008).

(e.g., selling cooked food, brewing beer and making baskets or crafts), while men are more often self-employed or own-account workers and dominate activities with high profit margins, such as microenterprises or middle-level trade (Chen, 2008; Heintz and Valodia, 2008; Ramani and others, 2013).

Of the total number of workers engaged in retail trade and personal services, 65 per cent are women; jobs in that category are often segregated by gender. 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. Even when such jobs and businesses are more compatible with their capabilities, needs and ways in which they use their time, they are often dead-end ventures with significant risk of disappearing or being shut down and with little prospects of getting business assistance or bank loans.

Among the self-employed, women are much more likely than men to be own-account workers, rather than employers, and to be in the informal economy. The available evidence suggests that for women, own-account work is more

out of need than choice, and that those who work out of economic necessity have higher fertility than those who work because they want to do so.

The reasons for the preponderance of women in informal employment can be readily determined. On average, women in Africa receive 4.3 years of schooling, compared to men, who receive an average of 5.7 years of schooling. West Africa is the worst off, with girls receiving an average of 2.5 years of schooling, or 2 years less than the average for boys.

Some informal activities are particularly common among women, as discussed below.

Informal trade is the most important source of employment among self-employed women, providing 60 per cent of non-agricultural self-employment and featuring prominently among women's strategies 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, it is estimated that over 90 per cent of those engaging in informal trade are women, most of them working in cross-border activities with Nigeria and representing over 60 per cent of total value-added in trade (Charmes, 2000; Verick, 2005).

Informal cross-border trade contributes substantially to jobs for women. For instance, official sources report an average value of informal cross-border trade in the Southern African Development Community (SADC) region of \$ 17.6 billion per year. It contributes 30-40 per cent of intra-SADC trade, with 70 per cent of informal cross-border traders being women. In Central and West Africa, women informal traders employ an average of 1.2 people in their home businesses and support an average of 3.2 children and 3.1 dependants who are not children or spouses.

The contribution of women informal traders to GDP amounts to 64 per cent of value added in trade in Benin, 46 per cent in Mali and 41 per cent in Chad (ILO, 2004). In the Horn of Africa, specifically in Djibouti, Eritrea, Ethiopia, north-eastern Kenya and the Sudan, for some agricultural commodities such as livestock and grains, unofficial exports to neighbouring countries have at times exceeded official trade by a factor of 30 or more, constituting over 95 per cent of total trade in those commodities. Uganda has been a net exporter of industrial goods to its neighbours, with informal exports amounting to an estimated \$118 million in 2006, equivalent to 96 per cent of official industrial exports and close to 50 per cent of total industrial exports to those countries.

However, that cross-border trade takes place against a backdrop of lack of infrastructure, corruption and high insecurity, including robbery and violence. In Liberia, close to one third of women engaged in cross-border trade have reported experiencing gender-based violence. Despite 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 the benefits of that environment, provide social protection to informal traders, and gradually incorporate the sector into the formal economy.

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

1998). In West Africa, over 60 per cent of women are informal cross-border traders.

Evidence shows that women are disproportionately represented in street vending, especially in urban and peri-urban areas (Mitullah, 2003). Women represent 89 to 98 per cent of total street food vendors in West African cities, and ranging between 33 to 49 years of age. They are considered among the most resilient workers in African cities and continue to expand in number. They cover almost the entire food supply chain and ensure the supply and transformation of ingredients and the preparation and selling of finished products (FAO, 2012).

The flexibility of street vending offers women the opportunity to combine work with care responsibilities. In Côte d'Ivoire, more than half the women engaged in street food vending carry their children along with them. Women street food vendors face numerous challenges, however, including insecurity, physical harassment, corruption, lack of capital, low levels of skills, poorly regulated and poorly planned work environments and a lack of property rights.

### 3.4 Drivers of involuntary informality

While there are country specificities in informal employment, there are three key factors that, to a great extent, drive involuntary informal employment in Africa. The first is the youth bulge brought on by a slow decline in fertility rates combined with a rapid decline in child mortality rates. More than half of the continent's population is of working age, with 20 per cent within the 15-24 age group. Almost 12 million young Africans enter the labour force every year.

The second is that, despite impressive rates of growth in Africa since the early 2000s, owing to the nature of that growth, only about 37 million new stable wage-paying jobs have been created, enough to employ less than 20 per cent of the continent's young labour force. Agriculture still employs the majority of workers, despite accounting for only about 13 per cent of GDP in 2010. Those seeking work have to engage in informal self-employment and/or family labour. Over 70 per cent of young workers in the Congo, the Democratic Republic of the Congo, Ethiopia, Ghana, Malawi, Mali, Rwanda, Senegal and Uganda are either self-employed or contribute to family work (AfDB, 2012).

Third, notwithstanding improvements in educational outputs in recent years, most children leave school with low levels of learning that are inadequate to meet the requirements of the labour market. Even though there has been an expansion in primary enrolment, the low quality of numeracy and literacy attained in educational systems and inadequate skills development are among the main factors leading to widespread informality on the continent. The lack of technical and vocational training, limited investment in infrastructure, technology and innovation, and the poor alignment of educational curricula with the requirements of the labour market are also major hindrances for those seeking to enter the formal job market.

### Causes of inadequate human capital

It is now widely recognized that, in Africa excluding North Africa, the quality of education is inadequate for a number of reasons, including high student-to-teacher ratios (which reaching 40:1 in about half the countries), inadequate infrastructure, a change in language of instruction at the secondary school level, low availability of teaching materials and poor quality of teachers. As a result, completion rates – at both the primary and secondary levels – remain low.

According to data based on the results of national examinations in selected African countries, compiled by the Southern and Eastern Consortium for Monitoring Educational Quality and the Educational System Analysis Programme of the Conference of Ministers of Education of States and Gov-

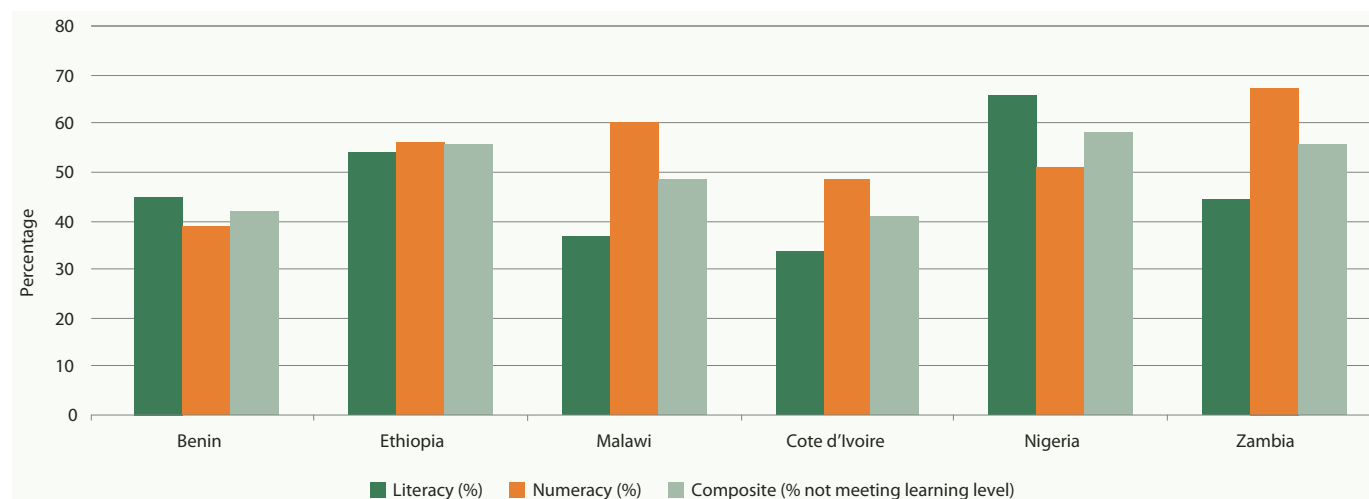
ernments of la Francophonie, levels of learning achievement remain far below what is needed, and minimum skills remain elusive (see figure 11).

Levels of learning achievement are severely affected by completion rates. Primary school completion rates for the continent as a whole have remained at approximately 70 per cent of those enrolled in the correct age cohort (UNESCO, 2013).

Levels of learning achievement are not evenly distributed, and there are clear gender and wealth disparities. Of those who do not complete the primary cycle, 69 per cent live in rural areas and 67 per cent come from the poorest 60 per cent of households (i.e., the bottom three quintiles). In the United Republic of Tanzania, the proportion of children in Grade 6 who achieved a minimum standard in reading in 2007 ranged from 80 per cent among the poorest rural girls to 97 per cent among the richest urban boys (ECA, 2013). Girls living in rural areas and those who come from the bottom three quintiles constitute 26.3 per cent of children who do not complete primary education. Boys living in urban areas and coming from the richest 40 per cent of households (the upper two quintiles) represent only 8.6 per cent of children who fail to complete primary education (Govender, 2014).

Small sample studies have found children in Kenya, Uganda and the United Republic of Tanzania who are functionally illiterate or innumerate, despite having completed primary schooling (Jones, 2013). A lack of ade-

**Figure 11: Learning achievements scores for selected African countries**



Source: Watkins, available from [www.brookings.edu](http://www.brookings.edu) (2013).

quate fundamental skills in literacy and numeracy significantly affect the transition from the primary level to lower secondary level, which is determined on the basis of an assessment. It is estimated that on average only 75 per cent of students pass the assessments required for eligibility to enrol in lower secondary school.

On the basis of available data, we have estimated the extent of completion of the entire school cycle in Africa (see table

10), incorporating the percentage of children who drop out at each stage. The actual percentages have been normalized for comparison across regions.

In table 10, we see that in 14 of the 17 countries with comparable data over the entire school cycle, less than 2 per cent of students enrolling at the primary stage complete the entire 12-year schooling cycle. The remainder are thus compelled to take jobs with low productivity and low wages in

**Table 10: School completion rates**

	Total net enrolment ratio in primary education, both sexes	Primary completion rate, both sexes	Effective transition from primary to lower secondary general education (%)	Lower secondary total net enrolment ratio (%)	Lower secondary education completion rate (%)	Upper secondary total net enrolment ratio (%)	Upper secondary education completion rate (%)
	(% of children of the right age cohort)	(% of those enrolled in primary)	(% of those completing primary and passing the assessment)	(% of those eligible for lower secondary)	(% of those enrolled in lower secondary)	(% of those completing lower secondary)	(% of those enrolled in upper secondary)
Data source	MDG Indicator*		UIS database**				
Year	2012-2014		2010-2015				
Grades	1-5			6-8		9-12	
Approx. age (years)	5-11		11+	11-16		16-18	
<b>COUNTRIES BY SUBREGION</b>							
<b>NORTH AFRICA</b>							
Mauritania	73	71	59	60	28	27	17
	1 000	710	420	251	71	19	3
<b>EAST AFRICA</b>							
Burundi	95	70	80	65	12	36	5
	1 000	700	557	361	43	16	0.8
Comoros	83	74	93	73	43	44	25
	1 000	740	685	497	212	93	23
Ethiopia	66 (2006)	47.2 (2006)	91	53	16	26	12
	1 000	472	432	230	38	10	1.2
<b>CENTRAL AFRICA</b>							
Cameroon	95	72	68	64	41	45	18
	1 000	720	489	312	127	57	10
Sao Tome and Principe	93	94	93	94	34	84	6
	1 000	940	874	825	284	238	13
<b>WEST AFRICA</b>							

Benin	95	76	88	64	30	42	15
	1 000	760	666	428	129	54	8
Burkina Faso	68	63	77	58	9	27	2
	1 000	630	482	279	25	7	0.2
Ghana	89	97	98	91	52	57	45
	1 000	970	953	866	446	254	114
Guinea	77	62	69	48	25	32	15
	1 000	620	426	207	51	16	2
Mali	69	59	78	54	17	29	11
	1 000	590	460	251	43	12	1.3
Niger	64	50	58	32	6	12	2
	1 000	500	292	93	5	1	0.01
Senegal	80	61	90	52	21	25	9
	1 000	610	549	284	60	15	1.3
SOUTHERN AFRICA							
Lesotho	80	74	87	77	27	58	11
	1 000	740	675	519	138	80	9
Mozambique	88	49	64	55	15	30	7
	1 000	490	312	172	25	8	0.5
Swaziland	84.9 (2007)	78	99	88	47	72	28
	1 000	780	772	676	320	229	64
Zimbabwe	94	92	78	92	71	47	9
	1 000	920	717	658	464	219	20

The shaded values are normalized.

*Notes:* The percentages have been normalised to 1,000 for comparison across regions.

\* Millennium Development Goal indicator. Available from <http://mdgs.un.org/unsd/mdg/Data.aspx>.

\*\* Taken from the database of the UNESCO Institute for Statistics, except where noted. Enrolment ratios and gross intake rates to last grade are based on estimates of the United Nations Population Division (United Nations, 2015), median variant. Available from <http://data.uis.unesco.org/>.

the informal economy. In sharp contrast, 29 and 30 per cent children enrolling at the primary stage complete the 12-year schooling cycle in East and Southeast Asia and Latin America and the Caribbean, respectively. The numbers for South Asia are close to those for Africa excluding North Africa, with less than 8 per cent of children enrolling in the primary cycle going on to complete the full secondary cycle.

In other words, for every 1,000 children who enrol at the primary stage in the seven countries of Africa for which there is comparable data, between 886 and 990 children drop out at various stages prior to completing secondary

education and enter the labour market with insufficient skills. With few skills, those children can only enter the informal economy, initially as child workers, then a few years later as young adults. The situation is more serious than depicted in table 10 because on average only 82 per cent of children 6 years of age enrol in primary school in Africa.

Most of the drop outs occur during the transition from the primary to the secondary stages. Policy interventions are required to ensure that children in Africa are not lost in the transition from the primary to the secondary cycle.

# Informality and inequality – What is the link?

Informality and inequality interact in a number of ways, although the link between them is not easy to establish given data constraints and because causality can go both ways. For one, 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.

However, informality may increase inequality by providing lower quality employment and generating lower productivity in the informal sector, and by limiting opportunities for upward income mobility, thereby locking informal workers in an informality trap. This is especially the case for women workers who, because of structural constraints such as limited education and lack of access to credit, have such low levels of productivity that they are unlikely to ever find a formal job.

Consistent with this, a lack of education is found to be a significant determinant of the probability that an individual will be employed 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 reveals consistently large differences in informality rates. The analysis reveals considerable inequality between formal and informal sector workers, with the former earning nearly six times more than the latter. The disparities in earnings can be attributed mostly to differences in levels of education. An analysis of data 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.

Causality can also go the other way. Researchers have developed a model, tested with data from Mexico, in which an increase in income inequality prompts growth in the informal sector by lowering the relative benefit of being employed in the formal sector, with the effect being stronger when institutions and protection of property rights are weak in the formal sector (Chong and Gradstein, 2004).

Understanding the two-way nexus is of paramount importance to defining the right mix of policies to reduce the structural constraints that trap workers in informal employment and to reduce inequality. Using data from the United Republic of Tanzania, the next section analyses the factors that drive informality.

## 4.1 Empirical research in the United Republic of Tanzania<sup>17</sup>

The present section explores the links between educational level (a proxy for level of skills) and employment status and the resultant earnings (a proxy for income inequality), with a view to drawing inferences for evidence-based interventions at the country level. Although a number of studies have provided estimates of wage differentials between formal and informal employment in Africa, the focus here is on the role of education (skills) in driving wage differentials between formal and informal employment and among informal jobs. Special attention is given to informal employment because of its pervasive nature in many countries in Africa. The study analyses wage differentials using gen-

<sup>17</sup> The rest of the chapter is based on the paper by Zulu and others (2017) that is the revised version of the paper presented at the Poverty, Equity and Sustainability Conference, organized by the World Bank in New Delhi in June 2016.



der-disaggregated data in order to determine the discernible features of informal employment. Drawing from studies such as that conducted by Sean and Octavio (2013), the present study identifies and analyzes the determinants of informal employment and its implications for economic inequality. The quantitative and empirical analysis is based on the Heckman Two-Stage estimation procedure to test the possible causality between educational level and employment status and inequality, which is discussed in detail in Zulu (2017).

Very few empirical studies in Africa have been conducted at the country level to establish quantitative relationships between informal employment and economic inequality. This is mostly owing to the lack of reliable data that can meaningfully inform the analyses. Although efforts are being made by some countries to collect data on informal employment and related indicators, the surveys tend to be irregular, thus rendering the whole exercise of limited use. The United Republic of Tanzania is one of the few countries in Africa where labour market data is regularly collected and is therefore available to support empirical research.

The present section addresses the links between informal employment and inequality on the basis of quantitative data from the United Republic of Tanzania. It then presents a testable hypothesis and specifies a model to establish possible causality. It discusses the study findings and provides broad key recommendations for policymakers while also highlighting areas for further research.

### ***Key findings***

**Numbers** – Nearly three fourths (74 per cent) of all employed people in the United Republic of Tanzania work in informal work arrangements (73 per cent for males and 76 per cent for females). Nearly 33 per cent of total employment consists of informal agricultural employment. Formal employment, 60 per cent of which is in services, 37 per cent in industry and 3 per cent in agriculture, accounts for 26 per cent of total employment.

There are proportionally more males than females in formal employment (27.3 per cent versus 24.4 per cent). This indicates that formal employment in the United Republic of Tanzania tilts in favour of males. Notably, there are propor-

tionally more females than males in informal employment (75.6 per cent versus 72.7 per cent).

**Level of education** – As expected, people engaged in informal employment are more likely to have no education or only a primary level of education (comprising 23 per cent and 64 per cent, respectively). In contrast, those who have completed primary or secondary levels of education comprise 33 and 39 per cent, respectively, of employees in the formal sector.

The proportion of persons with a tertiary level of education is highest among formal sector employees (nearly 15 per cent of those employed in the formal sector, compared with less than 0.5 per cent of those engaged in informal employment). Greater shares of people with no education are found in the informal sector (23 per cent) than in the formal sector (13 per cent). Informal workers are more heavily represented among those with lower levels of educational attainment than formal workers.

**Job status** – In terms of job status, the vast majority of formal workers are wage employees (91 per cent), with the self-employed, farmers and unpaid family workers accounting for the remainder. However, only 39 per cent of informal workers are wage employees (see table 11). The majority of the informal workers in the United Republic of Tanzania are in the services and agricultural sectors, while formal workers dominate the service and industry sectors. Table 11 contains a comparison of personal and work-related differences between formal and informal sector employees in the United Republic of Tanzania for the period 2012-2013.

The same exercise is repeated to investigate individual-level characteristics and employment distribution by gender. It shows that a significant difference exists between male and female workers in terms of individual characteristics and employment choices.

**Earnings** – In an assessment of mean monthly earnings to determine the earnings gap between formal and informal employees, it was found that formal employees earn nearly six times more than informal employees. The average monthly earnings of males are twice those of females, be it in formal or informal employment (see table 11).

### ***Determinants of probability of informal employment***

To estimate the determinants of probability of informal and formal employment in the United Republic of Tanzania, it is important to fit a binary probit model. The marginal effect results from both the first stage of the selection model (Heckman's two-stage model). The marginal effects denote the effect of a unit change in each variable on the probability of being in the specified category of employment relative to the base category (i.e., formal employment). For dummy variables, marginal effects are discrete changes in the quantities of interest as the dummy variable changes from 0 to 1.

According to the first stage of the model estimates, the probability of informal employment increases more for male workers than the female workers. However, the probability of informal employment declines with an increase in age (negative coefficient). But the positive and significant marginal effect on the age squared variable suggests that individuals at the two ends of the working-age category (young and much older) are more likely to be informally employed. Married workers are less likely to be informally employed.

The probability of informal employment decreases with education, with a decline in the size of the positive marginal effect from 46.4 per cent for the primary level to 19.8 per cent for the secondary level.

In terms of sector of employment, informal workers are less likely to be employed in the industry sector; the longer one works in the industry sector, the lower probability of being informally employed. This means that informal workers are more likely to be employed in sectors other than the industry sector (i.e., in the agriculture or service sectors). The descriptive result for the United Republic of Tanzania also indicates that there are more employment opportunities (both informal and formal) in the service sector compared with the industry sector, which favours mostly formal employment.

### ***Determinants of monthly earnings***

The results confirm that earnings increase with age, mostly on account of experience. Education strongly influences the earnings received; the lower the level of education, the

lower the monthly earnings. Employees with primary and secondary level education receive earnings 64 and 46 per cent lower, respectively, than those with tertiary level education, other things being equal. These results are consistent with the findings of Khan and Irfan (1985) and Valerie and Alderman (1990), despite the different data sets and percentage variances.

More specifically, the type of occupation (e.g., being an unpaid family worker, a farmer or a wage worker) can negatively affect the monthly earnings of informal employees. Higher educational attainment (i.e., tertiary level education) leads to significantly higher monthly earnings for those informally employed, whereas lower education level (i.e., primary and secondary level education) leads to lower monthly earnings for those who are formally employed (i.e., there is a negative coefficient).

## **4.2 Conclusion and recommendations**

The present section examines the links and interactions between education as a predictor of informal employment and economic inequality in Africa, with a focus on the United Republic of Tanzania. The empirical analysis reveals that education is a strong determinant of one's employment status. Holding other factors constant, the analysis establishes that the higher the level of one's education, the higher the probability of effectively participating in formal labour markets. Conversely, the lower the level of one's education, the higher the probability that one will be engaged in informal employment. Notwithstanding the heterogeneity in the nature of informal employment in the United Republic of Tanzania, the wider the gap between levels of education, the greater the income inequality between employees.

One's earnings regardless of job status are affected by a confluence of factors, with education being a strong predictor of income inequality. Other factors, in order of importance, are experience, marital status and age. As an employee advances in age and acquires more experience, his/her prospects for leaving informal employment improve. However, in old age there is a tendency to revert to an informal job as an own-account worker who also employs others.

Average monthly earnings in formal employment are about six times higher than average monthly earnings in informal employment. Similar trends are noted when the rel-



**Table 11: Characteristics of overall employment in the formal and informal economy in the United Republic of Tanzania, 2012-2013 (percentage of the population between 15-64 years of age)**

	Informal	Formal	All
All	100.0	100.0	100.0
<b>Gender</b>			
Male	61.91 (72.72*)	65.37 (27.28*)	62.81
Female	38.09 (75.58*)	34.63 (24.42*)	37.19
<b>Age categories</b>			
15-24	34.73	16.30	29.74
25-44	48.84	59.88	51.83
45-64	16.43	23.81	18.43
<b>Education Level</b>			
No education	23.47	12.98	20.72
Primary	63.85	33.37	55.86
Secondary	12.24	38.73	19.18
Tertiary	0.45	14.93	4.25
<b>Employment Type</b>			
Wage employment	38.55	91.16	52.25
Self-employment	5.42	3.48	4.91
Farmers	29.99	3.18	23.01
Unpaid family workers	26.04	2.18	19.83
<b>Sector of economic activity</b>			
Agriculture	32.69	3.32	24.99
Industry	3.19	37.17	12.10
Services	64.12	59.51	62.92
Average monthly net main	214 532	1 285 725	495 343
<b>Job earnings (in Tanzanian shillings) **</b>			
Male (in Tanzanian shillings)	266 119	1 524 841	609 500
Female (in Tanzanian shillings)	130 698	834 434	302 518
<b>Net main job earnings</b>			
Sample size	2 885	1 025	3 910

Notes:

\* Figures in parentheses denote the percentage share of each gender in each employment category with respect to the total workforce in the respective gender categories.

\*\* For all workers, including those who are self-employed, who reported positive hours worked.

#### Interpretation

1. This table contains a breakdown of the informal and formal workers in terms of characteristics.
2. The results indicate that females, those 15-24 years of age, the less educated, workers in non-wage employment and those in the agriculture and services sectors are more likely to be employed in informal than formal activities.
3. The average monthly earnings of formal workers are almost six times higher than those of informal workers.

Notes: \* Refers to the percentage of persons in informal employment as a share of total non-agricultural employment.

\*\* For urban areas only.

evant data are disaggregated by gender. The results show that the earnings of men both in the informal and formal sectors in the United Republic of Tanzania are on average twice those of female workers. The disparities in earnings (income inequality) are attributed mostly to different levels of education. Therefore, gender sensitive policies and affirmative action that focus on skill development among women would greatly help to close the gap between male and female earnings in the labour market. Intuitively, the study has established that growth in informal employment is accompanied by a high level of income inequality, which manifests as large earning differentials between men and women. Thus, one's education level or skills profile is an important predictor of the extent of the income gap between formal and informal workers.

More efforts should be made to invest in secondary and higher levels of education. Analysis from the United Republic of Tanzania confirms that returns on secondary education are significantly higher than returns on primary education.

Against this backdrop, a number of steps should be taken. One, informal workers in the United Republic of Tanzania should be given an opportunity to upgrade their skills through tailor-made programmes such as technical and vocational education and training. Doing so would have the added benefit of raising worker productivity, and, by extension, economic growth.

Two, and more important, there is a need to revise school curricula to focus on soft skills, in keeping with the needs of a modern labour market. Doing so would ensure that school graduates would have a relatively smooth transition from school to the world of work.

Three, more case studies should be undertaken to strengthen the empirical evidence in respect of the relationship between informality and inequality of outcomes in Africa. For example, future studies could explore how economic inequality is affected by location (e.g., in rural versus urban settings), per capita income, the quality of labour skills and the incidence of corruption, among other factors.

## Policy conclusions

Access to high quality jobs and decent employment remains limited in Africa. Informal employment is associated with low quality jobs that are devoid of occupational safety, social protection and other benefits. Being employed in an informal job, which is largely a consequence of poor quality education, makes it difficult to move out of poverty and vulnerability, thereby locking those so employed in an informality trap.

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 to the formulation of successful policies to improve living standards. For Africa, with its young population, the absorption of a growing labour force into productive employment is fundamental for capitalizing on the demographic dividend.

A number of important points have emerged from the analysis. One, the slow decline in fertility rates, along with a rapid decline in child mortality rates, has led to a youth bulge, whereby 20 per cent of the population is within the 15-24 age cohort and more than half of the continent's population is of working age.

Two, notwithstanding improvements in educational outcomes in recent years, most children in Africa leave school with low levels of learning achievement that are inadequate to meet the requirements of the labour market. In 14 of the 17 countries with comparable data, less than 2 per cent of those enrolling at the primary stage complete the full cycle of school education. More than half the children completing primary school do not enrol in secondary school.

Three, the informal sector is heterogeneous and policies need to reflect that reality. Informal workers range from low-skilled, poorly educated individuals who are informally employed out of necessity, to highly educated, young adults living in urban areas, many of whom choose employment in the informal sector in order to avoid regulations and taxes. For example, policies to formalize employment may contribute to the reduction of inequality by prompting the usage of written contracts. However, such policies would not benefit the informally self-employed, for whom informality provides a high degree of autonomy.

Four, informality and inequality interact in a number of ways. In the short term, informal employment reduces inequality since those who would have otherwise been unemployed find jobs, even if those jobs are characterized by low productivity and pay low wages. Given their low levels and poor quality of education and limited skills, along with other constraints such as limited access to credit, those who are involuntarily in the informal sector are stuck in an informality trap that leaves them with limited prospects for competing in the formal labour market.

As a result, over time, informality can lead to increased inequality, as formal sector wages increase with increased productivity, whereas informal sector earnings increase at a far slower pace. However, the link between informality and inequality is not easy to establish given data constraints and because causality can move in either direction. Much more research is needed at the country level to understand the link and the nature of causality.

Education is a strong determinant of employment status. Holding other factors constant, the analysis of data from the United Republic of Tanzania establishes that the probability of effectively participating in formal labour markets is greatly enhanced by education. Notwithstanding the heterogeneity in informal employment in that country, the wider the gap between education levels, the greater the income inequality between employees. Indeed, substantial differences in educational attainment between groups in the United Republic of Tanzania explain to a significant extent the variation in economic outcomes between men and women and between informal and formal employees.

Despite the expansion of education coverage across 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. At the same time, there should be a stronger focus on improving the quality of learning outcomes and improving secondary completion rates to increase job opportunities, reduce inequality and promote inclusive growth.

Students drop out at each stage of the school cycle, with the transition from the primary to secondary cycle being the most difficult. More than half the children who complete the primary cycle do not enrol in the secondary cycle, and are lost in transition at a rate twice that witnessed in the next highest region (i.e., South Asia). Those not completing secondary education have few employment options other than to join the informal labour market.

Thus, there is an urgent need to strengthen the secondary school system in Africa to improve both the educational

outputs and learning outcomes. Particular emphasis should be placed on girl students and on children from rural areas and poorer income groups so as to leave no one behind.

Member States should set up systems to encourage skills upgrading of informal sector workers to improve their chances of finding employment in the formal sector. Technical and vocational education and training shows high rates of return and its structure should be aligned with labour market requirements by increasing engagement with the private sector in choosing subjects for study and in formulating curricula. In addition, there should be a stronger emphasis on apprenticeship schemes to facilitate school-to-work transitions. Mauritius and Namibia provide good examples in that regard.

There is an urgent need to improve the collection and quality of labour statistics, in particular gender-disaggregated data, with an emphasis on regularity, reliability and robustness, for better monitoring and the formulation of evidence-based policies.

Informal employment is a significant contributor to the economy and employs a large number of people. It is also very heterogeneous and one policy cannot fit all. Large and profitable informal enterprises should be provided access to credit and infrastructure to encourage them to move into the formal sector. Policymakers should aim to increase access to high-quality secondary education and skills, especially for women and youth, to enable them to avoid the informality trap and thereby reducing inequality.

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# Annex

## List of background and country papers

### *Background papers*

Diop, Ngone and Iris Macculi (2016). “Women in informal employment in Africa: addressing the gender inequality trap”.

Gauci, Adrian and Amal Elbeshbishi (2016). “Putting education to work in Africa: Aspirations and reality in skill acquisition”.

Zulu, Jack Jones (2016). “Informal employment in Africa: Trends and features”.

### *Country case studies*

Moshi, Humphrey P.B. and John M. Mtui (2015). “Informality and inequality in Africa: Youth employment – A Tanzanian case study”. A draft report submitted to the Social Development Policy Division of the Economic Commission for Africa, Addis Ababa.

Akuupa, Michael and Kudzai Clara Chireka (2015). “Informality and inequality in Africa: A case study of Namibia for the African Social Development Report.

