

CHAPTER 2

Employment in the Informal Sector

In This Chapter

The nonfarm informal sector can be defined in various ways. On the basis of available data from household surveys in Ghana, Kenya, Nigeria, Rwanda, and Tanzania, this book uses the following definition: (a) the self-employed (for their own account and with workers); (b) contributing family members; and (c) wage workers in small, unregulated enterprises of the nonfarm sector. Of the nearly 36 million people working off the farm in the five countries, 7 of 10 work in the informal sector. People who find employment in the informal sector fare better in earnings than those who remain on the farm and earn more than some who work in the formal wage sector. The informal sector is disproportionately urban in character but has a significant rural presence. Women are prominently represented, as are youths. Trade and other services dominate.

Introduction

After four decades of study, the informal sector continues to elicit diverging views about how to define it, measure and classify it, and most important, how to respond to it (Andrews, Caldera Sánchez, and Johansson 2011; Bangasser 2000). The International Labour Organization (ILO) has been at the center of all these debates. As a concept explained in chapter 1, the informal sector has moved from a presumed temporary phenomenon in developing countries, expected to diminish in size with industrialization, to one that is more permanent in light of today's development patterns. Although interest in the informal sector focuses largely on developing countries, the Organisation for Economic Co-operation and Development has demonstrated the growing importance of the sector in industrial countries (OECD 2009). Whatever the measure used, the sector shows no signs of disappearing. The efforts of the ILO in the 1990s to construct a survey-based measure of this employment and its significance to national incomes have encountered difficulties in producing uniform indicators suitable for comparison among countries because the informal sector manifests itself in different ways in different countries. The ILO through the Delhi Group

on Informal Sector Statistics continues to work on this measurement problem (Hussmanns 2004).

More recent initiatives by the ILO, joined by the Organisation for Economic Co-operation and Development, have attempted to move understanding of the concept forward to take into account changes brought by a global economy by introducing alongside the informal sector the concept of informal employment. *Informal employment* is offered as a broader concept that includes people counted in the informal sector plus people working in the formal sector without the benefit of job security and social protection. The broader concept emerges from a growing awareness of globalization and the increasing vulnerability of those working in the formal sector (Hussmanns 2004). The ILO described the *informal economy* as “all economic activities by workers and economic units that are—in law or in practice—not covered or insufficiently covered by formal arrangements” (Hussmanns 2004, 2).

Distinction between these concepts is important because their policy responses differ. In the case of the nonfarm informal sector, the unit of interest is the *enterprise* and people working therein; whereas for informal employment, the unit of interest is the *worker* and the conditions under which the worker is employed. For the informal sector, policies address factors leading to the growth and productivity of employment in small and household enterprises, specifically the regulatory and investment climate surrounding these enterprises and the factor markets that serve their productive needs. In the case of the informal employment, policies address these factors and a larger set of cross-national pressures that promote informality in work arrangements, including pressures to reduce labor costs.

This chapter and this book are concerned with the first of these concepts, the informal sector and its contribution to growth and incomes: emphasis is on the enterprise. Using data available from household surveys in our five selected countries of Sub-Saharan Africa, we set about the task of trying to measure the informal nonfarm sector and provide demographic and social profiles of people employed in the sector. The household surveys illustrate the difficulty of comparing statistics on the informal sector from country to country. The ILO’s own efforts to compare the informal sector in Sub-Saharan Africa substantiate these complexities.¹ By comparing results from different definitions of the informal sector, this book points to a readily available subset of questions in all household surveys of labor force activity that provide robust measures of those employed in the informal sector.

This study uses household surveys in each country to construct estimates of the nonfarm informal sector’s employment for comparison (see table 2.1). The official definition of the informal sector explained in chapter 1 is contained in the January 1993 resolution of the 15th International Conference of Labour Statisticians under the ILO. A more detailed account of the different building blocks in the ILO definition is provided in this chapter’s annex 2A. It combines the characteristics of nonfarm enterprises with those of employees collected in household and enterprise surveys to estimate the scope of the informal sector (Roubaud and Razafindrakoto 2007). The ILO definition begins by sorting

Table 2.1 Household Surveys Used for Analysis of the Informal Sector

Country	Survey name	Years	
		Earliest	Latest
Ghana	Ghana Living Standards Survey (GLSS)	1991/92	2005/06
Kenya	Labour Force Survey (LFS)	1998/99	n.a.
	Kenya Integrated Household Budget Survey (KIHBS)	n.a.	2005/06
Nigeria	National Living Standard Survey (NLSS)	2003/04	n.a.
Rwanda	Household Living Conditions Survey (Enquête Intégrale sur les Conditions de Vie des Ménages; EICV)	1999/2000	2005/06
Tanzania	Integrated Labour Force Survey (ILFS)	2000/01	2005/06

Note: n.a. = not applicable.

enterprises into the informal sector. The following criteria are used for the sorting: (a) unincorporated enterprises owned by individuals or households not operating as separate legal entities from the household; (b) enterprises producing goods and services for sale; (c) enterprises below a size threshold that is nationally determined (for example, fewer than 10 employees); (d) enterprises that are not registered under specific forms of legislation (for example, business licenses, taxation, social protection for workers); and (e) enterprises engaged in nonfarm activities. Enterprises matching these criteria are classified in the nonfarm informal sector. Where data are available, efforts have been made to compare different definitions of the informal sector in the country cases prepared for this study.

This study focuses largely on own-account workers and microenterprises. Hans Haan (2006) in his seminal study of the informal sector differentiated these enterprises into three groups. The largest is what he called the subsistence type of self-employment characterized by part-time (seasonal) operations using traditional technologies and local materials. These firms represent small and household enterprises serving primarily local markets and are a particularly important source of income for poor rural workers. Many of the self-employed working on their own account, including women, fall into this category. The second group is formed by microenterprises of up to 10 workers with contributing family members and apprentices, using a mix of technologies and serving rural and urban markets. The third group, which is smaller in number, comprises enterprises with 10–50 workers, using some modern technologies, closely connected with formal enterprises, and exhibiting growth potential. Within the enterprises, employment is classified according to the ILO definition as follows: (a) self-employed working on own account; (b) self-employed with other workers; (c) unpaid contributing family members; (d) wage workers employed in these enterprises; and (e) members of producers cooperatives. Because of the nature of the African economies, this book's analysis focuses largely on the first two of Haan's informal sector groups.

The construction of these measures is data-intensive, and not all countries and household surveys supply the building blocks needed. Table 2.2 illustrates the data available on employment status and enterprise characteristics in our five countries and differences among the countries. Using the available data, we have

Table 2.2 Differing Accessibility to Data for Classifying Employment in the Informal Sector among Countries and Their Household Surveys

	Ghana	Kenya	Nigeria	Rwanda	Tanzania
	GLSS	KIHBS	NLSS	EICV	ILFS
Employment module data	2005/06	2005/06	2003/04	2005/06	2005/06 ^a
Occupational status					
Working employer	X	X	X	X	X
Own account	X	X	X	X	X
Contributing family member	X	X	X	X	X
Wage worker for self-employed		X	X	X	X
Employment conditions					
Access to benefits (social protection)	X		X	X	X
Type of contract	X				X
Characteristics of firm where employed					
Size of firm	X				X
Self-identified informal	X			X	
Keeps accounts					X
Enterprise module data, including firm size, registration, and earnings					
	X	X	X	X	

Sources: GSS 2005–06; KNBS 2007; NBS 2007; NBSN 2004; and NISR 2007.

Note: EICV = Household Living Conditions Survey (Rwanda); GLSS = Ghana Living Standards Survey; ILFS = Integrated Labour Force Survey (Tanzania); KIHBS = Kenya Integrated Household Budget Survey; NLSS = National Living Standard Survey (Nigeria).

a. Tanzania has a short informal sector module for firms identified as private with fewer than 10 employees and does not keep accounts. It is a labor force survey and does not have an enterprise module allowing for calculating enterprise profits and the like.

attempted to replicate the ILO definition or come as close as possible by using information on enterprises and employment status in the estimation process. The largest share of people employed in the nonfarm informal sector turns out to be those who are self-employed working on their own account, representing about half of those employed in the sector. In the chapters of part II, we have separately constructed measures of the informal sector relying solely on the status of the worker and excluding characteristics of the enterprise to form a comparison with the ILO enterprise-based measure. The objective is to assess how much additional information is provided by the more complex measure that includes characteristics of the enterprise.

Nigeria is a typical case for measurement. We have examined alternative definitions of the informal sector that begin with using only the employment status of the worker and then add characteristics of the enterprise to produce the more complex measure of the informal sector combining enterprise and worker status. Four versions of the definition have been constructed for nonfarm employment:

- Self-employed (own account or employing wage workers) or contributing family member.
- Self-employed (own account or employing wage workers), contributing family member, or working in a cooperative.

- Self-employed (own account or employing wage workers), contributing family member, or working in a cooperative and employed by a private firm with fewer than 10 employees and receiving no benefits.
- Self-employed (own account or employing wage workers), contributing family member, or working in a cooperative and employed by a private firm with fewer than 10 employees.

The first of these definitions includes only nonwage workers (self-employed and contributing family members) as representing the informal sector. People not falling into this category are treated as being in the formal sector. The expanded versions include workers in cooperatives and wage workers in enterprises with fewer than 10 employees and receiving no benefits. Nonwage workers by themselves account for 68 percent of nonfarm employment in Nigeria. Adding wage workers in small private sector enterprises with fewer than 10 workers pushes this percentage to 73 percent. In our sample of countries, wage workers are generally a small share of informal sector employment. This pattern is repeated in Ghana, Kenya, and Tanzania—but not in Rwanda where the share of nonwage workers in nonfarm employment is 45 percent.

We have chosen to use the following parameters in this study to define the informal sector: (a) the self-employed (own account and with workers), (b) contributing family members, and (c) wage workers in informal sector enterprises. The criteria distinguishing wage workers vary among the five countries on the basis of differences in questions asked in household surveys. In Kenya, for example, these are wage workers who work for the self-employed. In Nigeria, they are wage workers working in private firms with fewer than 10 employees. In Rwanda, they are wage workers without social benefits, and in Tanzania, they are wage workers in private enterprises with fewer than 10 employees and no written accounts. The presence of wage workers in an informal sector enterprise may already signal something different and more promising about the enterprise, separating it from enterprises where the self-employed work for their own account. The ability to pay workers may suggest something about the profitability of the enterprise and signal its potential for further growth (Haan 2006).

The inclusion of wage workers in the informal sector is a choice made to bring the measurement in closer alignment with the ILO definition of the informal sector. However, we find that inclusion of these workers has little effect on our analysis of who works in the informal sector and their earnings mainly because informal sector enterprises with wage workers, excluding the unusual example of Rwanda, represent on average only 13 percent of informal sector employment in our sample. We have chosen the broader definition that includes these wage workers, but for cases where the data are not available, we note that use of the self-employed and contributing family members, representing nonwage workers, provides a reasonably robust proxy for examining the informal sector. We have used the broader definition to compare the profile of the formal and informal sectors. In chapter 3, we explore how education and skills influence entry into employment and earnings in both sectors.

Table 2.3 Total Employment^a by Sector of Work

Sector	Ghana	Kenya	Nigeria	Rwanda	Tanzania
Total	6,900	9,737	53,697	3,971	18,780
Farm	3,408	4,856	31,818	3,048	13,991
Nonfarm	3,492	4,881	21,879	923	4,789
Formal	985	1,404	6,172	190	2,550
Informal	2,507	3,477	15,707	733	2,239
Nonfarm as percentage of total	51	50	41	23	26
Informal as percentage of nonfarm	72	71	72	79	47

Sources: Elaborations based on GSS 2005–06; KNBS 2007; NBS 2007; NBSN 2004; and NISR 2007.

a. Employment numbers are in thousands and rounded.

The resulting estimates of the informal sector illustrate the sector's importance to employment (table 2.3). In the five countries, more than 23 million people are employed in the informal sector; Nigeria alone accounts for 15.7 million. The share of nonfarm employment in the informal sector ranges from 71 percent in Kenya to 79 percent in Rwanda, but drops to 47 percent in Tanzania.² The transition toward an industrial economy has progressed at a faster pace in Ghana and Kenya where the share of nonfarm employment roughly matches the share of farm employment. Nigeria is not far behind with nonfarm employment accounting for 40 percent of total employment. Rwanda and Tanzania, in contrast, are still largely agrarian with only about 25 percent of total employment in the nonfarm sector. The informal sector and its employment accounts for a significant share of economic activity in each country, leading to questions about who is employed in the sector.

The study focuses on primary occupation only. Many households are involved in farm and nonfarm activities simultaneously, and some undertake multiple activities ("enterprises") within the informal sector. This stepwise diversification away from farming into more productive ventures is not captured by our study as long as farming remains the most important occupation. Therefore, the importance of nonfarm activities in rural areas may be understated.

A Profile of Those Employed

The movement from an agrarian to an urban industrial society is a pattern of development observed in all countries worldwide over history. The countries of Sub-Saharan Africa are no exception. As the transition takes place, the share of farm employment falls while that in nonfarm activities increases. The pace of the transition varies from country to country, as observed in table 2.4 where we have more than one survey over the past decade for comparison. As labor moves out of farming, we see the growing importance of self-employment in the nonfarm sector taking its place. People leaving farming are crowding into self-employment. Over much of the past four decades, this crowding has been the consequence of the region's failure to produce wage employment in the formal sector and of structural reforms that have reduced wage employment in the public sector.

Table 2.4 Growth of Nonfarm Employment and Self-Employment

Country	Farm employment as a percentage of total employment		Self-employment as a percentage of nonfarm employment	
	Earliest survey	Latest survey	Earliest survey	Latest survey
Ghana ^a	53	52	60	63
Kenya ^b	52	47	66	74
Rwanda ^c	90	77	23	31
Tanzania ^d	82	75	57	62

Sources: GSS 1991–92, 2005–06; KNBS 1999, 2007; NBS 2002, 2007; and NISR 2001, 2007.

a. Ghana Living Standards Survey 1991/92 compared with 2005/06.

b. Labour Force Survey 1998/99 compared with Kenya Integrated Household Budget Survey 2005/06.

c. Household Living Conditions Survey (Rwanda) 1999/2000 compared with 2005/06.

d. Integrated Labour Force Survey (Tanzania) 2000/01 compared with 2005/06.

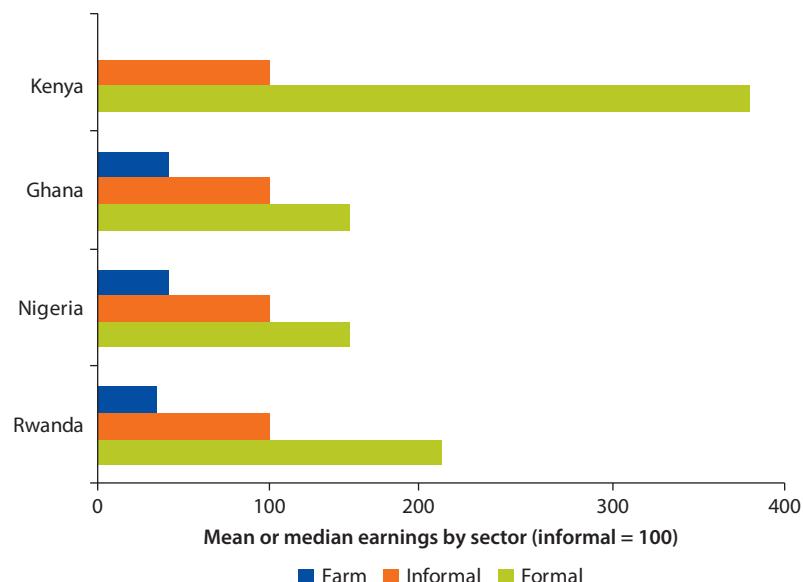
For many youths, self-employment has become the safety net absorbing those searching for their first job.

Farming is the largest employer in Sub-Saharan Africa, but labor continues to move off the farm in search of other employment. Some of this labor remains in rural areas, but much of it moves into urban areas. The marginal product of labor in farming is often low because of the crowding of large families on small farms with limited access to technology and capital per worker. The potential of greater earnings and the expectation of finding more productive employment in the nonfarm sector entice younger household members to pursue opportunities off the farm. For those leaving the farm, the first stop is often a job in the informal sector. The slow growth of the formal sector constrains opportunities for employment as do the qualifications of those searching for work. Africa does not offer the large number of low-skilled jobs found in manufacturing and construction observed in East Asia. Instead, migrants leaving farms often wind up in petty trade and services where barriers to entry are low. Even this employment offers welfare gains over farming work.

The household surveys reveal that the average income of people employed in the informal sector, although lower than in the formal sector, exceeds earnings in farming by a substantial margin (see figure 2.1). These earnings are unadjusted for other factors affecting incomes, such as education; however, chapter 3 shows that even after adjusting for differences in personal characteristics, the earnings advantage of employment in the nonfarm informal sector remains when compared with farming. Where surplus labor in farming is present, policies promoting labor mobility off the farm improve the incomes of migrants. Employment in the informal sector plays a positive role in this respect. This pattern points further to the value of understanding these small enterprises and those who are employed in them and the means by which their productivity and incomes are enhanced.

Workers in the public and private formal sectors have earnings distributions that fall to the right of those in farming and the informal sector (for both wage and self-employed). However, the earnings distributions of these groups overlap, indicating that some people in the informal sector have earnings exceeding those

Figure 2.1 Informal Sector Earnings Compared with Farm Sector Earnings in Kenya, Ghana, Nigeria, and Rwanda



Sources: Elaborations based on GSS 2005–06; KNBS 2007; NBSN 2004; and NISR 2007.

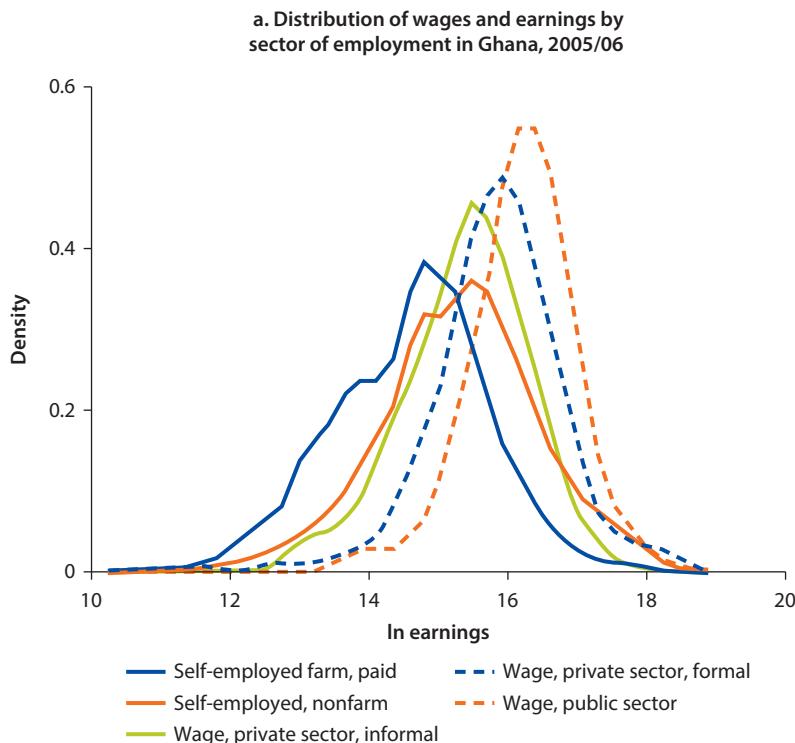
Note: Farm earnings are not available for Kenya.

in the formal sector (figure 2.2, panel a). This pattern is also observed in Kenya (figure 2.2, panel b) and, though not shown here, in Nigeria and Rwanda.

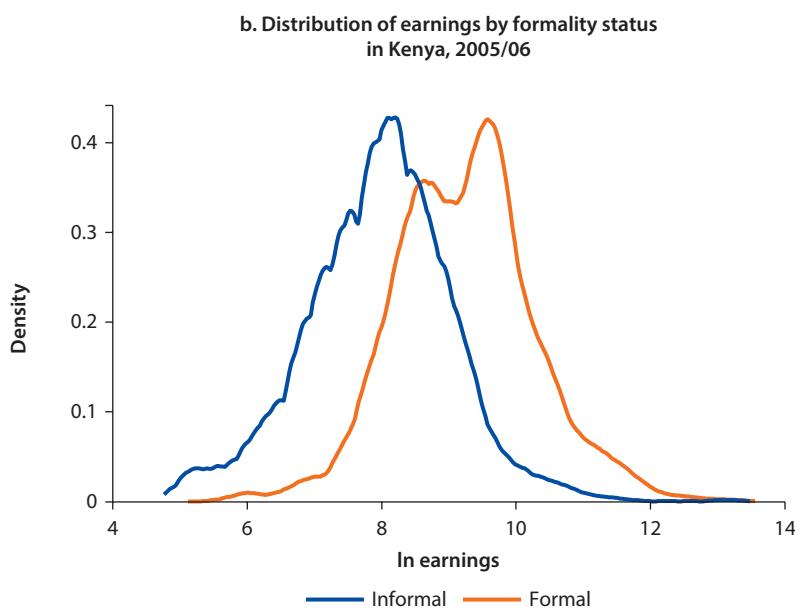
Off-farm employment in the informal sector is linked to higher consumption and lower poverty. Using Rwanda and Kenya, employment in the informal sector is associated with higher levels of consumption than experienced by those working in farming. Employment in the formal sector reduces poverty even further, and 64 percent of those working in the formal sector in Rwanda belong to the richest consumption quintile; only 18 percent belong to the three poorest consumption quintiles (table 2.5). What we learn from these comparisons is that structural changes in employment are taking place in our sample of countries as labor is shifting out of farming. A growing share of labor is finding its way into self-employment off the farm in the small enterprises of the informal sector, and in so doing, incomes and consumption levels are rising. Even larger gains are possible if productivity in the informal sector is increased and barriers to mobility between the two sectors are lowered.

The nonfarm informal sector, although present in rural areas, tends to be concentrated in urban communities. The estimates of its size given here are for primary jobs, but the informal sector also provides secondary jobs for some in rural areas, supplementing farm earnings. Kenya has a particularly large share of its informal sector in rural areas (figure 2.3).

Gender plays an important role in nonfarm informal sector employment. In Rwanda, even though the labor force participation of men is greater than that of women, women still comprise 45 percent of employment in the informal sector

Figure 2.2 Distribution of Wages and Earnings in Ghana and Kenya

Source: World Bank 2009.



Source: Elaborations based on KNBS 2007.

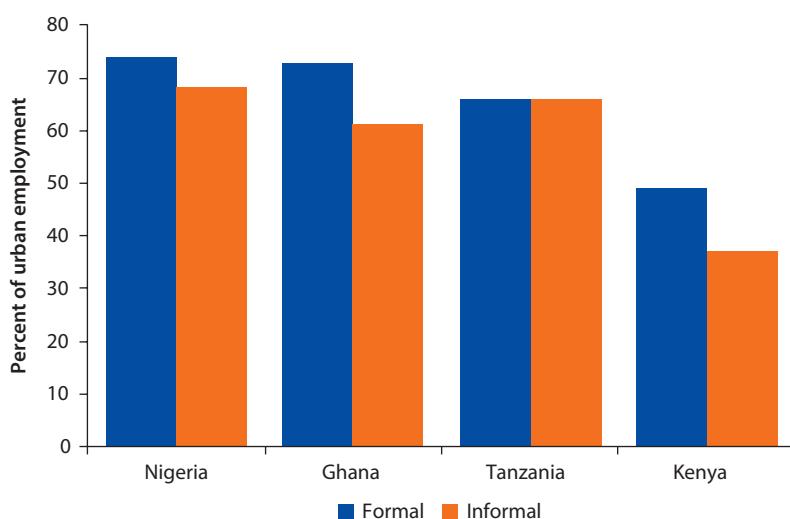
Table 2.5 Distribution of Employed by Sector and Household Consumption Quintile, Rwanda and Kenya

<i>Quintile</i>	<i>Rwanda</i>			<i>Kenya</i>		
	<i>Formal</i>	<i>Informal</i>	<i>Farm</i>	<i>Formal</i>	<i>Informal</i>	<i>Farm</i>
Poorest	2	12	23	5	16	24
Second poorest	6	14	23	10	15	26
Third poorest	9	14	23	13	19	24
Second richest	18	21	20	26	23	18
Richest	64	39	11	50	27	7
Total	100	100	100	100	100	100
Percentage belonging to three poorest quintiles	18	40	69	28	50	74

Sources: Elaborations based on NISR 2007 and KNBS 2007.

Note: Because of rounding, some columns may not total exactly.

Figure 2.3 Urban Share of Formal and Informal Sector Work in Nigeria, Ghana, Tanzania, and Kenya

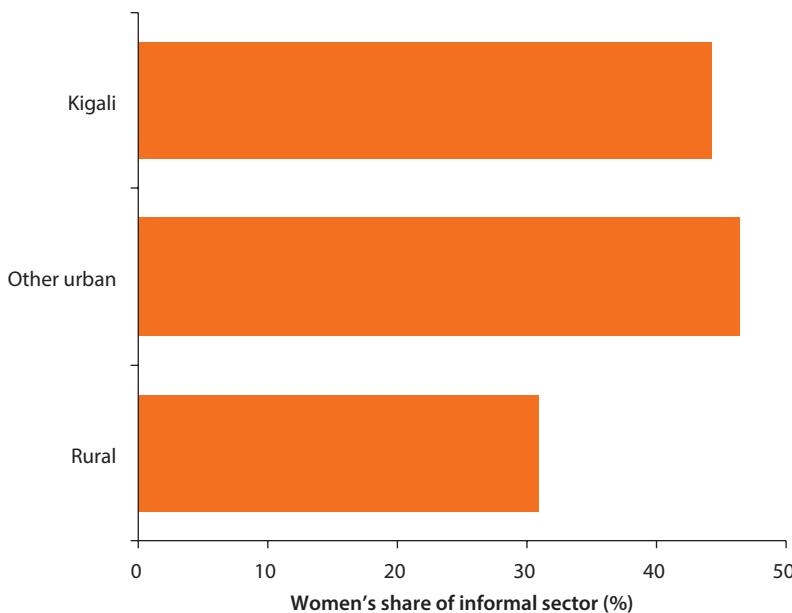


Sources: Elaborations based on GSS 2005–06; KNBS 2007; NBS 2007; and NBSN 2004.

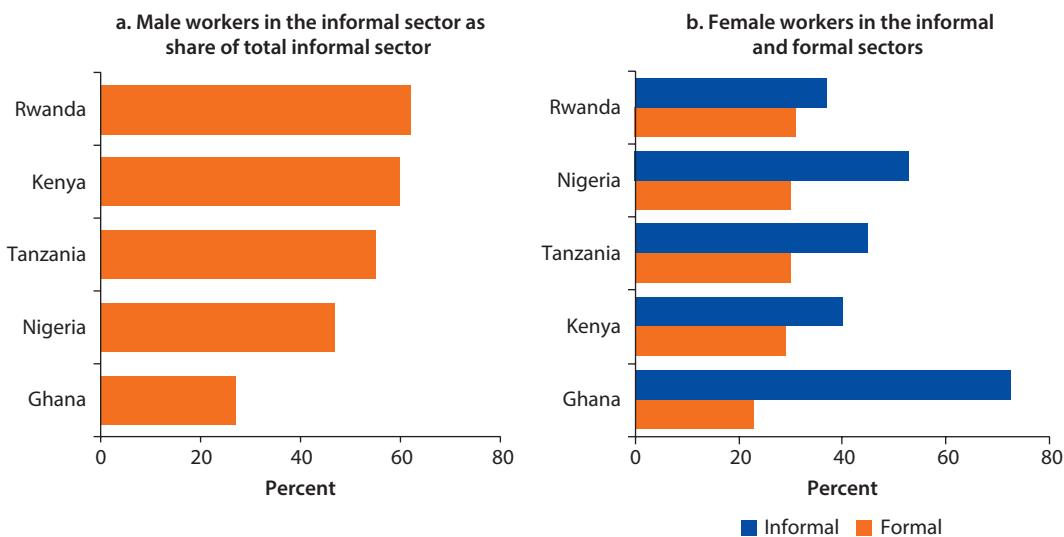
of the capital city, Kigali. Their share in rural areas is lower, although it still accounts for nearly one of every three women employed in the informal sector (figure 2.4).

The gender balance of the informal sector varies among the five countries, indicating the need for a gender focus in efforts to improve sector outcomes. Men account for a majority of employment in the informal sector of Rwanda, Kenya, and Tanzania; women play a larger role in Nigeria and Ghana (figure 2.5, panel a).

In all the study countries, women maintain a higher share of employment in the informal sector than they do in the formal sector (figure 2.5, panel b). In Ghana, for example, women hold three of four jobs in the informal sector while

Figure 2.4 Women's Share of Informal Sector Work by Area in Rwanda

Source: Elaborations based on NISR 2007.

Figure 2.5 Gender Distribution of Employment

Sources: Elaborations based on GSS 2005–06; KNBS 2007; NBS 2007; NBSN 2004; and NISR 2007.

accounting for only one of four in the formal sector. The propensity of women to find their way into the informal sector in contrast to their male counterparts contributes to the gender imbalance of incomes for the two groups. The informal sector is thus an important source of employment for women, with this particularly evident in Ghana and Nigeria. The informal sector and its small enterprises play an important role in determining the welfare of women.

Lack of other options is a major reason for choosing the informal sector. Tanzania's 2006 household labor force survey (ILFS 2006, see NBS 2007) offers a look at reasons for choosing to work in the informal sector. The reasons are split between factors pushing workers into the informal sector for lack of better opportunities and those pulling workers into this sector to take advantage of its opportunities. Push factors provide the principal reason for working in the informal sector with nearly 7 of 10 people working there because of their need for additional income or because they are unable to find other work. For others, however, pull factors play an important role in the choice of employment, led by the perception of good business opportunities and the chance to open a business with the limited capital available to them. The push factors dominate in urban areas where few jobs are found and the alternative is to start a new business. The pull factors are stronger in rural areas where workers are attracted to employment in the nonfarm informal sector because of the higher earnings in comparison with the likely alternative of employment in the farm sector (table 2.6).

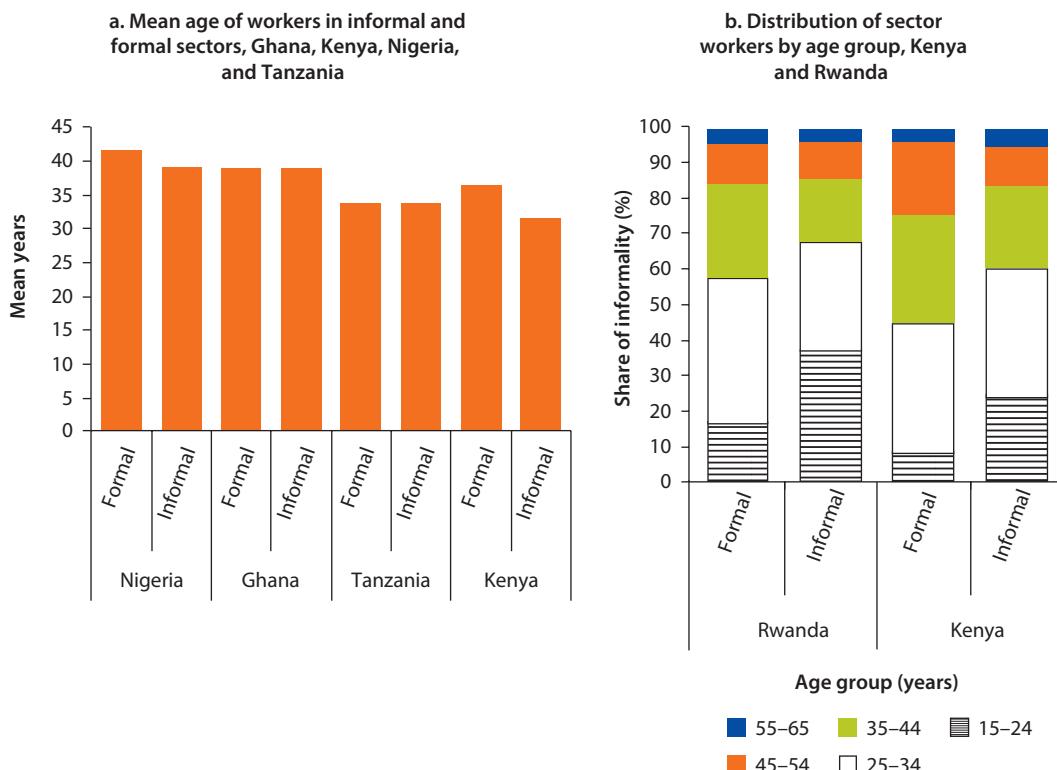
Confronted with a formal sector unable to produce the jobs needed to absorb the influx of youth 15 years of age and older into the region's labor force, youth often find their first employment in the informal sector as helpers and

Table 2.6 Main Reasons for Entering the Informal Sector in Tanzania

Reasons	Percentage of respondents			
	Rural	Dar es Salaam	Urban (excluding Dar es Salaam)	Tanzania
Push factors	60	72	73	68
Cannot find other work	27	45	39	37
Family needs additional income	32	27	34	31
Pull factors, attractive sector	18	13	12	14
Good income opportunities	16	10	10	12
Desire to be independent	2	3	2	2
Pull factors, convenient sector	18	9	11	13
Does not require extensive capital	10	4	7	7
Can keep production costs low	1	1	1	1
Can choose hours and place of work	2	1	1	2
Can combine business and household responsibilities	5	2	2	3
Other	4	7	5	5

Source: Elaborations based on NBS 2007.

Note: Because of rounding, columns may not total exactly.

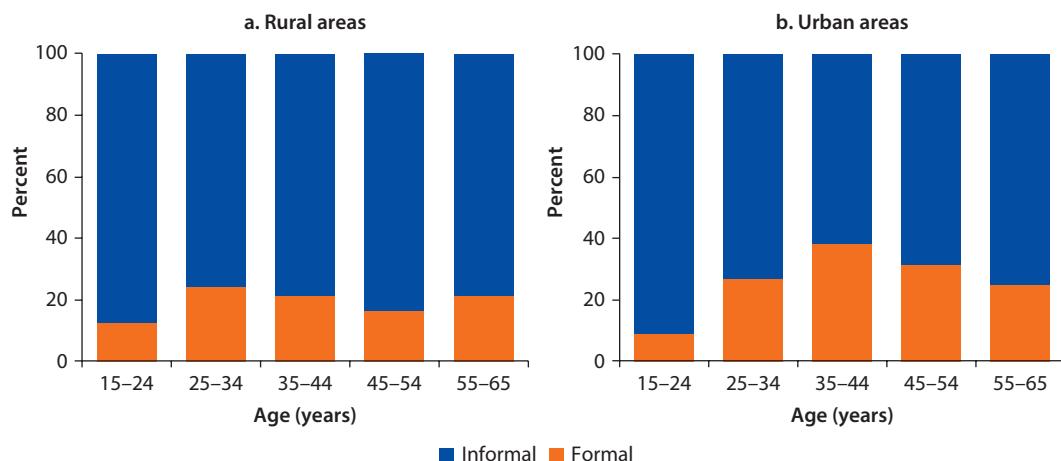
Figure 2.6 Informal Sector Jobs for Youth

Sources: Elaborations based on GSS 2005–06; KNBS 2007; NBS 2007; NBSN 2004; and NISR 2007.

apprentices. Some with more education or resources are able to start their own businesses, but the typical pattern involves working first for an employer to gain skills and experience before attempting to launch one's own business. That being said, figure 2.6, panel a, shows a mixed pattern of sector employment by age. The mean age in formal and informal sectors is roughly the same in Ghana and Tanzania, while a slightly younger informal sector is evident in Nigeria, Kenya, and Rwanda (not shown in figure). Kenya and Rwanda show a sizable number of young persons in the informal sector compared with those in the formal sector (figure 2.6, panel b).

With cross-section data, Rwanda displays a difference in the age distribution of employment in the two sectors (see figure 2.7). In rural and urban areas, more than 80 percent of youth begin in the informal sector, and only 20 percent start their careers in the formal sector. At all ages, the share of informal sector employment exceeds that of the formal sector. A curious pattern is evident in urban areas, suggesting that the share of those entering the formal sector rises with age and then levels off. Without longitudinal data, we cannot determine whether mobility exists across sectors over time, or whether the data reflect a cohort effect tied to conditions favoring formal sector employment before the civil

Figure 2.7 Difference in Age Distribution of Nonfarm Workers, Informal vs. Formal Sector and Rural vs. Urban, in Rwanda



Source: Elaborations based on NISR 2007.

conflict of the 1990s. This pattern observed in urban areas is not repeated in rural areas. Kenya offers a similar pattern for youth to that observed in Rwanda.

Trade and services account for the largest share of employment in informal sector enterprises. In Tanzania, more than two-thirds of informal sector jobs in 2006 were in trade, restaurants, and hotels. Wholesale and retail trade was the main activity in the informal sector among both men and women. The pattern in Rwanda in 2006 was similar with 63 percent of the informal sector employed in trade and services. Women were more likely to be in trade, whereas men exhibited more diversity with a quarter employed in construction and manufacturing. These patterns are repeated in Ghana, Kenya, and Nigeria. Hans Haan (2006), earlier in the decade, found a similar pattern in other countries. From this pattern, he argued that the concentration of the informal sector in trade and services placed downward pressure on the earnings of people employed in these sectors. He recommended efforts to diversify employment in the informal sector to reduce this pressure and promote higher earnings. Skills were an important part of the strategy for meeting this objective.

Main Conclusions

The household surveys from five African countries, representing one-third of the continent's population, were used to measure and describe people employed in the nonfarm informal sector. Farming continues to be Africa's primary source of employment. The World Bank estimates it accounts for about 65 percent of the region's employment. The share, however, has been declining as capital and technology have substituted for labor in farming. This pattern will continue with time as farm productivity improves and surplus labor in farming is released.

The formal sector until now has been unable to supply the jobs needed to absorb the movement of labor off the farm and to employ the numbers of youth newly entering the workforce each year (7–10 million). The nonfarm informal sector and self-employment have provided a safety net of employment for the African economy and particularly for those who cannot find employment in the formal sector. These informal sectors have also provided new opportunities, particularly because their earnings can match or exceed those in the formal sector. This factor not only further bolsters the argument to improve the sector's productivity, but it also sheds light on the innovative and resourceful cohorts previously tamped down.

The informal sector accounts for two-thirds to three-quarters of nonfarm employment. In Rwanda, the percentage reaches 90 percent. The average earnings in this employment exceed that in farming but fall below earnings in the formal sector. These averages, however, obscure the fact that the earnings distributions overlap and that people can find jobs in the informal sector with earnings that match and even exceed earnings in the formal sector. The informal sector also plays a positive role in the reduction of poverty as observed in Ghana and Kenya. The persistence of informal sector employment over time and the positive role it plays in reducing poverty support our initiative to improve the productivity of the enterprises and the incomes of people employed in the sector, while also looking for ways to lower barriers to mobility between the informal and formal sectors.

As shown by Tanzania, as many as 3 of 10 people who work in the nonfarm informal sector are drawn to this employment as a preferred choice. The evidence from earnings distributions in Ghana and Kenya back this finding by showing that earnings in the informal sector can match and exceed those in the formal sector, thus providing an incentive for retaining employment in the informal sector. Actions to improve incomes and the mobility of those engaged in the informal sector will need to take on board a number of findings in this chapter as a guide to these actions. Chapter 3 reveals how education and training influence in a positive fashion incomes and the mobility of people employed in the informal sector.

The available data also stress the importance of a strong gender focus. Women are more likely to be employed in the informal sector than in the formal sector in our set of countries. Women account for large numbers of those self-employed working on their own accounts, particularly in rural areas.

For some, the nonfarm informal sector is an urban phenomenon. The data show that with the likely exception of Kenya, the largest share of this employment is located in urban areas, but it is found in rural areas as well. This finding is important in defining the sector and measuring its scope. Enterprises matching the definition given for the informal sector are present in both rural and urban areas. Actions to improve the productivity of these enterprises and the incomes of those employed in them therefore need to reach both areas. An issue that has received less attention in the literature is the one raised by Haan (2006), referring to the concentration of the informal sector in trade and services, thereby depressing earnings in both. Our data on the distribution of employment back up this

finding and suggest the importance of encouraging industrial diversification, for example, by providing the skills and business development services to open opportunities in manufacturing where small firms have the potential to enter the supply chain of larger, formal sector enterprises.

The informal sector is now a prominent feature of Sub-Saharan Africa's economic landscape with no signs of disappearing. When first recognized in Sub-Saharan Africa in the 1970s, the informal sector was conceived by economists as a temporary staging point for surplus labor waiting to be absorbed by the industrialization expected in the postindependence era. The sector was identified with small, loosely regulated household enterprises employing mainly family members with limited connections to modern technology. Forty years later, however, the sector has diversified in the scale of its activities. The inability of the region to expand employment off the farm in the formal sector in this period has contributed to the growth of the informal sector as a source of employment for increasing numbers of youth seeking their first job. In the chapters that follow, we examine evidence from our five countries for how the productivity of informal sector enterprises can be improved and mobility between the informal and formal sector increased.

Annex 2A: Employment in the Informal Sector: The Building Blocks

The January 1993 resolution of the 15th Conference of International Labour Statisticians of the ILO combines the characteristics of nonfarm enterprises with those of employees collected in household and enterprise surveys to estimate the scope of the informal sector (Roubaud and Razafindrakoto 2007). The enterprise characteristics attempt to capture the correlates of regulation or nonregulation by introducing questions about the size of the firm, its registration status with government authorities, and in some cases whether the firm offers workers social protection benefits. The features of household enterprises as production units are intersected with the employment status of workers in these enterprises to capture whether members of a household in an informal sector enterprise are self-employed working on their own account, self-employed hiring other workers, unpaid family members contributing to the enterprise, members of producers' cooperatives, or wage workers.

To obtain all the building blocks of the informal sector requires a household survey with an enterprise module to enumerate the presence and characteristics of nonfarm household enterprises. Among our five countries, Ghana offers a good example of a country with a set of periodic household surveys, each with a nonfarm household enterprise module. Interestingly, for a country that once had a ministry responsible for the informal sector, Kenya's Integrated Household Budget Survey (KIHBS) 2005/06, unlike its earlier Labour Force Survey (LFS) 1999 household survey, does not include a module for measuring the nonfarm informal sector, leaving it unable to compare informal sector employment across the two survey periods. Comparative analysis of the informal sector is often limited by the comparability of statistics available.

Greater consultation is needed in national definitions of informal sector activity and household questionnaire design. The comparison is fraught with differences tied to the availability of data and the national setting. The ILO's own efforts to produce these estimates earlier in the decade identified a number of areas contributing to differences in the estimates among countries (ILO 2002):

- Criteria used to define the informal sector vary, for example, employment size of the enterprise and use of registration status.
- Branches of economic activity covered differ, particularly in respect to inclusion or exclusion of farm activity.
- Differences exist in inclusion and exclusion of groups such as paid domestic employees employed by households or producers of goods for own final use by their household.
- Inclusion or exclusion of persons with a secondary job in the informal sector differs.
- Inclusion or exclusion of persons engaged in professional or technical activities differs.
- Geographic coverage varies; some surveys include urban areas only.

Notes

1. Only nine Sub-Saharan countries offer estimates of informal sector employment, and these estimates differ from one another in definition (ILO 2002).
2. The numbers reported working in Tanzania's informal sector are the same as those reported by its National Bureau of Statistics. The national definition of the informal sector is the same as that used in this study.

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