



REPOA/UNU-WIDER Seminar, Nov 2016

The Informal Sector

Tony Addison, Donald Mmari and Finn Tarp



UNITED NATIONS
UNIVERSITY
UNU-WIDER

Overview

- Informal economy: diversified set of economic activities not regulated or protected by the state
 - Not only self-employment in small unregistered businesses but also wage-employment in unprotected jobs
 - Major employer of female-labour
 - Workings of informal sector more complex than stylized facts suggest
-

Informal Sector: growing not shrinking

- Development economists traditionally viewed the informal sector as one that shrinks as economies grow (& more people move into formal employment)
 - But it is absorbing more & more new labour-force entrants & 40% of Africa's GDP
 - Structural adjustment programmes in 1980s, but also rise in young workforce & dearth of formal sector opportunities
 - Also informalization driven by employers wanting to avoid regulation & taxation – leading to casualization of labour
-

Tanzania's Informal Sector

- 97% of all businesses & 86% of all urban properties are informal (MKURABITA, 2009)
 - 65% of all informal businesses are in wholesale & retail trade (ILO)
 - Of 25,000 manufacturing enterprises, 88% are micro-enterprises that engage 1-4 persons (60.3% engage 1-12 persons) (NBS, 2008)
 - Employs 2.4 million people, 22% of total employment
 - 40% of all households have informal activities
 - 48% of enterprises owned by men (ILO)
 - Informal sector is often (but not always) associated with low-income – much differentiation across the sector.
-

Policy Issues (1)

- Main challenges: (i) raising productivity (ii) reduce risks & costs of doing business
 - Specifics:
 - Macro-economic & business environment
 - Legislative & regulatory framework
 - Developing linkages with larger enterprises (success in India). Tanzania: 'Buyers Forum' – large enterprises working with smaller enterprises in the supply chain
 - Improving infrastructure (e.g. ILO supported programmes for community-based organizations to apply for public funds for infrastructure improvement)
-

Policy Issues (2)

- Access to education and training. Vocational & technical (VETA in Tanzania)
 - Access to capital & other financial services (in Tanzania, only 20% of people in informal employment have bank accounts)
 - Few lenders will extend credit to businesses that operate on informal premises (uncertainty & subject to removal) – insufficient plots available. BARA enterprise registration in Tanzania requires businesses have fixed premises before licence
 - ICT is a very weak area – digital economy & links to it, offer much potential (South Africa has successful programmes to improve small business ICT access)
 - Business development services (e.g. scheme in Zambia for micro enterprises to access business development)
-

Data

- Given that the informal sector employs so many people & contributes significantly to GDP
 - There is a big need to get better data & information about the continuing evolution of the sector
 - Can't understand employment opportunities, especially for young people, without tracking the informal sector
-

Conclusions

- Informal sector employs increasing numbers of people
 - Urgent need to raise productivity in order to raise earnings
 - Increase linkages to formal economy, participation in supply chains, and take advantage of export markets
 - Not just products but also services: challenge is to move into higher value-added products & services
 - And eventually, perhaps, informal enterprises will formalize (including contributing to tax revenues)
-