Accommodating informality in the African Continental Free Trade Area: Some basics and challenges

By:

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Introduction

In this week's blog, I aim to give a broad understanding of informality with a focus on one of its two aspects. In addition, I will draw attention to some challenges associated with the informal economy in Africa. This should partly provide the basis for future discussions of informality on this blog and the relevance and potential relationship between informality and the African Continental Free Trade Area (AfCFTA) and Africa's development in general. The African Union (AU), the governments of its respective member states and other stakeholders will have to deal with these challenges, as Africa proceeds with the AfCFTA.

Traditional or mainstream thinking—especially in the West—about informality assumes a couple of things. First, that it is backward, second that it is

transitional and third that it is illegal. But the reality actually seems to contradict these assumptions. Informality is a historical and permanent feature of African society and its political economy, and many actors in that space are up-to-date with developments and trends in the contemporary global political economy. Informal actors in the agricultural and trade sectors in many African countries, for instance, are phenomenally adopting and exploiting modern information and communication technologies (ICTs).

The question whether informality in Africa is real or a romanticized myth, is not a subject of debate. Specifying or defining and measuring it, however, is quite a challenge. Numerous conceptual understandings of this reality exist. Policies based on criminalizing informality or considers informality as illegal are counter-productive. The primary rationale for viewing informality through this problematic lenses is based on the view that informal actors evade tax, under-invoice their products, goods and services, under-report their incomes, engage in prostitution, trade in contraband, drugs and illegal goods, engage in smuggling, and that the informal economy distorts national economies, and so on. What should be clarified when such views are presented is that, the said activities are mostly reflective of what may be called the shadow economy, the underground economy or the black market. And that the informal economy should not, in fact, be conflated with the shadow economy. When one considers the informal trader dealing in agricultural produce such as tomatoes, onions on the streets of many an African city, however, questions and doubts arise regarding the possibility of them operating in a clandestine shadowy economy. I contend these informal traders are not operating clandestinely and to do so is to conflate their activities with those of criminal actors and to presuppose therefore that informal trade is a deviant institution. It is notable that many features of informal traders, including on taxes and lack of benefits for employees, are replicated in formal businesses as well.

Understanding informality

International definitions of informality have attempted to distinguish between employment relationships and some features of informal enterprises, in order to bring about some clarity to the understanding of the sector. The International Conference of Labour Statisticians (ICLS) has thus come up with a

two-sided definition that considers informality as first, a given set of features of small or unregistered enterprises. Second, informality according to the ICLS includes relationships around work; whether employment provides social and legal protections or not to workers. If it does not, then it is informal. And this is irrespective of where that employment occurs—whether in formal or informal organizations or enterprises.

Conceptual approaches to informality such as the attempt made above help to determine the way in which it is measured. Going by the two-sided definition above, measurement would focus on characteristics of enterprises on one hand, and employment relationships on the other hand. Even so, measuring informality is challenging. Though faced with measurement challenges, efforts to comprehend the scale of informality rely on either inference of informal activities through proxies (like levels of cash transactions or differences between income and expenditure) or surveys in which informal employment, for example, is directly measured.

The academic literature has long argued that informality represented a stage in a country's dual economy—comprising a backward or traditional and modern sector—that would shrink and eventually be eradicated in the process of development. As a country progressed from rudimentary forms of production towards industrialization, the argument went, that country's labor force would follow through and transition or graduate into formal employment.

A reality that needs the attention of Africa and its respective governments

But as recent history and reality show, informality in Africa has grown instead. It has not shrunk as studies have long predicted. The assumption behind those predictions was that informality—including, among other things, casual labor, informal small-scale enterprises and informal trade, etc.—would eventually get absorbed into the formal economy as society and economies developed. On the contrary, the informal economy in Africa has grown and is likely to continue growing.

The liberalization of economies that is going to accompany the implementation

of the AfCFTA will, hopefully, call to memory, the structural adjustment programs (SAPs) that most African countries implemented in the late 1980s and early 1990s. Besides the privatization of former publicly-owned corporations and the retrenchment of workers in the execution of those programs, most countries also deregulated the labor markets of their economies. Through deregulation, they sought to increase competition and flexibility while reducing labor costs. But, they inadvertently 'forced' companies to outsource their productive and other functions to informal workers. As a result of this, many African countries have high levels of casual level or informal workers.

The persistence and growth of informality in Africa is against the backdrop of commitments made at the global and (African) continental levels by governments to generate full employment for citizens by 2030 or 2063, depending on which agenda one consults. The challenge facing the authorities in this respect relates to the so-called demographic dividend in Africa—a burgeoning youthful population that pushes estimates of the continent's population to approximately 2.5 billion people in 2050. An important question regarding this is, how are African governments not only going to provide jobs for these populations, but also ensure progress, especially for the already marginalized and poorest on the continent? The question of providing full employment to citizens and such groups, however, somewhat buys into the arguments that informality is on its way out in Africa. In view of this, does employment have to be formal? I should be quick to note, though, that, in as much as I raise this question, I am fully aware of the work of the International Labour Organization (ILO) and the importance of decent work for all, especially considering the precarious conditions in which most people in the informal sector live and work.

A gendered sector largely dealing in the primary industrial space

Women are very active in the informal economy. Globally, they represent approximately half of informal employment, in relation to men. In Africa, and specifically low incomes countries, women are underrepresented in the formal labor force, and tend to be overrepresented in the informal sector. Still, estimates of women who operate in the informal economy provided by organizations such as the ILO are quite conservative. Records of women employed in the informal economy continue to underestimate the number of

women there because most of the activities in which they are engaged are not well recorded.

In general, the agricultural sector in most African countries carries the larger share of informal employment. But, the levels of informal employment vary across Africa, especially when that employment is measured as a share of the workforce engaged in non-agricultural sectors. People working in the informal economy can be variously categorized. We might, for example, speak of employers and employees; casual workers and own-account workers; homeworkers and unpaid supporting family members.

Options for dealing with informality in Africa and its respective governments

From the foregoing, it should be clear that we have only been discussing informality as it relates to the definition of employment noted above. We are going to consider the other aspect—production—in future blog posts as well as get to link such discussions with the AfCFTA. For now, I thought it essential to lay out the foundation and establish the basis of the informal sector. And, perhaps, based on the foregoing ask: what policy implication can be drawn from this, for the AfCFTA and vice versa?

A response to informality includes the suggestion that policy makers should formalize informal entities and activities. This suggestion holds that, responding to informality in such a way will ultimately help create better jobs, improve productivity and reduce poverty. But then, the question again arises at this point: is formalization the optimal solution? Shouldn't the focus in the short-term rather be to improve conditions for informal sector actors and the spaces in which they operate than formalize? These are some of the broad challenges facing Africa, the AU and the governments of respective member states and other stakeholders as Africa proceeds with the AfCFTA. But, will they take on the challenges?

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