

Growth and Informality in Urban Africa



In brief

- In sub-Saharan Africa, there has been a growth in the ‘informalisation’ of the labour market, with more jobs being created in the informal sector.
- The purpose of this study is to understand current labour market dynamics and how to change the pattern of job creation. This study examines the cases of Ghana and Tanzania.
- In Ghana economic growth has been accompanied by a substantial fall in poverty and an expansion of wage jobs in small firms, which would be normally classified as “informal”. Hence, poverty reduction, growth and increase in informal jobs appear to be linked in Ghana.
- Tanzania has not seen a substantial decrease in poverty levels, despite recent growth.
- Wage employees earn less than self-employed workers among small scale activities and firms. Thus, why work as a wage employee when one could earn more by being self-employed? One possible answer is that self-employment requires capital.
- Earnings in these informal jobs is very low, perhaps explaining the widespread dissatisfaction with them as job opportunities.
- As the scale of the enterprise increases, earnings rise for both wage employees in larger firms and the self-employed who scale up. This association of earnings with scale provides the link between what are regarded as ‘bad jobs’ (small scale activities), and ‘good jobs’ (larger scale enterprises)

Policy Motivation

Jobs are back on the policy agenda. That young people want jobs and that there are no jobs for them are central political issues in most countries today across both the developed and developing world. The Arab revolutions which began in February 2011 in Tunisia are seen to have at their core the dissatisfaction of young people with their job opportunities. As Tunisia had a relatively high growth rate it is clear growth does not necessarily convert into job opportunities.

“Is this growth in informality a sign that policy is failing to provide the “good jobs” that people are demanding?”

While the young are among the most vocal, the need for more “good jobs” for all in the labour force is now a potent political demand in many poor countries. This is particularly the case in sub-Saharan Africa which has seen a growth in the “informalisation” of the labour market. Is this growth in informality a sign that policy is failing to provide the “good jobs” that people are demanding? If it is, what policies can ensure the more rapid growth of “good jobs”?

Policy Impact

To change the pattern of job creation requires an understanding of what is currently happening and why. That was the objective of this project for the urban labour markets of Ghana and Tanzania.

Both countries now have relatively high rates of growth, certainly much higher than their pre-1990 past. In Ghana this more rapid growth has been associated with a substantial fall in poverty while in Tanzania poverty has scarcely changed. In Ghana we have evidence that the expansion of wage jobs in small firms has expanded greatly in the most recent period from 1999 to 2005. As these jobs are in the small scale sector they would normally be classified as “informal”. Thus macro growth, poverty reduction and an increase in the number of informal jobs appear to be linked in Ghana.

We do not have comparable information for Tanzania on patterns of job growth but, as part of this project, we did collect data across both countries that allows us to compare incomes across formal and informal jobs in their urban sectors. The findings are important for policy as they show that among small scale activities ie. those working as self-employed or as wage employees in small firms, wage employees earn *less* than the self-employed.

It is usually assumed that self-employment is an outcome for those who cannot find a wage job. Our results suggest otherwise and raise a question - why work as a wage employee when one could earn more by being self-employed? One possible answer is that self-employment requires capital and even very low amounts of capital are not available - especially to young workers.

In summary: The divide between wage jobs and self-employment is very misleading. Wage employees in small firms can earn less than the self-employed.

However earnings in these jobs are very low. A “good” informal job pays US\$50-80

a month. It is not hard to see why these are not regarded as “good jobs”. It is, we would argue, these low earnings from “informal” jobs that explain the widespread dissatisfaction with them as job opportunities.

With this in mind, the next part of our project asked how the earnings from jobs can increase. The research shows that as the scale of the enterprise increases earnings rise. This is true for *both* wage employees who work in larger firms and for the self-employed who manage to build up their businesses. It is, we argue, this association of earnings with scale which provides the link between what are regarded as “bad jobs” ie they are in small scale activities; and “good jobs” which are associated with working in larger scale enterprises. The research showed that much of this rise of earnings with scale was *not* due to the fact that larger firms employ more educated and experienced workers. Scale matters. The research also showed that in Ghana the average size of firm over the period from 1987 to 2005 had halved from 19 to 9 employees.

“In both Ghana and Tanzania wage employees with similar education in firms employing 100 can earn 35-70% more than those in a micro enterprise of 5 employees”

In summary: The divide between jobs in small scale and in large scale enterprises is very important. In both Ghana and Tanzania wage employees with similar education in firms employing 100 can earn 35-70% more than those in a micro enterprise of 5 employees. In Ghana jobs in large firms are not growing, those in small firms are growing rapidly.

If the extent of informality in the economy is to be altered then policy needs to focus on how the scale of enterprise can be increased. It is unlikely this can be done if firms remain internationally uncompetitive.

Audience

This research is relevant for all those focused on the Jobs Agenda. This includes not only the relevant ministries in Ghana and Tanzania but international organisations seeking answers to the employment issues in developing countries. The World Development Report for 2013 is to be on jobs. The ILO has an expanding agenda in this area.

The key policy message is that understanding why apparently similar jobs can deliver such different levels of incomes is necessary if policy makers are to meet their objective of providing better jobs. It is not simply a matter of wage jobs relative to self-employed ones – the type of wage job matters a lot. 2

About the authors

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