

## Informality and COVID-19 in sub-Saharan Africa



- In brief** • The size, nature, and significance of the informal sector in sub-Saharan Africa (SSA) have important implications for how countries are affected by the COVID-19 pandemic, as well as how policymakers can manage the ensuing socio-economic shocks.
- This policy brief discusses how informality complicates the implementation of COVID-19 containment measures. It addresses the question of how policymakers in SSA can effectively fight the pandemic in the context of high informality in a way that minimises the negative economic impact, as well as how they can appropriately support the informal sector through the negative economic shock.
  - The brief emphasises policy recommendations to avoid blanket lockdowns; tailor lockdowns to accommodate the nature of the informal sector; and minimise the use (or duration) of tailored lockdowns due to their impacts on the livelihoods of informal workers.
  - To save lives and safeguard livelihoods in the context of high informality, the brief calls for the prioritisation of strategies that enhance sharp behavioural changes at the individual level and promote strong personal responsibility for compliance to the protocols for distancing, hygiene, and the use of face masks.
  - Tailored support for the informal sector can be provided through informal business associations; reinforced microfinance institutions; and temporary utility subsidies (electricity, water, and local government rents).

*This brief is published as part of the IGC's ongoing response to the economic challenges of COVID-19*

## Introduction

*“... the youthful population, high informality, weak health systems, and the governments’ limited fiscal space are factors that make the challenges and impacts of the pandemic unique in comparison to other regions.”*

As countries around the world battle with strategies to contain the spread of the COVID-19 pandemic, they are also faced with the difficult challenges of safeguarding livelihoods, providing appropriate support to economically distressed or displaced persons, and putting the economy on a strong recovery path. It has become clear by now that, while the virus is one and the same globally, its health, economic, and social impacts can greatly differ across contexts. In sub-Saharan Africa (SSA), the youthful population, high informality, weak health systems, and the governments’ limited fiscal space are factors that make the challenges and impacts of the pandemic unique in comparison to other regions.

In particular, the size, pervasiveness, economic and political relevance, and pre-existing vulnerabilities of the informal sector in SSA countries present complexities in how governments can respond effectively to the COVID-19 crisis. Consequently, policymakers in SSA are confronted with two main questions:

1. How can they enhance efforts aimed at containing the spread of COVID-19 in contexts of high informality in a way that minimises the negative economic impacts?
2. How can the informal sector be appropriately supported throughout the COVID-19 pandemic, in spite of the difficulties in targeting the relevant informal sector enterprises and individuals?

## Nature and relevance of informal sector in SSA

### It is large and significantly contributes to the economy

Unlike high income markets, where the informal sector is often referred to as the hidden part of the economy, informality in SSA arguably is the norm, as it captures over 70<sup>1</sup> percent of non-agricultural employment and approximately 90 percent of all economic units (ILO 2018). Informal activity is also highly relevant in terms of economic contribution, with estimates ranging from 30-65 percent of GDP (Charmes 2016). Most businesses in SSA are informal in the way they operate<sup>2</sup>, and major and essential economic activities such as public transport operations, market centres, and food processing are dominated by informal businesses (Adams et al. 2013; [Osei-Boateng and Ampratwum 2011](#)).

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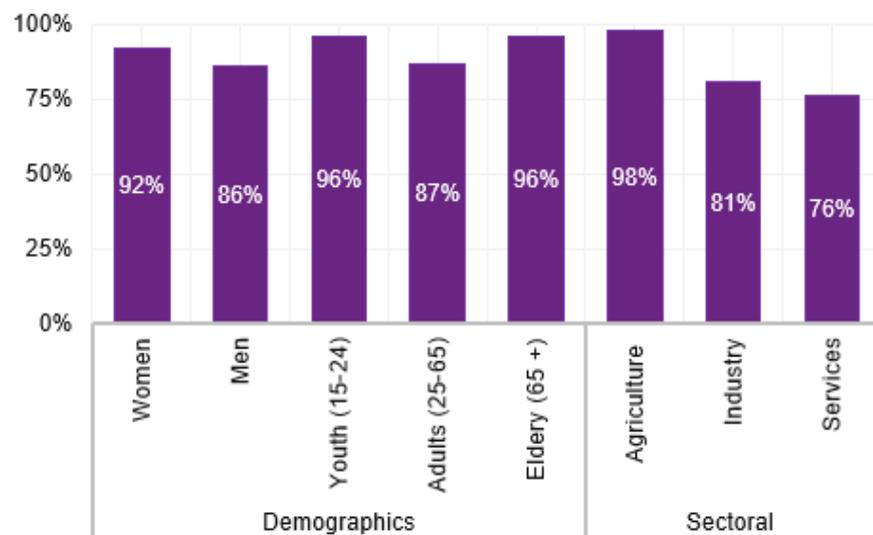
1. With the exception of Southern Africa where informal employment falls below 50 percent (ILO 2018).  
2. For example, a census of business establishments in Ghana shows that 90 percent of businesses in Ghana are informal (GSS IBES, 2015).

## It cuts across every aspect of the economy

The informal sector in SSA is not limited to some sectors or some aspects of the economy – it is far reaching, covering all genders, age groups, sectors, and most economic activities as shown in Figure 1. Informality presents itself in different ways and is often not so clear cut or separated from the formal economy. For instance, the informal workers in SSA include self-employed persons (this constitutes on average 52 percent of all non-farm workers across SSA), persons employed by legitimate businesses that operate informally (11 percent), persons employed or engaged on an informal basis by businesses that operate in the formal sectors (10 percent), and persons who are engaged in households as domestic workers (4 percent) (ILO 2018).

Self-employed persons include street traders and petty traders who run micro enterprises, but also self-employed persons who operate SMEs and employ several others. These informal enterprises are often linked to the formal sector very organically. For example, self-employed mobile money vendors who operate as informal enterprises are one of the main outlets for financial services provided by the telecommunications industry.

**Figure 1: % of different people categories engaged in informality in SSA**



Source: ILO 2018

## It harbours and perpetuates vulnerabilities

The informal sector harbours a host of diverse vulnerabilities that expose it to suffering the negative implications of external shocks. Depending on their severity and persistence, shocks can bear critical implications for the individuals and firms operating in it. Here, we discuss two main types of vulnerabilities: health and economic.

*“... official systems of social protection have a tendency to systematically bypass informal workers especially in urban areas”*

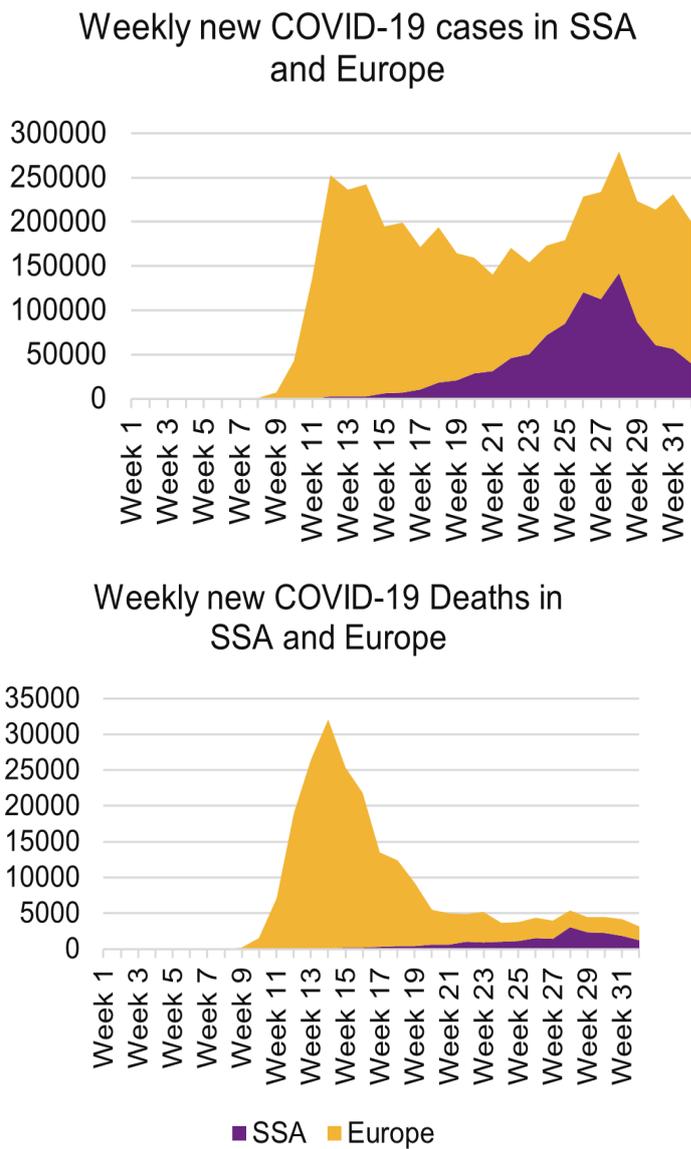
- **Health and safety:** Informal work is often characterised by poor safety and health conditions, including hazardous work and long working hours, as it falls outside government regulations and control. Informal workers are also excluded from public health systems, notably because they have greater difficulties paying health insurance contributions or accessing health care. For instance, Madagascar, Tanzania, Senegal, Cameroon, Niger, and Burkina Faso present less than 10 percent of informal sector workers covered by health insurance ([OECD/ILO 2019](#)).
- **Economic:** Informal sector workers face high in-work poverty risk which trickles down to entire households and dependants. Actually, among workers from poor households, from over 50 percent to as high as 98 percent (in Cameroon and Rwanda) are informally employed (Bonnet, Joann, and Martha, 2019). This poverty risk results from a combination of low income and a high dependence on daily earnings for survival. Economic vulnerability in turn opens up risks in two further areas:
  - **Access to finance:** Access to finance is a major challenge for informal enterprises (La Porta and Shliefer 2014), which exposes them to exploitation in trying to access working capital. For instance, due to the difficulties in accessing credit, people in the informal sector sometimes fall prey to money lenders (or loan sharks), dubious rotating savings and credit association (ROSCA)-type schemes, and even legitimate microcredit institutions which can sometime charge exorbitant interest rates in contexts where such finance institutions are not properly regulated.
  - **Social protection:** Possibly the greatest vulnerability comes from the fact that official systems of social protection have a tendency to systematically bypass informal workers especially in urban areas for services such as insurance, sick pay, and unemployment benefits. Two sets of interrelated factors usually explain the difficulty for informal workers in benefitting from social protection measures: their largely unorganised status and their de facto exclusion from regulations and benefit from public policy ([OECD/ILO 2019](#)). For example, Baremirwe Bekoreire et al (2019) point out that existing social protection policy in Uganda excludes 93 percent of informal sector workers.

## **What are the implications for the COVID-19 pandemic and for policy responses in contexts of high informality?**

The rate of spread as well as the case fatality of COVID-19 so far in most SSA countries has not been nearly as bad as initially feared compared to the trajectory of the disease in other regions, including Europe, North America, South America, and Asia – with the only exception being South Africa. Data from [Worldometer](#) indicates that as of 26 August 2020, the region, with about 48 countries (i.e., excluding Algeria, Egypt, Libya, Morocco, Tunisia, and Western Sahara), had recorded just a little more than 1 million cumulative cases out of the 24.5 million cumulative cases globally, with South Africa alone capturing 60 percent of the total. The case fatality rate

of the disease calculated at the same period also shows that SSA had a lower rate of 2 percent (2 percent excluding South Africa) compared to Europe (6 percent), North America (4 percent) and South America (3 percent). As shown in Figure 3, the region has had a much flatter curve with respect to the weekly new cases compared to other regions. Nevertheless, the challenge of managing both the spread of COVID-19 and the consequences of the negative economic impact in the region is made more difficult by the high levels of informality. Some of these complications are highlighted below:

**Figure 2: Weekly new COVID-19 cases in deaths in SSA and Europe**



Source: The data was taken from [Our World in Data](#), 2020 and organised by the authors into weekly new cases and deaths.

## **COVID-19 exposes informal workers to income and livelihood losses**

As indicated in the previous section, most informal sector workers are faced with low and unreliable incomes which leave them most vulnerable to the negative economic shocks triggered by the COVID-19 pandemic. This implies that:

1. **The economic vulnerabilities faced by informal sector workers will likely worsen.** Informal workers, whether wage workers or self-employed, are arguably the group facing the highest risk of losing jobs and incomes if lockdowns or movement restrictions are imposed. Low level of savings, poor access to finance, income volatility and uncertainty, and the limited or absent coverage of social security and protection systems will not allow informal workers to withstand the fall in economic activity for a long time. Many informal firms may increase their demand for loans, given low cash reserves to fall back on during hard times, and microfinance lenders might take advantage of the situation and apply high interest rates that could further limit access to finance, unless properly regulated.
2. **More people will be pushed in extreme poverty.** Informal work provides livelihoods for many who would otherwise live in extreme poverty. However, many informal workers tend to also live close to the poverty line hence they face a higher risk of in-work poverty (Danquah et al. 2019). The World Bank has estimated that the COVID-19 pandemic will push 49 million new people into extreme poverty. Although health impacts in SSA have proved less severe than in the rest of the world, the World Bank projections suggest that it will be the region that will face the highest increase in extreme poverty, with about 23 million new people at risk, the vast majority of which will be represented by informal workers already close to the poverty line.

## **The informal sector provides an opportunity for alternative livelihoods for the newly unemployed**

The informal sector in SSA is [expected to expand as a result of the COVID-19 pandemic](#). This inherently means people will turn to the informal sector for survival. Thus, although being in the informal sector increases the likelihood of being pushed into extreme poverty by the pandemic, informality will also be a lifeline for some to escape extreme poverty.

This is because informality provides flexible ways for people to earn a living with very little capital. The sharp economic downturn is likely to lead to an expansion of the informal sector in SSA through the following mechanisms:

1. People who are laid off from both formal and informal firms may decide to start their own businesses which they are most likely to operate informally, at least within the short- to medium-term. Basically, they will look for opportunities to earn a living as unemployment benefits may not reach them. [Informal businesses and activities are relatively easy to](#)

[start by anyone irrespective of age, gender, location, and usually with any capital one can get.](#)

2. There may also be formal sector businesses which will terminate the employment of regular staff and engage workers on an informal basis. Some formal enterprises may even shut down, but individuals from those enterprises may carry on doing the same activity informally.

As a result of the cushioning mechanism provided by the informal sector, most SSA countries will not see a huge rise in the traditional rate of unemployment (as defined by the ILO), but rather a rise in underemployment and vulnerable employment due to informality.

### **Containment strategies in contexts of high informality are likely to be less effective**

The size and ubiquity of the informal sector in SSA complicate government efforts to implement some of the known non-pharmaceutical containment strategies, such as lockdowns, movement restrictions, social distancing, and working from home policies. This is mainly because:

1. The activities of informal businesses are harder to regulate or streamline in line with the containment strategies as many do not fall under any regulatory authority.
2. The hand-to-mouth nature of jobs for many in informality is likely to induce individuals to ignore regulations, leave their homes, and continue working in order to provide for themselves and their household.
3. Many informal sector activities and occupations fall in the category of “essential services” and often involve direct person-to-person contact (e.g., markets, street food vendors, public transport providers, hairdressers, etc.) which may facilitate the spread of the virus.

### **High informality limits the options available for government support**

Given the nature of the informal sector and how it operates, it is very difficult to design policies that can target and support the businesses and workers in the sector appropriately. Most of the conventional policy measures such as PAYE tax refunds, tax waivers, and other forms of targeted business and income support programmes that governments could resort to are simply not applicable to informal enterprises and workers. This significantly limits government options for meaningful interventions.

This limitation is further compounded by the fact that most of the countries in SSA do not have enough resources to finance the large spending needed on such programmes. Even in normal times, most SSA countries have very limited fiscal space, partly because they struggle to design tax policies that are appropriate to tax thriving businesses in the informal sector. Moreover, the pandemic is also expected to worsen fiscal capacity due to a combination of falling foreign exchange earnings and lower tax receipts from the formal sector.

## Policy considerations

### How can policymakers enhance their efforts aimed at containing the spread of COVID-19 in the contexts of high informality?

#### 1. Adopt tailored and localised lockdowns

Blanket and prolonged lockdowns are too costly to livelihoods in the informal sector and will not work. At the beginning of the pandemic, several SSA countries introduced lockdowns of various kinds to help contain the spread of the virus early. These were useful in helping people to internalise the gravity of the situation. The lockdowns also gave governments the opportunity to undertake effective contact tracing, testing, isolation of patients, and use this initial data on cases to understand how fast the virus was spreading within their respective countries. This was the case in [Ghana](#), [Senegal](#), and [South Africa](#).

However, as pointed out in the [IGC's COVID-19 policy guidance note](#), the extended blanket lockdowns risked causing widespread deprivation and unintended health consequences. This has been seen in a number of recent surveys in [Ghana](#), [Sierra Leone](#), and [Nigeria](#). A recent IGC working paper ([Alon et al. 2020](#)) shows that, not only are extended lockdowns costly to livelihoods in the informal sector in SSA, but they are also ineffective in containing the spread of the disease in those contexts as many informal sector workers will be forced to go out for work to avoid starvation in breach of the lockdown orders. The analysis in the study also shows that extended blanket lockdowns are unnecessary in SSA because of the age structure of the population in these countries (dominated by young people) coupled with the known fatality rates of COVID-19 for different age groups.

Lockdowns should be carefully tailored to suit local context, taking into account the large numbers of relatively young people who need to work daily to survive in the informal sector, with a significant number of them providing essential services. In addition, the tailored lockdowns could also be localised to circumscribed hotspots to minimise the broader economic impacts on livelihoods. For instance in Ghana, the government implemented a [partial lockdown](#) in the two main cities for 21 days. During the period of lockdown, all markets, food vendors, restaurants, and public transport providers were allowed to operate, making it possible for large sections of the informal sector to continue working. The market places were closed only for a day for disinfection, and distancing measures were put in place to allow markets to stay open through the period.

#### 2. Localised income support

Social protection for the poor (in cash or in-kind income support) is necessary

during the brief periods of tailored lockdowns. However, blanket policies that do not take into account local contexts, even for basic social protection in the form of cash or in-kind transfers to informal sector workers, are neither practical nor financially sustainable.

*“Failing to provide measures that cushion the immediate consequences of the interruption of economic activity is likely to reduce individual incentives to comply with lockdown protocols”*

However, for the duration of localised lockdowns, governments should find safe ways of providing cash transfers or in-kind support (e.g., hot meals) for the poor. Failing to provide measures that cushion the immediate consequences of the interruption of economic activity is likely to reduce individual incentives to comply with lockdown protocols, which risk being disregarded as individuals find alternative ways to support their livelihoods. Income support measures should target the poorest in society, which includes sections of informal sector workers who are most vulnerable to starvation (e.g., street sellers, young women who carry goods for people in the markets, etc.).

It is important that such programmes are implemented in a safe manner, avoiding the use of large gatherings and observing distancing measures. The use of mobile money transfers may be useful for this purpose, and local governments may be well placed to lead the implementation phase.

### **3. Intensified awareness raising and trust building**

Given the limited pharmaceutical solutions for treating the disease effectively and the current lack of a vaccine, a sharp behavioural change is required to help reduce the spread of the virus through existing non-pharmaceutical measures. For this to happen in highly informal settings, individuals need to take personal responsibility for their safety since the formal workplace structure do not exist to guide and promote compliance. This means people need to be well informed about the risks they face, what behaviours to follow, and how to act if they suspect they caught the virus.

Targeted efforts to ensure that people in the informal sector comply voluntarily will help to significantly reduce spread of the virus and ensure that many can continue to work safely throughout the pandemic. This can be done effectively through awareness and trust building.

Awareness programmes targeting markets and other centres dominated by informal sector operators should be implemented rapidly, and toll-free numbers should be created for people to access testing and to get treatment if confirmed positive, and to seek information. Additionally, governments could partner with telecommunications companies to share information and updates with their citizens via SMS delivered on personal mobile phones. Information should be available in multiple local languages and shared widely at the national, city, and community level through information vans, local radio announcements, and dedicated messaging on television.

Furthermore, people are more likely to follow regulations if they trust them to be true. To build trust, authorities should provide frequent daily updates

on infections and case management. Measures must be put in place to ensure that tests are conducted quickly and people are informed about their test results in a timely fashion. To encourage people with symptoms to promptly report and get tested, governments should also take steps to discourage stigmatisation and fear of those who have recovered from the virus. The WHO has provided a [useful 5 page guide](#) to preventing and addressing social stigma for COVID-19.

Government should also consider and harness the influence of traditional authorities and other relevant stakeholders such as community leaders, and leaders of faith-based organisations to improve trust and compliance in the population. For instance, Banerjee et al (2020) show that an informative short video message on preventive measures delivered via SMS by a publicly acclaimed intellectual had positive and large effects on the behaviour of recipients (including reporting of symptoms, washing hands, wearing masks, and staying at home) in West Bengal, with positive spillover effects towards non-recipients.

## **What can policymakers in SSA do to appropriately support the large informal sector through the COVID-19-related economic crises?**

### **1. Strengthen and support microfinance lending at reduced interest rates**

Government should take steps to quickly streamline and boost microfinance lending to the informal sector. Microfinance, savings and loans, and other financial NGOs are a major source of finance and capital for the informal sector ([Trombetta et al. 2017](#)) as well as a major contributor to poverty reduction ([Danquah et al. 2020](#)). These institutions are able to build relationships with informal enterprises and workers at their places of work in a unique way. However, as noted earlier, these institutions can take undue advantage of struggling informal enterprises and workers through extreme interest rates, up to 70-100 percent, and thus need to be appropriately regulated and monitored ([Roodman and Morduch 2009](#); [Chang 2010](#); [Sanberg 2012](#); [Bateman 2015](#)).

The severe economic downturn expected as a result of the pandemic is likely to erode the savings and working capital of many informal enterprises. This will push more informal businesses to seek loans from predatory loan sharks and institutions. For example, the [COVID-19 business tracker survey](#), which includes informal firms (conducted by the Ghana Statistical Service), indicates that access to loans with subsidised interest rates is one of the top needs of firms in Ghana during this period.

Governments can support these credit institutions in providing low interest loans to informal businesses and workers. Microfinance institutions are best placed to identify and properly target struggling informal business, and provide demand-driven support. They are also likely to continue building a sustained relationship with the business in a way that will ensure future improvements in managerial practices as well as other desirable outcomes such as financial inclusion. Governments could use this as an opportunity

to streamline and improve the regulation of such microcredit financial institution if they have not properly done so already.

## **2. Encourage the formation of informal business associations**

Several parts of the informal sector in some SSA countries are organised into politically powerful, coordinated business associations that are able to provide welfare support to members, negotiate with governments, provide data and useful information for decision making, enforce some minimum regulations, and even provide basic social welfare support to their members. For example, in Ghana, public road transport is largely provided by individual transport owners who normally own just one or a few minibuses or buses which they run informally. However, they operate through unions such as the Ghana Private Road Transport Union (GPRTU) at the community level, and under a national level apex union (Abekah-Nkrumah et al. 2019).

Governments should consider encouraging the formation of such unions or informal business associations in strategic sectors of the economy dominated by informal operators as these could be used to facilitate government financial support, improve targeting, better understand informal workers' challenges and needs, and thus alleviate the negative COVID-19 economic impact on informal enterprises

## **3. Temporary subsidies for electricity, water, rent**

A number of countries across SSA such as Burkina Faso, Chad, Democratic Republic of Congo, Equatorial Guinea, Eswatini, Gabon, Ghana, and Togo have implemented various types of temporary subsidies on utilities, including water and electricity. These range from 50-100% subsidies for a two-nine month period for all residents, commercial users, or residents in cities that have been particularly affected by the pandemic ([IMF 2020](#)). Some countries have specifically targeted such subsidies towards enterprises and households whose past usage does not exceed a fixed quantity or volume, while others have simply waived the VAT charges on such utilities for the period. In certain cases, instead, local government rent charged in markets, as well local government business taxes (mainly paid by informal business) were lowered or waived for 2020.

Such temporary subsidies and waivers provide an effective way of reaching informal enterprises where it matters – by reducing production costs – because previous utility consumption data are often available, and they can be used to enhance targeting. This form of support can be transparently costed and delivered, and would directly reach informal activities, a large portion of which happens within households. Furthermore, such subsidies could subsequently be linked to business registration as a way of promoting formalisation. This will help countries create databases for effective targeting in the future, among other benefits.

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