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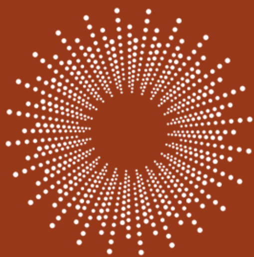

Namibian Journal of Social Justice

Employment, Livelihoods and the World of Work

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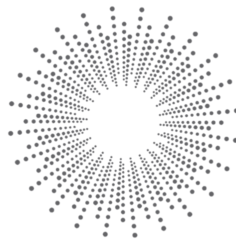

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Enclave Growth and Development in Africa

Godfrey Kanyenze

Abstract:

Three decades of outward-oriented and orthodox economic policies have left sub-Saharan Africa with a deepening crisis of unemployment, underemployment and poverty. This article analyses the low labour absorption capacity in Africa's enclave economies where a small, modern, formal capitalist sector exists alongside a larger traditional and informal sector. These sectors coexist in tenuous forms while the vast majority of the labour force is trapped in precapitalist modes of production.

Using secondary data, the article outlines the continued marginalisation of sub-Saharan African countries in the global economy, pointing to a lack of diversification, the export of unprocessed natural resources and the continued importation of processed goods. This is exacerbated by low levels of intra-African trade and Africa's infrastructure gaps, as well as stagnant foreign direct investment flows which have had minimal developmental impacts. Southern Africa will need developmental state interventions to break the limitation of the enclave economy.

Key terms: enclave economy; dualistic economic structures; intra-African trade; informal employment; development; inequality

Introduction

The persistent problem of un- and underemployment and low labour

A small formal sector alongside widespread informality characterises Africa's enclave economies.
Photos: Herbert Jauch (left); Valentino Nyambali (right)

absorptive capacity afflicting the majority of the labour force in Africa has attracted much debate. Since the launch in 1981 of the World Bank-initiated Berg report (*Accelerated Development in Sub-Saharan Africa: An Agenda for Action*) (Berg, 1981), the conventional wisdom has been that this was the case because African countries had pursued inward or statist economic policies that undermined investment and growth. The solution flowing from this diagnosis was that African countries implement market and outward-oriented economic policies, which became central tenets of the structural adjustment programmes (SAPs) adopted by most developing and African economies at the behest of the international financial institutions during much of the 1980s and 1990s. Even countries that did not necessarily adopt SAPs implemented their own 'home-grown' conventional policies.[1]

However, the results have been particularly disappointing (see for example Muqtada (2010)). In the context of SAPs, empirical evidence suggests that macroeconomic stabilisation was often achieved following the implementation of orthodox reforms, but at the expense of sustained levels of investment, economic growth, employment and poverty reduction – the stabilisation trap (Islam, 2003). The low and inadequate economic growth was often associated with widespread unemployment and poverty. In the appropriately titled paper *The lost decades: Developing countries' stagnation in spite of policy reforms1980-1998*, Easterly (2001) found that despite the improved policy environment, actual growth declined, falling well below what had been predicted.

After a long period in denial, the World Bank conceded that after close to two decades of implementing such reforms in developing countries, the results were unsatisfactory. Its detailed analysis of the lessons from reforms is contained in two seminal reports: *Economic Growth in the 1990s: Learning from a Decade of Reform* (World Bank, 2005); and *The Growth Report: Strategies for Sustained Growth and Inclusive Development* (World Bank, 2008). As the 2005 report notes:

> *"The principles of … 'macroeconomic stability, domestic liberalization, and openness' have been interpreted narrowly to mean 'minimize fiscal deficits, minimize inflation, minimize tariffs, maximize privatization, maximize liberalization of finance,' with the assumption that more of these changes will be better, at all times and in all places – overlooking the fact that these expedients are just*

1 An example is the adoption of the five-year Growth, Employment, and Redistribution (GEAR) strategy in South Africa in 1996, just two years after democratisation.

> *some of the ways in which these principles can be implemented."*
>
> *World Bank, 2005, p. 11*

This report also admits that despite having implemented significant policy reforms, economies of sub-Saharan Africa (SSA) failed to take off, with the few success stories also being considered fragile more than a decade later. In the aftermath of the global crisis of 2007–2008, there is an emerging consensus on the need to rethink the traditional macroeconomic framework that emphasised macroeconomic stability (see Blanchard et al., 2010; Blanchard, 2013; Blanchard & Summers, 2017).

The essence of this rethink is that there can be multiple targets in a macroeconomic strategy, and that these can be achieved through multiple instruments, a development that is critical to the design of employment-friendly macroeconomic frameworks. The recognition of fiscal policy as a significant policy tool, particularly in times of crisis when counter-cyclical measures are warranted, and when monetary policy often reaches its limits, is a worthwhile development. The International Monetary Fund (IMF) paper (Blanchard et al., 2010) calls for a review of the inflation target from 2% to 4%, an adjustment which may be sensitive to the conditions prevailing in developed countries while remaining insensitive to those in developing countries, where an inflation threshold of 11%–12%, beyond which growth will be hampered, has been suggested (see Muqtada, 2010).

A key lesson from the crisis is that economies are not 'linear' or 'self-stabilising' systems, and that they may well 'implode,' as the 2008 crisis showed. Critically, the hope that markets have self-regulatory capacities to overcome deep downturns is misplaced (see Blanchard, 2013; Blanchard & Summers, 2017). When the COVID-19 pandemic and crisis hit the world at the beginning of 2020, developed countries were quick to implement unorthodox policy measures exemplified in huge and recurrent stimulus packages. Most unfortunately, the conduct of macroeconomic management in Africa has continued to be informed by the conventional approaches, as well as the associated 'trickle-down' strategy. The persistent problems of un- and underemployment, inequality and poverty in Africa can be traced to the continued reliance on such market-based orthodoxies, as argued in this article.

The Conceptual Framework: The Dual and Enclave Economic Structure of Africa and Southern Africa

Whereas in most African economies, the majority of the labour force continues to be openly unemployed or underemployed, other regions of the world that had similar experiences

have transformed their economies towards a more inclusive growth and development trajectory. This fact has been extensively discussed (see Mhone, 2000; Alternatives to Neo-Liberalism in Southern Africa [ANSA], 2007[2]). This problem of the low labour absorptive capacity of African economies has persisted in much of Africa, resulting in the questioning of the efficacy of 'trickle-down' effects of the market in addressing this situation.

In his pioneering work *Development with Unlimited Supplies of Labour*, W. Arthur Lewis (1954) argued that capital accumulation in the modern industrial sector would draw labour from the subsistence agricultural sector, where an unlimited supply of labour is available at subsistence wage rates in underdeveloped countries. This approach to development was extended to explain under- and uneven development where African economies have been held back by the colonial legacy of enclave growth and development.[3] Colonialism imparted a dual structure to the economy with two radically distinct parts: a modern or formal segment employing a small proportion of the labour force co-existing alongside a traditional or non-formal segment employing the bulk of the labour force (see Ghose et al., 2008; ANSA, 2007; Mhone, 2000). This feature is traced to the colonial experience where capital captured a small segment of the economy (the formal sector), leaving the bulk of the economy (the non-formal sector) under pre-capitalist modes of production.[4] Thus, this form of capitalism was deemed to have been 'grafted' onto pre-capitalist modes of production that preceded colonialism (Mhone, 2000). Figure 1 illustrates the dual and enclave economic structure of (southern) African economies.

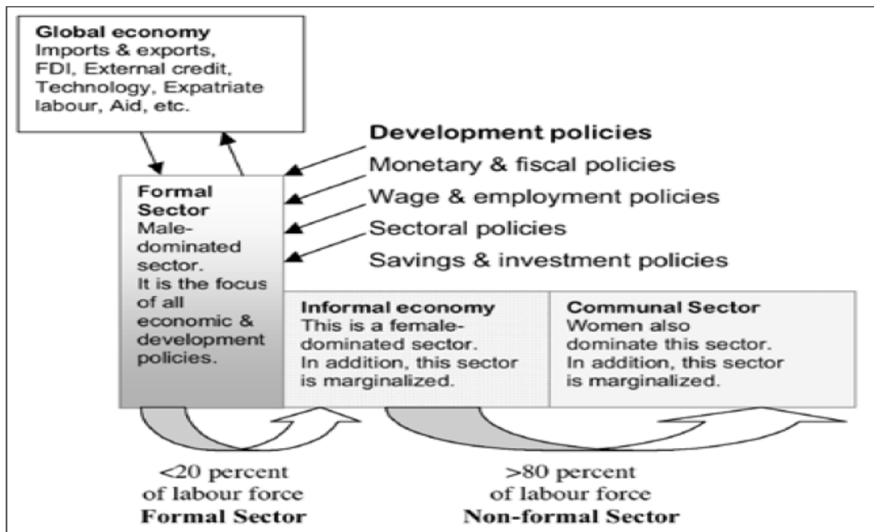
In the formal sector, production involves the use of reproducible capital (including advanced technology) and labour (skilled and unskilled) to produce a surplus – capital accumulation. In the non-formal segment, production largely implies the use of predominantly unskilled labour, with natural resources and simple tools and implements, with limited opportunities to generate a surplus (production is for subsistence), and hence low levels of investment. The non-formal segment is characterised by the existence of surplus labour,

2 This is the popular version of Kanyenze et al., (2006).

3 While the notion of dualism is implied in the concept of enclavity, it requires its own identification in that the formal sector is predicated on the behavioural and organisational rules and imperatives of the market; the non-formal economy relies on a combination of market and traditional modes of economic behaviour and resource utilisation (see Mhone, 2000).

4 The non-formal segment is broader than, and includes the informal economy, which is defined by the ILO as "… all economic activities by workers and economic units that are – in law and practice – not covered or insufficiently covered by formal arrangements" (see ILO, 2002).

Figure 1 *Dual and Enclave Structure of the African Economy*



Source: ANSA (2007)

implying that a substantial proportion of workers are underemployed as they are engaged in work and income sharing. These forms of work and income sharing (casual work, self-employment) accommodate surplus labour by ensuring that no one is totally unemployed. Consequently, a substantial proportion of workers in this segment can be withdrawn into the formal segment without affecting the labour input used in production (see Lewis, 1954).

Formal arrangements that include agency (voice), regulations and institutions of collective bargaining generally exist in the formal segment, and are conspicuous by their absence in the non-formal economy. While institutionalised social security is available in the formal sector, it does not apply in the non-formal sector where most people are forced to work in order to survive. Moreover, the migratory nature of labour allows the formal sector to pay wages below subsistence levels, implying that the non-formal segment subsidises it by taking care of the health, pension and other social security requirements of those employed in the formal sector.

On the basis of the primary motive that drives production, Mhone (2000) argues that from the perspective of capitalism, pre-capitalist forms of work constitute non-productive labour in the sense that it is not captured by capital for profit making or the continuous expansion of capital. Such non-productive labour is seen as not continuously contributing to dynamic growth at the micro- and

macro-economic levels. As such, the simultaneous process of disruption and preservation of pre-capitalist relations in the developing world is argued to having resulted in a self-perpetuating low-income equilibrium trap. Thus, an important requirement for development under capitalism is the need to capture non-productive labour into the productive sphere of capital. However, the major challenge for developing countries lies in the large size of non-productive labour compared to developed countries, where it constitutes a small and often declining share of the labour force.

The evolving social formations therefore suggest the co-existence of the dominant capitalist and pre-capitalist modes of production that were fused together into a rather uneasy and tenuous co-existence (grafted capitalism). Because of the way production is organised in these two sectors, there is a huge gap in productivity and incomes between them, with poverty (and the use of child labour) prevalent in the non-formal segment. While developed and developing countries both do have elements of formal and informal structures, it is the predominance of the latter in developing countries that constitutes the major problem. In other words, in most African economies, the majority of the labour force, mainly women, are trapped in pre-capitalist forms of production which are not driven by the need to employ labour to generate profit and further expand capital (capital accumulation). As such, this disarticulate structure of the economy implies that the formal sector has a growth momentum of its own, and relates to the non-formal segment in a manner that marginalises and impoverishes the latter, resulting in uneven development.

This structural distortion therefore means that even in the presence of growth, the economy is unable to absorb the vast numbers of the un- and underemployed into the mainstream economy. Apart from the under-utilisation of resources, especially labour, another legacy of colonialism is the absence of an internal (endogenous) dynamism for growth and transformation since the economies are dependent on and constrained by external factors. In the absence of an internally motivated and conscious process of transformation, the growth process would not only marginalise the majority of the labour force, but would also marginalise the developing country itself in the international arena. This arises from the following issues that characterise enclave and dual economies:

- **Demand deficiency:** The fact that a large segment of the labour force is engaged in low productivity activities implies that effective demand is low,

limiting the market for formal activities to expand. This deficiency in effective demand also renders the formal economy more reliant on external demand, thereby reinforcing dependency.

- **Limited internal savings:** The fact that the majority of the labour force live close to subsistence levels implies that they cannot save, and if they do, their savings are not captured through financial intermediation due to missing linkages and market gaps in the financial market. African economies are characterised by low income per capita, which explains the limited savings that are associated with limited domestic investment. The limits of investment are prescribed by inadequate savings that cannot facilitate domestic investment. In addition, the dearth of skills and technology hinder investment potential and constrain the prospects for an internally driven growth and development trajectory. Thus, an enclave economy tends to lack the capacity to generate internal savings, and hence the reliance on foreign investment and foreign aid which pre-empts the need for self-generated savings.
- **Asymmetry between national, regional and international growth and development needs:** As a consequence of the above problems, African countries find themselves in a dilemma in which disarticulations at the national level, coupled with external dependency, militate against effective regional cooperation and national development.

Under-development is therefore structurally reflected in the inability of the formal sector to generate adequate employment opportunities to absorb surplus labour from low productivity pursuits in the communal and urban informal sectors. It is also reflected in the inability of the urban and communal sectors to transform themselves into high productivity sectors that can sustainably generate surpluses. The implication is that the disruption of pre-capitalist relations of production imparts to a country the potential of internally driven growth. To do so would require the proactive role of the state to help integrate the formal and non-formal segments of the economy in order to break the vicious cycle of perpetual unemployment and underemployment, and allow the majority of the labour force to be involved in productive activities. The 'trickle-down' effects from the formal sector are simply too weak to transform and absorb these sectors into formal activities. Hence, market forces on their

own simply perpetuate this dualism, even in the presence of some growth.

In a nutshell, three indicators are critical for the assessment of the employment situation in developing countries, namely:

- the share of the formal segment in total employment;
- output per worker in the non-formal segment; and
- the unemployment rate.

Other things being equal:

- the larger the share of the formal segment in total employment, the better the employment situation;
- the higher the output per worker in the non-formal segment, the better the employment situation; and
- the higher the employment ratio (the lower the unemployment rate), the better the employment situation (Ghose et al., 2008, p. 63).

The Continued Marginalisation of Sub-Saharan African and Southern African Development Community Countries in the Global Economy

Sub-Saharan Africa (SSA) continues to be marginalised within the world economy. While Africa accounts for 16.3% of the world's population, its countries collectively only contribute 2.9% of the world's combined gross domestic products and 2.6% of world trade (exports plus imports) (United Nations [UN] Conference on Trade and Development [UNCTAD], 2019). The SSA sub-region's importance in global trade has fallen over the past 30–40 years, with its share of world exports declining sharply from 3.7% in 1980 to 1.9% in 1990 and 2010, and 1.1% in 2020.

In terms of economic complexity, Africa is the second-least diversified region in the world after Oceania. Based on the distribution of export shares of products, the continent has the most concentrated export structure. UNCTAD considers a country to be dependent on commodities when these products make up more than 60% of its total merchandise exports. Based on this definition, 83% of African countries are commodity dependent, constituting 45% of the commodity-dependent countries worldwide. In fact, commodities account for more than 60% of total merchandise exports in 45 of the 54 countries in Africa, exposing them to global commodity price shocks and the vagaries of weather conditions (UNCTAD, 2022a). According to the *UNCTAD Handbook of Statistics 2022* (UNCTAD, 2022b), primary goods accounted for 77% of Africa's merchandise exports in 2021, with fuels making up 44%. Two-thirds of SSA's imports are finished products.

Regrettably, SSA exports its natural resources in raw form, and re-imports them as transformed intermediary and finished products. These exports are highly concentrated in a few primary commodities that have relatively low value-added or processing levels, limiting even further its already low potential for employment creation.[5] This is exemplified in the case of petroleum products that stand at the top of SSA's import and export lists. Crucially, crude petroleum is SSA's primary exported product, while refined petroleum is the primary imported one. This therefore implies that the continent's growth model relies heavily on external demand for its primary commodities that constitute the main source of its revenue and foreign exchange, exposing individual countries to fluctuations in global market conditions.

Intra-African trade reflects the current state of African economies and also the prospects for the continent to achieve its goal of becoming an integrated continent by 2063. Though intra-African trade has been rising fast, it is still at low levels, constituting 14.8% of the continent's trade in 2019.[6] Moreover, preferential market agreements with for instance the European Union and the US encourage the flow of products to those markets instead of neighbouring African countries. Thus, historical ties still play a key role in African countries' inability to do business with each other (Njini, 2013).

The continued marginalisation of Africa is in many ways related to its "… small, fractured and partly isolated markets" (UNCTAD, 2019, p. v). To address this challenge, the Organization of African Unity and its successor, the African Union (AU), promoted the establishment of Regional Economic Communities (RECs). However, instead of enhancing regional integration, multiple and overlapping REC membership structures create a picture similar to what is sometimes called a 'Spaghetti Bowl' (see UNCTAD (2019) Chart 6:8), which has complicated trade relationships among the African countries. For instance, while many member states of the Southern African Development Community (SADC) have eliminated or reduced their tariff barriers since 2000, intra-regional trade has not increased as expected owing to the non-trade barriers that are in place. In this respect, unifying the trade regime across the RECs can

5 This is tantamount to exporting better quality jobs.

6 African markets account for a relatively small share (18.2 percent) of Africa's total exports (UNCTAD, 2019). For the Southern African Development Community (SADC), 21 percent of its trade was within the Regional Economic Communities (REC), only 2.7 percent with the rest of Africa, and 76.2 percent with the rest of the world in 2016 (UNCTAD, 2019). By contrast, 68 percent of all European exports went to other countries on the same continent in 2021. In Asia, the rate was 59 percent.

promote the flow of goods and services on the continent.

Furthermore, the cost of trading amongst neighbouring countries is often higher than trading outside the continent owing to weak intra-African infrastructure and cumbersome customs procedures. The relatively low intra-African trade is also a reflection of the low trade complementarity among African countries, indicating low correspondence (similarity) between export compositions of member states with the import structure of other member states in the same REC. This is related to the high dependence of some countries on primary goods exports, as well as the fact that African countries do not often import what other African countries export, limiting the immediate potential to increase intra-African trade. In *Disconnected: African markets remain fragmented and inefficient*, Felix Njini quotes the analysts Prof. Adrian Saville and Dr Lyal White as noting in a working paper for Visa (South Africa) titled *Realising Potential: Connecting Africa*: "There is little complementarity between African countries and historically, infrastructure was designed and built to extract resources from the continent to be shipped to other locals and not necessarily to connect one African market to the next."

Of concern is that Africa's trade balance has been deteriorating due to high product concentration. Thus, while imports have quadrupled during the past 20 years, exports have only doubled. Apart from product concentration, Africa's exports are also concentrated in a few markets. Likewise, intra-African trade is also highly concentrated. It is important to note that African countries are open economies.[7] A high level of trade openness suggests greater dependence on foreign markets.[8] Unfortunately, increased openness to trade in most countries of SSA has been accompanied by current account deficits, driven in the main by trade deficits (imports exceeding exports) (Moussa, 2016). Interestingly, the geographical location of Africa's main trading partners has been changing since 2000, with East Asian countries rapidly replacing North America and Europe as SSA's key trading partners in both intermediate and capital goods trade.

While in the contemporary world economy, production processes involve cross-border activities that form regional or global production networks, most SSA countries are only participating at the beginning of these global value chains. Given that intermediate goods hardly feature in most SSA economies, trade flows based

7 Openness of economies is often measured as the share of the sum of exports and imports in the national income of an economy.

8 SSA is more open to trade than developed economies and Latin America and the Caribbean, but less open to trade than Asia (Moussa, 2016).

on global value chains are less apparent in the region. In this regard, regional production networks are rather weak. Thus, as most SSA economies are mainly commodity-exporting countries, production activities are mainly situated at the upstream segment of the global value chains and their exports are processed and exported beyond the continent. Only about 6% of trade flows within Africa were linked to value chains in 2010 (UNCTAD, 2019).

While most countries in the region desire to participate in regional value chains, this is undermined by poor connectivity related to missing transport links within and across different modes (rail, road, sea and air). In addition, manufacturing productivity is held back by inadequate and/or intermittent power supply linked to the low energy generation capacity of most countries. Furthermore, financial services play a minimal role in facilitating the growth of industries due to limited access by some firms, and especially SMEs (AU, 2015; SADC, 2015). The development of viable value chains remains a farfetched notion, even under the liberalised market conditions of the African Continental Free Trade Area (UNCTAD, 2022a).

Importantly, countries' access to world markets is based largely on their transport connectivity, especially their shipping services. Africa's low performance in trade facilitation indicators hampers the development of trade and the economies of the region. The bilateral connectivity index which measures connectivity between country pairs[9] suggests that on average, African countries are better connected to the European Union, China and the United States than to other African countries. In fact, none of the RECs in Africa is an exception in this regard, with intra-African connectivity being the weakest (UNCTAD, 2019). UNCTAD (2022a) shows that African countries' connectivity index is much lower than the world average.

In addition, infrastructure gaps persist across all sectors (African Development Bank [AfDB], 2021; AU, 2015; SADC, 2015). Weak transport infrastructure is one of the key drivers of trade costs in Africa, with electricity emerging as the second most important obstacle facing African SMEs. Furthermore, the use of advanced technologies remains a challenge for most African countries. Lack of access to stable internet connections, worsened by power shortages, poses serious challenges to most localities in Africa. While digitalisation is driving trade in highly knowledge-intensive services, Africa remains the least digitalised continent on the planet.

9 The index takes values between 0 (minimum) and 1 (maximum), with higher values indicating stronger connectivity.

Overall, only 10 of the 54 African countries[10] have strong backbone infrastructure in energy, ICT and transport to support the unimpeded flow of services and merchandise within and across countries (AfDB, 2020). Critically, Africa has the lowest overall logistics performance index worldwide at 2.5 in 2018 (on a scale of 1–5), compared to 2.9 globally (UNCTAD, 2022a). Hence, Africa is the least connected region in the world. Njini (2013) notes that in Prof. Saville and Dr White's view, "Africa's poor trade performance has been less about policy and preferential access to key markets than about facilitation."

Comparatively Low Foreign Direct Investment Flows and Stocks in Africa

There is a significant investment gap between developed and developing countries in foreign direct investment (FDI) flows as the former receive about 10 times more in direct investment per capita than the latter group of countries. However, for many African countries, the inflows are way below the developing countries' average. FDI inflows to Africa averaged 3% of the global total during the period 2014–18 and 2% in terms of total accumulated investment, or inward FDI stock. They more than doubled from US$39 billion in 2020 to US$83 billion in 2021, accounting for 5.2% of global FDI (up from 4.1% in 2020). However, the total for the continent was inflated by a single intrafirm financial transaction in South Africa in the second half of 2021 (around 45% of the total), without which they would have increased moderately, more in line with other developing regions. The *World Investment Report 2023* (UNCTAD, 2023) shows that FDI flows to Africa declined to US$45 billion in 2022 from the record $83 billion in 2021, which was 3.5% of global FDI. However, this indicates that flows returned to prior levels after the peak in 2021 caused by a large corporate reconfiguration in South Africa.

Africa's share of total FDI flows and stocks has remained low and stagnant over time relative to that in other regions of the world. While historically, FDI was concentrated in two sub-regions, namely North Africa and southern Africa, at almost 80% of Africa's inward FDI flows (averaging US$25 billion per year) and almost 60% of inward FDI stocks (averaging US$111 billion per year) in 2004–2008. However, the destinations of FDI in Africa have shifted such that flows to North Africa and southern Africa, which made up the majority of FDI stock in the mid-2000s, lost FDI share to eastern Africa.

Based on cross-country pooled data from 30 SSA countries for the period 2001–2020, Adegboye and Okorie

10 These are Algeria, Botswana, Cabo Verde, Egypt, Libya, Mauritius, Morocco, Seychelles, South Africa and Tunisia.

(2023) observed that although FDI inflow is significant, its impact is minimal in the selected host SSA countries. They argue that this could reflect the fact that the inflow of foreign capital might be going into non-investment-beneficial sectors or sectors of the economy that are not bringing about the development of domestic investment. Furthermore, as shown by *Tackling Illicit Financial Flows for Sustainable Development in Africa: Economic Development in Africa Report 2020* (UNCTAD, 2020), what is sobering is that Africa loses about US$88.6 billion (3.7% of its GDP) annually in illicit financial flows.[11]

Magnitude, Composition and Characteristics of Informal Employment in Africa

Rodrik (2015) points to a disturbing trend in premature de-industrialisation in developing countries: those that had established modest manufacturing industries during the 1950s and 1960s behind tariff barriers and under policies of import substitution experienced falling manufacturing shares (in both employment and real value added), following liberalisation of trade during the 1980s and early 1990s. He found that low-income SSA economies had been affected nearly as much by these trends as the middle-income economies of Latin America, even though there was less manufacturing to begin with in the former group of countries (see also UN Economic Commission for Africa [UNECA], 2015).

Available data suggests that overall, there has been an increasing trend in informal employment in Africa over the past decade or so, even though some countries were able to reduce the share of informal employment over a given short period. Informal employment in Africa accounts for 85.8% of total employment (excluding agriculture: 71.9%).[12] This means that eight out of ten workers in Africa are in informal employment, making it the world's region with the highest share (see for example Kiaga and Leung, 2020). The proportion of informal to total employment in Africa dwarfs the proportions in other world regions: 68.2% in Asia and the Pacific; 68.6% in the Arab States; 40.0% in the Americas; 25.1% in Europe and Central Asia; and a world average of 62.1%.

11 It is estimated that over the last 50 years, Africa lost in excess of US$1 trillion in illicit financial flows, an amount roughly equivalent to all of the official development assistance received by the continent during the same period (see *Illicit Financial Flows: Report of the High Level Panel on Illicit Financial Flows from Africa*, commissioned by the AU/ECA Conference of Ministers of Finance, Planning and Economic Development (AU, 2021).

12 Informal employment accounts for 89.2 percent of total employment in SSA and 67.3 percent in northern Africa. Within SSA, there is substantial variation, with the share of informal employment at 40.2 percent in southern Africa, under half of the share in central Africa (91.0 percent), eastern Africa (91.6 percent) and western Africa (92.4 percent).

Furthermore, 76.0% of informal employment in Africa is in the informal sector, and a relatively small proportion is in the formal sector (5.5%) and households (4.3%). Own account workers are the largest group within informal employment (94.3%). Informal employment is a greater source of employment for women (89.7%) compared to men (82.7%). Excluding southern Africa, in SSA over 90% of women are in informal employment, compared to 86.4% of men. For North Africa, the pattern is the exact opposite, with slightly more men (68.5%) than women (62.2%) in informal employment.

The youth (94.9%) and the elderly (96.0%) have especially high rates of informal employment. In western Africa and central Africa in particular, almost all young people and older persons are in informal employment. Furthermore, the level of education is closely linked to informality in Africa: 94.0% of those with no education are in informal employment; the rate of employment informality decreases from 88.6% for those with primary education to 68.1% for those with secondary education. Those with tertiary education (27%) are less likely to be in informal employment. Informality is the main feature of both rural area (88.3%) and urban area (76.3%) labour markets. In fact, almost all of the agricultural sector in Africa is in informal employment (97.9%).

As would be expected, the rate of informality, though still very high, is lower in the industry sector (77.4%) and the service sector (70.2%). Regarding the size of enterprise and informality, the majority of workers in own-account owners (94.4%) and micro, small and medium enterprises employing 2–9 persons (90.4%) are informal. Critically, 93% of the world's informal employment is in emerging and developing countries, which highlights the divergence between developed and developing countries. Sadly, as Kiaga and Leung (2020, p. 3) point out, "Given the current situation, high informality will remain a challenge to Africa in the near future, exacerbated by the dwindling ability of formal employment generation to absorb the increasing youth population in Africa."

As highlighted in the concept note for the policy dialogue on *Informal Economy in Africa: Which Way Forward? Making Policy Responsive, Inclusive and Sustainable* (UN Development Program, International Labour Organization [ILO] & African Union Commission, 2022) in Victoria Falls, Zimbabwe on 10–11 May 2022, "… in the past, policy narratives in Africa tended to either neglect informal economies or even viewed them as potentially threatening to formal economies – therefore needing elimination and control rather than support and investment for inclusive structural economic transformation."

Clearly, informality puts workers at a high risk of vulnerability and precariousness. While not all informal workers are poor, poverty is nevertheless both a cause and a consequence of informality. Typically, the poor face higher rates of informal employment, and poverty rates are higher among workers in informal employment. There is therefore an urgent need to tackle informality given that informality entails a lack of social protection, rights at work and decent working conditions, and for enterprises it means low productivity and a lack of access to finance.

Slow Pace of Poverty Reduction Reversed following the COVID-19 Pandemic

Although SSA experienced a dramatic turnaround as its economic growth picked up in the mid-1990s, this growth has slowed in recent years. In many countries on the continent, poverty rates are the highest in the world. In addition, the number of poor people in the region is rising as a result of population growth. Hence, from a global perspective, the largest concentration of poverty has shifted from southern Asia to Africa.

Poverty is still widespread in Africa, where 32 of the world's 48 least-developed countries are located. The average US$1 560.14 per capita annual income of SSA in 2019 (adjusted to 2023 prices) is only 13.5% of the world average of US$11 553.39.[13] Roughly 60% of the world's extreme poor lived in SSA in 2019. SSA is experiencing the slowest pace of poverty reduction of all the regions of the world. Although the poverty rate in SSA decreased from 59.1% in 1994 to 34.9% by 2019, the number of poor people has continued to grow, rising from 284 million in 1990, to 395 million by 2005, and 433 million by 2018, as the poverty rate did not decline quickly enough to counteract population growth in the region.[14]

Clearly, besides the high levels of extreme poverty (34.9% in 2019), SSA has experienced limited progress in reducing the scourge of poverty, especially over the last three decades. The situation was exacerbated by the COVID-19 pandemic, which pushed 30–40 million people into extreme poverty. While starting from levels that were similar in the early 1990s, eastern Asia and the Pacific, and more recently, southern Asia, have experienced remarkable progress in reducing poverty rates.[15] In view of the demographic trends, global extreme poverty is projected to become

13 See https://wits.worldbank.org/CountryProfile/en/Country/SSF/Year/1990/SummaryText . The per capita GNI (current prices) of SADC countries of US$1 940 in 2019 is 16.8 percent of the world average.

14 See https://blogs.worldbank.org/opendata/march-2023-global-poverty-update-world-bank-challenge-estimating-poverty-pandemic .

15 For eastern Asia and the Pacific, the poverty rate declined from over 60 percent in 1990 to just 1.2 percent by 2019, and for southern Asia, from just under 50 percent in 1990 to 8.6 percent by 2019.

even more concentrated in Africa, and the 2030 goal of eradicating global poverty looks far-fetched.

The phenomenon of slowly decreasing poverty rates and an increase in the numbers of those living in extreme poverty is related to the fact that southern African economic growth has not trickled down to the most vulnerable members of society owing to the fact that southern Africa has the highest level of inequality (as measured by the Gini coefficient) of any region in the world. Seven of the world's ten most unequal societies are African (UNECA, 2015, p. 56).[16] Africa is the second most unequal region in the world after Latin America, with high inequality persisting for over 60 years, with no discernible sign of declining (AfDB et al., 2015; Jauch & Muchena, 2011). In addition, economic growth in Africa has not been high enough to provide for its rapidly growing population and pull up those already in poverty. Furthermore, at less than half of the world average, Africa's labour productivity is low.

This slow pace of poverty reduction in Africa is therefore related to the pattern of growth. This phenomenon is related to the atypical enclave feature of African economies that leaves the majority of its population behind. Before the COVID-19 crisis, Africa experienced nearly two decades of sustained economic growth – above the global average. However, that rapid economic growth has not been associated with rapid poverty reduction. Africa has failed to create enough decent jobs, and in particular, the structural transformation which is associated with the relative growth of employment in high productivity sectors. As such, the continent's fastest growing economies have the least responsiveness of employment and poverty reduction to growth (see for example Page and Shimeles (2015)). This contrasts sharply with the Asian experience, where economic structural transformation drove inclusive growth and poverty reduction.

16 Three of the ten most unequal countries in the world are from southern Africa (South Africa, Namibia and Zambia (see Kanyenze et al., 2017).

Resolving the Enclave Model and Informality: Towards Inclusive Growth and Development

Given the limitations of space, this article will only sketch the framework for redressing the problem of enclave growth, informality and inequality. Following Mhone (2000) and ANSA (2007), the enclave and economic dualism of African economies implies that such economies are characterised by extreme inefficiencies, and lack adequate internal demand to foster backward, forward and lateral linkages across sectors, as well as effective value

chains. The inefficiencies associated with the enclave economy, including the lack of linkages between sectors and value chains, require a radical paradigm shift in order to address the perennial problem of un- and underemployment. Thus, to address the problem of underdevelopment in such enclave economies requires bold measures of transformation that go beyond marginal programmes and projects. This process will facilitate the emergence of a growth trajectory where all parts of the labour force are integrated, blurring the distinction between formal and non-formal sectors.

Relying solely on markets will not result in the required structural changes that would allow greater numbers of workers to access the more advanced parts of the economy and markedly improve their productivity and income levels. There is therefore a case for the state to take proactive measures to address the historical conditions of enclave growth and inequality. This therefore requires a clear understanding of the constraints on an integrated development process which transforms both the formal and non-formal sectors, as well as their relationship.

The first step involves the redistribution of resources, and in particular land and capital, and the creation of productive employment opportunities for the vast labour force currently trapped in the non-formal sectors. This ensures that an increasing segment of the labour force could contribute towards the creation of internal demand, savings and re-investment, thereby imparting to the economy an internal dynamic supporting development. An important aspect of this strategy is the creation of value chains and linkages as a component of internally-driven (auto-centric) development.

This approach therefore takes a human rights approach to development, where issues of equity and fairness in the distribution of resources are given prominence. This helps shift the capital accumulation process in the non-formal sectors from a largely subsistence orientation to a profit orientation, or surplus generation. As such, commercialisation of the social and economic relations in the non-formal sector will ensure the capturing of its labour force under market imperatives to facilitate the accumulation of capital.

The proposed strategy is people-led (as opposed to one dictated by the IMF, the World Bank, the World Trade Organisation, and donors).

It proposes:

1. an alternative production system primarily based on domestic

demand and human needs and the use of local resources and domestic savings; it also proposes the "horizontal" integration of agriculture and industry;
2. a grassroots-led regional integration, as opposed to the current fragmentation;
3. a strategic, selective delinking from neoliberal globalisation and the preparation for a negotiated relinking to a fundamentally different global production and distribution system;
4. an alternative policy on science and technology based on harnessing the collective knowledge and wisdom of the people;
5. forging of strategic alliances and networks with progressive forces at national, regional and global levels;
6. a politically governed redistribution of wealth and opportunities from the formal to the non-formal sectors of the economy;
7. women's rights as the basis for a healthy and productive society;
8. an education system that addresses the needs for sustainable human development by improving technical, managerial, research and development skills; and
9. the creation of a dynamic, participatory and radical democracy, which regards peoples' mobilisation, demonstrations, and open hearings as part of the struggle for an ethical and developmental state (ANSA, 2007, p. 8).

While the transformative impact of the eastern Asian developmental states is widely acknowledged, the question has been whether African states can develop the required state capacity. A body of literature has emerged showing how 'Democratic Developmental States' can evolve in Africa (Mkandawire, 2001; ANSA, 2007; Kanyenze et al., 2017). Such states are not gifts, but can only be created through sustained struggle, including in education, consultations, debate, action and reflection. Such states use their autonomy to consult, negotiate and build consensus with social partners such that the national developmental project becomes a 'hegemonic project' that is voluntarily embraced by key stakeholders. They also build state capacity at all levels to effectively implement transformative economic policies.

Following the 'discovery' of informality in 1972, the thinking was that it was a temporary phenomenon that would disappear with economic development. This view changed, however, in light of its growth and

persistence across the world. Through much research and policy debate, the understanding of informality evolved beyond its narrow focus on the 'informal sector' to the broader 'informal economy'. The *2002 International Labour Conference Resolution on Decent Work and the Informal Economy* provided a framework which recognised the scale, diversity and heterogeneity of the actors and activities in the informal economy (ILO, 2002).

Based on this increased understanding, the ILO social partners' meeting at the 2002 International Labour Conference adopted a comprehensive response based on the four pillars of Decent Work, namely, employment, rights, social dialogue and social protection. The adoption of policy guidance through ILO Recommendation *R204 - Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204)* through a strong tripartite (governments, employers and workers) consensus provided Member States with a normative and a developmental framework for moving out of informality and transitioning to the formal economy through integrated strategies. R204 provides tailored approaches to respond to the diversity of situations and the specificity of national circumstances.

The ultimate objective is to support transition to formality by facilitating the progressive inclusion of the informal workers and entrepreneurs into formal channels of protection and support and the mainstream economy while preserving existing dynamic activities. The analysis of the drivers of informality showed that piece-meal approaches were unlikely to result in a sustained impact. This calls for a comprehensive and integrated gradual approach across a range of policy areas, as well as policy coherence. This approach is critical in view of the need to addresses the diverse drivers and dimensions of informality.

The adopted strategy to promote transition to formality includes seven key areas of policy action, namely: (i) growth strategies and quality employment generation; (ii) regulatory environment, including enforcement of International Labour Standards and core rights; (iii) organisation, representation and dialogue; (iv) equality: gender, ethnicity, race, caste, disability, age; (v) entrepreneurship, skills, finance, management, access to markets; (vi) extension of social protection, social security, social transfers; and (vii) local (rural and urban) development strategies (ILO, 2009; Kiaga and Leung, 2020; Islam and Lapeyre, 2020).

Encouragingly, some of the policies seeking to transition to formality are already present in some countries, albeit in an isolated manner, with few or no positive effects on formalisation of economic units or employment – hence the call for a comprehensive and integrated policy approach. However, at a practical level, since 2013, the ILO Regional Office has been implementing the *Innovative Solutions for Formalization in Latin America and the Caribbean* programme. The programme has three components: (a) generation and dissemination of knowledge on formalisation policies; (b) technical assistance to specific countries; and (c) capacity-building of workers' and employers' organisations in formalisation issues. The process of developing national formalisation strategies[17] has been formulated, and is taken root on the African continent, with Cameroon and Zimbabwe, for example, having finalised such plans with the assistance of ILO and the UN Development Program.

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17 See Policies, Strategies and Practices for the Formalisation of Micro and Small Enterprises (https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/-ifp_seed/documents/publication/wcms_533204.pdf)

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