

Africa's Informal Sector with Zambia as a Case Study: A Challenge to Scholars to Close the Knowledge Gap

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The continent's informal sector is huge, partly as a result of the large number of employees it absorbs due to inadequate jobs and opportunities in the formal economy. In many countries, including Zambia, the informal sector employs anywhere from three to six times the number of employees in the formal sector. Yet one would not know this from looking at the research and literature in and on Africa, because the bulk of this research and literature centers around Africa's formal economy. This paper challenges African scholars, scholars in Africa, scholars on Africa, and scholars from Africa to help redress this imbalance by targeting the informal sector as an important area of scholarly and intellectual pursuit.

The statistics are quite telling. At the International Academy of African Business and Development (IAABD) international conference in Washington, DC, in 2001, a total of 81 papers and abstracts were presented (and appeared in the published proceedings). At the 2002 IAABD conference held at the University of Port Elizabeth in South Africa, that number was 89. In both cases, the papers and discussions covered the length and breadth of Africa's formal economy, from entrepreneurship to information technology, from insider trading and corporate ethics to regional trading blocks such as the Common Market for Eastern and Southern Africa (COMESA). Of the 170 papers presented at the last two conferences, the number of papers easily recognizable as covering Africa's informal economy was zero! In other literature, the situation is only marginally better, because there are studies and articles on the informal sector, except these are mainly by Non-Governmental Organizations (NGOs) and the Bretton Woods Institutions (BWIs, the World Bank and the IMF). Obviously, something is not right. For how can a continent so wide (54 countries and islands), an informal sector so important, a sector so pervasive, and informal sector activities so deep and diverse receive so little attention from and by African scholars, scholars from Africa,

scholars in Africa, and scholars on Africa? This paper challenges these groups of scholars to help close the knowledge gap in an area so important yet so conspicuously absent from mainstream intellectual pursuit. It is not enough for us to continue using the rather tired excuse of yesteryears, which is that data is not available and that it is difficult to carry out research in and on Africa. Clearly, we as scholars have "over-borrowed or overdrawn," so to speak, on this particular account.

Paper Objectives

This paper is a preliminary attempt at bridging the knowledge gap involving Africa's informal sector, by examining the case of Zambia. This can be achieved, in part, by addressing specific objectives that include, but are not limited to:

- (a) Identifying the major factors leading to the creation of the informal sector
- (b) Defining the informal sector and identifying the range of sector activities in the country
- (c) Estimating the size and importance of the sector
- (d) Providing a glimpse of Human Resources Management (HRM) functions performed in the informal sector
- (e) Suggesting avenues for future research into informal sectors in other African countries

Creation of the Informal Sector: Major Factors

Since independence from Britain on 24 October 1964, Zambia has depended (and still depends) on copper mining for much of its economic activity and foreign exchange earnings. At independence, copper accounted for roughly 85-90 percent of the country's foreign exchange earnings, and Zambia was the third largest producer of copper in the world after Chile and then Zaire, the latter now called the Democratic Peoples' Republic of Congo. The country's mono-cultural position (that is, dependence on one or two commodities for much of the country's economic activity) is still a common occurrence in much of Africa. In 2003, the country's dependence on copper is still significant, accounting for some 60-70 percent of foreign exchange – defined here as the money that developing countries need in order to trade on the international market because their currencies – called the **Kwacha** in Zambia's case – are not internationally convertible.

The country's over-dependence on copper has meant vulnerability of the whole economy to the performance of the mines. Over the years and especially since the 1990s, three factors have conjoined to bring this vulnerability to the fore. First, copper ore deposits have declined steadily (copper is a wasting asset), making it uneconomic to keep some of the mines and leading to closure of some that are located in the country's appropriately named Copperbelt Province, whose major mining cities are Ndola, Kitwe, Luanshya, Kalulushi, Chingola, and Mufulira. Zambia is the second most urbanized country in Sub-Saharan Africa, after South Africa (Draisma, 1997), and these mining towns on the Copperbelt as well as Kabwe and others to the South are chiefly responsible for the process of early urbanization. Second, for those mines that have remained open, the ore deposits are at such deep underground levels that it has become increasingly expensive to mine the copper. Thirdly, the price of the mined copper — which is internationally determined by market forces at the London, New York and Tokyo stock exchanges — has continued to be unattractive. Most significantly, since

the mid-1990s the Zambia Consolidated Copper Mines (ZCCM) has undergone privatization as part of World Bank and IMF conditionality (or policy strings) under the country's Structural Adjustment Program (SAP). The new (private) owners — South Africans and others — have downsized (that is, cut jobs) to levels they consider both efficient and economic.

As a result of the foregoing scenario, which has been exacerbated by continued droughts and poor economic performance, the country has experienced (and is experiencing in 2003) high levels of both *unemployment* (those who are qualified but cannot find jobs in the formal, above-ground sector) and *underemployment*, that is those who experience a mismatch between their high educational qualifications and skill levels on the one hand, and low caliber or wrong jobs on the other. It is estimated that the formal sector lost some 61,000 jobs between 1992 and 1995 (Global Policy Network, 2001). We examine the country's employment and unemployment situations, more closely, next. Although it would not be true to argue that the informal sector is a recent phenomenon in the country (it has existed ever since independence), it is true to say that economic measures taken in the last two decades (and those that needed to be taken but were not), have clearly exacerbated the problem. The country's prolonged drought in major agricultural areas since 1992 (principally Southern, Central, Lusaka, Western and Eastern Provinces), including the knock-on effects of this drought on both upstream and downstream industries, has not helped matters either. The drought has led to employment cuts in agro-based industries. *Upstream industries* are defined as those in the early part of the value chain (defined as the range of activities involved in the procurement of raw materials, production of goods, and marketing of goods to the ultimate consumers). In this case, upstream industries (synonymous with backward linkages in business strategy phraseology) would be those supplying raw materials in the form of unprocessed agricultural products such as maize (white corn, the staple food in Zambia), tomatoes, tobacco, rice (from any of

Zambia's nine provinces), and pine-apples (from Mwinilunga in the North-Western Province). *Downstream industries* (synonymous with forward linkages), on the other hand, are found later in the value chain and involve mainly companies in the distribution chain and the marketing and sale of goods to final consumers.

Employment /Unemployment: Estimating the Size and Importance of the Informal Sector

Just how big is Zambia's Informal Sector? It is estimated that about 122,500 young people in the country enter the labor market every year without any hope of finding gainful employment (CSO, 1993). Unemployment is higher among youth and women and is now affecting college as well as University of Zambia and Copperbelt University graduates. Table 1 shows the trend in formal sector employment from 1997 to 2000. The table shows that in the private sector, agriculture is the biggest employer (some 13 percent of the total) followed by trade and distribution. In recent years, employment has tended to decline in the key sectors of mining and manufacturing.

A casual look at Table 1 would seem to show that employment levels have in fact not changed that much between 1997 and 2000. This cannot be further from the truth. The generation of real jobs in the economy has continued to lag behind the growth in the labor force. In fact, as the Global Policy Network (2001) points out, since the early 1990s the trend in the formal sector employment showed a persistent decline up to 1998. In 1999 formal employment increased but was still insignificant compared to the growth in the labor force (i.e. formal employment eligible Zambians). In 1997, out of a total labor force estimated at 4.2 million workers, only 11 percent were employed in the formal sector. The remaining 89 percent of the labor force was either unemployed or employed in the informal sector. As the unemployed have sought refuge in the rapidly expanding informal sector (or to rely on relatives for subsistence), the situation has been worsened by the labor rationalization due to the country's vigorous privatisation program since

TABLE 1
Formal Sector Employment in Zambia, 1997-2000

Sector	1997	1998	1999	2000	% Change
Formal Employment by Industry					
Industry	475,161	467,193	477,508	476,347	-0.2
Agriculture, Food, and Fishing	58,898	58,898	60,000	59,377	-1.0
Mining and Quarrying	44,498	39,160	38,521	35,042	-9.0
Manufacturing	47,118	46,685	46,000	47,782	3.9
Electricity, Gas and Water	5,009	5,237	5,300	5,049	-4.7
Construction	17,106	13,459	12,895	13,828	7.2
Trade and Distribution	48,893	48,964	51,097	52,336	2.4
Transport and Communication	45,963	45,840	45,000	46,719	3.8
Finance, Real Estate, and Business Services	37,862	35,276	34,682	31,483	9.2
Community, Social, and Personal Services	169,814	173,674	184,013	184,731	0.4
Formal Employment by Sector					
Central Government (civilian)	129,200	117,250	112,345	101,300	-9.8
Local Authorities	15,161	13,048	12,900	12,500	-3.1
Parastatal Companies	73,900	68,046	65,300	65,700	0.6
Private Companies	256,900	268,849	286,963	296,847	3.4
Total	475,161	467,193	477,508	476,347	-0.2

Sources: Central Statistics Office (2001); Global Policy Network (2001)

1992, which has seen some 318 former state-owned enterprises (SOEs) privatised. What is worse, some of the privatized companies have not performed to expectation under the new private owners. Many companies have gone into liquidation since being privatized, causing more job losses. This has been the case with such companies as Kabwe Pharmaceuticals Limited, Kapiri Glass Factory, and Eagle Travel Limited.

The reader would be justified in asking: What happens, and what has happened, to the huge number of employment eligible Zambians that cannot be absorbed in the formal sector? As already pointed out, the informal sector absorbs those that the formal sector cannot. That the informal sector is bigger than the formal sector in countries like Zambia is not a matter for serious debate. Gill, Fruitman and Dar (2000: 1) point out for instance that in 1993, the country had two million people employed in the informal sector, while only about 600,000 were reported to be in the formal sector. The World Bank (2001) says that the percentage of non-agricul-

tural labor force that was in the informal sector in Africa between 1991 and 1997 was 97 percent for women and 83 percent for men, ranging from 30 percent in Mali and 39 percent in South Africa to 97 percent in the nation of Benin for women alone.

Defining the Informal Sector and Identifying Its Range of Activities

We can now formally define the informal sector phenomenon, as well as provide a glimpse of the range of its activities. A plethora of names can be used (and are used) to refer to the informal sector, including: second economy, underground economy, the black market, the hidden economy, illegal economy, unobserved economy, unrecorded economy, and unreported economy (Feige, 1990). In Zambia, the informal sector typically tends to absorb women, youths and (increasingly) college and university graduates from the country's two universities – the University of Zambia in Lusaka, the capital, and the Copperbelt University in Kitwe on the Copperbelt — who cannot

find jobs in the formal sector. Their informal activities often elude enumeration and measurement in the country's socio-economic accounting systems that usually monitor economic activity. These activities normally take place in four major places in cities and all small towns (without exception) throughout Zambia: market stalls (mainly), in the streets (increasingly, to include street vendors or street traders), whenever traffic in town comes to a halt, from home, and in unauthorized places as in the case of illegal mining of precious stones/gemstones. The range of informal sector activities in Zambia is as wide as the variety and depth of the hopes and dreams of those whom the formal sector cannot absorb. They include, but are not limited to:

- (a) Selling secondhand clothes from Europe, Asia and South Africa (called *Salaula*, which in many Zambian languages, such as Tonga, literally means "you have a choice" or you can choose). No other informal sector activity has been more pronounced than *Salaula* since the early 1990s.

- (b) Selling foodstuffs (both cooked and uncooked, fresh and non-fresh, including *nshima*, the staple food, fish, and soft drinks) at market stalls in cities and small towns throughout the country. Many sell from their homes, too.
- (c) Wares and inputs, including radios, wrist watches, nail polish, perfumes, jewelry, newspapers (*The Post*, *Zambia Daily Mail*, *Times of Zambia*, and other smaller weeklies), carpets, and all kinds of car spare parts, from used tires, car stereos to speakers and windscreens. Illicit products on the market include what are commonly known as 'hot cars' — that is, stolen vehicles such as Mercedes Benz and BMWs and other top of the range types that are BIS (brought in stolen) from South Africa. It goes without saying that these are usually cheaper in the informal market than in the formal market, partly because there is no sales tax to be paid in the underground economy. They make ends meet, somehow, these traders. They will tell you that in the formal economy, "there is so much money at the end of the salary/money" (meaning they cannot make ends meet), so the informal economy is a reasonable alternative to ensure that they have something to live on for the whole month, if ever.
- (d) Illegal mining of precious stones (especially emeralds) by both Zambians and foreigners from countries such as Senegal (who came to be known in Zambia as Sene-Senes) and Mali in West Africa. A range of precious and semi-precious stones like emeralds, malachite and amethyst (especially in the Kalomo area of the Southern Province) are often mined illegally by small miners, without the necessary licences, and smuggled out of the country. Many illegal mines are found in Ndola Rural and the Luanshya corridor on the Copperbelt, something of Zambia's answer to the "Wild West" where, as Draisma (1997) points out, some private mines were reported to use heavy machinery like bulldozers and pumps stolen from the government's

geology department in the Southern Province! Although this practice has declined in recent years as Zambian authorities have mounted a crackdown on illegal mining of emeralds and other gemstones, the fact cannot be denied that Zambia has lost millions of dollars through illegal mining.

The above activities have no doubt benefited the people involved, because in the absence of formal alternatives they have managed to scrap a living. The underground economy in Zambia has enhanced peoples' opportunities for social mobility, something they have not been able to do in the formal economy (World Bank, 1990: 63). This view of some of the activities in the informal economy is in some cases akin to the definition and description provided by Ghersi (1997) who views underground activities as "those that have legal ends but employ illicit means. That is to say, they are activities that do not intrinsically have a criminal content, but must be carried out illicitly, even though they are licit and desirable activities for the country." He goes on to point out that "the most important characteristic of informal activities is that those directly involved in them as well as society in general benefit more if the law is violated than if it is followed." In the case of thousands of street vendors in Latin American cities such as Mexico City, Sao Paulo and Lima (among the most populated in the world), Ghersi (1997) says their goals are licit, but they must use illicit means — such as noncompliance with legal regulations, noncompliance with labor laws, nonpayment of taxes — because they have no other alternatives. He offers a final suggestion, which is that "they cannot incorporate themselves in the formal economy because the latter imposes so heavy a cost on Latin American societies as to make it impossible for people and entrepreneurs with minimal income to enter it. "The only alternative left is to work in that area of relative illegality created by the legal cracks in Latin American society."

HRM-ish Informal Sector Characteristics

Managing people at work — more appropriately referred to as Human Resources Management (HRM) in contemporary phraseology — has traditionally involved such functions as recruiting, hiring, training, compensation, appraising, and developing employees. Matters involving labor relations, health and safety, and fairness concerns (equal employment opportunity) are other important HRM functions (Dessler, 2003: 2). Dowling, Welch and Schuler (1999) view the general field of HRM as referring to "those activities undertaken by an organization to utilize its human resources effectively, including human resource planning, staffing, performance management, training and development, compensation and benefits, and labor relations." They group these activities under the general categories of *human resource procurement, allocation, and utilization*.

Managing human resources, anywhere, is important. At the macro (national) level, through various forms and on many multiplier-effect fronts, the very prosperity of a country depends on it. At the micro (or company) level, to treat employees as "assets" in any setting (rather than as a cost) is to acknowledge that human resources have skills, expertise, abilities and knowledge needed to take companies forward. Employees can do this through higher productivity (high output at low input levels), higher efficiency (that is, low wastage in the use of critical resources such as money, materials, time, information and technology), increased effectiveness (that is, achievement of goals and objectives via prudent strategies), more value-added and, ultimately, a better quality of life for all. Dessler (2003:9) refers to the importance, in the 21st Century, of focusing on *human capital*, which he defines as the knowledge, education, commitment, training, skills, and expertise of a firm's workers. It is this *human capital* that has provided the *competitive advantage* enjoyed by some of the world's most successful companies, including Microsoft, Sony, America Online (AOL), and General Electric (GE).

The informal sector is, despite its huge size, by definition not governed by any formal HRM rules or sanctions. Informal sector activities tend to involve small numbers of owner-managers (or, as the World Bank, 2001, calls them, “own-account owners”). Except for formal structures where people sell their merchandise (such as food markets in all towns in Zambia), they tend to have make-shift structures. It is not surprising, therefore, that what passes for HRM functions can be characterized as follows:

- (a) *Employment* usually tends to be of kith and kin, friends, and sons or daughters of neighbors. Longevity in employment can be from a couple of hours in a day (commonly known in Zambia as piece-work) to a fairly long number of years for the more established activities. There are no formal selection procedures, and job vacancies usually tend to be filled immediately they become open. This is so because the owner-managers cannot afford time-lags between identifying the vacancy need and filling it, due to the intense competition from, and likely loss of business to, rival informal entities.
- (b) *Training* is almost always on the job, hands-on, meant for the trainee to “hit the ground running” and become productive within a very short period of time, sometimes less than an hour.
- (c) *Employment security* is usually non-existent. “Employees” are not usually assured of any job tenure, neither can they expect to have any formal fringe benefits, let alone healthcare insurance or pensions/social security benefits. The owner-managers can, through their own “kindness,” assist employees from time to time with family emergencies, such as meeting the firewood/charcoal requirements at the funeral house of a deceased relative.
- (d) *Pay-for-Performance*: perhaps more than in the formal sector, the informal sector in Zambia tends to emphasize a strong linkage between pay and performance. This is not surprising, especially given the fact that without performance the entity might be out of business within a

week. So employees tend to get more money the harder they work and the more results they show.

If, as we have argued, the underground economy in Zambia is larger than the above-ground, formal economy, then the other HRM and non-HRM challenges are easy to discern. One of these deals with *workers’ rights*. Given that all workers have (or ought to have and enjoy) basic human rights, (such as the right to clean water, clean working conditions, safe and non-violent working conditions), how do owner-managers, central and local governments ensure that these are adhered to? In countries such as Zambia where financial and human resources at the provincial and national level are inadequate to address these issues in the formal economy, it is fair to say that the informal sector presents an even bigger challenge. And as the World Bank (2001) points out, other significant informal sector problems include poor infrastructure (poor transport, poor and sometimes unhygienic market stalls), poor to absent capacity for micro-credit (that is, inability to borrow from banks on a small scale to better their lot), and an inability to pay for the sometimes costly training they need.

Implications and Recommendations

It is clear that we academics have passed rather lightly over the important and rich ground that is Africa’s informal economy. In the process, of course, we have not done full justice either to ourselves or to the players in the informal sector whose lives and livelihoods our scholarly spotlight, intellectual probing and understanding would otherwise positively affect. Easier said than done, perhaps, but until we try, until we move the extra step to the next level, we will never know.

Someone once said, and for good reason, that out of adversity sometimes comes some of life’s finest moments. We can, in like manner, say the following, because it’s true: out of some of the most adverse conditions and situations in the informal sector are lots of fine stories of success against tremendous odds. If we hold this truth to be self-evident, then one is safe in suggesting that out of the

underground economy are potentially some of academe’s finest scholarly papers. All we need to do, for starters, is go to the largest shanty compounds in each of Africa’s capitals (from Pretoria in South Africa to Cairo in Egypt) and other major cities (such as Chimwemwe compound in the city of Kitwe in Zambia): with our intellectual cameras rolling. We have a duty, as African scholars, as scholars from Africa, and as scholars on and in Africa, to bridge an obviously wide knowledge gap regarding what we know and can know about the continent’s informal sector. To bridge that gap, we must be able to tell the story “from the ground.” Their story, from their ground. And that’s not too much to ask.

There is only one way to get the above “indictments” for “intellectual negligence” dropped, and that is for us to begin to tackle the rather disappointing, dearth of research and literature about the informal sector in Africa. For precise research questions, these are many and diverse. They include, but are by no means limited to, the following:

- (1) What are the various ways of estimating the size of the informal sector in each country? What are the attendant problems with such measures? Has the sector grown, remained stable, or declined over the years?
- (2) In employment (or rather unemployment) terms, how large is the informal sector in each of the remaining 53 countries for which “indictments” still stand?
- (3) What is the range and depth of the informal sector activities in each country?
- (4) Do companies or entities ever graduate from the informal to the formal sector and, if so, what does this entail? How does this happen? What are the functional ramifications?
- (5) Is there, in fact, any “degeneracy” from the formal to the informal sector and, if so, what are the attendant reasons?

As scholars delve into the above questions, we shall all be more and better informed about what is really happening in and to Africa’s other economy. The search for solutions to Africa’s multifaceted development challenge demands

that we seek informed and reasoned answers to the above and related questions. This paper, on Zambia's informal sector, is but a glimpse of what is an obviously big and important issue.

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