

Cooperatives and the Social Economy: Facilitating the Transition From the Informal to the Formal Sector

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Abstract: One of the most striking features of African societies and economies is the sheer magnitude of the informal sector. This paper provides evidence of the organizational density within the informal sector in sub-Saharan Africa. It cites findings from a survey covering about 10,000 households in six African countries. The survey results show what type of organization are preferred by informal sector operators, what kind of services those organizations render, how stable they are, and if and how their services are appreciated by their members. The paper concludes that governments, civil society and development partners have in the past neglected the development potential of informal sector organizations and have, therefore, done without a key partner in their endeavours to advance decent work and sustainable development. Greater efforts are needed to recognize and strengthen these organizations, including through vertical integration.

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Keywords: co-operatives, social economy organizations, informal sector, vertical integration, sub-Saharan Africa

Introduction

One of the most striking features of African societies and economies is the sheer magnitude of the informal sector, which in some countries employs up to 90 per cent of the region's labour force, contributes up to 65 per cent to the GDP, and hosts more than 90 per cent of the region's micro and small enterprises (ILO, 2018a; Medina et al., 2017). The informal sector is affected by severe decent work deficits in terms of income and productivity, as well as lack of social protection, rights at work, and participation in social dialogue. While the informal sector is sometimes labelled as 'unorganized', recent surveys have shown that in sub-Saharan Africa, over 50 per cent of all informal sector operators are members of a cooperative, a credit union, an association, a self-help group or any other type of organization that belongs to the social economy. These organizations can build a bridge between the informal and the formal sectors; they create opportunities, provide protection, and empower people and communities.

The present paper provides evidence of the organizational density within the informal sector in sub-Saharan Africa. It cites findings from a survey covering about 10,000 households in six African countries. The survey results show what types of organization are preferred by informal sector operators, what kind of services those organizations render, how stable they are, and if and how their services are appreciated by their members. The paper concludes that governments, civil society and development partners have in the past neglected the development potential of informal sector organizations, and have therefore done without a key partner in their endeavours to advance decent work and sustainable development. Greater efforts are needed to recognize and strengthen these organizations, including through vertical integration.

The informal economy

Definitions, characteristics, size

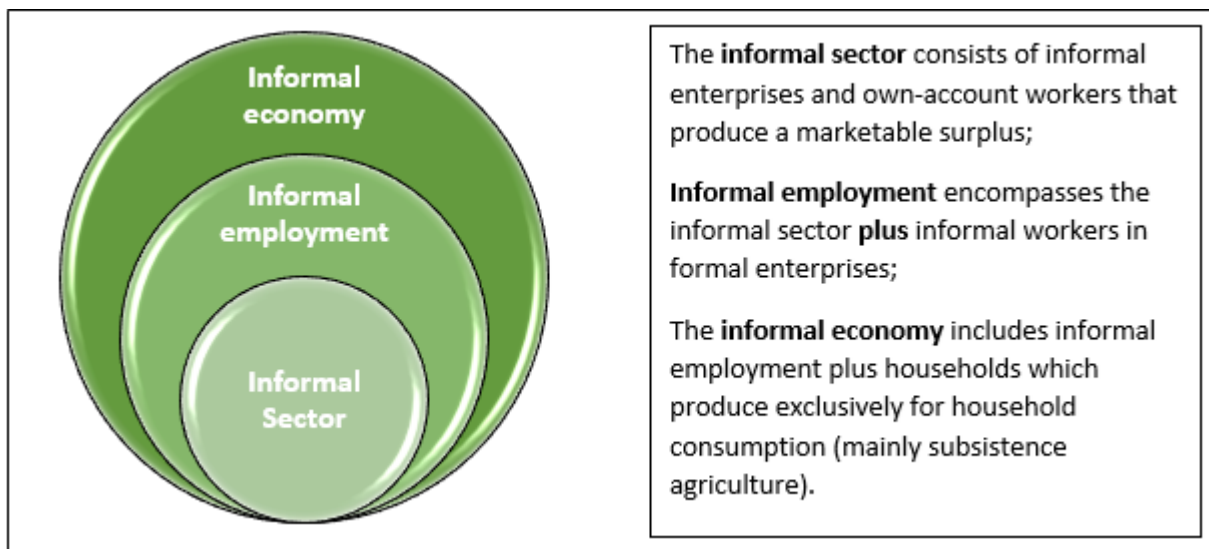
The term 'informality' was coined in 1972, at the end of an employment advisory to Kenya organized by the International Labour Organization (ILO). The 'inventor' of the term, Mr Keith Hart, explained that the concept "was provoked by the failure of prevalent economic models to address a large part of the world that they claimed to describe." (Hart, 1985, p. 54). The mission to Kenya essentially observed that the world of work in many developing countries did not suffer primarily from unemployment, but rather from underemployment and working poverty. In the absence of social safety nets people could not afford to stay idle – they had to eke out a living in any way possible. Most of them would end up in the informal economy.

The ILO adopted, in 2015, ILO Recommendation 204 on the transition from the informal to the formal economy (International Labour Conference (ILC), 2015). This instrument stipulates that the term 'informal economy' "refers to all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements", further making the point that illicit and illegal activities do not fall under the realm of the informal economy. Bangasser (2000, p. 10) lists the following defining characteristics of informal economic activities:

- ease of entry;
- reliance on indigenous resources;
- family ownership of enterprises;
- small scale of operation;
- labour-intensive and adapted technology;
- skilled acquired outside the formal school system; and
- unregulated and competitive markets.

In September 2023, the 21st International Conference of Labour Statisticians (ICLS) adopted its 'Resolution concerning statistics on the informal economy' which sought to refine the statistical boundaries of informality in the following words: "for statistical purposes, the informal sector is defined as comprising economic units that are producers of goods and services mainly intended for the market to generate income and profit and that are not formally recognized by government authorities as distinct market producers and thus not covered by formal arrangements" (ICLS, 2023, p. 10). Figure 1 offers a clarification of terms which are often used interchangeably:

Figure 1: Clarification of terms



Source: Author's own work, based on ICLS, 2018

In this paper, I will from now on use the term 'informal economy', which is the most encompassing of the three.

Cooperatives and the Social Economy: Facilitating the Transition From the Informal to the Formal Sector

The omnipresence of informality in sub-Saharan Africa

The most striking feature of African societies and economies is the sheer magnitude of the informal economy, as outlined in the introduction. Mhando and Kiggundu (2018, p. 219) affirm that, “if the informal economy did not exist, there would be no economy because the informal sustains the formal”. Charmes et al. (2018) express the view that informality has been an intrinsic factor of African economies even prior to colonization and remains a structural feature of a region where formal employment is uncommon. Indeed, the scale of the informal economy is so overwhelming in sub-Saharan Africa that the expression ‘informal’, with all its negative connotations, appears inappropriate. Dungy and Ndofor (2019) propose to replace it with the expression *indigenous economy*, in which case the formal economy would be labelled as ‘imported’ or ‘alien’ – which it is, in reality. Mbaye et al. (2020) share this view, underlining that the informal economy embodies traditional pre-modern economic practices at the village level. Holt and Littlewood (2014) point out that the informal and the formal economy are intensely intertwined, with some supply chains stretching from international suppliers to local sellers working at the roadside. An example are the low-priced Chinese consumer goods that are flooding African markets, where they end up in the hands of street vendors. As Hart (1985, p. 57) observed: “the street peddlers of cigarettes invisibly complete the chain linking large foreign firms to consumers”. Charmes (2018) emphasizes the cross-border dimension of informal trade in sub-Saharan Africa, reporting that it contributes about 40 per cent of total intra-regional trade in Eastern and Southern Africa.

Table 1: Share of informal employment in total employment

Share of informal employment in total employment (per cent), selected African countries				
Country	Year	Total	Male	Female
Burkina Faso	2018	95.4	93.5	97.7
Botswana	2022	74.4	76.1	72.5
Chad	2018	96.9	95.2	99.0
Ghana	2015	78.1	77.2	91.5
Mali	2020	94.0	93.0	95.4
Mauritania	2017	90.9	90.8	91.2
Mozambique	2015	95.7	92.7	98.4
Rwanda	2022	86.8	84.7	89.2
South Africa	2023	41.5	40.7	42.4
Uganda	2021	95.2	93.1	97.4
Zimbabwe	2022	88.3	86.0	90.7
UEMOA ¹	2018	89.6	85.7	94.1
Average 2024		85.6	84.1	88.3
Average 2021		83.1	81.2	85.7

Source: ILO STAT, 2021; UEMOA, 2018

Table 1 provides a snapshot of the proportion of informal employment in those African countries for which relatively recent data sets are available. The table reveals that in all countries, women are significantly more affected by informality than men. Longitudinal statistics do not exist for most countries so that it is difficult to state whether the share of informal employment has been growing or shrinking², but in light of the figures above one can safely conclude that informality is pervasive in the entire sub-Saharan African region. Table 1 shows that between 2021 and 2024, the average share of informal employment grew by 2.5 per cent, possibly as a result of the COVID-19 pandemic (Schwettmann, 2020; 2022)

African governments (and their development partners) have approached the informal-economy-phenomenon with varying attitudes: some expected that an expanding, modern formal sector would almost automatically entail the disappearance of the informal economy (Sallah, 2016); others undertook efforts to ‘formalize’ the informal economy, as recommended by ILO Recommendation 204 (ILC, 2015); some consider the informal economy as a useful complement to the formal sector, whereby both would grow or decline in tandem (Sallah, 2016), while some ‘neo-liberals’ “portray informal workers as heroes casting off the shackles of an over-burdensome state” (Sallah, 2016, p. 1070). Again, other governments seek to criminalize, suppress, eradicate or prohibit the informal economy. Whatever policy has been adopted, it has clearly not eliminated Africa’s informal economy.

Informal economy, sustainable development and decent work

Considering the fact that informal economy occupations employ the majority of the labour force in all developing countries and emerging economies (Vanek, 2020) the scarcity of references to informality in the 2030 Agenda for Sustainable Development is striking. With the exception of Sustainable Development Goal (SDG) indicator 8.3.1 (share of non-agricultural informal employment in total employment) the Agenda is silent about informality. And yet, if the Agenda is to keep its promise to “leave no-one behind” it cannot possibly ignore the fact that the overwhelming majority of individuals, households and communities in the Global South derive their livelihood from the informal economy. One may argue that many targets of the SDGs implicitly include informal economy actors without naming them explicitly; this would apply to several targets under SDG 1 (poverty), 2 (hunger), 8 (decent work), 10 (equality) and 16 (institutions). Still, a greater number of explicit references to informal economy actors in the 2030 Agenda would have been welcome, not least because informal economy actors and their associations in sub-Saharan Africa are actively involved in SDG-related areas such as agricultural production, fisheries and livestock, solid waste management, universal health coverage, food loss prevention, recycling, affordable transport, small-scale mining, and local economic development, to name a few.

ILO’s Decent Work Agenda (DWA) is more ‘informal-economy-sensitive’ than the 2030 Agenda; in fact, Mr Juan Somavia, the ILO’s ninth Director-General who introduced the concept, expressly preferred the term ‘decent work’ over ‘decent employment’ since the latter would have excluded own-account workers and subsistence farmers, who dominate the informal economy. Informal economy workers in Sub-Saharan Africa suffer from wide-ranging decent work deficits, be it in the area of livelihoods (low productivity and incomes, high rates of poverty, instability and vulnerability), protection (very low degree of social security coverage), rights (exclusion from labour rights which apply to the formal sector) or dialogue (absence of representative structures and exclusion from social dialogue processes) (ILO, 2014). Blustein, et al. deplore the increasing prevalence of precarious work, a term he defines “as a multidimensional construct defined along four dimensions: continuity/employment insecurity, vulnerability (i.e., powerlessness/lack of bargaining position or ability to exercise workplace rights), protection (i.e., access to benefits and legal protections), and income” (2016, p. 4). Without mentioning the informal economy in their article, they accurately describe the deficiencies of work in the informal economy.

The legacy of structural adjustment

The informal economy has always existed in Africa, but the degree of informalization has greatly intensified during the ‘structural adjustment’ period of the 1980s and 1990s. The ‘*Structural Adjustment Programmes*’ (SAPs) were conceived by the World Bank (‘The Bank’) and the International Monetary Fund (IMF) in the then prevailing spirit of neoliberalism. In the late 1970s/early 1980s, when many African countries faced a severe debt crisis³, their governments saw no alternative but to adopt SAPs as a condition *sine qua non* for the disbursement of funds they needed so desperately to repay their debts. The first-generation SAPs in sub-Saharan Africa were devised to address the (alleged) key problems of African countries’ economies: unsustainable levels of debts, weak management of the

Cooperatives and the Social Economy: Facilitating the Transition From the Informal to the Formal Sector

public sector, price distortions and price controls, overvalued exchange rates, subsidised credits, and high wage costs. The SAPs were very much led, designed and driven by 'The Bank', despite substantial African opposition and very little effective African participation or support from African countries themselves (Green, 1998). Kingston (2011) recalls that the IMF's 2,500 staff dictated the economic conditions of the lives of over 1.4 billion people in 75 developing countries. Ridell (1992) came to the bitter conclusion that hundreds of economists worked for over a quarter of a century to work out the SAPs, only to cause outright chaos and misery in sub-Saharan Africa. Indeed, between 1980 and 1993, about 70 developing countries were subjected to a total of 566 stabilisation and structural adjustment programmes (Ismi, 2004); regarding sub-Saharan Africa, Ridell (1992) found that between 1980 and 1991, every single country in that region, except Botswana and South Africa, had implemented at least one SAP-related programme, and some as many as ten.

The SAPs of the 1980s and 1990s have greatly contributed to the informalization of African economies and societies (Lugalla, 1997; Meagher & Yunusa, 1996). The World Bank and others considered the informal economy as a 'sponge' that would absorb the thousands of workers that lost their jobs in a 'streamlined' civil service and liquidated parastatals. A case in point is Kenya. The Kenyan National Bureau of Statistics has been publishing statistics on informal economy employment in its annual economic surveys since 1988 (KNBS, 1988 - 2023). According to those surveys the share of informal employment in total employment increased from 20.0 per cent in 1988 to 82.9 per cent in 2022. During the same period of time, the absolute number of Kenyans employed in the informal economy (excluding smallholder agriculture) increased by 4,609 per cent, from 346,400 in 1988 to 15,964,700 in 2022, while Kenya's population grew by 250 per cent only during the same period of time. The starkest increase (from 20 to 60 per cent) in informal employment took place from the late 1980s to the mid-1990s; this increase must be, in all likelihood, attributed to the implementation of neoliberal structural adjustment programmes during that period. A joint World Bank/SAPRIN study (SAPRIN, 2002) concluded that, as a result of adjustment, employment had become more precarious and less remunerative, while employees had lost much of their bargaining power, inequality had increased, family incomes had decreased, and the incidence of child labour had grown. As a consequence, the informalization of labour had become more pervasive. The 'liberalization' of labour laws had augmented the vulnerability of workers, just as the 'liberalization' of agricultural marketing systems had thrown small farmers into disarray.

The structural adjustment ended at the turn of the century. Easterly (2005) concluded dryly that, if the original objective of SAPs was adjustment with growth, there was not much evidence that structural adjustment lending generated either adjustment or growth.

Informality - an unorganized sector?

In India, the informal sector is officially named the 'unorganized sector', which represents about 93% of the country's work force (Ministry of Labour and Employment, 2023). In the 1980s, some French-speaking scholars designated the informal sector as a 'secteur non-structuré'. But is this really true? Are there no organizations in the informal sector? We will seek in this section to prove the opposite.

The organizations in the informal economy

When examining the informal – formal continuum it is of great importance to better understand how the informal economy in sub-Saharan Africa is *organized*. The size, density and agency of informal economy organizations differs not only from one country to another but may vary significantly between the different ethnic groups inhabiting any given country, and/or the various socio-economic sectors in which they operate.

Member-based organizations (sometimes referred to as 'social networks') are omnipresent and pervasive in Africa's informal economy. Leonhard (2000) underlines the importance of kinship and community networks for providing assistance in insecure economic environments, as those prevailing in the informal economy. Meagher (2005, p. 217) points out that "social networks represent an invaluable concept for the analysis of informal economies and their role in processes of economic change". While the ILO considers the absence of formal regulation as the key defining characteristic of the informal economy (ILC, 2015), Meagher affirms that the social and solidarity economy (SSE) provides an alternative, flexible regulatory framework embedded in popular relations of solidarity and trust. These organizations, therefore, fill a regulatory vacuum by self-regulating informal economy activities. Ridell (1992)

observes that informal economy operators act within a social exchange system whereby goods and services are transferred by mechanisms such as reciprocity and redistribution. Kinyanjui (2010) reports that informal economy associations often exercise multiple functions simultaneously, such as market regulation, social assistance and community cohesion, while Kanbur (2021) applauds the emergence of new forms of social organizations in the informal economy, relying on modern technologies to provide support and advocacy to informal economy operators.

What kind of organizations exist in the informal economy in sub-Saharan Africa? The most widespread type are the *associations*, simply defined as ‘groups of individuals who voluntarily enter into an agreement to accomplish a purpose’; they are the most ‘informal’ (easy to establish, very limited legal requirements) type of organization, and they may pursue societal, social, environmental, political or cultural goals. In French-speaking Africa, the legal status of associations is governed by local derivatives of the French association law of 1901 (still applicable in France), which stipulates that an association must have at least two members and shall not pursue a profit-oriented activity. In English-speaking countries associations are known under different denominations, many of which may fall under specific laws, such as non-profit organizations, NGOs, charitable companies, friendly societies, community-based organizations, voluntary associations or common-law associations. In most cases the conditions to form an association are relatively easy to comply with, and registration procedures are simple (or may not be required at all). Informal economy actors often chose the association as a legal form in the pursuit of non-economic goals, such as gaining voice and representation, engaging in collective bargaining with third parties and authorities, and taking part in political processes (Schwettmann, 2017). Traditional organizations, such as the rotating savings and credit associations (ROSCAs), which are widespread all over the Global South, belong to this group, as do the majority of faith-based organizations, which are often involved in social and caregiving services. In some countries, *neighbourhood associations* are also prevalent; they exist under different names (farmers’ association, village association, urban market association, etc.), and serve many different purposes, including solid waste management, community development, mutual social assistance, protection against criminals, involvement in local politics, self-regulation of markets, collective farm work such as land clearing, information-sharing, etc. Here, the neighbourhood (which could be a street, a village, a quarter of a town, etc.) serves as the common bond uniting its members. Finally, informal economy workers and operators have formed many different types of *self-help groups* to solve problems that the State is unable or unwilling to address. This could include emergency assistance in case of a natural disaster, the provision of clean water through the joint construction of a well, or the joint marketing of agricultural produce, to name just a few out of hundreds of possible purposes of self-help groups.

Cooperatives constitute another type of informal economy organization; they respond to a universal definition contained in the ICA statement on the cooperative identity and the ILO Recommendation 193 (2002) on the Promotion of Cooperatives. Cooperatives are more ‘formal’ than associations because they are regulated by specific laws and supervised by a dedicated authority, such as the Registrar of Cooperatives. It is for this reason that cooperatives are less widespread in the informal sector than associations, ROSCAs and self-help groups, which do not require a formal recognition or registration. Credit unions, or savings and credit cooperative organizations (SACCOs), are cooperatives as well, but often fall under a separate piece of legislation.

A third organizational category is the *mutual benefit societies*, defined as “voluntary groups of (natural or legal) persons whose purpose is primarily to meet the needs of their members rather than achieve a return on investment. They operate according to the principles of solidarity between members, who participate in the governance of the business. Together with cooperatives, foundations and associations, mutual enterprises are one of the main components of the social economy, or third sector, in the European Union” (European Parliament, 2011). They exist in most countries of the world, including many African nations, but follow two distinct traditions. The French/Belgian model is geared exclusively towards health insurance coverage based on the principle of solidarity. Mutual insurers adhering to the ‘Anglo-Saxon model’ provide general insurance services based on the principle of mutuality; they have formed the International Cooperative and Mutual Insurance Federation ([ICMIF](#)). Of particular importance to the informal economy are the community-based mutual health insurance (CBHI) systems that in some African countries have been fairly successful in extending basic health insurance coverage to previously uncovered households (Schwettmann, 2022).

Cooperatives and the Social Economy: Facilitating the Transition From the Informal to the Formal Sector

The Social and Solidarity Economy

These three organizational types described above – associations, cooperatives and mutuals – are the main pillars of what constitutes the ‘social and solidarity economy’ (SSE). The 110th session of the International Labour Conference (ILC), which brings together the governments, employer organisations and trade union movements of the 187 member states of the International Labour Organization (ILO), adopted in June 2022 the following definition of the term ‘SSE’:

The SSE encompasses enterprises, organizations and other entities that are engaged in economic, social, and environmental activities to serve the collective and/or general interest, which are based on the principles of voluntary cooperation and mutual aid, democratic and/or participatory governance, autonomy and independence, and the primacy of people and social purpose over capital in the distribution and use of surpluses and/or profits as well as assets. SSE entities aspire to long-term viability and sustainability, and to the transition from the informal to the formal economy and operate in all sectors of the economy. They put into practice a set of values which are intrinsic to their functioning and consistent with care for people and planet, equality and fairness, interdependence, self-governance, transparency and accountability, and the attainment of decent work and livelihoods. According to national circumstances, the SSE includes cooperatives, associations, mutual societies, foundations, social enterprises, self-help groups, and other entities operating in accordance with the values and principles of the SSE. (ILC, 2022)

This definition was endorsed in April 2023 by the 77th General Assembly of the United Nations in its resolution A/77/L.60 (UNGA, 2023), and can therefore be considered universal.

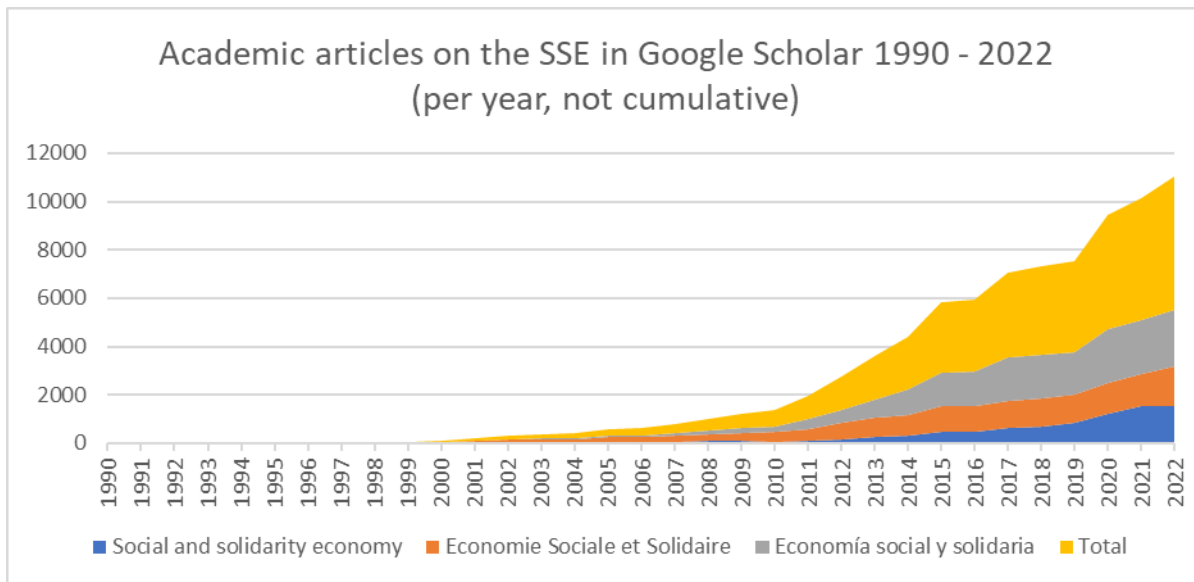
As organizations that have a dual nature (being both business entities and member-based associations), SSE organizations and enterprises (SSEOs) essentially exercise four sets of functions (Schwettmann, 2022), namely:

- They create *economic opportunity* through collective action and the pooling of resources, including finance, to provide goods and services to their members, and/or to the community at large. This may include pre- and post-production services such as agricultural marketing and supply, financial intermediation through rotating savings and credit associations (ROSCAs), credit unions or cooperative banks, job creation through workers’ labour contracting and platform cooperatives, ‘recuperated enterprises’ (empresas recuperadas)⁴ and social enterprises, community-based initiatives to improve infrastructure or organize water and electricity supply, income generation through fair-trade arrangements, and many others.
- They extend *social protection* through social support arrangements based on the principle of mutuality, such as community-based health insurance schemes or ‘mutuelles’ (mutuals), as well as care-givers associations, burial societies, mutual insurers, social cooperatives that foster the social inclusion of marginalized population groups, health service cooperatives, community food banks, foundations, and similar groups. The SSE’s social function is the expression of solidarity among the members of SSEOs.
- They empower individuals and communities by providing them with *voice and representation*. This may happen at the local level through professional associations of artisans, service providers, subsistence farmers, street vendors etc., at the national level through national federations of SSE organizations, such as cooperative apex organizations or informal sector umbrella bodies, and at the global level through international NGOs such as the International Co-operative Alliance (ICA), the International Cooperative and Mutual Insurance Federation (ICMIF), or the International Domestic Workers Federation (IDWF). The SSE’s societal function is directed towards the outside world, by providing members with voice and representation.
- They *protect the environment* through corrective and preventive measures, including waste removal and recycling; examples include waste pickers’ associations (ILO, 2019), community-based reforestation

schemes, cooperatively-organized water management systems, renewable energy generation initiatives (ILO, 2013), climate-change adaptation efforts, and other initiatives related to environmental protection.

The growing importance of the SSE can be gauged from the number of academic articles related to the SSE, as shown in Figure 2 (which reports the number of articles published per year, not cumulative). The term 'SSE' was virtually unknown until the turn of the century. Its rising popularity coincided with the launch of ILO's Decent Work Agenda (1999), the replacement, by the World Bank and the IMF, of structural adjustment programmes with poverty reduction strategies (1999), and the initiation of the UN Millenium Development Goals (2000). These three milestones marked the shift from the neoliberal 'Washington consensus'⁵ to a human-centred development paradigm, in which the SSE could find its rightful place.

Figure 2: Academic articles on the SSE



Source: Author's own work

We can conclude that SSE organizations and enterprises are omnipresent in the informal economy of the entire Global South, because they create opportunity, security and empowerment in an environment characterized by fragility, volatility and poverty.

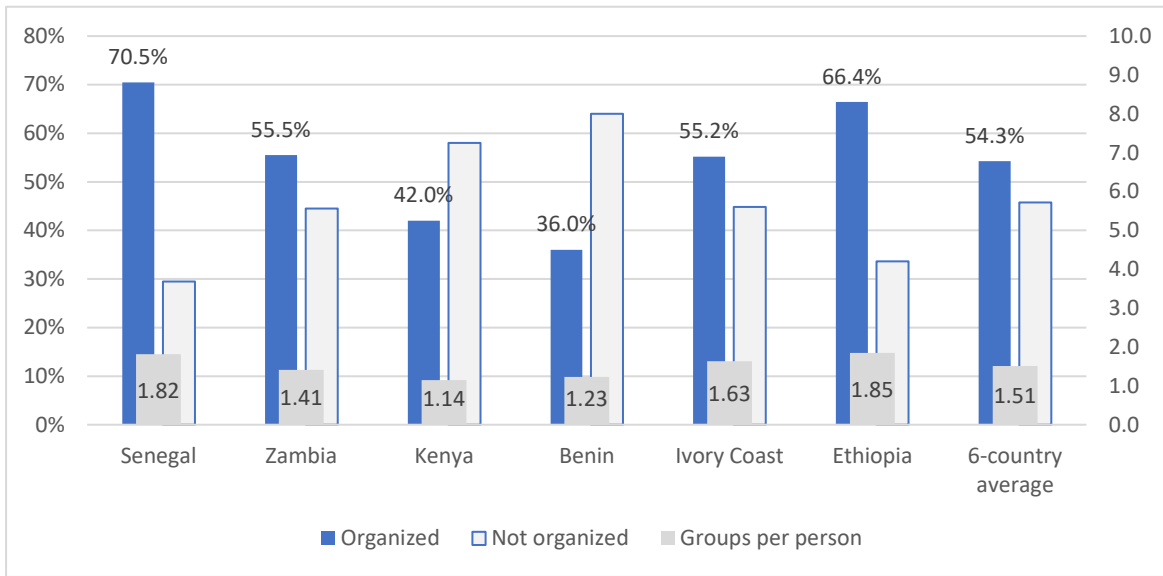
Lessons from the FES-IDOS-ILO survey

In 2017, the Friedrich-Ebert-Stiftung (FES), the ILO and the German Institute of Development and Sustainability (IDOS) launched a multiannual comprehensive research project named *Informal Employment, Social Security and Political Trust in sub-Saharan Africa* which was implemented on the ground by the [AfroBarometer](#) network of survey institutes. As from 2018, the collaborative research project surveyed some ten thousand informal economy households in six countries, namely Benin, Côte d'Ivoire, Ethiopia, Kenya, Senegal and Zambia. In order to understand the impact of Covid-19 on informality, a second round of surveys was conducted in Kenya and Senegal. The comprehensive survey questionnaire included a set of questions on how the informal economy was organized. The present paper provides a few highlights on this particular aspect. The full paper can be downloaded [here](#) (Schwettmann & Traub-Merz, 2022).

According to the survey, the proportion of informal economy actors who are a member of a group of any type reaches on average 54.3 per cent of all informal economy actors in the six countries. The degree of organization varies significantly between the six countries. Benin has an organisational density of 36.0 per cent compared to 70.5 per cent in Senegal.

Cooperatives and the Social Economy: Facilitating the Transition From the Informal to the Formal Sector

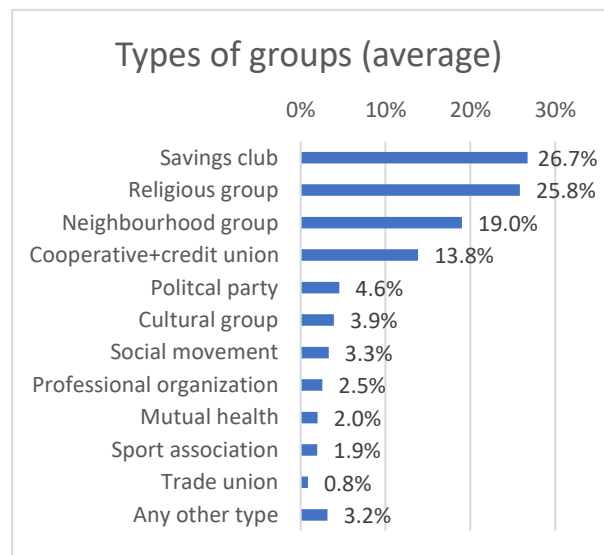
Figure 3: Organizational density



Many individuals are members in several groups at the same time. Multiple membership is particularly widespread in Senegal and Côte d'Ivoire where over half of all respondents belong to more than one group.

Informal economy operators show a distinct preference for certain types of groups; **Figure 4** provides the breakdown by type of organisation⁶. On average throughout the six countries, savings clubs (ROSCAs, tontines) are the most popular with 26.7 per cent, followed by religious associations (25.8 per cent), neighbourhood groups (19 per cent), and cooperatives (including credit unions, 13.8 per cent). However, the relative importance of these four types varies considerably from country to country. Savings clubs are most prevalent in Kenya and Benin whereas in Zambia, and to a lesser extent in Senegal, Ethiopia and Côte d'Ivoire, religious groups attract most members. Cooperatives are more prominent in Zambia than in Senegal and even Kenya⁷. While some informal economy groups are set up specifically for a single purpose, for example to collect and secure savings, most groups pursue several objectives at the same time, i.e., they are multipurpose in nature (Kinyanjui, 2010). To illustrate this fact, I have developed the typology of 'opportunity – security – empowerment – identity' as an organizing structure to categorize the objectives of the different groups. In this typology:

Figure 4: Types of groups found in the informal economy.



- 'Opportunity' refers to the potential of improving the economic situation of a group member.
- 'Security' stands for the quest for social security and protection.
- 'Empowerment' encapsulates the desire to obtain voice and representation vis-à-vis governmental authorities and/or a powerful private sector.
- 'Identity' means the pursuit of a collective cultural, religious, ethnic etc. *distinctiveness*.

Figure 5: Why do informal economy actors join a group?

Table 2 shows that almost all types of groups fall under more than one of those categories.

Table 2: A Typology of informal economy groups

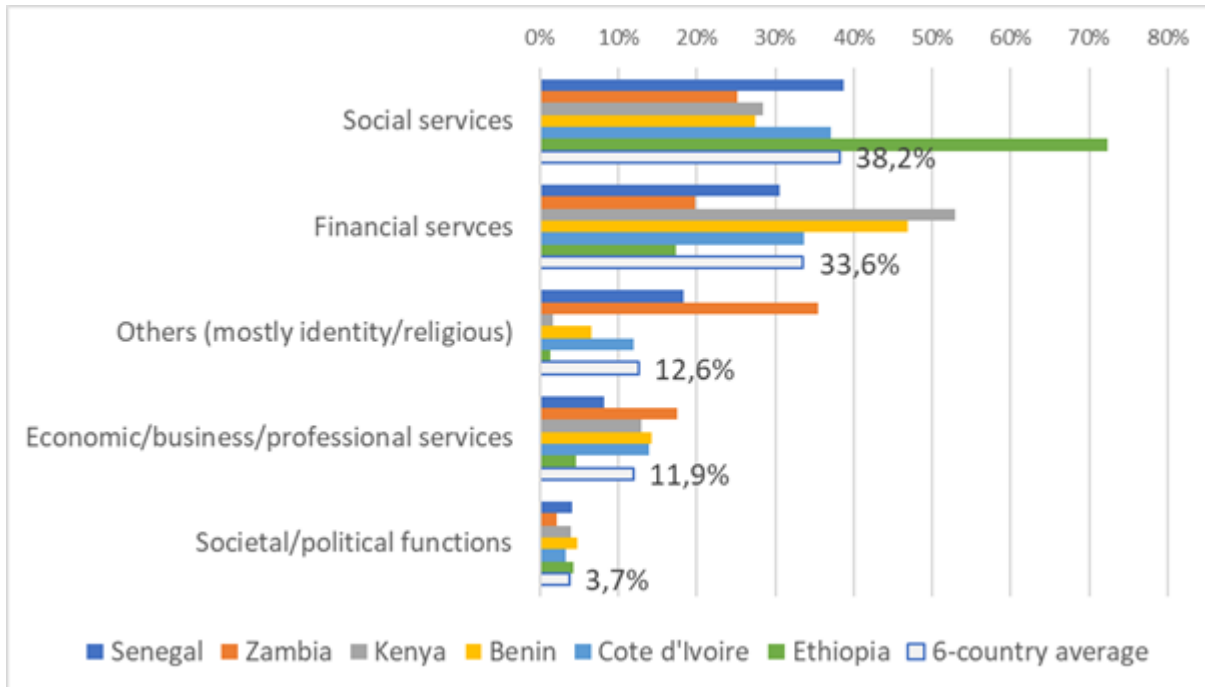
A typology of informal economy groups				
	Shared identity	Economic Opportunity	Social Security	Societal Empowerment
ROSCAs		Generate capital for investments	Often operate social assistance funds	
Religious groups	Organize church services		May operate social funds	Take part in politics if organized at the national level
Cooperatives		Organize economic support services	May organize social services if established for that purpose	Gain bargaining power through unions and federations
Neighbourhood groups	Organize neighbours for a variety of communal services		May operate social assistance funds and mutual care	Can play a role in local or municipal politics
Political parties	Formed to promote a certain political orientation			Formed to gain political power
Cultural groups	Organized around common identifiers, such as customs, language, ethnic group		May operate a social assistance fund	
Professional organization	All members exercise the same profession	May render certain economic support services		Mostly formed as a lobby group to influence politics
Social movement	Members belong to a shared identity			Formed primarily to push for political change
Mutual benefit group			Organize health insurance through mutuality	
Sports association	Organize collective sports events			
Trade union	Members belong to the same profession			Are primarily engaged in collective bargaining

The cells shaded in dark green indicate the group's primary function, those in light green show secondary functions.

Informal economy actors join a group because they expect benefits, i.e., the provision of essential services which can be of financial, material or intangible nature. Respondents in the FES-IDOS-ILO survey could choose from a list of services, as shown in Figure 5.

Cooperatives and the Social Economy: Facilitating the Transition From the Informal to the Formal Sector

Figure 5: Why do informal economy actors join a group?



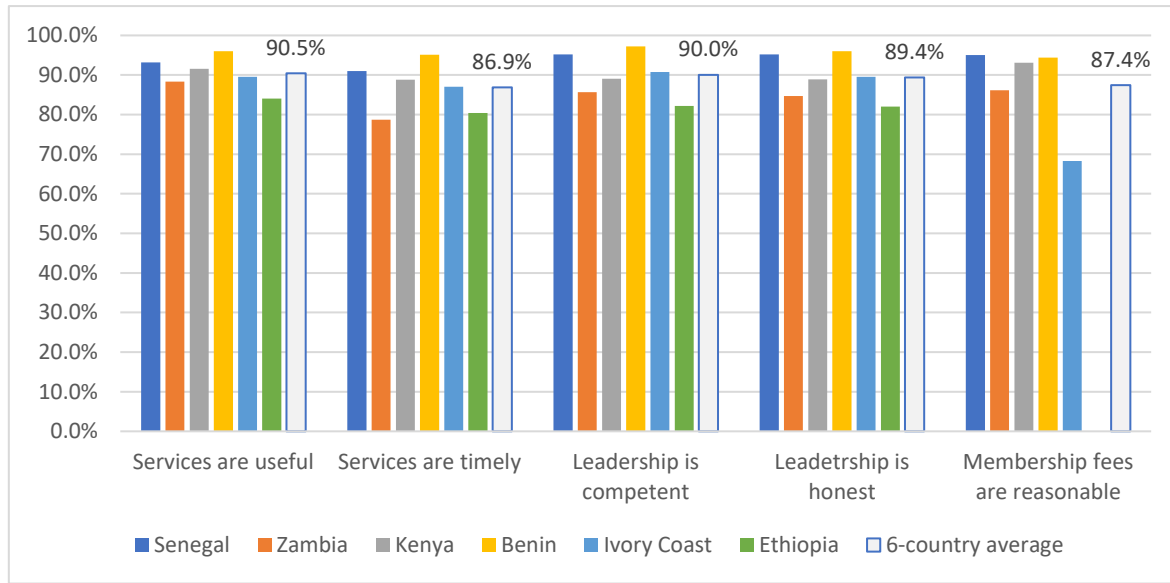
The survey revealed that:

- 45.5 per cent of all respondents sought services to generate or expand *economic opportunities*; this included financial services (33.6 per cent) and other economic or business support services (11.9 per cent).
- Over one third (38.2 per cent) joined the groups in the quest for social services, that is, to enhance *social security*.
- Very few respondents (3.7 per cent) cited *societal empowerment* as the primary reason to take membership in a group.
- A relatively large share (12.6 per cent) declared having joined the group for 'other reasons'.

There are considerable variations between the six countries, which depend to a large extent on the types of group that predominate. For example, in Benin and Kenya, the two countries where savings clubs predominate, a majority of respondents joined a group in the quest for financial services. The share of 'other reasons' is particularly high in Zambia and Senegal and corresponds to the prominence of religious groups. We can therefore assume that this 'other reason' is mostly of religious or cultural nature, meaning that respondents wanted to strengthen their *shared identity*. In fact, the survey found that two features, namely the ethnic origin and faith/religion were in all six countries the most important factors determining the shared identity.

The survey also assessed whether the members were satisfied with the performance of their groups; this aspect was measured through six indicators, relating to the usefulness of group services, their timely delivery, the honesty and competence of group leaders, and suitability of member fees. Figure 6 shows that, across all countries and indicators, a large majority of members expressed satisfaction with the groups' performance. This may not be surprising since (a) membership in the groups is voluntary, meaning that unhappy members would simply leave; and (b) group leaders are elected democratically (in most cases at least), so that underperforming leaders would not be re-elected.

Figure 6: Satisfaction with group performance



Building a bridge

Having shown that informal economy actors are organized in a variety of ways we now examine how their organizations can serve as a bridge between the informal and the formal economy.

The informality-formality continuum

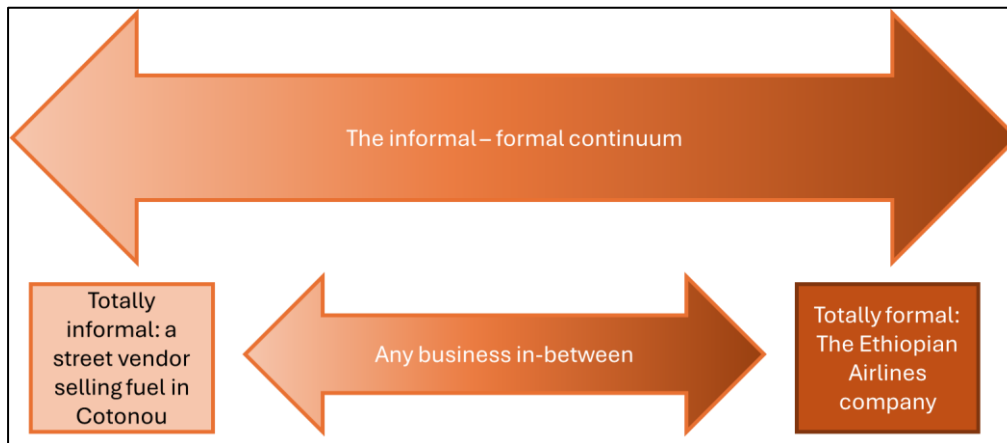
Mbaye et al. (2020, p. 12) stress that “Informality is a continuum rather than a binary distinction”, meaning that any economic unit may exhibit formal and informal features at the same time, and at varying degrees. Koçer (2016) observed that formal and informal realms are not separated entities that exist in isolation from each other, but are, on the contrary, quite often functionally connected. Therefore, the formal and informal sectors are not separated by a gap or fracture; they are connected, and this connection constitutes a continuum which can take different forms. For example, one element of informality stems from the fact that informal businesses are not registered. But in some countries, any type of business operation, including street vending or running a market stall, necessarily requires some kind of license. Does this automatically ‘formalize’ the business? Certainly not. The fact of obtaining a license simply nudges the business a bit closer to formality on the informal – formal continuum.

Even the company Ethiopian Airlines, presented as ‘totally formal’ in Figure 7, has close links with the informal economy (for example, small farmers supplying food items for catering), and might occasionally hire day labourers without contract and social protection.

I insist in this paper on the informal-formal continuum because I believe that the organisations of the informal economy – those presented in the previous chapter – can play a key role in gradually moving informal economy actors towards the formality end of the spectrum. This will be discussed in the next section.

Cooperatives and the Social Economy: Facilitating the Transition From the Informal to the Formal Sector

Figure 7: The informal-formal continuum



Source: Author's own work

The role of informal economy organisations

We posit that the members of informal economy organizations – the cooperatives, associations, mutuals etc. introduced above – remain informal, while their organizations enter the realm of formality, because they are officially recognized and/or registered. This assumption was confirmed by the aforementioned FES-IDOS-ILO research project. In fact, the survey concluded that well over half of all groups in all six countries possess an official registration certificate, with important variations from one country to another. The proportion of groups that are registered depends on its type: ROSCAs and religious groups may not need (or desire) to register while cooperatives and credit unions must necessarily register so as to be able to function. Moreover, some groups may avoid registering because this may entail the payment of taxes and other duties. Those groups are likely to fall under the grey area of being recognized, but not registered.

Moreover, it can be assumed that informal economy groups which keep accounts are more 'formal' than those that do not. Certain categories of groups, such as cooperatives and credit unions, are obliged by law to keep accounts while one would assume that others, such as religious associations, which do not carry out any financial transactions, would not see the need to keep accounts. The survey revealed that in all six countries, over 70 per cent of the respondents declared that their groups kept accounts. This percentage is significantly higher than the proportion of groups that are registered (see Table 3 below).

A third aspect indicating a certain degree of formality is the stability of informal economy groups. One would assume that informal economy groups are relatively volatile, because their members frequently change location and/or occupation. It was found, however, that the great majority of groups operate permanently; this proportion is highest in countries with the largest proportion of registered groups. The number of groups that function seasonally only (for example, during the harvesting season), or those that come together on an ad-hoc basis (for example, to assist a member in case of an emergency) is quite low in all three countries.

The survey therefore provides three indicators which allow us to measure the degree of formality and stability of the groups; those are summarized in Table 3.

Table 3: Formality indicator

Degree of formality of the groups							
Indicator	Benin	Kenya	Senegal	Zambia	Ivory Coast	Ethiopia	Average
Registered or formally recognized	46.4	67.1	55.3	85.2	39.1	56.0	58.2
Account keeping	73.9	86.2	77.7	90.5	71.1	75.3	79.2
Permanent operations	76.5	86.5	84.3	88.9	78.1	74.7	81,5
Average	65.6	79.9	72.4	88.2	62.8	68.7%	73.0

Source: Schwettmann and Traub-Merz, 2022

The table allows us to observe a surprisingly high, overall ‘formality indicator’ of **73.0 per cent** on average. Moreover, one can assume that the longevity of an informal economy group can serve as a proxy indicator for its performance and stability; one would further expect that groups emerging in the informal economy have a rather low survival rate because they rarely get any government support, and they are often managed or led by individuals with a low level of education. The survey falsified the latter assumption; across all six countries and all types almost half (49.6 per cent) are more than five years old. Table s4 below provides further detail.

Table 4: Median age of groups

Median age of informal economy groups in years					
Country	Religious group	Cooperative (not including credit unions)	Savings club	Neighbourhood association	All groups
Senegal	20	5	4	5	7
Zambia	10	5	1	2	6
Kenya	10	8	3	n.a.	7
Benin	6	6	4	n.a.	5
Ivory Coast	8	6	2	4	5
Ethiopia	10	5	2	10	10
<i>Average</i>	<i>10</i>	<i>6</i>	<i>3</i>	<i>5</i>	<i>7</i>

Source: Schwettmann and Traub-Merz, 2022

Hence, we can conclude that most organizations and associations in the informal economy in sub-Saharan Africa are stable, sustainable, self-reliant and officially recognized. They can therefore effectively build a bridge between their members, who generally remain in the informal economy, and the formal sector. Moreover, they can serve as an interface between the millions of the informal economy actors on the one hand, and the State and the formal private sector on the other. We will illustrate this on the basis of a few examples.

Cooperatives and the Social Economy: Facilitating the Transition From the Informal to the Formal Sector

Case studies

An association of vegetable marketeers in Hlatikhulu, Eswatini

This case study is based on a personal experience. My wife is a Swazi citizen coming from Hlatikhulu, a small town in the highlands of the Kingdom of Eswatini. Her mother served for many years as the head of an association of around forty-five women who sold vegetables at Hlatikhulu's municipal market. Their stands were (and still are) located in a modern building with solid walls and a solid roof, erected by the municipal authority. The vegetable sellers had to apply for a stand and, if successful, would have to pay a small daily usage fee. All women belonged to an association that served as the interface between the vegetable sellers and the municipal authorities. Membership in the association was voluntary in theory, but de facto compulsory since no person would have been allowed to sell vegetables in the market without being a member of the association.

As the head of the association my mother-in-law played a crucial role. She assigned stands to the association members, ensured that all stands and indeed the entire building was perfectly clean and that the vegetables were fresh, collected the daily fees and handed them over to the municipality, organized meetings to fix prices for each product, mediated in case of a conflict between members (or between a member and a customer), and ensured that the vegetable marketing operation ran smoothly. In addition, if a member of the association encountered a case of illness or death in her family, my mother-in-law would collect voluntary contributions from the others to support her.

In my view this little example illustrates quite well the bridging function of the SSE. The association members, i.e. the vegetable sellers, clearly belong to the informal economy since their 'businesses' are not registered anywhere and do not assume any formal status. The association, however, has been officially recognized and highly welcomed by the municipality because without the association, the municipal authorities would have had to deal with each seller individually. Moreover, the case is also an example of the informal-formal continuum; in Hlatikhulu, one may buy vegetables at three places: in a supermarket (formal), at the municipal market (semi-formal), and on the street, sold by unorganized street vendors (informal). Prices would vary, of course, and so would quality standards and marketing conditions.

The Ethiopian 'Iddir'

The *Iddir* are burial societies that are ubiquitous throughout Ethiopia (Schwettmann, 2023). They organise burial ceremonies and offer financial, material and moral assistance to the surviving relatives. *Iddir* obtain their legal personality from the Ministry of Justice by paying a registration fee (Veerakumaran, 2007), meaning that *Iddirs* must be considered to belong to the *formal* sector. In addition, substantial formalities are observed in the operations of *iddirs*. Regular meetings, the keeping of minutes, and the establishment of rules on how funds are managed (collections from members and disbursements to those who suffer shocks), and how fines shall be imposed are all examples of formalisation (Howlet et al., 2021).

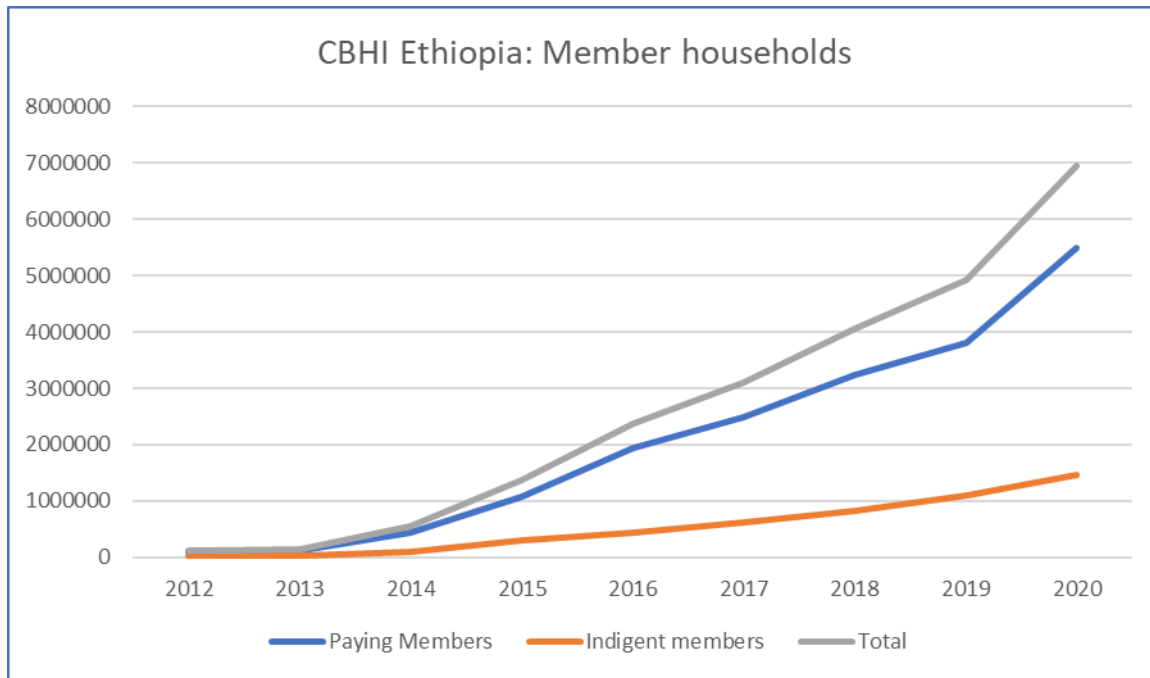
In addition to their primary function as mutual insurance, *Iddirs* are places in which women share experiences and discuss issues of pressing concern. *Iddirs* provide opportunities for social interaction, risk sharing, dispute resolution, information dissemination, reciprocity and mutual assistance (Teshome et al., 2014). Of the many types of *Iddir*, which may be aligned with ethnicity, sex, age, workplace or residence, the most dominant is the community *Iddir*, which is formed by households living in the same neighbourhood (Yitbarek, 2008).

In addition to their primary function, *Iddirs* are often involved in community development programmes, such as the construction of roads and schools, as well as the installation of public utilities. They have also facilitated the introduction and expansion of community-based health insurance (CBHI) schemes (Teshome et al., 2014). Indeed, it was reported that the promoters of such schemes used the *Iddirs* as examples to explain their own functioning, and to encourage rural households to join a scheme. **Figure 8** illustrates the impressive growth of health insurance coverage in Ethiopia.

From the above, the 'bridge-building' function of the *Iddirs* appears obvious. The members of the *Iddir* mostly belong to the informal economy (which, in Ethiopia, represent 85.2 per cent of the labour force). The *Iddirs* themselves are

formalized and officially registered. It is through them that the members get access to health insurance, and benefit from community development initiatives.

Figure 8: Coverage of the Ethiopian CBHI



Source: EHIA, 2020

A national street vendors' association in India

The National Association of Street Vendors of India (NASVI) was founded in the mid-1990s in the State of Bihar, where two NGOs, ADITHI and the Self-Employed Women's Association (SEWA) promoted the formation of an alliance of unorganized street vendors under the name 'Nidan' (a Hindi word for 'solution'). Nidan soon became NASVI; in 2001 NASVI successfully advocated for the formulation of a national policy on street vending, and joined the drafting committee that formulated the policy, which was finally approved by the Indian Cabinet in January 2004⁸. The [policy](#):

- Created a legal status for street vendors.
- Provided civic facilities for urban spaces identified as vending zones.
- Promoted organizations of street vendors.
- Created a participatory planning service that incorporates civil society, local authorities, and street vendors.
- Encouraged street vendors to self-regulate and self-organize.
- Promoted access to skill development programs for street vendors.

NASVI's next challenge consisted of ensuring the effective implementation of the policy in all Indian States. This struggle was greatly supported by a verdict issued by the Supreme Court of India in October 2010 stipulating that street vendors had the fundamental right to carry on their businesses under Article 19 (1) g of the Indian Constitution, and directing Government to enact legislation for vendors by 30 June 2011. After a long struggle led by NASVI the President of India promulgated, in February 2014, the [Street Vendors \(Protection of Livelihood and Regulation of Street Vending\) Act, 2014](#)⁹.

The enactment of this law, perhaps the first of its kind in the world, was a resounding success for NASVI; this accomplishment can be attributed to NASVI's associational power (the association currently represents 952 affiliate organizations with 658,129 members), its policy of exercising relentless pressure on government and law-makers through campaigns, mass demonstrations and protests, its clever use of both traditional and modern media, as well as a strong team of legal advisors (Singh & Kumar, 2016).

Cooperatives and the Social Economy: Facilitating the Transition From the Informal to the Formal Sector

The Indian street-vending policy and legislation has nudged the street-vending profession a bit closer to 'formality' on the continuum; this would have been impossible without their national association, NASVI.

Vertical integration

The bridge-building function of the SSE can be strengthened and broadened through the formation of sectoral, regional, national or international unions, federations and alliances of primary SSE entities. The aforementioned NASVI is one of them, as is the Kenya National Alliance of Street Vendors and Informal Traders (KENASVIT), which serves as an umbrella organization of urban associations of street vendors. In most countries cooperatives and credit unions have formed national federations which play a representational, societal and policy-making role. These organizations clearly belong to the formal economy, but they represent the interest of individuals that earn their livelihoods in the informal economy. In some instances, national informal economy associations build global networks, such as:

- Global cooperative bodies, namely [ICA](#) and the World Council of Credit Unions ([WOCCU](#)).
- Global mutual insurance associations, namely the International Association of Mutual Benefit Societies ([AIM](#)) and [ICMIF](#).
- Global informal economy advocacy bodies, including [StreetNet International](#), Women in Informal Employment: Globalizing and Organizing ([WIEGO](#)), the [Global Alliance of Waste Pickers](#) and the [International Domestic Workers Federation](#).

The formation of higher-level structures, also referred to as 'vertical integration', has the potential to increase the economic benefits of organization building through greater economies of scale, its social benefits through a broader sharing of risks, and its political benefits through larger bargaining power.

Conclusions

The informal economy is omnipresent in sub-Saharan Africa; it is much larger than the formal economy and employs ten times more people than the latter. The informal economy is here to stay and will not disappear. The informal economy is not unorganized; it is rather self-organized and self-regulated since the State is unable to reach out, monitor and support the hundreds of millions of informal micro-businesses that flourish everywhere on the continent. Informal economy actors have formed a plethora of associations, self-help groups, savings clubs and cooperatives which provide essential economic, social and societal functions. These autonomous, voluntary and democratically managed entities of the social and solidarity economy have proven their effectiveness in reducing decent work and sustainable development deficits that prevail in the informal economy, thereby nudging the informal economy actors and entities towards formality. Most importantly, they constitute an interface that enables the state and the private sector to interact with the millions of informal workers which cannot be reached individually.

Policymakers, governments and development partners should pay greater attention to the agency and potential of these SSE entities and their federations, because they constitute the most cost-effective means to build a bridge between informality and formality. The majority of SSE entities are not *cooperatives*, but alternative types of organizations that nevertheless operate according to cooperative principles and observe cooperative principles. It would be desirable for the Africa Office of the International Cooperative Alliance and the Ministries in charge of cooperatives in the region to seek ways of reaching out to national SSE federations, and to support them in their efforts to improve the lives of the continent's informal economy actors.

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Notes

¹ The ‘Union Economique et Monétaire Ouest-Africain’ (UEMOA) covers eight West African countries (Bénin, Burkina Faso, Côte d’Ivoire, Guinée-Bissau, Mali, Niger, Sénégal and Togo); in 2018, UEMOA carried out a very comprehensive survey of the informal economy in those eight countries (UEMOA, 2018)

² Some aggregate data for sub-Saharan Africa exist, however: the share of informal employment in non-agricultural employment grew from 66.5 per cent in 1980 to 73.7 per cent in 1990 and 76.8 per cent in 2016 (Kanté, 2002; ILO, 2018a)

³ Green and Khan (1990) report that from US\$8 billion in 1970, the total external debt of African countries (excluding arrears) had by the end of 1987 risen to US\$174 billion, including short-term debt estimated at US\$12 billion.

⁴ The term 'empresas recuperadas' is typically associated with the Argentinian experience, but they exist in several African, Asian, European, and North American countries as well (Vieta, 2019)

⁵ A term coined by John Williamson (2009). in early 1989, to describe a standard package of ten economic reform measures, including those mentioned in this paragraph. The Washington Consensus was never formally adopted, but the term was commonly used in the 1990s and the first decade of the 21st century.

⁶ In the first two surveys (Kenya and Benin), sports associations were listed as an option; those were replaced for the remaining countries with neighborhood or residential groups as a more popular type.

⁷ This is in stark contrast to the data published by the Kenya Bureau of Statistics which, in 2016, reported a total of 10.8 million cooperative members in the country – equivalent to 39 per cent of the population in the age bracket 15 to 64.s

⁸ The policy was revised in 2009 and accompanied by a model law that federal States could use to support its implementation.

⁹ The law *inter alia* defines the rights and obligations of street vendors, protects them from unlawful eviction, guarantees their legal recognition, and clarifies their relationship with municipal authorities.