



Ministry for Foreign  
Affairs of Finland

# TRADE UNIONS AND TRADE

The impact of Continental Free Trade  
Agreements on informal employment  
in Africa: A case of the manufacturing  
industry in Zambia



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# List of Abbreviations

<b>AfCFTA</b>	African Continental Free Trade Area	<b>LRN</b>	Labour Research Network
<b>AMU</b>	Arab Maghreb Union	<b>MCTI</b>	Ministry of Trade and Commerce
<b>AU</b>	African Union	<b>MLSS</b>	Ministry of Labour & Social Security
<b>ARDL</b>	Autoregressive Distributed Lag	<b>MRU</b>	Mano River Union
<b>AVEMA</b>	Association of Vendors and Marketeers	<b>NAPSA</b>	National Pension Scheme Authority
<b>AZIEA</b>	Alliance for Zambia Informal Economy Associations	<b>NATMAZ</b>	Marketeers Association of Zambia
<b>CEMAC</b>	Central African Economic and Monetary Community	<b>NEST</b>	National Export Strategy
<b>CBTA</b>	Cross-Border Traders Association	<b>NSA</b>	National Statistical Agency
<b>CGE</b>	Computable General Equilibrium	<b>OAU</b>	Organization of African Unity
<b>COMESA</b>	Common Market of East and South Africa	<b>ONS</b>	Algerian National Bureau of Statistics
<b>CSO</b>	Central Statistical Office	<b>RTA</b>	Regional Trade Agreements
<b>CTPD</b>	Centre for Trade Policy and Development	<b>SACU</b>	Southern African Customs Union
<b>DID</b>	Difference in Difference	<b>SACBTA</b>	Southern Africa Cross Border Traders Association
<b>EAC</b>	East African Community	<b>SADC</b>	Southern African Development Community
<b>ECOWAS</b>	Economic Community of West African States	<b>SATUCCC</b>	Southern African Trade Union Co-ordination Council
<b>GDP</b>	Gross Domestic Product	<b>TFTA</b>	Tripartite Free Trade Area
<b>ICBT</b>	Informal Cross-Border Trade	<b>WAEMU</b>	West African Economic and Monetary Union
<b>IGC</b>	International Growth Centre	<b>ZAM</b>	Zambia Association of Manufacturers
<b>ILO</b>	International Labour Organization	<b>ZCTU</b>	Zambia Congress of Trade Unions
<b>ITUC</b>	International Trade Unions Confederation	<b>ZDA</b>	Zambia Development Agency
<b>LFS</b>	Labour Force Survey	<b>ZILARD</b>	Zambia Institute for Labour Research and Development
<b>LMI</b>	Lower Middle Income	<b>ZSA</b>	Zambia Statistical Agency



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## ABSTRACT

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# INTRODUCTION

**This report presents an empirical study on the impact of trade liberalization brought about by the anticipated AfCFTA on informal trade and employment in Africa, focusing on the manufacturing sector in Zambia as a case study. The report is structured in three main ways: First, it deals with a selected detailed systematic literature review of the studies on the impacts of free trade agreements on the informal economy in Africa. Second, it presents empirical findings on the prevalence of informality, the effect of tariffs on informality and presents the perspectives of key stakeholders on the AfCFTA and its impact on the manufacturing sector in Zambia. Third, an analysis of policy implications, recommendations and strategic interventions that trade unions should pursue are presented. Conclusions are then drawn.**

The 1994 "Abuja Treaty" led to the formation of a number of African Regional Trade Agreements (RTAs). The common regional blocks and points that have evolved and strengthened over time include the Economic Community of West African States (ECOWAS), the East African Community (EAC), the Southern African Development Community (SADC) (1980), Central African Economic and Monetary Community, Southern African Customs Union and Tripartite Free Trade Area, Mano River Union (1973), West African Monetary Union (1994), the Eastern and Southern African Market (COMESA) (1981), and Arab Maghreb Union (1989). The OAU was also renamed the African Union (AU) in 2002. In January 2012, fifty-four (54) African countries agreed to establish a Continental Free Trade Area (AfCFTA) at the 18th Ordinary Session of the Assembly of Heads of State and Government of the African Union (AU) in Addis Ababa, Ethiopia. The ambitious long-term goal of the agreement is to deepen the integration among the member states of the African Union, promote the African Economic Community in accordance with the 1991 Abuja Treaty of the Organization of African Unity (OAU), and realise Africa's 2063 agenda. One of the main goals of AfCFTA is to promote, unify and better coordinate the trade system, as well as to eliminate the challenges associated with multiple and overlapping trade agreements across the African continent. Many believe that the AfCFTA is expected to lead to the creation of a single African market for goods and services, facilitate the long-awaited free movement of people, mobilize regional investments and be the necessary building impetus towards the establishment of a Continental Customs Union. These expectations, amongst others, are predicted to lead to improved African regional competitiveness, industrial development, resolve the challenges caused by multiple and

overlapping Regional Economic Community memberships, and fast-track the long-awaited African regional and continental integration process.

The main goal of all African regional trade agreements is to promote manufacturing exports by eliminating tariffs. In that regard, the AfCFTA aims to promote intra-African trade by reducing tariff and non-tariff barriers (AU, 2021). This is because manufacturing is essential to diversify production and increase productivity in Africa. Tariffs are specific taxes levied on imported goods at the border. Tariffs have always been a tool for the government to collect revenue, but they are also a way to protect domestic industry and production. Tariffs are also used to restrict imports by increasing the prices of goods and services purchased from another country, thereby reducing their attractiveness to domestic consumers.

There are two types of tariffs: specific tariffs are levied as a fixed fee based on the type of goods, such as a \$1,000 tariff on a car. Ad valorem tariffs are levied based on the value of the goods, such as 10% of the value of the vehicle. Governments that use tariffs to benefit specific industries usually do so to protect companies and jobs. Tariffs can also be used as an extension of foreign policy: imposing tariffs on the main export products of trading partners is a way to leverage economic leverage. Tariffs may have unexpected side effects. They can reduce the efficiency and innovation capabilities of domestic industries by reducing competition. They also hurt domestic consumers because lack of competition tends to push up prices. They can create tension by favouring certain industries or geographic regions over others. For example, tariffs designed to help urban manufacturers may harm consumers in rural areas, who cannot benefit from the policy and may pay more for finished products.

In the end, attempts to pressure hostile countries through tariffs may turn into a futile cycle of retaliation, often referred to as a trade war. This has motivated many African countries to eliminate tariffs altogether. In each of Africa's sub-regional groups, attempts and progress have been made towards the creation of common free trade with some limited success. The full implementation is expected to ease restrictions on tariff escalation and encourage countries to focus on more value-added products, thereby diversifying exports from commodities.

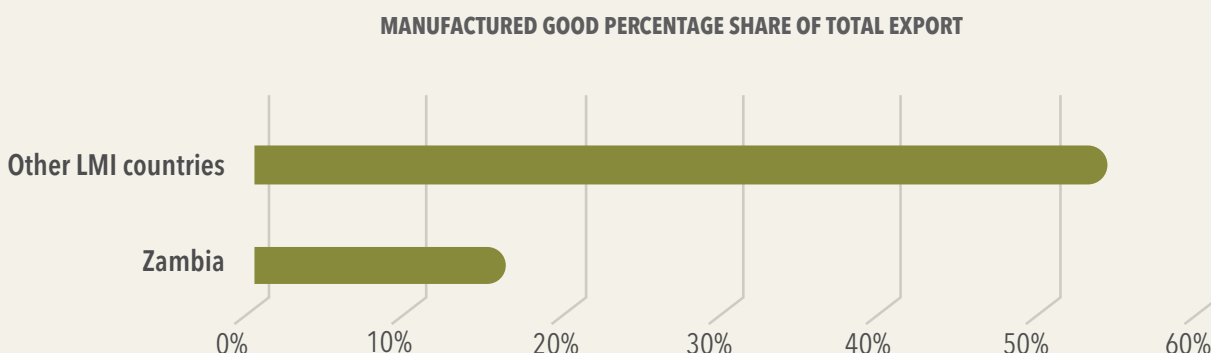
It is also hoped that the integrated African economy can enhance the competitiveness of local industries, achieve economies of scale for domestic producers, better allocate resources and attract foreign direct investment. The African Free Trade Agreement and the 2063 Agenda hopes to reverse Africa's premature de-industrialization process and take advantage of the continuing large number of manufacturing opportunities, including software, auto parts, industrial and commercial machinery, chemicals, agricultural processing, and clothing and Footwear sub-industry, etc. (AU, 2021). Indeed, some countries such as Kenya have claimed advantages of free trade in certain sub-sectors. Kenya's relatively strong industrial manufacturing accounts for nearly 20% of the country's economic activity and 12.5% of all formal jobs. Kenya has become a major automotive supplier in the East African market (AU, 2021). However, literature affirms that today Africa is not as industrialized as it was in the 1970s. The share of manufacturing in Africa's GDP is currently 11%, down from 15% in the 1970s (AU,

2021). Africa's contribution to global manufacturing output fell from 3% in the 1970s to less than 2% in 2013. The share of manufacturing in Africa's total exports fell from 26% in 1995 to 19% in 2014 (AU, 2021). In other words, African countries are de-industrializing and still very poor. In 2014, manufactured goods accounted for only 15% of Africa's exports to countries outside Africa, while intra-African exports accounted for only 42% (AU, 2021).

Being one of the signatories of the AfCFTA and given its geopolitical position (with eight bordering countries), Zambia increasingly sees the AfCFTA as an important step to integrate into the continental trade system. The AfCFTA is thus envisaged as an opportunity for the country's growth of its industries and employment. The country began to implement an export-oriented industrialization strategy in the early 2000s. Thus, even though the total exports had been growing at an annual rate of approximately 16% since the early 2000s, exports fell sharply between 2013 and 2016 (NEST, 2018) (see Figure 1). The country has begun to experience a trade deficit since 2014, mainly due to the decline in commodity prices, indicative of a decline in competitiveness. Overall, compared with other lower-middle-income countries, the proportion of manufactured goods as Zambia's total (commodity) exports is very low. In 2018, only 16% of exports came from manufacturing, compared with 59% in the Lower Middle Income (LMI) average country group (World Bank, 2018).

**Figure 1: Manufactured Goods Percentage Share of Total Exports, 2018**

Source: NEST 2018







The government has since set the goal of the manufacturing industry to account for **15%** of GDP by 2027 in its current industrial policy (NEST, 2018). This will boost the manufactured goods percentage share of total exports to around **48%**. It is envisaged that the promotion of manufacturing industries could possibly establish back-to-back solid links with other sectors, generate positive spillover effects in the national economy, and spur growth. In labour and employment terms, in 2018, the manufacturing industry contributed **8.1%** of Zambia's GDP employing **7.4%** of Zambia's employed population (CSO, 2018). Thus, the AfCTA is seen as one of the entry points to stimulate growth and create employment, more particularly in the informal economy.

It is important to underscore the fact that the impact of international trade on the labour markets, labour productivity and particularly informal employment and informal work is not widely empirically researched in Africa and particularly in Zambia. Yet, the informal economy plays a vital role in the lives of millions of people in urban and rural areas in the country. According to current estimates, **80%** of workers in sub-Saharan Africa are employed in the informal economy (ILO, 2018). In addition, it is estimated that informal trade provides up to **70%** of employment opportunities in Sub-

Saharan Africa, providing domestic goods and services that are not available through the formal economy and bringing considerable socio-economic benefits to people engaged in such activities. In Zambia, for example, it provides livelihoods, employment and entrepreneurial opportunities to the majority of Zambians (**87.5%**).

Typically, informal workers are mainly concentrated in companies with fewer than 10 workers in Zambia (LFS, 2018). About three-quarters of the workforce in these companies is informal. Most self-employed and unpaid family workers are informal (**78%** and **86.2%**, respectively) (LFS, 2018), with most of them women (ILO, 2020). The International Growth Centre (IGC) survey of companies in Lusaka, the capital of Zambia, found that **52%** of the 47,428 companies in Lusaka are informal.

This only includes companies with fixed locations and does not include businesses that use temporary booths or do not have booths at all. A large proportion of people in the informal economy conduct business as informal cross-border traders (ICBT). ICBT contributes **30-40%** of the total intraregional trade in the Southern African Development Community (SADC) region and **40%** of the Common Market for Eastern and Southern Africa (COMESA) region.



**The manufacturing industry contributed 8.1% of Zambia's GDP employing 7.4% of Zambia's employed population (CSO, 2018)**

In the absence of sufficient formal economic opportunities, ICBT is critical to solving important issues such as income generation, job creation and food security, especially for the most vulnerable groups in Africa, such as women and youth, who often constitute informal cross-border traders. In West and Central Africa, women account for nearly **60%** of informal traders. In Southern Africa, they account for about **70%** of them. ICBT is mainly implemented by officially unemployed micro, small and medium enterprises (MSMEs).

By definition, it is observed that the main feature of the informal economy is that the employment relationship does not comply with labour laws. That is, it is not protected by legal contracts or has no social protection. Informality in a broad sense can be expressed in many terms, such as informal enterprise, informal sector, informal work and informal employment. The informal economy could also be seen as the sum of all informal enterprises whose size does not exceed a certain threshold (5-10 workers), and is not registered/licensed, and is not subject to tax regulations, social protection or labour regulations constraint. What is described as informal jobs is workers with their own accounts (self-employed), employers, employees of informal enterprises, subsistence workers (their products are produced for household consumption), unpaid or contributed household workers, and those whose employment settings with formal enterprises are not subject to labour laws, social security systems, and/or taxes.

Informal employment thus includes all these types of informal work, whether in formal or informal institutions. In this study, we take the lack of legal contracts and social protection coverage as indicators of informality, focusing on the manufacturing industry, of which **66.8%** are informal workers (LFS 2018). Work in the informal economy is usually characterized by small or unclear workplaces, unsafe and unhealthy working conditions, low skills and productivity levels, low or irregular incomes, long working hours, and lack of access to information, markets, funds, training and technology. Workers in the informal economy are not recognized, registered, supervised or protected by labour legislation and social protection.

The root causes of informality include factors related to economic background, legal, regulatory and policy

frameworks, and some micro-level determinants such as low education, discrimination, poverty, and the lack of access to economic resources, property, financial and other business services and markets. There are very few informal enterprises that are able to obtain credit from banks since they have no collateral to offer as a guarantee. The high incidence of the informal economy is a major challenge to workers' rights and decent working conditions. It has a negative impact on enterprises, public revenues, the scope of action of the government, the integrity of institutions, and fair competition. (ILO, 2015).

With the impact of the COVID-19 pandemic, by order of severity, the Southern African Trade Union Co-ordination Council (SATUCC) affiliates reported that most sectors that were impacted were: tourism and service, informal economy, transport, and education in the SADC region. Zambia estimated more than 70,000 losses of jobs for the first half of the year 2020 alone (SATUCC, 2020). Clearly, COVID-19 has deepened the structural challenges and decent work deficits in employment. In most cases, informal workers now struggle to have labour contracts and are not entitled to labour rights or benefits. Compared with formal work, informal work tends to provide lower-income opportunities, poor working conditions and almost no social safety net. Therefore, understanding the impact of trade policies on informal work is a key aspect of policies that address inequality and poverty. It would also form the basis of shaping policy on the transitioning to formality as per ILO recommendation 140.

Accordingly, this report presents an empirical study on the impact of trade liberalization brought about by the anticipated AfCFTA on informal employment in Africa, focusing on the manufacturing sector in Zambia as a case study. The significance of the study lies in the fact that it provides the key stakeholders such as informal workers' associations, policymakers, trade unions, government and experts with empirical evidence-based information to initiate and advocate firm proposals on the appropriate and acceptable model for informal workers to engage in the AfCFTA in Africa and Zambia as a case in point. It also provides best practices for technical integration to the informal economy workers into the AfCFTA.





# OBJECTIVES OF THE STUDY

The following are the specific objectives of the study:

- 1) Assess the prevalence/probability of informal work in the manufacturing industry in Zambia.
- 2) Measure the impact of trade reforms on the probability of being informally employed in the labour market in the manufacturing industry in Zambia (including specific job characteristics, industry indicators, and tariffs).
- 3) Evaluate the perspectives of key officials regarding the impact of trade policies and reforms on informal employment in Zambia.
- 4) Put forward firm proposals on the appropriate and acceptable framework for informal workers, policymakers, trade unions, government and experts to engage on informal employment in the context of the AfCFTA) in Zambia.



## CONCEPTUAL FRAMEWORK

Labour and employment issues are broad and diverse. However, the Decent Work (DW) is conceptually and in practice accepted as one of the fundamental frameworks for understanding labour and employment by various stakeholders. Decent Work sums up people's ideals at work. It involves productive work opportunities and provides fair income, workplace safety and better prospects for family protection, personal development and social integration. It upholds people's expression of their concerns, freedom to organize and participate in decisions that affect their lives, and equality of opportunity and treatment for all women and men. During the United Nations (UN) General Assembly in September 2015, decent work and the four pillars of the decent work agenda: **employment creation, social protection, rights at work, and social dialogue** became an integral part of the new 2030 Sustainable Development Agenda. Goal 8 of the 2030 Agenda calls for the promotion of sustained, inclusive and sustainable economic growth, full and productive employment, and decent work. These are

the key anchors or areas of this current study. In addition, the key aspects of decent work have been widely embedded in the other 16 goals of the UN's new development vision. As noted from the four pillars of decent work, the response of trade unions to AfCFTA reforms should be diverse and all-encompassing. In that regard, for this study, it will be useful to integrate the decent work framework with overarching tenets of political economy analysis. This is so because the political economy analysis illuminates our understanding of the dynamic interaction between structures, institutions and actors (stakeholders) to understand how decisions are made. It examines the power and class relations (trade unions, employers, governments and co-operating partners) within a policy at local, national and international levels and how such power leverages promoting an inclusive and stable 'political settlement' in dealing with continental trade issues.



# STRUCTURE OF THE REPORT

This report is structured in two ways:

- 1) Firstly, it deals with a selected detailed systematic literature review of the studies on the impacts of free trade agreements on the informal economy in Africa. This forms the basis for the presentation of the empirical quantitative and qualitative findings. For guidance, a literature review presented in Annex II is a snapshot of the selected relevant literature that was deciphered.
- 2) Secondly, this study will adopt a mixed method of both quantitative and qualitative approaches. It is important to underscore the fact that both qualitative and quantitative data collected sequentially and simultaneously was analyzed and triangulated in order to yield a single interpretation and then conclusions drawn.



# LITERATURE REVIEW

Contrary to expectations in many early development literature, the informal economy not only persists in many developing countries but is actually growing, especially in Africa, where it dominates the economy in terms of output and employment. This growth has coincided with increasing globalization and economic opening, which has sparked debate about the impact of these processes on the informal sector. Empirical evidence shows that in a globalized economy, there are, in fact, both winners and losers. Although this issue dominates the public debate, the empirical literature on the impact of trade reforms on the informal economy is not well-founded and documented.

Empirical research in Africa is inconclusive on the impact of trade liberalization on informality and informal employment. Most literature tends to suggest that, depending on the characteristics of the country and industry, informality and informal employment can respond positively or negatively to trade liberalization. Rattsø, Jørn and Torvik, Ragnar (1998) show that Zimbabwe's trade liberalization provides an opportunity to understand the short-term adjustment response to reforms. Direct experience includes output and employment contraction, consumption boom, import inflows and rising trade deficit. The analytical challenge is to distinguish the effects of liberalization from the severe drought that coincided with it. The economic range CGE model was used for counterfactual experiments in the Zimbabwean study. The opening of the final product market proved to help de-industrialization and contraction. However, although the study showed the contribution of the informal economy, it did not show the full impact on informal workers.

In Lesotho, Musi, Mokone (2002) explored and described the problems faced by Lesotho informal cross-border traders operating between Lesotho and Durban. This study outlines their experiences and problems at different stages of the journey. It was between their home and the border crossing, the border crossing on the way to Durban, in Durban, and the border crossing on the way back to Lesotho. The study investigated the relationship between these traders and Durban traders. It tracks what happens when their goods are imported into Lesotho. The study concluded that trade and non-trade barriers have brought a series of serious problems to informal traders, thus hindering the development of international trade in the informal sector.

In addition, Chirisa and Innocent (2014) aimed to explore and define the role of the informal economy in the African regional integration agenda, emphasizing traps and antics. This research is conceptual, based on academic research on the relationship between the informal sector, female entrepreneurship, and regional integration, as well as a literature review of some official and media articles. The study found that in Africa, the characteristics of the urban informal economy are very common. However, this phenomenon is no longer the subject of a single country; it transcends national boundaries. The evidence includes extensive cross-border trade practices and the provision of basic services and infrastructure for migrants working in the informal economy to achieve survival strategies. Compared with the debate here, the local reality may change rapidly.

In a previous study, Currie and Harrison (1997) found that in Morocco, companies began to hire more temporary workers after the completion of a comprehensive trade liberalization plan. Recent research also shows that trade liberalization will affect the degree of informality in the labour market. For instance, Victor Ogalo (2010) used surveys and panel data to determine the impact of regional integration and development on Informal Cross-Border Trade (ICBT) in East African countries. The results show that while ICBT fosters tax evasion, it will inevitably limit the possibility of EAC economic growth and development. It creates unhealthy competition with formal companies that pay regular punitive taxes and limits their growth potential; this has a negative impact on the overall economy. However, it has also been observed that during the economic recession, the formal private sector shrinks, people are unemployed, and the informal economy provides another source of employment.



The study found that in some cases, many people choose to engage in ICBT because of the lack of formal job opportunities; for others, entry into formal cross-border trade is often too strict.

In another study, Robert Nkendah (2010) used the monitoring method of informal trade cross-border flows to estimate the amount/value of informal (unrecorded) cross-border trade between Cameroon and its CEMAC neighbours and compared it with the official Trade comparison. Cameroon is the first trading partner of a country in the Central African Economic and Monetary Community (CEMAC). Although belonging to the same sub-regional organisation, the formal trade relations between Cameroon and its neighbours have been hindered by a variety of factors that have stimulated the growth of informal (unrecorded) trade, Cameroon's interest in cross-border trade of agricultural and horticultural commodities between Cameroon and its neighbours has been overwhelming.

However, the understanding of its scale, determinants, and consequences is still insufficient, which leads to underestimating figures in the national accounts and hinders development-appropriate policies and strategies to take advantage of its potential impact, especially its impact on food security. The results of the study show that in 2008, more than 155,000 tons of agricultural and horticultural commodities were shipped from Cameroon to CEMAC's neighbouring countries, estimated to be worth nearly 38 billion Cameroon francs, accounting for **0.4%** of GDP in Cameroon. Relatively speaking, informal or unrecorded trade accounts for **96%** of official trade, mainly including agricultural and horticultural commodities. The failure of the internal community framework of institutional enterprises caused by the practice of informal trade policy is the factor explaining CEMAC's informal trade.


In addition, Ali et al. (2018) reviewed the labour market policy mechanisms implemented by the Algerian government in 2008. They assessed their impact on informal employment and the informal economy using the household employment survey data conducted by the National Bureau of Statistics (ONS) from 1997 to 2013. The researchers investigated three types of situations: employees, new employees, and self-employed, focusing on the impact on employee social security registration and self-employed administrative and financial registration. They use the Difference in Difference (DID) method and compare two periods: 1997-2007 and 2008-2013; only the DID estimator is used as a falsification test in the first stage. According to the results, the impact of labour market

policy tools on informality proved to be heterogeneous. For employees working in enterprises with at least 10 workers, it has a negative impact on informal employment. Employees in companies with 5 to 9 employees have not recorded a significant impact. For new employees, the impact was not great. The labour market mechanism also helps to strengthen registration, thereby reducing the informal sector, but it only applies to companies with 1 to 4 employees and has no effect on companies with 5 to 9 employees. The study, however, does not show the impact of labour market policy mechanisms on informal employers.

In Benin, Mitaritonna, Bensassi Jarreau (2019) conducted a quantitative study of informal cross-border trade based on comprehensive data from a country (Benin). This paper studies the relationship between trade barriers and trade informality. The study found that increasing the tariff of a certain product by 10% increases the likelihood of formal and informal imports of that product by approximately 12%. The study also found that tariff measures have also increased informality. Their results also show that in addition to tariffs and regulations, compliance costs also help explain informality. If some traders choose informal channels, not because their goods do not meet certain requirements (technical, sanitary or origin), but because compliance costs (delay or certification costs) are too high, these cost reductions should bring Welfare income. However, although their results indicate that this compliance cost plays a role in informal behaviour, they could not accurately quantify this impact.

Hanjatiana Nirina Randrianarisoa (2018) studied the impact of deregulation trade policies in two member states, Egypt and Kenya. The study provides a modified 3x3 general equilibrium model to assess the impact of tariff cuts on informal production and wages. It was found that there is a negative correlation between the level of manufacturing tariffs in Kenya and the possibility of informal employment in the industry, and it is estimated that there is a positive correlation in Egypt. In other words, lowering the tariffs faced by the Kenyan industry will increase the possibility of informal employment in these industries, while the Egyptian industry does the opposite. However, the results appear to be the result of a specific trade relationship between Kenya and Egypt, which may be different when comparing another pair of countries. In Egypt, Salem and Zaki (2019) studied the impact of trade openness on job quality, measured by the share of informal and informal employment in total employment. Their main findings indicate that there is a positive correlation between tariffs and informal and informal employment in Egypt.





**The results of the study show that in 2008, more than 155,000 tons of agricultural and horticultural commodities were shipped from Cameroon to CEMAC's neighbouring countries, estimated to be worth nearly 38 billion Cameroon francs, accounting for 0.4% of GDP in Cameroon**



This effect is probably because the informal enterprises with the lowest productivity will be forced to withdraw from the industry, and only the (formal) enterprises with the highest productivity will export to the international market.

This will increase the demand for formal (and ultimately formal) workers who are usually more skilled, which in turn will lead to a possible decline in informal (and informal) employment. However, while this influence on informality is powerful, the influence on irregularity is not.

Similarly, Stephen Golub (2019) used grounded theory analysis techniques to study the impact of Nigeria's closed border on informal trade with Benin. The results show that when the border is closed, or Nigeria's economy is in recession, Benin's income will be hit hard because of the decline in demand for products traded there.

At the regional level, Mukwaya (2019) analyzed the impact of Regional Trade Agreements (RTA) on the export of manufactured goods in Africa. He found that regional trade agreements increased manufacturing exports among member countries by an average of **72%** in the 12 years following the ratification of the trade agreement. However, the report did not show the impact on the informal economy.

Mawusi (2021) used the autoregressive distributed lag (ARDL) technique and the Granger causality test to test the dynamic relationship between Ghana's economic growth, the size of the informal economy, and trade openness. The results of this study proved that there is a positive two-way causal relationship between the scale of the informal economy and economic growth. Further, it has been found that trade opening has a significant causal impact on the prevalence of informal activities and economic growth. However, this impact has not been fully reviewed.

There are some empirical studies on trade liberalization and the informal labour market done in Latin America that seemed closely related to African conditions and the research work by Goldberg and Pavcnik (2003) and Alemán-Castilla (2006). Goldberg and Pavcnik (2003) used data from Brazil and Colombia and found that import tariffs have little effect on Colombia's informality share, but they have no effect in Brazil. Alemán-Castilla (2006) used Mexico's data and found that the reduction of US tariffs reduced the informal share of Mexico's trade sector; the reduction of Mexican import tariffs had no effect; the reduction of import tariffs from trading partners resulted in average regular wages and informal wages. The difference between increases.

To summarize the literature review, we point out that the results of the above studies vary from country to country in terms of the impact of trade policy on informality. The negative consequences of trade reforms on the informality

of one country do not automatically mean that the next country will also produce negative consequences. This may be caused by many factors, including demographics and family characteristics. The literature review also shows that various policies and strategies implemented by one country in the region may have a potential impact on the informality of another country. This shows that countries, especially countries in the same region, need to synchronize trade policies. In addition, literature studies have shown that trade policies not only affect the prevalence of informality but also affect wage levels, access to social security, and demand for locally manufactured goods. Trade reforms may expose formal enterprises to more intense foreign competition. Therefore, these companies try to reduce labour costs by cutting worker benefits, replacing regular workers with part-time labour, and not providing workers with formal contracts or social security. The impact of trade liberalization on the informal economy has been extensively discussed at the empirical and public policy levels, but empirical research has never been conducted in Zambia. Therefore, combining the microeconomic data set (the Labour Market Survey) with some macroeconomic variables (tariffs), this particular study attempted to assess the extent to which trade reforms have affected informal employment in Zambia.

This research adds and improves on these previous studies in several important ways.

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→ First, we use an informal employment definition that is as close as possible to the definition used in the theoretical model. In their conceptualization, Goldberg and Pavcnik (2003) treat self-employed individuals and some employers as informal workers, while Alemán-Castilla (2006) also counts workers who are engaged in jobs that comply with labour regulations (yet the company employs less than 6 people) as informal workers.

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→ Secondly, given that the implementation of labour laws is a key determinant of informal work, we use the Zambian import tariffs as instrumental variables to resolve the omissions in their model and to empirically determine both import tariffs and informal prevalence in the manufacturing sector. So far, the literature has ignored these issues. Therefore, this study aims to fill the gap through an empirical study on the impact of trade liberalization on informal employment in Africa. The study uses the manufacturing industry in Zambia as an example. We also consider the views of major stakeholders on informality, employment, tariffs and social dialogue to consolidate the empirical quantitative results from microdata.



## DATA AND DATA SOURCES

For data collection, the Zambia Institute for Labour Research and Development (ZILARD) sent personal questionnaires to nine (9) key stakeholder representatives, and two (2) focus group discussions were conducted to obtain further views. Participants in the focus group discussions came from the manufacturing industry representatives, informal economy organizations and trade unions in the manufacturing industry. They represented a variety of large-scale and small manufacturers, including welders, carpenters and boiler manufacturers, as well as new entrants to the manufacturing industry.

Manufacturing industry microdata was obtained from the Zambia Manufacturers Association (ZAM) database. We also correlated trade variables with household surveys of 2018 panel data from the Labour Force Survey (LFS 2018). This data was from a national survey that was conducted by the Zambia Statistics Agency (ZSA) in cooperation with the Ministry of Labour and Social Security (MLSS).



# METHODOLOGY

This study adopts a mixed method of both quantitative and qualitative approaches. It is important to underscore the fact that both qualitative and quantitative data that was collected sequentially and simultaneously was analyzed and triangulated in order to yield interpretations and conclusions. The methods/approaches are described below.

To achieve objectives 1 and 2, based on combining the microeconomic data sets from the 2018 Zambian Labour Force Survey with macroeconomic variables (tariffs) and basic primary survey data, quantitative estimation procedures were followed. In order to directly assess the impact of trade policies/reforms on informality, in addition to trade variables (tariffs) and sector dummies, the probability of engaging in informal work is regressed based on certain individual, household, and regional characteristics. The second part, as adapted from Goldberg and Pavnick (2003), is where changes in the probability of informal employment are related to trade reforms and are explained by tariffs. We developed and specified our econometric model as follows:

$$\text{Informal}_{ijt} = \beta_0 + \beta_1 X_{ijt} + \beta_2 H_{ijt} + \beta_3 R_{ijt} + \beta_4 \text{Tar}_{jt} + \beta_5 IP_{jt} + \varepsilon_{ijt}$$

Where  $\varepsilon_{ijt}$  is the discrepancy term, the dependent variable is a binary variable that takes the value of 1 if the individual  $i$ , employed in sector  $j$  at time  $t$  is working in the informal economy and otherwise, it is 0. The regressors consist of the individual characteristics  $X_{ijt}$  include gender (dummy is female), age, age squared, marital status (dummy is married), education level (three dummies, below intermediate, and above) and a union member dummy. The household characteristics  $H_{ijt}$  are mainly captured by

the household size, a dummy for being head of household. We add two regional dummies (Urban and Rural Zambia) to control for regional characteristics  $R_{ijt}$ . The trade impact is captured by the 2018 tariff levels  $\text{Tar}_{jt}$ . Finally, industry indicators  $IP_{jt}$  are added to control for the non-observed specific industry characteristics. The coefficient of the industry dummy variable is considered to be the “informality premium”, which reflects part of the change in the informal probability, which cannot be explained by the characteristics of the workers and cannot be explained by the workers’ industry affiliation.

This single-step analysis (probit estimation of probability of informality) allows us to assess the direct impact of trade reforms (captured by tariffs) in the African Free Trade Area on the possibility of being employed in the manufacturing sector. Contrary to the fact that Goldberg and Pavnick (2003) included tariff-lagging trade flows (including imports and imports) in tariffs, we chose to measure trade policy only by applying tariffs because both exports and imports depend on tariffs. The study also assesses the perspectives of key officials regarding the impact of trade policies and reforms on informal employment in Zambia. In that regard, qualitative data was obtained through face-to-face interviews and focused group discussions with trade union officials at the Zambia Congress of Trade Unions (ZCTU), cross-border associations, namely Southern Africa Cross Border Traders Association (SACBTA) and the Cross-Border Trade Association (CBTA), selected institutions dealing with the manufacturing sector, i.e. Zambia Association of Manufacturers (ZAM), informal economy associations namely: Association of Vendors and Marketers (AVEMA) and Alliance for Zambian Informal Economy Associations (AZIEA) and National Traders and Marketers Association of Zambia (NATMAZ), and lastly representatives of government (Ministry of Labour & Social Security) and the Centre for Trade Policy and Development (CTPD) (see Annex 1).





# RESEARCH FINDINGS

## 8.1. Probability/Prevalence of Informality in the Zambian Manufacturing Industry

In this section, we show our results of the prevalence of informal employment in the manufacturing industry in Zambia based on available official 2018 data. We contend that a positive coefficient represents a positive relationship of the variables (e.g. age or marital status) with informal work (more informality), whilst a negative coefficient represents a negative relationship of the variables (e.g. age or marital status) with informal work (less informality). The explanatory variables are mainly individual characteristics represented by gender, age, marital status, education attainment and trade union; household characteristics represented by household size and relationship to head of household, and regional characteristics represented by urban or rural. We present our

findings separately for each variable, starting with the impact on individual characteristics, household characteristics and finally, regional characteristics. The reference category is male, unmarried, non-head of household, illiterate or able to read and write, and working in the wood production industry in 2018. The detailed findings are explained below.

### 8.1.1. Individual Characteristics

Individual characteristics include gender, age, marital status, education level and trade union membership. Our estimation outcomes are shown in Table 2 below.

**Table 1. Probability of being informally employed in the manufacturing sector explained by workers individual characteristics (Xift)**

informal	Coif. (B_1)	Std. Err
fem	0.2465151	0.0539385
age	-0.0756377	0.0096033
ages	0.0008417	0.0001129
married	0.0867742	0.0161396
lessened	0.3271985	0.0442948
aboveinter	-1.09856	0.0608271
tumember	-2.792809	0.143989

### Gender

The results in Table 2 above indicates that women are more likely to participate in informal work than men. This result may be explained by stylistic statistics, as shown in Figure 2 below. The higher share of women in the informal workforce is primarily explained by their general over-representation among the working-age population

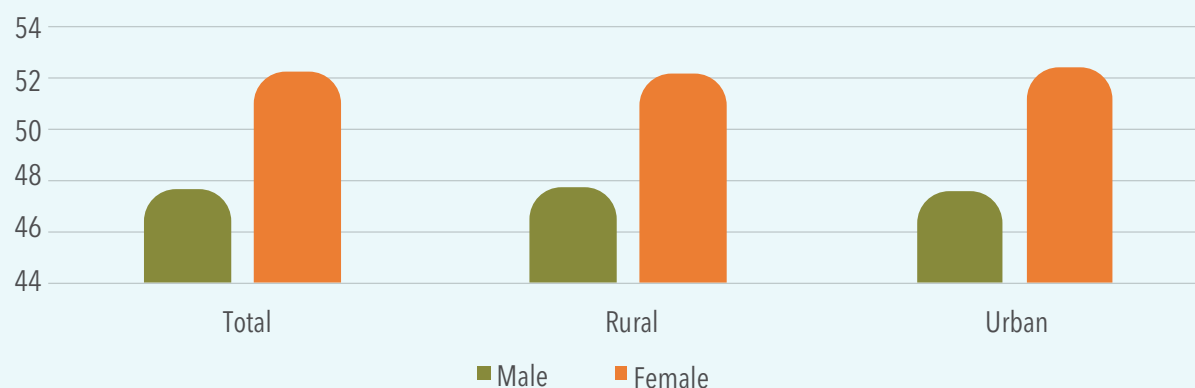
in Zambia. At a national level, females accounted for a higher percentage of the working-age population at 52.3 percent compared to males at 47.7 percent. In rural and urban areas, females had a higher percentage of the working-age population than males at 52.2 percent and 52.4 percent, respectively (LFS, 2018).





**Figure 2: Percentage distribution of working age population by rural / urban and sex, Zambia, 2018**

Source: LFS 2018



In earlier reviewed literature, Chirisa and Innocent (2014) also found out that in Africa, women are more likely to work in the most vulnerable parts of the informal economy, such as domestic workers. This domestic worker chain works on the piece rate at the lower levels of global supply or modern form of digital home work. Similarly, a study in 2019 by FES/ZILARD established that a great majority of informal traders surveyed (90 percent) own their own business, and in most cases (79 percent), the owner is the sole employee were women. That study also found out that women account for over two-thirds of the traders in Southern, and over 60 percent in Lusaka, Copperbelt and Eastern Provinces in Zambia.

The Women in Informal Employment: Globalization and Organization (WIEGO) also confirmed in their gender analysis of the interaction between informal work types, income levels, and poverty risk; and showed that there exist income levels and gender differences between employment types (Rogan, M. Et. Al., 2017). As observed earlier, women in informal employment in Zambia account for an excessively high percentage of the most vulnerable category of employment, which is; the most contributory domestic workers, and account for employers and, to some extent, employees and self-employed workers. This has been further exacerbated the gender wage gap. The nexus of the gender gap and social protection in informal employment remains a challenging question to trade union organizations in Zambia. In earlier literature reviewed, much focus has been on different

initiatives geared towards gender equality in general (FES, 2019; ZILARD, 2019).

Thus, some selected trade unions have become increasingly involved in affirmative action and employment equity. Structures such as gender and women's desks, women committees have been set up, and gender policies developed (ZILARD, 2019). However, beyond these marginal changes, not many structural qualitative differences have been made in terms of organizational advocacy and programme implementation on gender parity and social protection in the context of informal employment in Zambia (ZILARD, 2019). In addition, there has also been the reawakening that trade unions need to pursue initiatives that promote a discourse that focuses on the potential of how social protection can enhance gender economic empowerment, poverty reduction and democratic participation in the informal economy.



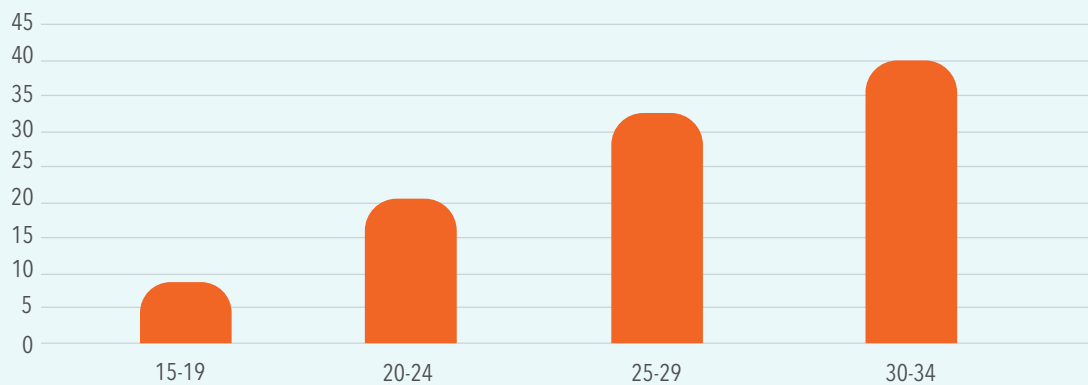
## ii. Age

With regards to age, results show that younger people are less likely to be involved in informal work but become more likely to be involved in informal work as they get older. This means that; the older a person is, the more likely they are to be informally employed. This outcome can be explained by the percent of youth

in formal employment by age group in 2018. The age group 30-35 years had the highest percentage of employed youths at 40.0 percent, while the age group 15-19 years had the lowest at 6.7 percent as shown in Figure 3 below.

**Figure 3: Percentage distribution of youth informal employment by age group, Zambia 2018**

Source: LFS 2018



An earlier FES/ZILARD also found out that over half of the traders surveyed were aged between 25 to 44 years. Different barriers can be cited to explain that young people find it difficult to enter the labour market. Young people feel disadvantaged mainly because they lack experience and technical skills. Employers are also discouraged from hiring young people because of their high turnover rate rather than their lack of experience. Although

the extra years of education and skills-building usually increase the chances of finding a job, the unemployment rate for high school graduates and even those with a college degree is high. This may be partly due to the higher wage expectations of these graduates, but more fundamentally, it is related to the skill mismatch because too many graduates have obtained qualifications with little need.

## iii. Marital Status

The results in Table 2 also show that marital status has a positive impact on the probability informality. This result implies that married people are more likely to participate in informal employment than people who are not married. The outcome can be intuitively explained by the need

to boost income levels and stability associated with married couples, who usually have more responsibilities of providing for their families. This desire to boost income levels may lead them to informal work.



#### iv. Education

With regards to education, Table 2 indicates a positive relationship between less than intermediate level of education (below grade 8) and informality. This implies that individuals who attained an education level of grade 7 and below have a higher probability of being in informal employment. However, the results also indicate a negative impact on informality with those who attended tertiary school. This implies that those individuals with an education level of grade 7 and below are more likely to participate in informal employment than those with a minimum educational attainment of grade 12 and above.

An earlier FES/ZILARD also found out that most of the traders surveyed are female, relatively young, and have secondary education and below (Kalusopa, Koyi G. & Phiri, J, 2019). Thus, women,

the young and those without tertiary level of education have been the most affected by limited formal

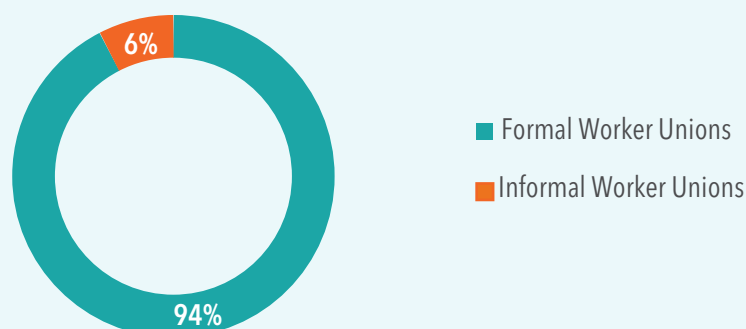
employment opportunities in the selected provinces in Zambia. In this sense, market trading affords them stable income to work their way out of poverty and deprivation and has allowed them – especially the women – to provide for their families. Market trading is, therefore, a major means of reducing household poverty and vulnerability. This can be explained by the huge demand for skilled and educated workers in formal jobs compared to informal jobs. As a result, when an individual increases their level of education and skill, they also increase their opportunities for formal employment.

#### v. Trade Union Membership

Further, Table 2 shows a negative impact of trade union membership on informality. This means that individuals who join trade unions are less likely to participate in informal employment than those who do not join trade unions. This outcome is intuitively sensible because workers with Trade Union support are better able to avoid losing

their formal jobs than those without Trade Union protection. The result can also be explained by the fact that Trade Unions in Zambia are mainly composed of formal sector Trade Union members, with only 6% of Trade Unions in the Zambia Congress of Trade Unions (ZCTU) representing informal workers as illustrated below.

**Figure 4: ZCTU Membership by Sector, 2021**



Most informal workers do not have the right and protection to organize and profit, and there is no traditional collective bargaining forum. Since collective bargaining is a decisive feature of trade union work, this brings special challenges to traditional Trade Unions. For self-employed workers such as street vendors or scavengers, there is no employment relationship, or the employment relationship is unclear or disguised, such as for many domestic workers. Some Trade Unions hold a narrow view that these workers are not within the scope of trade union organizations.

Even where there is an employment relationship, such as domestic workers or many clothing workers, the workplace is

usually small or in individual households, so that workers lack the right to confront their employers and obtain benefits. Their employers are usually strict and ignore the law, so they are easily fired, with little or no recourse to legal remedies. In situations where supervision does exist, such as urban space, it usually creates obstacles or causes authorities to harass informal workers rather than helping to improve their conditions. It can be inferred that although harassment or harsh employers can provide motivation for collective action by informal workers, this may also create fear of workers' collective action for losing their workspaces or livelihoods.

### 8.1.2 Household Characteristics

Table 3 presents the probability of being informally employed in the manufacturing sector in Zambia, explained by household characteristics. Household characteristics are mainly captured by the household size and a dummy for being head of household.

**Table 2: Probability of being informally employed in the manufacturing sector explained by workers household characteristics (Htft)**

informal	Coef. ( _2)	Std. Err.
hhsz	-0.0110756	0.0251025
hhead	-0.2750191	0.0708715

As shown in Table 3 above, household size has a negative impact on the probability to participate in informal work. This indicates that; the bigger the individual's household, the less likely that the individual participates in informal employment. This may be intuitively explained by the higher wages needed to sustain a bigger household. Individuals from larger households may prefer to be in formal employment where wages are higher, and employment is protected by formal contracts. Further,

Table 3 shows that being the head of the house has a negative impact on the probability of informal employment. This implies that being the house head makes an individual less likely to be in informal employment. This can be

intuitively explained by the house head being more attracted to the additional stability, job security, and higher wages that formal employment provides compared to informal employment.

### 8.1.3 Regional Characteristics

Table 4 below presents the estimation results for the probability of being informally employed in the manufacturing sector as captured by workers household characteristics ( $R_{ijt}$ ). As seen below, the regional variable (urban) has a negative impact on the probability and prevalence of informality:



**Table 3: Probability of being informally employed in the manufacturing sector explained by workers household characteristics (Rtft)**

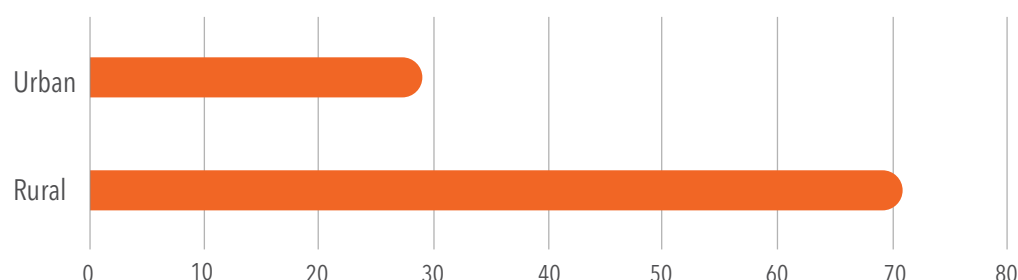
informal	Coef. ( _3)	Std. Err.
urb	-0.33748445	0.0415025

The negative relationship indicates that, compared with rural areas, living in urban areas reduces the possibility of informality. Living in rural areas greatly increases the possibility of informal employment. A key contributor to the higher informality rate is the distribution of self-use production work. Self-use production is when workers

engage in the production of goods exclusively for their own final use by their household (e.g., subsistence farming or do-it-yourself construction of own dwellings). In 2018, the number of workers engaged in self-use production work was 3,891,274, with rural areas accounting for 70.9% and urban areas accounting for 29.1%, as illustrated in Figure 2 below.

**Figure 5: Number of Workers Engaged in Self-use Production Work, 2018**

Source: LFS 2018



To summarize the results above, with regards to the prevalence of informality in the Zambian labour market, our empirical results do infer that:

- Women are more likely to participate in informal than men.
- The older an individual gets, the more likely they are to be in informal employment.
- Married people are more likely to participate in informal employment than people who are not married
- Those individuals with an education level of grade 7 and below are more likely to participate in informal employment than those with a minimum education attainment of grade 12 and above.
- Individuals who join trade unions are less likely to participate in informal employment than those who do not join trade unions.
- The bigger the individual's household, the less likely that individual participates in informal employment.

vii. Being the house head makes an individual less likely to be in informal employment.

viii. Compared with rural areas, living in urban areas reduces the possibility of informality.

## 8.2 The Impact of Trade Reforms on the Probability of Being Informality Employed in the Labour Market in the Manufacturing Industry in Zambia

To measure the impact of trade reforms on the informality in the manufacturing industry, changes in the probability of informal employment are related to trade reforms and are explained by tariffs.



**Table 4: Probability of being informally employed in the manufacturing sector explained by the 2018 tariff rates (Tar ft)**

informal	Coef. ( _4)	Std. Err.
tar	0.0051811	0.0027934
informal	Coef. ( _5)	Std. Err.
dummies	0.172262	0.0034674

The results presented in Table 5 show that tariffs have a negative relationship with the probability of informal employment. This implies that; as tariff rates increase, so does the probability of being involved in the informal work. In the context of the African Free Trade Area (AFCFTA), this implies that trade liberalization has a positive impact in terms of reducing informality; the lower the tariff, the lower the possibility of informal trade. This is consistent with the heterogeneous firm model of Aleman-Castilla (2006), where trade liberalization (i.e., lower trade costs) means that some firms will find it more profitable to enter the formal sector instead of maintaining the informal sector. Informal enterprises with the lowest productivity will be forced to withdraw from the industry, and only the (formal) enterprises with the highest productivity will export to the international market. Therefore, lower tariffs mean less informality. The positive effects of tariffs indicate that the reduction of tariffs is accompanied by a similar reduction in the possibility of informal employment. This is consistent with the findings of Goldberg and Pavnick (2003), who believe that the relationship between trade and informality depends on the flexibility of the labour market.

### 8.2.1 Implications for Zambia's Informal Economy

According to a study by the United Nations Economic Commission for Africa, if all countries implement AfCFTA, intra-African trade is expected to increase by **50%**. Of course, the informal economy will account for the largest share of trade and domestic activity. However, our above estimation results indicate that trade liberalization will have a positive impact on the informal economy by reducing informality in Zambia; the lower the tariff, the less likely it is for informal trade. This means that the implementation of AfCFTA will lead to the formalization of the informal sector. Many African countries have benefited greatly from the economic and socio-economic aspects of formalizing their informal sectors. The wealth of the informal economy speaks for itself in driving the economy. In addition, the income generated by the informal economy can be recycled for more stringent supervision and formalization of risky workers.

Most people do not enter the informal economy voluntarily, but because they lack opportunities and other means to earn a living in the formal economy. Like other developing countries, Zambia's informal economy provides the basic needs of the majority of the population. Informal cross-border trade (ICBT) also provides important opportunities for the development of economic diversification, value-added and competitive cross-border value chains. This is because the scope of ICBT is so wide that it goes beyond basic agricultural products such as corn and raw milk but also includes finished products (such as processed food, clothing, electronic products, and car spare parts) and services (such as bicycle and car repairs, hairdressing, and handicraft). However, the human resource potential of the informal economy has not been fully utilized. Low productivity and low-income levels are mainly due to the inability of operators in the informal economy to obtain adequate support services, such as basic education, vocational training, or business financing.

Unemployment is largely a problem for Zambians, especially for young people, with nearly (only) a quarter of urban youth working. Job seekers are unemployed, and the unemployment rate remains high. Conditions such as high unemployment and large inter-sectoral productivity gaps may have the opposite effect on informality. In such an environment, individuals who are unemployed due to globalization and increased competitiveness have two choices: take a job with lower productivity, or enter the informal sector, which is the employer of last resort. (McMilan et al., 2011). This is the case in Zambia, where productivity increases are mainly concentrated in structural enclaves or sectors such as minerals or natural resources. These sectors operate at high productivity, but there is little room to increase employment, so the potential for absorbing surplus labour from other sectors such as agriculture and manufacturing is small. Therefore, the "quality transition" of the informal economy to growth, productivity and income levels should be the goal of the government and its stakeholders in the implementation process to ensure smooth progress after implementation.



Structural changes can reduce or enhance informality, depending on the way of integration.

## 8.2.2 Challenges

### a) Finding the right policy combination

The main challenge of the transition to the formal economy is to find the right policy combination that corresponds to the diversity of characteristics and driving factors of the informal economy. Reliable and relevant statistics are needed to better understand these complex aspects of informality and monitor the progress of formalization.

### b) Informal Cross Border Traders

Informal cross-border traders face a number of challenges that prevent the full developmental potential of formalization of the ICBT from being realized. These include a lack of trade facilitation, inadequate border infrastructure, limited access to finance, a lack of market information, corruption and insecurity, and limited knowledge, education and business management skills. Although these challenges are common to many Zambian traders, they are particularly acute in the informal setting.

For example, the majority of informal cross-border traders are partially literate or illiterate, which makes it difficult for them to read, understand, and complete the numerous mandatory forms and procedures at borders.

### c) Corruption and harassment

Customs officials at some border posts take advantage of informal cross-border traders' lack of knowledge by asking them to pay duties on commodities that should not attract any levies. In the event of failure to pay, bribes are solicited to allow the uninformed traders to cross with their goods. Informal traders are also frequently treated as criminals and illegals, which makes them particularly vulnerable to abuse, corruption, and harassment at the hands of state authorities such as border officials, immigration, and the police.

### d) Other challenges include:

- (i) The successful establishment of the tripartite free trade area;
- (ii) Setting realistic deadlines in light of progress made by regional economic communities;
- (iii) Correctly resolving the issue of rules of origin;
- (iv) Successful development of infrastructure and trade facilitation measures to complement the elimination of customs duties;
- (v) Promotion of production through common sectoral policies; and,
- (vi) Lack of involvement of non-state actors throughout the process to ensure that all are up to date.

In summation, with regards to the impact of trade reforms (tariffs) on the informality in the labour market in the manufacturing industry in Zambia, our empirical results infer that:

- (i) Trade liberalization has a positive impact on the labour market in terms of reducing informality; the lower the tariff, the lower the possibility of informal employment. This is consistent with the heterogeneous firm model of Aleman-Castilla (2006).
- (ii) The positive effects of tariffs indicate that the reduction of tariffs is accompanied by a similar reduction in the possibility of informal employment, which is consistent with the findings of Goldberg and Pavnick (2003).
- (iii) There are still many challenges on the road to the full implementation of the AfCFTA



## 8.3. Perspectives of Key Stakeholders

The Zambia Institute for Labour research and Development (ZILARD) held face-to-face interviews with key stakeholders in addition to handing out individual questionnaires for the purpose of gathering official stakeholder perspectives on the AfCFTA and its expected implementation. Further, two (2) focus group discussions were conducted in July 2021 with nineteen (19) representatives and members of the informal economy unions in Zambia. The perspectives of the selected key stakeholder are presented below.

### 8.3.1. Trade Unions

The Zambia Congress of Trade Unions (ZCTU) welcomes the implementation of the AfCFTA but emphasizes the complete removal of all import and export tariffs. They argued that this is because even though Zambia is part of three economic blocks, the manufacturing industry has been negatively impacted mainly due to “import goods which are cheaper”. Currently, the cost of manufacturing is high; thus, goods produced in Zambia are not able to compete with imported goods. The cost of spare parts and machinery is also very high. As a result, the manufacturing industry has become less attractive for investment leading to less and lower value jobs in the manufacturing sector. “most workers have lost their formal jobs and social protection status. The informal manufacturing sector continues to grow contributing to the number of workers with no social protection and/or protection against workers’ rights and gender abuse.” Mr Muleka Kamanisha (deputy director-research) stated. Most member unions said they did not know about, and had never heard, of the AfCFTA. Regarding social dialogue, the ZCTU and its affiliate unions called for more sensitization of workers and the general public on the benefits of the AfCFTA to the Zambian industries and workers.

### 8.3.2. Government

Some key government policy officials are of the view that a fair reduction of tariffs is important. They are of the view that even though general tariffs across the world have drastically reduced, in the absence of trade tariffs (which basically refer to duties and taxes imposed by governments to control the flow of trade, globally, non-tariff barriers such as export and import controls in addition to certain licensing agreements) are the real challenges to cross border trade in the modern-day. Non-tariff barriers continue to pose a big challenge to employment, business, and the free flow of goods and

services in most of the existing free trade areas where Zambia is a member. One key representative of the CPTD said:

**“Unpredictable regulations, export and import quotas, trade licensing requirements, barriers related to sanitary and phytosanitary measures and other cumbersome border and transit procedures. These are the major challenges facing a number of trade and manufacturing industries in Zambia. Thus, this should be a major address point of the AfCFTA.”**

With regards to social dialogue, government officials are of the view that the Zambian government, through the Ministry of Trade and Commerce (MCTI) and the Zambia Development Agency (ZDA), have made some efforts to create platforms for information sharing and dialogue on Zambia’s participation in the AfCFTA. However, non-state actors’ participation in such dialogues has been limited. However, the National AfCFTA implementation strategy developed by MCTI, though yet to be launched, provides a good window for enhanced engagements.

### 8.3.3. Cross-Border Associations

Key representatives from the Cross-border Associations are of the view that tariffs are one of the impediments in conducting business world over. They believe that Africa and Zambia are not spared, hence the effort by many governments to address the problem through different approaches. Some of the approaches include standardization of regional trade policies that will see standardized tariffs in certain business corridors, the biggest being the intent of the elimination of tariff and non-tariff barriers through the AfCFTA. There is, however, one reservation from the Cross-border Associations towards the AfCFTA. It is their considered view that the agreement was not demanded by citizens in Africa but rather started from the “top to bottom”, which made it difficult to be understood by ordinary cross-border business traders, workers and citizens. With regards to social dialogue, one association said that it has not received any stakeholder engagement with regards to the AfCFTA, whilst another said that it was currently working with the MCTI in implementation of the national strategy on the elimination of non-tariff barriers that they are a national focal point for the elimination of non-tariff barriers.





### 8.3.4. Informal Economy Associations

Representatives of informal economy groups say they welcome the possibility of cheaper importation of inputs that they anticipate will come with the AfCFTA. The opportunity for more employment and business in the export and import market is another exciting factor for the informal economy associations. However, most of them could not give concrete views and opinions as they did not know about the AfCFTA. One participant of the focus group discussion. One of the respondents (the first) said:

"Informal workers can be engaged through the provision of capital injection".

A second respondent, a carpenter, strongly proposed representation by associations and trade unions, while a third one, a welder, proposed co-ordination between the government and stakeholders in the context of AfCFTA.





# RECOMMENDATIONS

The following are the recommendations that can be discerned from the study:

## a) Policy shift towards implementation

As shown by our estimation results above, as in the case of the manufacturing industry in Zambia, lower tariffs result in lower levels of informality. Therefore, Zambia's trade reforms should shift towards lower tariffs and more trade liberalization even before the full implementation of the AFCFTA.

## b) Beyond the formalization of the informal sector

Since the informal economy is an important employer in the labour market in Zambia, it is suggested that with the help of stakeholders (i.e., trade unions, informal associations/ organizations), the government should be lobbied to implement new mechanisms to attract the informal economy into the mainstream business community. The informal economy in most official policy orientation is seen as a burden on the formal economy because of tax evasion that results in a greater tax burden on the official sector; that is, a negative impact occurs in the form of less expenditure on public utilities, increased taxation, lower productivity and economic growth in the short run.

In June 2015, the International Labour Conference adopted the "Recommendations for the Transition from the Informal Economy to the Formal Economy" (No. 204), which is the first international labour standard that fully focuses on the informal economy. In September of the same year, the United Nations adopted the 2030 Agenda for Sustainable Development, which included the transition to the specific targets of Sustainable Development Goal 8. These two instruments represent important milestones in the global approach to formalization, especially through the provision of guidance.

The ILO has taken the formalization of the informal economy as one of its strategic results and has supported tripartite constituents to promote the transition to the formal economy at the national level. Among the mechanisms that can be used to increase the competitiveness of the informal economy and promote its formalization, the following suggestions can be made:

- (i) Simplifying the rigid regulations
- (ii) Boosting the spirit of entrepreneurship through widened vocational educational training or financial training. encouraging the micro-finance institutions
- (iii) Reforming the tax systems for these medium and small enterprises
- (iv) Encouraging the extension of collective bargaining to the informal economy to ensure that informal economy workers' rights are protected and respected
- (v) In terms of informal employment, the reduction in the total cost of employers seems to be a necessary condition for the regularization of these workers. It is worth noting that the informal economy should benefit from the effect of trade opening after formalization.
- (vi) Incorporating ICBT. ICBT is largely practised by the officially unemployed and micro, small, and medium-sized enterprises (MSMEs) and is therefore also important for strategies of inclusion.

In literature, it is often argued in policy discourse that formalization of the informal economy could improve social protection in the informal economy and reduce the vulnerability of the informal workers. However, others have argued that this is inconclusive, with not much available data necessarily supporting formalisation as a guarantee for inclusive social protection. SP. In Zambia, earlier studies confirm that in manufacturing and other sectors, the responsibility for social protection is fragmented, with little coordination and highly formalised minimum options for workers in the informal economy.

This lack of coordination impacts delivery in the formal sector which only serves to discourage participation from the informal sector. Therefore while expanding social protection is another important, it may be useful to reconceptualise the role of formalisation in the informal economy. This can be done better by using effective social protection as an enabling incentive to encourage formalisation rather than the other way around.





### **c) Increased sensitization and social dialogue on the AfCFTA**

From the focus group discussions, there is clear evidence of a lack of sufficient stakeholder participation. We recommend that government officials and experts engage in social dialogue with formal and informal traders and manufacturers to ensure Zambia's effective participation in regional trade negotiations. The implementation of AfCFTA and other trade agreements requires the government to include informal economy participants on its trade agenda to promote regional integration.

### **d) Integration of trade policies**

The government and other AfCFTA members need to quickly integrate policies to make the implementation of AfCFTA successful. Engagement at the regional and multilateral level will be done selectively to support programmes aimed at promoting industrial sector growth and development while taking into account commitments undertaken within the regional and multilateral context.

### **e) Reform labour laws**

The study establishes that Zambia's economy largely comprises a large informal economy group characterized by a weak regulatory framework. Particularly, labour legislation was identified to be restrictive, where freedom of association was undermined by restrictive provisions. It was also noted that the main labour legislation only covers formal sector workers. It was further noted that despite other legislation such as the National Pensions Scheme Act, Employment Act, Workers Compensation Act and the Minimum Wage Act providing for informal economy workers, compliance and enforcement remained weak. In this regard, reform of the labour laws and social protection system was emphasized, especially in extending the provision of social security coverage to informal economy workers as well. A legal framework is essential to guarantee the development of good governance in relation to the informal economy and how it will be handled in anticipation of the effects of the AfCFTA. The regulatory framework is perhaps the area where the most rapid effects may be obtained, for informal activities are generally performed unconstrained by regulation (local levies, labour, administrative). Labour law facilitating governance in the informal economy and the extension of its benefits is essential. Good practice entails that options for achieving regulation are the extension of the scope of application of the law; and promulgation of a special regulatory system. This entails:

- (i) Respect fundamental principles and rights at work;
- (ii) Respect and adjust to the legislative culture and to the needs of its labour market;
- (iii) Allowing for the possibility of flexibility, not creating differences among workers or leading to arbitrary standards unjustifiably differentiated according to the production sector in the informal economy.

### **f) Establish rights offices**

We reflect on the state of the informal activity of which hires about 87% of the employed population. So many entrepreneurs opt-out of registration, not necessarily because they want to operate in an unregulated market as a means to avoid taxation. Rather, many face extremely high charges (punitive, in other words) to obtain rights to operate legally, navigating the sinuous regulatory waters becomes a time-wasting bureaucratic nightmare, and there is no legal structure to regulate business. It is therefore further recommended that the country establish rights offices or appoint a defender of labour rights in the informal economy to promote better application and extension of legislation to workers and producers in the sector. One way is to set up "one-stop" information advisory kiosks for the informal economy workers at the ZCTU for the effective dissemination and sharing of information on labour rights and reforms, organizing strategies and education.

### **g) Create more productive jobs**

Our results estimate that the impact of the implementation of the AfCFTA (elimination of tariffs) in Zambia is the reduction of informal employment in favour of formal employment. However, there is a need to ensure that workers and business owners are able to thrive during this transition to avoid a reverse effect. This requires that the government and other stakeholders promote entrepreneurship, innovation and creativity so that enterprises, irrespective of their small size or location, are able to create productive jobs. In order to achieve this, the following elements need to be created:

- (i) An enabling policy and legal and regulatory framework.
- (ii) An enterprise culture of formal, decent jobs.
- (iii) Strong support structures and services for micro and small enterprises.
- (iv) Representation and organization of micro and small entrepreneurs and development of cooperative structures.

#### h) Financing of informal economy enterprises

The study has established the need for financing as one of the main priorities of micro and small entrepreneurs in the informal economy in Zambia. In fact, the current government have now even set up the Ministry Small and Medium Enterprises and acknowledged this as a priority. In many instances, access to finance is the most important single factor in creating an enterprise, keeping it going and maintaining jobs. There are very few informal enterprises that are able to obtain credit from banks since they have no collateral to offer as a guarantee. Another highly important issue for enterprise activity in the informal economy is property rights collateral. The absence of legal property rights, including intellectual property, means that potential entrepreneurs are not able to use, build, recombine or exchange their assets in the most productive way in order to generate additional value. This needs to be addressed.

#### i) Evaluation of non-tariff barriers

It is important to note that despite tariffs being removed under the AfCTA, the manufacturing industries may continue to be affected by non-tariff barriers such as import and export controls, levies and preferential quotas, which may restrict trade and full access to markets. Accordingly, this can, in turn, inhibit the competitiveness of informal traders and workers. Therefore, in addition to eliminating tariffs, it is proposed that stakeholders assess the impact of non-tariff barriers on informal employment. Trade Union need to enhance lobbying and advocacy around this issue.

#### j) Gender-Sensitive Approach to Implementation of the AFCFTA

As shown in chapter 8.1 above, men are more likely to have access to informal employment than women, but in most countries, the proportion of women in informal employment exceeds that of men. However, in various countries, the risks and vulnerabilities associated with the informal economy particularly affect women. The literature shows evidence of gender differences in key informal employment outcomes, such as employment status and wage levels. The role of gender-based restrictions on employment outcomes and access to social protection was reviewed. In some countries, gender-sensitive approaches can help empower women in the informal economy in order to identify priority areas for decision-makers. Obviously, the challenge of vulnerability in the informal economy needs to be addressed through a

gender perspective. In particular, there is an urgent need for gender-sensitive risk management tools to ensure that current attempts to extend social protection to workers in the informal economy will not leave women behind.

#### k) Inclusive poverty alleviation policies

While pursuing free trade and economic development, Zambia will need inclusive poverty alleviation policies to address youth unemployment and underemployment. Youth is a powerful asset as a catalyst for national prosperity and potential development. Ensuring their health, investing in education, and developing their skills for gainful employment and entrepreneurship is one of a country's strategic obligations. To make appropriate investments in youth, the government and its stakeholders must understand the obstacles faced by their youth, including social factors, and how they can fully participate in civic and economic activities. Although the formal sector is expected to expand and bring higher wages and higher security, the informal sector, including self-employment and small business development, cannot be ignored because they play an important role in Zambia's livelihoods.

#### l) Implement policies that ensure the full utilization of the human resource

As previously stated, one of the challenges of implementing the AFCFTA is that, even though Zambia's informal economy provides the basic needs of the majority of the population, its human resource potential has not been fully utilized. Low productivity and low-income levels are mainly due to the inability of operators in the informal economy to obtain adequate support services, such as basic education, vocational training or business financing. The "quality shift" of the informal economy towards increased growth, productivity, and income levels marks the goal of the Government and its stakeholders. To achieve this goal, certain strategic elements need to be implemented, such as; entrepreneurship development in the form of providing business and technical skills, strengthening business cooperation and increasing socio-political representation. Further, innovation policies should be made by consumers and government-driven, that is, not only driven by existing producers to obtain financing, it must be easier for entrepreneurs.



### **m) Promotion of informal economic organizations by Trade Unions**

At the business level, the ZCTU should engage in simplifying, coordinating and further developing existing activities such as promoting informal economic organizations. The employment promotion strategy should focus on areas of intervention such as lobbying the government and the private sector to create an enabling environment for employment promotion, establishing appropriate institutional settings within the labour movement and like-minded organizations, including organizations and operators in the informal sector, and developing comprehensive service delivery ways to integrate credit and savings schemes or strengthened cooperatives.

### **n) Dealing with structural challenges of informality**

Given its structural nature, the aspiration of transition to formality will not necessarily take away informality in Zambia. It will still remain one of the key drivers of the economy and, therefore, central to trade. One of the main challenges identified included lack of access to credit and narrow profit margins associated with small and medium enterprises. It was further observed that the cost of doing business in Zambia is quite high and is compounded by the high cost of borrowing from “Kaloba”. The lack of capacity by most informal economy businesses to produce tangible collateral was also identified as a contributing factor that worsens the situation. It was also noted that there is inadequate capacity among enforcement agencies in ensuring compliance with standards. There is a need to lobby for the expansion of financial services and support to large segments of the informal economy in sectors such as trade that are critical in transforming the lives of many.

### **o) Enhancing the development role of the state for structural transformation**

There are questions that have been raised regarding the capability of the current State in Zambia in directing a transformative development discourse. There is a need to adopt structural transformation agenda in the economic policy that should reflect the special development circumstances of the country. Economic growth must be seen as a means to an end, the end being the creation of decent employment and improvements in the living conditions of citizens. The country must emphasize manufacturing linking the natural resource base to its industrial ambitions in the 7NDP. Developing a competitive manufacturing base can only be done in the way all-successful countries

have done it: the state must support and, where necessary, protect domestic manufactures that are important sources of employment. The state must undertake strategic interventions in the operations of the market to ensure that markets are guided to outcomes that are fair, efficient and work in the interests of people and not corporations. One such area is where strategic interventions area is the natural resource governance, where radical measures are required to ensure that the resource rent benefits Zambians. A complete overhaul of natural resource governance of the country is needed to ensure two things: First that the growing sectors of economies are linked up with the rest of the domestic economy. Second, that the country obtains fair revenues from its natural resources to address the many infrastructure constraints that frustrate businesses in the country. Trade Unions need to advocate for this.

### **p) Implementation of the strategy on the extension of social protection coverage**

Clearly, in Zambia, most of the informal workers are those most lacking in social protection, not only because of their precarious working activities and lack of secure incomes but because they are far more exposed to serious safety and health hazards. In this context, prominence must be placed on advocating for policies that provide social insurance to people who are not covered by existing systems. What is needed is to improve social protection covering not only social security but also non-statutory schemes, including various types of contributory systems, mutual benefit associations and grass-roots and community schemes for workers in the informal economy. Another extremely important issue is improving the occupational safety and health of informal workers, who are far more exposed than formal workers to poor working conditions, low safety and health standards and environmental hazards that impair health and productivity. These issues appear to be covered in the draft National Strategy on the Coverage of Social Protection to the Informal Economy in Zambia. There is a need for speedy implementation of the National strategy on the extension of social security to the informal economy in Zambia. Trade Unions need to advocate for this.

### **q) Trade Union Recruitment and Collaboration with the Informal Economy**

As earlier observed, although this study confirms that lower tariffs may lead to lower informal employment, the structural feature of informality will not easily wither away in the manufacturing sector in Zambia.



This implies that as the government shifts policy, there is a need to recognize the economic value of the informal economy. This implies a greater reward in increasing their membership if trade unions could organize the informal economy workers. This can be done by enhancing the socio-economic strength of informal economy workers. It is anticipated that this could ultimately lead to:

- Greater productivity and higher income through economies of scale and scope, and through the division of labour (e.g., carpenters -sawing, assembling, varnishing, etc.).
- Cost savings through sharing services, such as transport, raw material supply, marketing, energy and water supply, and many others.
- Increased income or reduced costs through greater bargaining power generated through collective economic action, closely related to the “shared service” model
- Higher and more stable income through better market access.
- Access to financial services through credit unions and a plethora of informal and formal micro-finance institutions, such as rotating savings and credit associations







# CONCLUSION

For a long time, the primary importance of trade has been regarded as a key element of the sustainable development of developed and developing countries. Inspired by trade gains, countries have long adopted export-oriented and export-oriented development methods to restore domestic and foreign economic stability and improve resource allocation efficiency. Trade liberalization is seen as a means to achieve industrialization and modernization by ensuring economies of scale, market access, and trade expansion. However, the relationship between trade policy and the informal economy is vague and heterogeneous among countries. Evidence from some countries suggests that trade reforms may expose formal enterprises to fierce foreign competition, thereby increasing the share of informal employment in the labour market. Others found no trace of this relationship. Although the impact of trade liberalization on the informal economy has been extensively discussed at the empirical and public policy levels, Zambia had never done it in an empirical way. From our results, we see that women, young, and less-educated workers in rural areas are more likely to be

informal. Our main findings also indicate that trade reforms have a positive relationship with informality in Zambia. This means that the impact of reducing or eliminating tariffs is the subsequent reduction of informal work and trade. Thus, trade reforms to lower or eliminate tariffs lead to a natural formalization of the informal economy in Zambia. The benefits of lowering tariffs vary greatly in economic, social, and even behavioural aspects. For example, lowering tariffs may help reduce or curb illegal activities such as smuggling and tax evasion. In addition to creating new business and employment opportunities, reducing tariffs may also help recover small businesses for which tariffs were too high to survive, leading to unemployment, poverty, and higher informality. It is also worth noting that conditions such as an educated and informed society, a well-integrated policy framework, and the revision of non-tariff barriers will be vital for the success of the AfCFTA. Taking our suggestions into account, the implementation of AfCFTA is welcome as it is greatly beneficial to Zambia.





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# ANNEXES

## ANNEX 1: FOCUS GROUP DISCUSSION PARTICIPANT DEMOGRAPHIC

S/n	NAME	SEX	AGE	EDUCATION ATTAINED
1.	Banda Edwin Z.	M	50	Tertiary
2.	Mayengo Tonga	M	37	Grade nine
3.	Soni Anthony	M	25	Grade nine
4.	Happy Kunda M.	M	31	Grade nine
5.	Chanda Kabwe	M	43	Senior primary
6.	Abdul Abel Mumba	M	24	Primary level
7.	Emiya Nyirongo	M	47	Primary level
8.	Nkosi Nyirongo	M	39	Senior secondary
9.	Davies Mwansa	M	51	Skills training
10.	Jonathan Mahamba	M	29	-
11.	Webby Chota	M	28	-
12.	Moses Mfula	M	23	Skill training
13.	Chisanga Sinkala	M	32	Tertiary
14.	Mwamba Peter	M	40	Senior secondary
15.	Victoria Mweemba	F	43	Tertiary
16.	Daniel Mpundu Chanda	M	49	Tertiary
17.	Richard Mumba	M	45	Senior primary
18.	Songwe Elias	M	53	Form three
19.	Richard Sakala	M	45	Senior secondary

## ANNEX II: LITERATURE REVIEW DASHBOARD - IMPACT OF CONTINENTAL FREE TRADE AGREEMENTS ON INFORMAL EMPLOYMENT IN AFRICA

EMPIRICAL LITERATURE ON THE EFFECTS OF TRADE LIBERALIZATION ON INFORMALITY IN AFRICA: PURPOSE, METHODS AND FINDINGS			
RESEARCH	PURPOSE	METHODS	FINDINGS
GHANA			
Mawusi, Charles. (2021). Does Informality and Trade Openness Impact Long Run Growth? Empirical Evidence from Ghana. Economics Bulletin. 41. 28-40. 10.2139/ssrn.3506431.,	This paper examines the dynamic relationship between economic growth, the size of the informal economy, and trade openness in Ghana.	Using an Autoregressive Distributed Lag (ARDL) technique and the Granger causality test.	Results provide evidence of a positive and bidirectional causality between the size of the informal economy and economic growth. Moreover, it was found that openness to trade has a significant causal effect on the prevalence of informal activities and economic growth



ZIMBABWE			
Rattsø, Jørn & Torvik, Ragnar. (1998). Zimbabwean Trade Liberalisation: ex post Evaluation. Cambridge Journal of Economics. 22. 10.1093/oxfordjournals.cje.a013719.	To disentangle the effects of liberalisation from the serious drought that coincided with it.	An economy-wide CGE model is used for counterfactual experiments.	The opening-up of final goods markets is shown to contribute to deindustrialisation and contraction.
ALGERIA			
Ali, Souag & Adair, Philippe & Hammouda, Nacer-Eddine. (2018). Labour Market Policies and Informality in Algeria.	The report reviews the labour market policy mechanisms implemented by the Algerian government in 2008 and assesses their impact upon informality -informal employment and the informal sector, using data from household employment surveys conducted by the National Statistical Office (ONS) from 1997 to 2013.	The researchers examine the situation of three categories: employees, new employees and the self-employed, focusing on the effect upon social security registration for employees and on administrative and fiscal registration of the self-employed. We use the Difference in Difference (DID) methodology, and we compare two periods: 1997-2007 and 2008-2013; applying the DID estimator as a falsification test in the first period only.	According to results, the impact of labour market policy devices upon informality proves heterogeneous. It has a negative impact on informal employment for the employees who are working in businesses with at least 10 workers. No significant effect is documented for employees in businesses with staff from five to nine workers. For the new employees, the impact is not very significant. Labour market devices also contributed to enhancing registration, thus shrinking the informal sector, but only for the businesses with staff from one to four workers, whereas no impact upon businesses with staff from five to nine workers.
NIGERIA			
Stephen Golub, Ahmadou Aly Mbaye, and Christina Golubski (2019). The effects of Nigeria's closed borders on informal trade with Benin	To examine the effects of Nigeria's closed borders on informal trade with Benin	Applied grounded theory analysis techniques	Benin's revenues are hit hard when there are border closures, or there is a recession in Nigeria due to lower demand for products being traded there.
BENIN			
Sami Bensassi & Joachim Jarreau & Cristina Mitaritonna, 2017. "Trade barriers and informality of trade: evidence from Benin's borders," Working Papers DT/2017/11, DIAL (Development, Institutions et Mondialisation).	To measure the impact of tariff and non-tariff barriers to trade on informality	The authors make use of a unique survey of informal transactions across Benin's land borders, which provides the first direct and comprehensive account of trade volumes and product coverage for informal trade	Increasing tariffs on a given product by 10% makes it 12% to 14% more likely that this product is imported informally rather than formally. Non-tariff measures also increase informality. Results also suggest that compliance costs, aside from tariffs and regulations, contribute to explaining informality.

EGYPT/KENYA			
Hanjatiana Nirina Randrianarisoa: The Impact of Trade Liberalization on Informality: Evidence from Egypt And Kenya	Examines the impact of these deregulatory trade policies in two of the member countries, Egypt and Kenya.	Offers a modified 3x3 general equilibrium model to assess the impact of tariff reduction on informal production and wages.	A negative relationship between MFN tariff levels and the likelihood of within-industry informal employment is found for Kenya, and a positive one is estimated for Egypt. That is, reducing the tariff facing Kenyan industries increases the likelihood of informal employment within those industries, while the opposite is true for Egyptian industries.
EGYPT			
Salem, M., & Zaki, C. (2019). Revisiting the Impact of Trade Openness on Informal and Irregular Employment in Egypt. <i>Journal of Economic Integration</i> , 34(3), 465-497. Retrieved June 14, 2021, from <a href="https://www.jstor.org/stable/26756453">https://www.jstor.org/stable/26756453</a>	Examines the impact of trade openness on job quality, measured by the share of informal and irregular employment in total employment.	Combining a microeconomic dataset (the Egyptian Labour Market Panel Survey) with macroeconomic variables (tariffs) to assess the effect of trade reforms on informal/irregular workers in Egypt.	The main findings show that there is a positive association between tariffs and both informal and irregular employments in Egypt.
CAMEROON			
Robert Nkendah (2010). The Informal Cross-Border Trade of agricultural commodities between Cameroon and its CEMAC's Neighbours	The study aimed to estimate the volume/value of informal (unrecorded) crossborder trade between Cameroon and its CEMAC's neighbours and compare it with the official trade.	a monitoring method of cross-border flows of informal trade.	The results indicate that in 2008 a volume of just over 155 000 tons of agricultural and horticultural commodities has been shipped from Cameroon to its neighbours in the Economic and Monetary Community of Central Africa (CEMAC) for an estimated value of almost 38 billion CFA francs and representing 0,4% of GDP in Cameroon. The comparison in relative terms shows that informal or unrecorded trade represents 96% of the official and mainly includes agricultural and horticultural commodities. The failure of the institutional intra-business community framework through the informal trade policy practices is the factor explaining the informal trade in the CEMAC





LESOTHO/SOUTH AFRICA			
Musi, Mokone (2002). The informal cross-border trade: the case of informal cross-border trade between Lesotho and Durban - South Africa.	This study explores and describes the problems faced by the Lesotho informal cross-border traders operating between Lesotho and Durban. It provides a profile of their experiences and problems along different stages of their journey. That is between their homes and the border gates, at the border gates on their way to Durban, on their journey to Durban, in Durban, and the border gates on their return journey to Lesotho.	This study examines the relationships between these traders and the traders in Durban. It tracts what happens to their goods once they are imported into Lesotho.	The study concludes that trade and non-trade barriers pose a number of serious problems for the informal traders, and therefore hinder the development of international trade in the informal sector.
EAST AFRICA			
Victor Ogalo (2010). Informal Cross Border Trade in EAC Implications for Regional Integration and Development.	To determine the implications for regional integration and development on Informal Cross Border Trade (ICBT) in the East African Countries.	Survey and Panel data	There is no escaping from the fact that ICBT, as it evades trade tax, can limit possibilities of economic growth and development of EAC economies. It can create unhealthy competition with formal enterprises that have often paid punitive taxes and limit their growth potentials; this comes with a negative impact on the overall economy. However, it had also been observed that during economic downturn when the formal private sector is shrinking, and people are laid off from employment, the informal economy provides an alternative source of employment. In some cases, many people select to engage in ICBT for lack of formal job opportunities; and to some others, entry into formal cross border trade is often too restrictive.

## ANNEX III: REGRESSION SHEET

- prohibit informal fem age agesq ms lessinter aboveinter tumember hhsz hhead urb tar ind

Iteration 0= log likelihood - -4835.6374  
Iteration 1= log likelihood - -3090.3458  
Iteration 2= log likelihood - -3030.5457  
Iteration 3= log likelihood - -3029.2245  
Iteration 4= log likelihood - -3029.2242

Probit regression  
Log likelihood - -3029.2242  
Number of obs - 7,763  
Lr chi (12) - 3612.83  
Prob > chi 2 - 0.0000  
Pseudo R2 - 0.3736

informal	Coef	std. Err.	z	p> z	[95% conf .	Interval]
fem	.24651551	.0539385	4.57	0.000	. 1407977	3522326
age	-.0756377	.0096033	-7.88	0.000	-.0944599	-.0568155
agesq	.0008417	.0001129	7.45	0.000	.0006203	.0018631
ms	.0867742	.0161396	5.38	0.000	.0551411	.1184073
lessinter	.3271985	.0442948	7.39	0.000	.2403822	.4140148
aboveinter	-1.09856	.0608271	-18.06	0.000	-1.217779	-.979341
tumember	-2.792809	.143989	-19.40	0.000	-3.075022	-2.510596
hhsz	-.0110756	.0251025	-0.44	0.659	-.0602756	.0381244
hhead	-.2750191	.0708715	-3.88	0.000	-.4139246	-.1361135
urb	-.3374845	.0415025	-8.13	0.000	-.4188279	-.2561411
tar	.0051811	.0027934	1.85	0.064	-.0002939	.0106561
ind	-.0172262	.0034674	-4.97	0.000	-.0240221	-.0104303
_cons	2.424543	.2148749	11.28	0.000	2.003396	2.84569

