



Rights-Based Social Protection in Africa

Baseline Study to Map Existing Informal Economy
Structures in Zambia and their Specific Needs

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Rights-Based Social Protection in Africa

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ACRONYMS AND ABBREVIATIONS

7NDP	-	Seventh National Development Plan
AVEMA	-	Association of Vendors and Marketeers
AZIEA	-	Alliance for <i>Zambian Informal Economy</i> Associations
CSO	-	Central Statistical Office
FES	-	Friedrich Ebert Stiftung
ICLS	-	International Conference for Labour Statisticians
ICSE	-	International Classification of Status in Employment
ILO	-	International Labour Organisation
LASF	-	Local Authorities Superannuation Fund
LCMS	-	Living Conditions Monitoring Survey
NAPSA	-	National Pension Scheme Authority
NATMAZ	-	National Traders and Marketeers Association of Zambia
NHI	-	National Health Insurance
NSPP	-	National Social Protection Policy
OECD	-	Organisation on Economic Cooperation and Development
PSPF	-	Public Service Pensions Fund
SGs	-	Savings Group
SMEs	-	Small and Medium Enterprises
TWG	-	Technical Working Group
WCFCB	-	Workers' Compensation Fund Control Board
ZCTU	-	Zambia Congress Trade Unions
ZFE	-	Zambia Federation of Employers
ZILARD	-	Zambia Institute for Labour Research and Development

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EXECUTIVE SUMMARY

The informal economy plays a critical role in the lives of millions of individuals in both urban and rural settings across the globe. It provides livelihoods, employment and entrepreneurship opportunities. Initially regarded as a passing phenomenon, the informal economy has established itself as a significant contributor to the national economy.

Broadly defined, the term informal economy refers to all economic activities by workers and economic units that are not covered or insufficiently covered by formal arrangements and social protection. However, despite its importance, the informal economy sits uncomfortably within national policy in Zambia, and it has historically been excluded from social security coverage. Nearly all informal wage earners are excluded from the two largest social security schemes, National Pensions Scheme Authority (NAPSA) and Workers Compensation Fund Control Board (WCFCB). This raises troubling questions regarding the informal economy and social protection coverage in Zambia.

Hence, the problem investigated was twofold: establish the nature and functionality of existing support organisations in the informal economy, with special reference to market traders' associations, and analyse market traders perspectives regarding the current social protection mechanisms to the informal economy with a view of proposing innovative social security policy intervention models that would be appropriate to the needs and circumstances of informal workers/market traders.

AIMS OF THE STUDY

The study sought to establish a baseline of existing informal economy support institutions and informal economy associations and examine the current social protection mechanisms to the informal economy with a view to proposing effective social security policy interventions that would sustain the informal economy workers. The specific study aims were to:

- Identify stakeholders supporting informal workers in the five targeted provinces;
- Identify social security mechanisms that informal workers are using in the targeted province;
- Obtain basic information on the nature of the informal economy in Zambia with particular reference to the following:
 - Livelihood trends in the informal economy in the five provinces;

- Key risks/contingencies faced by workers in the informal economy;
- Income levels pertaining to market vendors' businesses;
- Willingness to contribute to a pension fund and amount willing to contribute;
- Perceptions of formal pension systems among workers in the informal economy.

METHODOLOGY AND STUDY SITES

The study employed critical realist philosophy of science in its explorations. The fieldwork was carried out during August and October 2019 in five Zambian provinces, namely: Luapula, Copperbelt, Southern, Lusaka and Eastern. These sites were selected by the commissioners of the study. However, they represent (except for Luapula) provinces with the highest concentration of informality in Zambia (CSO, LFS 2018). The study combined methods of data collection using qualitative and quantitative techniques: the main methods involved desk reviews, key informant interviews, and survey questionnaire. The actual sample size for this assignment was 1,023 participants. The target population was all the informal market traders in the five regions selected as multi case-studies.

KEY FINDINGS

1. Informal economy associations are strong at national level although grassroots' level structures remain nascent and in need of capacity building to ensure cohesion

The study established that there are mainly two nation-wide informal economy associations namely: Association of Vendors and Maketeers (AVEMA) and Alliance for Zambian Informal Economy Associations (AZIEA) although the National Traders and Marketeers Association of Zambia (NATMAZ) has recently been established and on the rise. However, there are other local level associations that are spread across the five provinces; but these largely comprise members of one of the two national-level informal economy associations. These two associations have strong national level structures although grassroots level structures remain nascent urging the need for more capacity building of these institutions to foster cohesion, inclusiveness and unity of purpose.

2. Informal economy actors are heterogeneous and cut across a wide spectrum but informal market traders are the single most visible actor, particularly in urban areas

The study establishes that the structure of the informal economy in Zambia cuts across a wide spectrum of economic activities. These can be seen as ranging from fishing to mining; small scale manufacturing to construction; from service delivery mainly in taxis and commuter bus transportation to small shops, barbershops, hair saloons, retail outlets and car repairs; from subsistence farming to domestic work, vending and hawking; from ‘marketeters’ selling perishable goods, new and second hand clothes to money exchangers; from those with some crafts or skills like mechanics, saw millers, plumbers, bricklayers, electricians, painters, artists, watch repairers, musicians, and photographers to shoe makers, tailors and carpenters. In short, heterogeneity is the word that best describes almost all aspects of the informal economy in Zambia - as almost every sector of the Zambian economy has an informal component.

3. Most informal market traders are own account workers, and tend to be female, relatively young but mostly with some secondary level of education

The study establishes that a great majority of traders surveyed (90 percent) own their own business, and in most cases (79 percent) the owner is the sole employee. Besides, most of the traders surveyed are female, relatively young, and have secondary education. Women account for over two-thirds of the traders in Southern, and over 60 percent in Copperbelt and Eastern Provinces. Over half of the traders surveyed were aged between 25 to 44 years. 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 vending 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. Extension of social protection coverage to such households would ensure that such household’s future cash flows are guaranteed.

4. The operational environment of market traders and own account workers tends to be susceptible to harassment by local council officials

About two-thirds (73 percent) of the vendors surveyed said they faced harassment from council officials who repeatedly asked for levies. Follow-up discussions suggest it is not the payment of levies that they find unfair but the modalities of levy collections that sometimes

are carried out by intermediaries on behalf of local council officials. The specific need expressed was that of protection from intermediaries that collect levies at the market without the established regularities of collections.

5. Income levels are quite low among informal workers and market traders, with an average monthly profit of about K1, 700.

With regards to income levels pertaining to certain businesses, the study establishes that while informal trading businesses are not especially costly to operate, the profits are also quite low. The average monthly turnover of running a business in the open market place is about K2, 939.39 (approximately US\$ 230), with a minimum of K1, 414.29 (US\$110) and a maximum of K5, 125.29 (US\$400). About half of the vendors reported an average monthly profit of K1, 785.12 (US\$140).

6. Majority of informal market traders surveyed (80%) relied on Savings Group, Ichilimba and Kaloba as a form of informal social security

The study found that majority of informal market traders participating in the study (80 percent) relied on Informal Saving Groups, Ichilimba and Kaloba as a strategy to capitalise, and to insure their business and to smoothen household consumption. Together, Savings groups, Ichilimba and Kaloba constituted about 80 percent of the forms of social security being used by informal market traders. The least forms of social security (5 percent) were private and NGO-supported social security mechanisms while Government supported mechanisms (such as food packs, citizen's economic empowerment programmes) constituted about 10 percent.

Savings Groups, Ichilimba and Kaloba are the main forms of social security being used among informal market traders and the contribution frequency are so designed as to range from daily to monthly contributions. Given that income from sales varies, contribution frequencies ranging from daily to monthly provide members a secure place to save, the opportunity to borrow in small amounts and on flexible terms, and affordable basic insurance services.

Available information suggests that there are currently 331,704 SGs members in Zambia with a gender distribution of 72 percent female and 18 percent male. The popularity of the informal group savings model could be harnessed to buttress efforts at extending social security to the informal economy. In this regard, a hybrid mutual fund that includes a

pension's fund component would stand in better stead to succeed than compelling informal market traders to register with existing pensions systems.

7. Willingness to contribute to Mutual Hybrid Fund by informal market traders was significantly high, 86%

The willingness to contribute to such a fund among participants was significantly high at 86 percent. The responses were generally on the high side: Copperbelt (96 percent); Luapula (87 percent); Eastern (86 percent), Southern (81 percent) and Lusaka (78 percent). Majority of informal market traders (88%) preferred monthly contribution towards mutual hybrid fund. The modal amount informal market traders were willing to contribute per month towards a mutual hybrid fund was K50; although the mean average was coming to K115 per month. Majority of informal market stated a willingness to pay K50 monthly, with a median amount of K51 and an average (mean) amount of K 115 per month. The K50 per month amount, most were willing to contribute, corresponds to 5 percent of median monthly income and 2 percent of mean monthly income reported earlier.

8. The top most need expected of the fund benefit package was provision of credit/soft loans

The study established that preferred benefits expected of a mutual hybrid fund should include:

- Access to credit/soft loans (also referred to as withdrawal benefits)
- Funeral cover/grant
- School fees
- Medical expenses/health cover
- Mortgage/building materials
- Old-age pension
- Child/family benefits

Evidence from the responses confirmed that informal market traders are more concerned by their most immediate needs, particularly access to credit, funeral cover, school fees and medical aid. It would therefore be prudent for the hybrid mutual fund to build in these benefits in the package.

9. The general perception of existing formal pension's schemes was negative with 60% of the view that formal pension schemes did not meet their specific needs

About three-quarters of the traders reported that they were not registered with any existing pension fund, although they would be willing to contribute to a 'hybrid mutual fund' despite earning relatively little money.

10. Market vendors' business performance/income during the year tends to be high between May-August but low between Oct-February, although they preferred monthly contributions towards mutual hybrid fund

The study established that the level of income among market traders tends to be on the high side between the months of May and August, then assume average proportions around September and dips between the months of October and February. Most fundamentally, this cash-flow pattern seems to generally correlate with the weather patterns and timing of food crop harvest from the farming community. This seasonality may have implication for determining the contribution frequency. Where a seasonal contribution is preferable, this may have to be in the months of April to September. The majority of market traders, however, preferred the frequency of paying for the contribution monthly (January-December).

11. The livelihood patterns and well-being of market vendors over the last 3-5 years had remained static with no significant improvement reported

Market traders were also asked to self-report their livelihood trends in the last three to five years in relation to their income, assets, food security, resilience and well-being. Generally, most market vendors felt that their livelihood status had remained more or less the same over the last 3-5 years. About 41 percent reported that income levels had not changed over the last 3-5 years; 31 percent felt that income levels had generally increased; while 25 percent felt that their income status had deteriorated. Income remained mainly at the same level across the province. The major expense reported was food and contributions to savings groups (58 percent).

KEY MESSAGES

- Informal market trading offers crucial opportunities for self-employment, livelihoods and income generation, especially for women, the young, and the less-educated.

- Women (62 percent) and youths are by far the biggest group of informal traders in the market.
- The structure of the informal economy in Zambia cuts across a wide spectrum of economic activities – heterogeneity is the key word.
- There are two main informal sector associations at national level, AZIEA and AVEMA; although NATMAZ is emerging. Stakeholders’ institutional supporting informal economy exist and that organisation structures in the informal economy can broadly be mapped as: internal organisational structures and external organisational structures. Informal operators tended to trust their own organisational structure more.
- The main informal social security mechanisms being used is informal savings groups, *ichilimba* and *kaloba*.
- Monthly income levels among informal market traders average about K1,700 per month.
- The study establishes that negative perceptions exist about formal pensions schemes as informal vendors do not believe that the formal pension house can meet their unique needs.
- Informal market vendor are willing to contribute to hybrid pensions fund, with an amount of K50 per month being common; although average was K115 per month.
- The predominant needs tends to be that of access to credit and support for funeral cover school fees and Medicare.
- An informal economy – oriented hybrid pension fund appear of the essence rather than incorporating them into existing formal sector-oriented pensions systems that may still limit their preferences.
- Livelihood trends suggest there has not been significant improvement in incomes, assets, well-being, food security and reliance among informal traders over the last 3-5 years.

RECOMMENDATIONS FOR POLICY AND ACTION

- Establishment of a hybrid mutual fund would be of the essence.
- Undertake a related actuarial study that would deepen the actual dimension of the establishment of the hybrid mutual fund.
- Understand the limits and promise of informal workers organisations.

- Implement capacity building and communication strategy programmes for informal economy associations for increased awareness.
- Amicably resolve the issue for levies and taxes affecting informal market vendors.
- Finalise and implement the national strategy on extension of social security to informal economy.
- Extend application and enforcement of labour laws to informal economy and deepen decent work.
- Lobby for extension of financial services and support large segments of the informal economy in sectors such as trade that are critical in transforming the lives of many.
- Adopt a structural transformative agenda in the economic policy framework and approach to the extension of social protection to informal economy.

1.0 INTRODUCTION

The informal economy plays a critical role in the lives of millions of individuals worldwide. It provides livelihood opportunities for the urban poor and rural households, while at the same time serving as a buffer between employment and unemployment (ILO, 2012). However, “the vast majority of workers in the informal economy are largely excluded from social protection and are highly vulnerable to various shocks” (ILO, 2015:5). This raises troubling questions regarding the informal economy and social protection coverage. Initially regarded as a passing phenomenon, the informal economy has established itself as a significant contributor to the national economy. Mwango et al., (2019) reports that, “the informal economy is now dynamic, adaptable and entrepreneurial [and] has proved efficient at getting food to millions of consumers without large vertically integrated corporate structures” (Mwango et al., 2019:7).

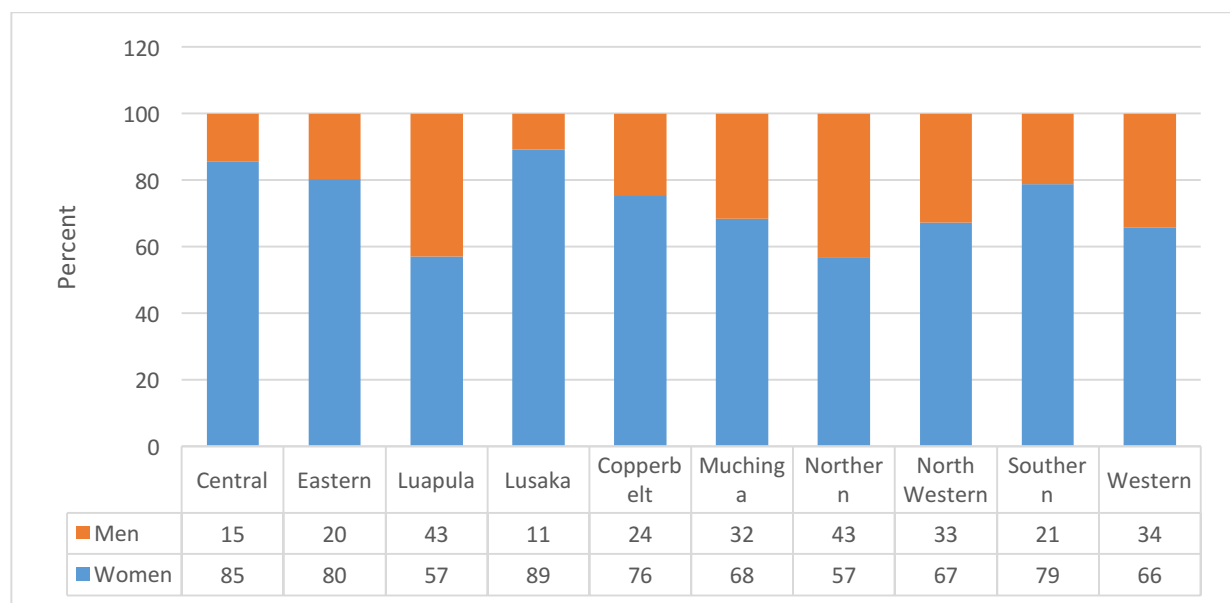
In Zambia, the informal economy is a major source of employment, livelihoods and entrepreneurship. The 2018 labour force survey (CSO, 2018:39) established that 73.4 percent of workers in Zambia were employed in the informal economy. Within this, the agriculture, forestry and fishing industry had the highest percentage share at 35.2 percent followed by wholesale and retail trade; repair of motor vehicles and motorcycles at 27.1 percent, while arts, entertainment and recreation; water supply; electricity; activities of extraterritorial organisations and bodies; information and communication; had the lowest proportion of 0.1 percent each (CSO, 2018:46). Most fundamentally, 87 percent of workers in the household sector in Zambia are informal. In addition, 85 percent of workers in the wholesale and retail trade sector are informal (CSO, 2018:47), suggesting that a huge proportion of workers in the retail trade sector are currently excluded from social security coverage.

Box 1. Defining the informal economy

The informal economy in Zambia consists of all economic activities by workers and economic units that are not covered or insufficiently covered by formal arrangements. For economic units, these are engaged in the production of goods and services with the primary objective of providing incomes and employment to the persons concerned (CSO, 2012). These units typically operate on a small-scale basis, with a low level of organization and with little or no division of labour and capital as factors of production. Labour relations, where they exist, are based mostly on casual employment, personal and social relations rather than contractual arrangements with formal guarantees. Economic activities by workers, on the other hand, comprises own account workers and employers, contributing family workers, employees who have informal jobs and members of producer cooperatives (LFS, 2012). In this study, the term informal economy refers to all economic activities by workers and economic units that are not covered or insufficiently covered by formal arrangements and social protection.

Besides its importance for employment and livelihoods, the informal economy is critical to enterprise development in Zambia. Literature affirms that Zambia’s growing SMEs sector continues to face considerable challenges, including difficulties in accessing credit (Mwango et al., 2014). At the same time, business financing models are changing: small business loans such as for start-up capital are declining, while demand for credit expansion among the informal enterprises are on the rise (SaveNet, 2019). This rising, changing demand is being met primarily by informal Savings Groups (SGs) and *Ichilimba*. While the modern insurance sector is growing, informal forms of micro-insurance such as informal Savings Group have increasingly assumed centre-stage (SaveNet, 2010). Available information suggest that there are currently 331,704 SGs members in Zambia with a gender distribution of 72 percent female and 18 percent male (SaveNet, 2019). A gender distribution of membership in savings group by percentage is shown in Figure 1-1.

Figure 1-1: Gender Distribution of Savings Group Members by Province, June 2019



Source: SaveNet Data, June 2019.

The magnitude of Zambia’s informal economy suggests that it will continue to play a critical role in addressing current and future household well-being, enterprise development and ultimately national development. Despite its importance, the informal economy sits uncomfortably within national policy, and historically it has been excluded from social security. For example, despite the informal economy forming the largest part of the working age population in Zambia (about 73 percent), the majority of the informal economy workers lack access to social protection or social security. Incidentally, poverty is widespread among informal workers, and the coverage of existing social security programs is very uneven.

Nearly all informal wage earners are excluded from the two largest social security schemes. The National Pension Scheme Authority (NAPSA) is compulsory for all employed persons and ‘covers all categories of employment for as long as a contract between the employer and the employee exists’.¹ NAPSA currently provides coverage to 750,000 workers but plans to increase coverage to 1 million workers in the near future, by extending coverage to informal wage workers.² Similarly, it is mandatory for employees to register their employers with the Workers’ Compensation Fund Control Board (WCFCB) which administers the Workers’ Compensation Fund (WCF). The WCF provides compensation for workers disabled by occupational accidents or diseases.³

The alarming poverty and inequality statistics stand in sharp contrast to Zambia’s strong economic growth record over the past decade. Moreover, the enclavity of the economic structure that is export-oriented has produced and reproduced an informal economy and informal employment that call for the mobilization and extension of social protection to this socio-economic space.

1.1 Aims of the study

This study sought to establish a baseline of existing informal economy structures and examine the current social protection mechanisms to the informal economy with a view to proposing effective social security policy interventions that will sustain the informal economy workers. Specifically focusing on five Provinces namely: Luapula, Copperbelt, Southern, Lusaka and Eastern Provinces, the key study objectives were:

- (a) Identify stakeholders supporting informal workers in the five targeted provinces;
- (b) Identify social security mechanisms that informal workers are using in the targeted province;
- (c) Obtain basic information on the nature of the informal economy in Zambia with particular reference to the following:
 - Livelihood trends in the informal economy in the five provinces;
 - Key risks/contingencies faced by workers in the informal economy;
 - Income levels pertaining to informal market trading businesses;

¹ <http://www.napsa.co.zm/who-should-register-with-napsa/>

² <http://www.napsa.co.zm/message-from-the-director-general/>

³ <http://www.workers.com.zm/index.php/about-us>

- Willingness to contribute to a pension fund and amount willing to contribute; and
- Perceptions of formal pension systems among workers in the informal economy.

Public policy on informality is usually built on the assumption — or hope — that the informal market will somehow shift towards formality, but this assumption has no basis in reality (Tschirley *et al.*, 2010). While the extension of social protection to informal workers is poorly understood relative to its importance and central role in society, recent studies have started to generate evidence on more sustainable options for extending coverage to informal workers in Zambia (see for instance, ILO, 2018). However, this evidence requires better synthesis so that it can more effectively influence policymaking. In particular, the policy debate needs better concrete evidence and structured discussions that build on what is working best for informal workers.

The main contribution of this research report is empirical evidence on the informal economy and how best to extend social protection to informal market traders in Zambia, and justification for the establishment of a mutual hybrid fund. The perspectives and concerns of informal traders are proffered. Key stakeholders supporting informal workers in the five targeted provinces are identified as social security mechanisms that informal traders and own account workers are using in the targeted province. The study has also proffered basic information on the nature of the informal economy, with particular reference to the following: livelihood trends, key risks faced by informal traders, perceptions of formal pension's schemes and willingness to contribute to a new pension's fund.

This report is structured into five main parts as follows: in the remainder of this section, the approach and methodology is presented and basic information on the study participants and data distributions. Section 2 provides a contextual background on the informal economy and the extension of social security coverage to the informal economy in which informal market vendors operate. Section 3 proffers a conceptual framework informing the study's exploration. Section 4 presents and discusses the key study findings. Section 5 present some conclusions and implications for policy action.

1.2 Methodology and study sites

The fieldwork was carried out during August and October 2019 in five Zambian provinces, namely: Luapula, Copperbelt, Southern, Lusaka and Eastern. These sites were selected by the commissioners of the study. The five provinces, except Luapula, have the highest concentration of the informal economy in Zambia (CSO, 2018). The study combined methods of data collection using qualitative and quantitative techniques. The approach involved collecting, analyzing and integrating document review data, survey data from semi-structured questionnaires and semi-structured interviews. Desk-based document review included review of the various policy papers, relevant documents published by national or international agencies or research institutions; peer-reviewed journal articles, policy documents of governments and other international agencies as well as relevant project. To explore the perspectives of informal economy workers and employers, the study used a survey questionnaire. As such, this study was largely a baseline survey to map existing informal economy structures and their specific needs in five provinces, with special reference to informal market traders.

The target population was all the informal market traders in the five regions selected as multi case-studies. Focus was on two Zambia Congress of Trade Unions (ZCTU) affiliates: Alliance for Zambian Informal Economy Associations (AZIEA) and Association of Vendors and Maketeers (AVEMA). AZIEA is estimated to have 24,602 members while AVEMA has about 204,000 members⁴. AZIEA represents market vendors, hawkers, cross-border traders and other informal economy workers in Zambia. AVEMA represents vendors and marketers across the country. AZIEA appears more representative but with less membership. AVEMA is more specific to vendors and marketers. Both work to organize the unorganized, educate members on their civil and workers' rights, establish formal collective bargaining structures between government and informal economy workers' representatives, and campaign for policies and laws that are inclusive to the needs and rights of informal economy workers.

To select actual survey participants, multi-stage probability sampling was used. First, five provinces were selected by the funding organisation. Then three districts were randomly selected in each province from three strata of urban, rural and peri-urban. Then strata were selected within the districts, and thereafter a systematic selection of an equal number of participants within each district strata was done. The primary persons interviewed for the

⁴ ZILARD Database, 2019

survey were market traders at designated market places. Since this study was a partnership of FES and AZIEA, the AZIEA administrative records were used to determine the sample size. With AZIEA membership of 24,602, the following assumptions were used to determine a representative sample size: (i) a margin of error of 5 percent, with 10 HUEM or enterprises per PSU; (ii) precision of 95%; (iii) design effect of 1.5; (iv) non-response of 20 percent; (v) an estimated 50 percent informal activity in each PSU. Using the Raosoft sample size calculator, the sample size for this assignment was 1,675 randomly sampled across each of the identified study sites. A total of 1,023 questionnaires were returned and deemed valid.

In the survey, 1,023 market vendors were interviewed: 183 from three towns in Luapula (Nchelenge, Mansa and Samfya); 219 from three towns in the Copperbelt (Kitwe, Lufwanyama and Kalulushi); 191 from three towns in Lusaka (Lusaka, Chongwe and Ten Miles); 214 from three towns in Eastern Province (Sinda, Petauke and Chipata) and 178 from two towns in Southern Province (Choma and Kalomo) (Table 1-1). Systematic random sampling was employed at the study sites to ensure representativeness and randomization. About 67 percent of the participants traded at a designated market area selling various merchandise, including food, clothing, electronics, and stationery and have relative stability and access to service. Just over 17 percent of those interviewed were shop owners dealing in groceries, hardware or auto spares. Tailoring business comprised 4.4 percent while 11 percent dealing in other goods and services. In addition, about 58 percent of the survey participants were drawn from urban areas, 28 percent from peri-urban areas and 13 percent from rural areas. Given that the sample was drawn from members of AZIEA and AVEMA who are predominantly in urban and peri-urban areas, this distribution should not be surprising.

Table 1-1: Sample for Market Vendor Survey

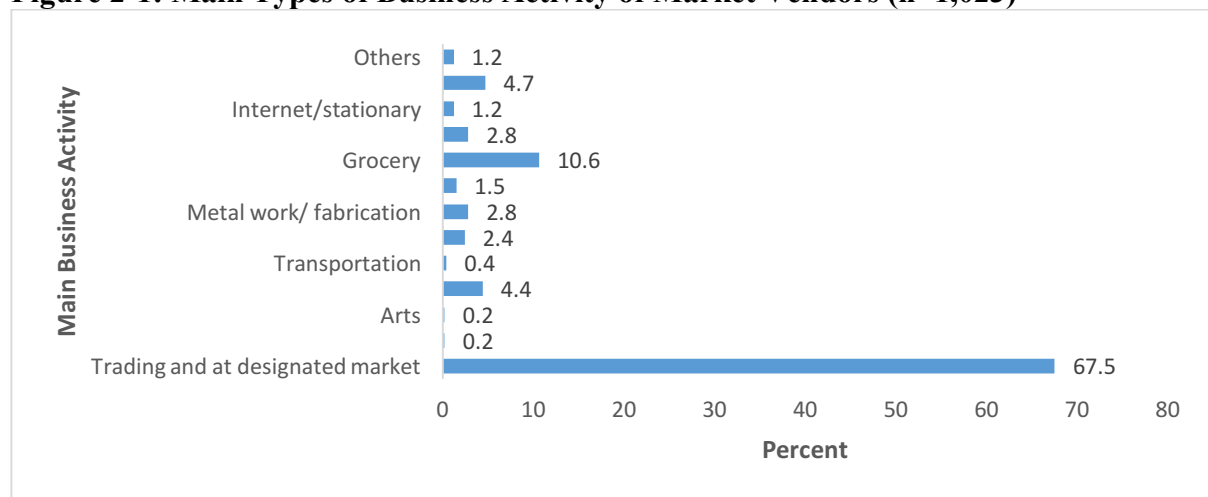
Province	No. of Participants	Percent
Luapula	183	18
Copperbelt	219	22
Lusaka	191	19
Eastern	244	24
Southern	178	17
Total	1,023	100

Source: Survey Questionnaire

The study found three main types of business activity in which market vendors are involved, with different income patterns during the year (Figure 2-1). The first are the tailors whose

business performance highly fluctuate in relation to peak business periods associated with seasonal demand for their products. The second type, shop owners whose income equally fluctuates with season demand for their merchandise. The third type, is by far the largest, accounting for 67 percent of the study participants who operate inside designated market facilities, pay levies to the council, and have relative stability and access to facilities available on the premises, including water, electricity and ablution facilities. Therefore, “they are informal in the sense that they are not registered with the Zambia Revenue Authority or National Pension Scheme” (Mwango et al., 2019:10), but they conduct business all year round but are susceptible to seasonal fluctuations in product demand. Given that this group dominates the survey, the results and insights presented below should be taken to largely represent market vendors.

Figure 2-1: Main Types of Business Activity of Market Vendors (n=1,023)



Source: Survey Questionnaire

The overview of the context of the informal economy, social protection and policy and regulatory framework, as well as of government views, was done using key informant interviews and comprehensive document review and analysis. Expert opinion was elicited from representatives of the Informal Workers Organizations (AZIEA and AVEMA) at market level, and key stakeholders such as: NAPSA, ILO and Ministry of Labour and Social Security. The document review covered relevant literature on the informal economy and social protection and previous studies related to options for extending social protection coverage to the informal economy in Zambia.

2.0 INFORMAL ECONOMY AND CHALLENGES OF SOCIAL PROTECTION

In Sub-Saharan countries, it is estimated that the informal economy contributes a significant share (approximately 38 percent) of the GDP and Zambia is no exception. According to the 2018 Labour Force Survey results, in Zambia, out of the 2.9 million employed persons, 73.4 percent were informally employed, compared to 26.6 percent in the formal economy (CSO, 2018). Informal employment is generally associated with poor working conditions, poverty and absence of social protection. A considerable share of workers therefore remain outside regulated economic activities and protected employment relationships (CSO, 2018).

The recent Labour Force Survey suggests that the informally employed workers are predominantly in two sectors: agriculture, forestry and fishing, and wholesale and retail trade. The agriculture, forestry and fishing industry comprise 35.2 percent of all informally employed workers) and while the wholesale and retail trade comprise 27.1 percent of all the informally employed. Zambia counts about 3 million workers in the informal economy. A substantial majority of them are informal economy workers. The most visible and highly urbanised group of informal economy workers and market vendors who predominantly operate in streets or organised market places.

2.1 Social Protection in Zambia

In literature, there is an obvious linkage of informal employment and social protection. As observed by Carré and Heintz (2009:1), *“the regulation of employment encompasses a range of dimensions of employment: employment status per se, treatment in labour law, workplace health and safety laws, and contract law, as well as how national legislation interacts with employer policies”*. In that regard, social protection is one dimension of the regulation of employment, albeit one with key implications for worker experience. In Africa, access to social protection may be an appropriate indicator for differential treatment by regulation because it correlates with other aspects of regulation of formal employment (e.g. labour law, workplace health and safety law). However, employment arrangements may be differentiated in more complex ways among several dimensions. Thus, for example, coverage by welfare state regulation may not correlate closely with the presence of a written employment contract. The key social protections for which access is differentiated across employment arrangements vary among categories of countries. Even the notion of *“welfare state social protections”* varies across countries, with some encompassing paid time off

because it is state mandated, while others limit themselves to health and pension coverage (Carré and Heintz, 2009:1).

In Zambia, social protection is provided through a set of non-contributory social protection programmes and contributory social insurance schemes. The *Zambian National Social Protection Policy (NSPP)* adopted in 2014 reflects this overall approach. The NSPP is articulated around five pillars: social assistance, social insurance, protection, livelihood and empowerment and disability as a cross-cutting pillar. It provides policy directions for extension as well as the necessary ground for a more integrated, coordinated approach and for informed scale-up decisions when it comes to the extension of social protection provisions in Zambia. Social insurance coverage is still mostly confined to employees in the formal economy. This implies that the majority of informal workers, including informal market traders, unless benefiting from social assistance programme such as social cash transfers, are left unprotected from long and short - term risks along the life cycle.

2.1.1 Contributory social protection⁵

Out of the nine contingencies of the *Convention on Social Security (minimum standards) 102 (1952)* Zambia legislation provides some forms of coverage for seven contingencies: Old-Age, Survivorship, Invalidity and Employment Injury through social insurance; Sickness and Maternity (through direct employers liability) and to some extent health care (tax funded at primary health care level) (Goursat, 2015).

The existing pension system is essentially built on two pillars: all employed individuals in the formal sector must contribute to one of the three public schemes namely the *Public Service Pension Fund (PSPF)*, the *Local Authority Superannuation Fund (LASF)*, the *National Pension Scheme (NPS)* managed by *NAPSA*. Public and private sector employees who enter the labour market after 1 February 2000 must contribute to *NAPSA* (Goursat, 2015). Complementary pension is possible through voluntary contributions to private insurance funds. The *National Pension Scheme (NPS)* was established through the *National Pension Scheme Authority Act no. 40 of 1996 of the Laws of Zambia*. *NAPSA* provides old-age benefits, survivors' benefit, invalidity benefits and funeral grants through the *National Pension Scheme Authority (NAPSA)*. The monthly contribution rate is set-up at 10 percent of a worker's gross monthly earnings subject to the prevailing contribution ceiling in the

⁵This section is an extract from ILO, Phe Goursat, M. *Strategies for extension of social protection coverage to the domestic workers in Zambia*, 2015

calendar year in which the worker earned the income. Basic Salary, Leave pay, Commuted days, Overtime, Bonus and all Allowances (House, transport, uniform etc.) constitute gross earnings for NAPSA purposes. The contribution to NAPSA are equally shared between employer (5 percent) and employee (5 percent).

Early retirement is allowed at 55 years, normal retirement at 60 while late retirement at 65 is optional for the employer. The pensionable age was changed in 2015 from 55 years to 60 years. A worker must have contributed to NAPSA for 180 months or 15 years to be entitled to pension benefits. However, NAPSA also applies a sliding scale which was designed to enable members who would not have met the 180 months of contributions to qualify for a pension subject to their age as at 1st February 2000. For instance, someone aged 45 as at the 1st February 2000 would have to contribute 96 months only to be eligible to pension benefits. The payment of the pension is then applicable if the member's early retirement pension exceed the minimum pension applicable at the time of retirement, and if the member has met the number of months of contributions required.

The income replacement rate stands at 40 percent, computed on the average salary over the entire contributory period. Contributing members who would have not met the required months of contributions at retirement age are eligible to lump sum payment. The lump sum is calculated based on the employer contribution, employee contribution, interest amount and index amount (compensation for loss of value). NAPSA also provides for a minimum pension, which is the lowest monthly pension payable at a particular period in time. The minimum pension is computed as of 20 percent of the National Average Earnings (NAE) applicable in that year as obtained from the Central Statistical Office. It is designed to help these members whose contributions were significantly low to receive a meaningful pension.

In 2018, the value of the minimum pension stood at K995. Invalidity pension are paid upon compliance with eligibility conditions i.e. the member has not reached pensionable age, has less than 180 contributions or 15 years but at least 60 monthly contributions, and NAPSA has determined that he/she is disabled through a competent medical board set up to examine the member in question. NAPSA also provide funeral grants in case of death of the contributing/pensioned members. The amount is equal to ten times the Minimum Pension in the year of the member's death. The payment of the funeral grants is conditioned to the payment of 12 monthly contributions during the last 36 months immediately preceding member's death. Survivors of a deceased member are eligible for a pension (survivor

benefits) if the member has been receiving either an Invalidity Pension or Retirement Pension or if the member was currently contributing to NAPSA or had met the 180 months of contributions. Survivors are defined as a spouse, a child under the age 18 years or under 25 if in full time education, unborn child (in utero at the time of the member's death), child of any age disabled by age 18 and at death of the member. Where there are no children or spouse(s), the next of kin will be eligible to receive a survivors' lump sum. At present, NAPSA is collecting contributions from 750,000 members and paying old-age benefits to 14,000 pensioners.

Employment injury and invalidity benefits are provided by the Workers Compensation Fund Control Board (WCFCB), established by the Workers' Compensation Act, No. 10 of 1999. The WCF provides cash and in-kind benefits. The WCFCB provides life pension, paid on a monthly basis until death, to workers with static or permanent injuries or diseases assessed by a Medical Assessment Board at more than 10 percent degree of disablement. The life pension amount depends on assessable earnings (subject to a ceiling of ZMW 800) and to the degree of disability. Member with a static or permanent injuries assessed by a Medical Assessment Board at 10 percent or less degree of disability is granted a lump sum payment.

The WCF also grants surviving spouses of workers who die as a result of occupational accidents and diseases a widow's or widower's monthly pension, which amount is equivalent to 80 percent of the amount payable to the deceased worker. The pension is paid until death or remarriage of the surviving spouse. Children below the age of eighteen of the deceased member are paid children allowances. The amount of children allowance is equivalent to 15% of the life pension for the youngest child and 5% to the other children, to the maximum of eight children, and up to the age of 18. The WCF reimburses medical expenses incurred by employers on treatment and hospitalization of injured or disabled workers subject to provision of medical receipts.

The injured workers receive periodical payments, paid in cash or in-kind, to a maximum of 18 months, in case of hospitalization or incapacity to work. Funeral grant is provided to survivors of the deceased member, in case of occupation related death. Non-cash benefits include rehabilitation, which is defined as "the restoration of the disabled worker to the fullest physical, mental, social, vocational and economic usefulness of which he is capable" (WCF). Rehabilitation services are comprised of Post-Accident counselling; Medical Aid (mobility aid such as artificial limbs, surgical shoes, crutches, wheel chairs and hearing aids);

vocational training through sponsorship at the National Vocational Rehabilitation Centre and other training providers in the country; constant attendance allowance to persons taking care of paraplegic pensioners and periodical medical examinations in specific cases.

Applicable assessment rates are prescribed by the Minister of Labour and Social Security and vary from 2.24 (Banking, finance, insurance) to 14.47 (mining). The rate is a percentage of a worker's gross monthly earnings subject to the prevailing contribution ceiling (800 kwachas) in the calendar year in which the worker earned the income. The contribution is paid on an annual basis.

In terms of health provision of medical benefits, this is not an employer's liability in Zambia. The Employment Act only states that employers may agree to provide medical care, medicine and transport to a medical institution during the illness of an employee, under a collective agreement or contract of employment or the general conditions of service. (Employment Act, article 43 (1)). However, establishing a National Health Insurance scheme has been one of the priority of the Ministry of Health and one of the strategic directions adopted in the draft health care financing strategy. The NHI is seen as a way of mobilizing domestic resources to complement the existing government budget allocations to the health sector to improve quality of care. It also seeks to reduce financial barriers and catastrophic health expenditures at secondary and tertiary levels of care. The scheme has a universal approach and aims at covering the whole population of Zambia, following a phased approach, starting with workers in the civil service.

The next phases will see extension of coverage to the private sector (payroll deductions), vulnerable households (through subsidies) and to the non-poor informal economy households (progressive flat rate). The National Health Insurance Act of 2017 makes registration to the scheme mandatory to all, including workers in the informal economy.

The proposed National Health Insurance scheme would provide comprehensive benefit package at accredited public and private health facilities, at primary, secondary and tertiary level of care. The benefits will be comprised of promotive, preventative, curative and rehabilitative services, including diagnostic tests and medicines. The contribution rate is at 1 percent for the employee and 1 percent for the employer, of which payment would grant access to a unique benefit package provided to all NHI members, no matter the amount of contribution paid. The scheme was established following the enactment of the National Health Insurance Act. Although some stakeholders such as the Zambia Congress of Trade

Unions (ZCTU) and Zambia Federation of Employers (ZFE) have contested modalities in its implementation, government has not rescinded it earnest roll-out.

The current legislative and regulatory provisions on maternity provides limited maternity protection to women in Zambia. The current legislation entitles women to maternity leave for a duration of 12 weeks, fully paid, provided they have been in employment for 2 years and 2 years have elapsed since the last maternity leave was taken. Maternity income protection is provided through employers' liability in Zambia. De facto, self-employed workers, who make the vast majority of the employed population in the wholesale and retail trade, do not benefit from any income protection during the pre and post-delivery period. The application of restrictive conditions to accessing benefits also prevents a large number of women from accessing maternity protection benefits and create inequities in society. The Government intends to improve maternity protection through the establishment of maternity income social insurance scheme.

2.1.2 Non-contributory social protection

The Government of Zambia implements a relatively large number of non-contributory social protection schemes through various Ministries, including Ministry of Community Development and Social Services, Ministry of Education, Ministry of Agriculture, Ministry of Gender. Most of these programmes provides low benefits and/or have limited coverage. They remain largely unfunded and uncoordinated.

2.2 Challenges Associated with Extension of Social Security Coverage

There are a number of key challenges to extending social security coverage to the informal economy. To start with, informal market traders have very low contribution capacity. Business performance fluctuation and associated income fluctuations also contributes to the lack of attractiveness of long- term social security benefits as irreversible commitment to long term saving such as a pension scheme is challenging. However, a substantial proportion of informal market traders belong to informal savings and mutual aid arrangements which suggests that saving is not perceived as challenging but done by using less formal means. The current coverage of social protection is low among informal market traders, only a small

percentage of poor households benefit from social cash transfers and the food security pack that is essentially production support (Subakanya et al 2017).

Education levels of most informal market traders is low. These factors as well as the fact that very few are registered for social security imply that awareness of social security in general is likely to be low among the target population. Low trust in government's institutions can also serve as barrier to participation. Due to the informal and self-employment nature of informal traders they also lack effective representation which is likely to further accentuate the information gaps. The workforce is fragmented and workers often work in isolation. Zambia has, however, two overarching market associations' organizations, AZIEA and AVEMA, and a good proportion of informal market traders are members of informal savings groups or cooperatives which can serve as sources of information. The cumbersome and time-consuming registration and payment mechanisms are further deterrent to registration.

2.3 Policy Framework and Current Approaches towards Social Security Extension

The Government of Zambia commenced the process to reform the social security system to provide for comprehensive social security coverage and extend coverage to workers in the informal economy. The latter is part of an overall effort to facilitate transition towards formal employment. The agenda of transition from informal to formal employment is a priority for the Government, as confirmed in the Seventh National Development Plan (7NDP). General policy measures for extension of contributory social insurance to workers in the informal economy are included in the National Social Protection Policy (NSPP) approved in 2014.

A Technical Working Group (TWG) was formed to align approaches and coordinate cross-sectoral and multi-stakeholders efforts towards extension. The TWG is comprised of government agencies (including the National Pension Scheme Authority, NAPSA), key sector players, employers, workers and civil society organizations. The TWG was tasked with overseeing the analysis, elaboration and testing of models for extension of social security to the informal economy. The TWG has endorsed a "universal approach" rather than piecemeal and fragmented solutions for the extension of social protection to the informal economy, which includes the design and implementation of integrated social insurance solutions tailored to the needs of the informal economy and for specific sectors. The mandate of the TWG implies that the design of new benefits, financing and operational modalities and

institutional arrangements must be informed and discussed through social dialogue using (existing) tripartite mechanisms, and be guided by the need to create incentives to formalization. Pending sufficient progress towards formalization of the country's economy, alternative means of coverage should therefore be sought which would allow for the coverage under social protection of increased numbers of workers.

The major outputs so far on extension of social protection to the informal economy include the following:

- A tripartite TWG is in place and has agreed on the main pillars of the strategy to extend coverage. The TWG follows a common roadmap to guide interventions. The TWG is the “first-level” forum for social dialogue on the agenda of extension.
- The draft Social protection bill includes provisions to enable social security schemes to adjust their benefits, financing mechanisms and operational modalities to the realities and specificities of workers in the informal economy.
- NAPSA has elaborated a strategy to respond to informal workers' needs for social security while overcoming actual barriers to accessing social security. In support to NAPSA, ILO has elaborated a recommendations report, which provides advice on principles to guide decisions on design, options for delivery mechanisms as well as financial and legal considerations.
- NAPSA put in place a unit dedicated to extension of coverage to the informal economy. The unit's efforts are focused on extension to 5 sectors: agriculture, construction, domestic work, transport and marketeers.
- In collaboration with the Zambia Green Jobs Programme (ZGJP), the National Pension Scheme Authority (NAPSA) and Workers Compensation Fund Control Board (WCFCB) have jointly implemented strategies and developed practical tools appropriate for the extension of social security among MSMEs employers and workers in the construction sector.
- Development of a knowledge base on the informal economy is on-going. During the year 2015, four studies were conducted by the ILO to assess options for the expansion of social security to informal workers including the domestic workers, small holder farmers, saw milling industry and construction workers. The stakeholders' symposium held in December 2015 culminated in dialogue on concrete

models for social security schemes for the informal economy. Lessons learnt from the studies together with key highlights from tripartite discussions have informed the establishment of a more structured approach to extension of social security to the informal economy.

- Analytical work on informality is being carried out by the ILO on Labour Force Surveys (with CSO) and from LCMS data (in partnership with OECD). The findings are expected to guide policy decisions on tailoring sector based initiatives on extension. One of the key features of the strategy for the extension of social security is to offer an innovative and attractive benefit package, where tailored old-age benefits will be coupled with short term social security benefits (e.g. health) and other incentives and services (e.g. access to credit). The design of the benefit package is to be guided by the target group's preferences, as well as by the key principles of attractiveness (mix of benefits, portability and flexibility), feasibility (availability of quality services) and affordability. It will also pay special attention to mechanisms that will not create disincentives to formalization.
- A Statutory Instrument that empowers NAPSA to extend social coverage to the informal economy has been enacted as of 2019.
- A draft national strategy on the extension of social security coverage to the informal economy is in place. The vision of the strategy is comprehensive coverage and equity of access to quality affordable and sustainable social security benefits for all. The Strategy is informed by the following rationale: social security is a human right; context of declining family support; economic empowerment, and promotion of cohesion and inclusiveness. The guiding principles of the Strategy are: state responsibility; broad-based participation; equality and equity; financial sustainability, and adequacy of benefits. The key policy measures in the Strategy rest on the following: self-regulation; micro-insurance; labour- ministry based, and incorporation of innovative social security mechanisms (e.g. mutual pension funds).

3.0 INFORMAL ECONOMY MAPPING: A CONCEPTUAL FRAMEWORK

3.1 Evolution of Concept of Informality and Statistical Measurement

The concept of the “informal sector” was first popularized by the International Labour Organisation (ILO) in the 1970s (ILO, 1972). It was used to refer mainly to survival activities of those working in the marginal or peripheral segments of the economy. The 1991 ILO International Labour Conference defined the informal sector as:

very small-scale units producing and distributing goods and services, and consisting largely of independent, self-employed producers in urban areas of developing countries, some of whom also employ family labour and/or a few hired workers or apprentices; which operate with very little capital, or none at all; which utilize a low level of technology and skills; which therefore operate at a low level of productivity; and which generally provide very low and irregular incomes and highly unstable employment to those who work in it (ILO, 1991:4).

While this description still holds true in most developing countries today, it fails to capture the various forms of informality and informalisation that have since grown in significance. For three decades, the term “informal sector” has been found useful by academics and development specialists alike. It is used in a number of international labour standards and observations by the ILO Committee of Experts on the Application of Conventions and Recommendations, in official statistics and in national policies and practices. However, as noted by the 90th Session of the International Labour Conference Report IV on Decent Work and the Informal Economy (ILO, 2002:121), the term “informal sector” can have misleading connotations when used in some contexts. In 2002, therefore, the ILO proposed the concept of “informal economy” as opposed to the “informal sector”. This was in recognition of the fact that informality has not only persisted but it has actually expanded manifesting in different guises both in developing and developed countries.

In 1993, the Fifteenth International Conference of Labour Statisticians (15th ICLS) adopted an international statistical definition of the informal sector, which was subsequently included in the revised United Nations System of National Accounts (1993 SNA). In order to be able to identify the informal sector separately in the accounts for purposes of quantifying its contribution to the gross domestic product, it was agreed that it should be defined in terms of characteristics of the production units (enterprises) in which the activities take place

(enterprise approach) rather than in terms of the characteristics of the persons involved or of their jobs (labour approach). Since an enterprise-based definition of the informal sector would not be able to capture all dimensions of informal employment, it was suggested to classify workers in the formal and informal sectors by their status in employment. This would be done on the basis of the groups identified in the International Classification of Status in Employment (ICSE-93) adopted by the 15th ICLS, but at a level of disaggregation sufficient to identify relevant forms of informal employment.

In the mid-1990s, the ILO, the International Expert Group on Informal Sector Statistics (called the *Delhi Group*) and the Women in Informal Employment: Globalising and Organising (WIEGO) network together began to broaden the concept and definition to incorporate certain types of informal employment that had not been included in the earlier definition. In 2003, the ICLS adopted an international statistical definition which includes informal wage employment outside informal enterprises. The larger concept is referred to as *informal employment*. In this definition of informal employment, workers are classified by their *status in employment*. The five employment status categories of the International Classification of Status in Employment (ICSE) are: *employers, employees, own account workers, contributing family workers, and members of producer cooperatives*. The key dimensions underlying this classification are 1) the economic risk involved in the work and 2) the type of authority over establishments and other workers. These dimensions are basic aspects of the structure and arrangements of the labour market and are important in distinguishing *formal and informal employment* and *informal employment both outside and inside* the informal sector. To summarize, the status in employment categories comprising informal employment include both those under employment *within* the informal sector and those in informal employment *outside* the informal sector, as follows:

(a) Persons employed within the informal sector (including those rare persons who are formally employed in the informal sector):

- own-account (self-employed) workers in their own informal enterprises
- employers in informal enterprises
- employees of informal enterprises
- contributing family workers working in informal enterprises members of informal producers' cooperatives.

(b) Persons in informal employment outside the informal sector:

- employees in formal enterprises not covered by national labour legislation, social protection or entitlement to certain employment benefits such as paid annual or sick leave.
- paid domestic workers not covered by national labour legislation, social protection or entitlement to certain employment benefits such as paid annual or sick leave.
- contributing family workers working in formal enterprises.

In 2013 the International Conference of Labour Statisticians asked the ILO to revise the Classification of Status in Employment (ICSE) to better reflect this latest development in the labour market. In 2018, the 20th International Conference of Labour Statisticians, went further to define the boundary of employment and self-employment informal work relationship to include “*dependent contractors*” that are:

- Employed persons with no employees (currently “own account” SE) whose access to the market depends on resources provided by an entity that directly benefits from the work performed by the contractor.
- Dependent on another economic unit for access to raw materials, capital items or clients. Their work may be organized or supervised by another economic unit as a client or that mediates access to clients.
- Paid for the end product (work “for profit,” not for pay)

3.2 Adopting the Developmental Conceptual Framework

In reviewed literature, the persistence and expansion of the informal economy has been the subject of considerable scholarly debate. Clearly, several arguments have been presented to explain the existence and expansion of informality. Most early development theorists and practitioners have suggested that informality is the outcome of necessity and a direct consequence of under-development (Lewis, 1954; ILO, 1972, Hart, 1973; Tokman, 2007; Amin, 2009).

Lewis (1954:225-277), for example, made reference to rising urban wages in less developed countries attributing it to trade unions and “their strict control of entry”, civil service unions raising government pay” and the pressure of government on foreign employers and minimum

wage regulations. It was argued that these factors, give rise to less employment in the formal sector and more in the informal sector. Other theorists and practitioners have attributed the persistence of the informal economy to the very nature of capitalists' accumulation (Chen, 2012). The trust of their argument is that informality is useful for capital accumulation. The informal economy is viewed as subordinated to the formal capitalist sector and provides a mechanism for the latter to achieve lower inputs and labour costs. In this way, the constant urge for profits –the animal spirit – which has become central to capitalism can be realized. Moser (1978) also argued that the informal sector then becomes an appendage to the capitalist sector as the latter seeks to lower production costs, improve its competitiveness and make ever-increasing profits.

For the perpetuation of this dependent exploitation, the informal sector growth trajectory becomes controlled by, and linked to, the capitalist mode of production. Within the neo-classical framework, the dominant explanation for the persistence of informality has revolved around the views famously espoused by Hernando De Soto and others. According to this view, informality is the result of excessive regulation of the labour market. The informal sector is described as 'unprotected' while the formal sector is protected (Mazumdar, 1975). The 'unprotected' informal sector comprises the self-employed, owners of small-unregistered firms, the petty traders and petty commodity producers among others. In the view of the legalists, such enterprises and workers operate informally for two reasons. First, a stream of burdensome regulations imposed by the state including taxes and regulations on the use of labour prevent them from crossing the line to formality.

Second, and related to the above, they operate informally out of necessity as the burdensome regulations inhibit the growth and expansion of the large-scale enterprises and the absorption of jobseekers into the formal economy. The regulatory burden also includes bureaucratic red tapes and corruption that frequently accompany the enforcement of the rules (Hirschman, 1970; Olson, 1982; De Soto, 1989). They also contend that regulations increase the cost of labour and compel employers to substitute capital for labour in a labour surplus economy. For example, regulations that increase the cost of dismissals such as requirement for severance payment make employers reluctant to hire labour in good times when they are in the position to do so.

Mandated benefits such as social security contributions increase the tax wedge; employers who are not able to afford the mandates refuse to hire or hire informally. Minimum wage

legislations combined with the bargaining power of unions raise wages above market clearing rates and shut the door of formal employment to many workers.

In this study, we take the view that informality is a fundamental feature of underdevelopment and that informality is multiple-caused. Informality has economic, political and social dimensions. In economic terms, the failure of economic growth to translate into development and create enough decent employment in the formal sector is at the heart of the expanding informal sector (Otto, Kalusopa & Kimani, 2015). This has been the result of the nature of economic policies that have been pursued in the last three decades. In most countries, economic growth has been fuelled principally by natural resource extraction. The massive use of technology has meant that firms in the natural resources sector have very little need for labour. At the same time, foreign firms who have very little incentives to plough their profits into the domestic economy have dominated the natural resource sector (Otto, Kalusopa & Kimani, 2015). Consequently, the sectors that are fuelling growth also appear completely detached from the rest of the local economy. Secondly, domestic enterprises have been constrained tremendously by a number of internal and external factors limiting their expansion and ability to absorb the growing numbers of jobseekers. Externally, the unbridled liberalisation of trade across the continent has made it impossible for domestic firms to thrive even in the domestic economy (Otto, Kalusopa & Kimani, 2015).

Across the continent, imports have taken over the domestic market. Nearly all countries in Sub-Saharan Africa run current account deficits and this has been so for more than a decade. More than half of informal non-agricultural workers are engaged in retailing of imported products. The few companies that have survived the onslaught of globalization have resulted to atypical forms of employment that bear all the hallmarks of informal employment (Otto, Kalusopa & Kimani, 2015). The business climate in Africa is equally constraining. Access to credit is limited for many in the micro, small and medium enterprise sector. Cost of credit is prohibitive particularly for small businesses. Interest rate in Ghana is estimated at about 30 percent averagely but many small businesses are borrowing at rates near 40 percent. In Madagascar, lending rate is estimated at 32 percent and in Malawi it costs 60 percent per annum to obtain credit. The comparable rate in the United Kingdom is 0.5 percent, 3.3 percent in the United States and 6 percent in China. This high lending rate constrains both business start-ups and expansion across the continent (Otto, Kalusopa & Kimani, 2015). Beside the high lending rates, businesses in Africa are confronted with poor infrastructure, which increases the cost of doing business on the continent. Nearly every country in the Sub-

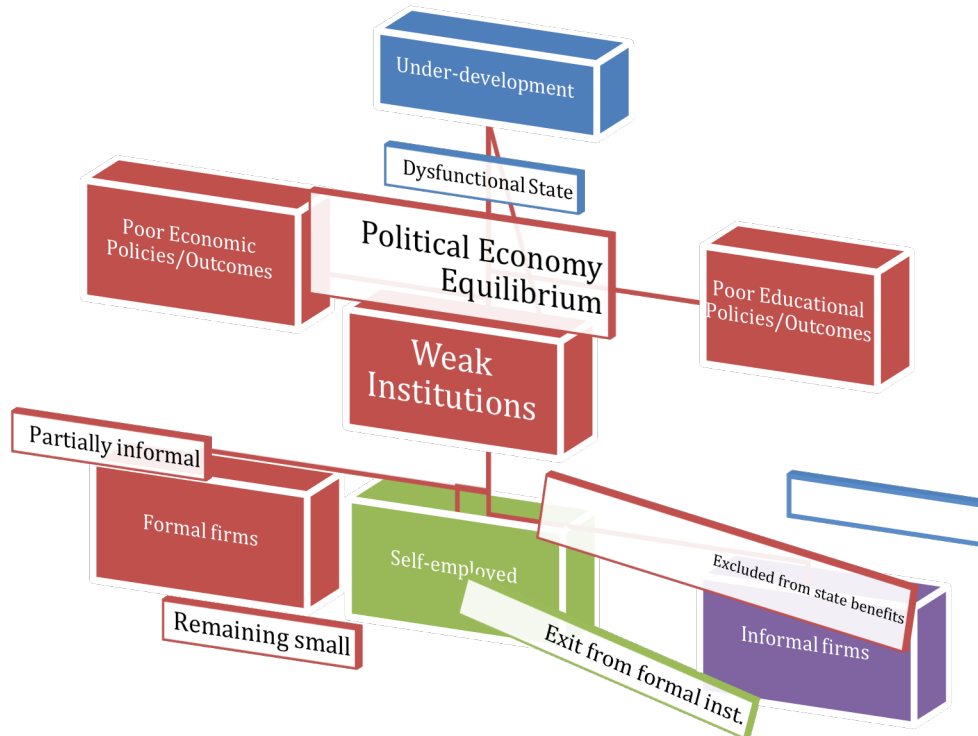
Sahara Africa is experiencing an energy crisis with erratic supply of electricity for both domestic and industrial uses. Cost of electricity is highest in Africa compared to all regions of the world. Enterprise growth continues to be constrained by poor access and costly electricity. Road networks are in deplorable conditions in most countries contributing in the cost of doing business on the continent. Most businesses continue on to cite poor infrastructure as major constraint to their expansion (Otto, Kalusopa & Kimani, 2015).

At the social level, mass illiteracy combined with low skills even among the educated on the continent does possibly influence the expansion of the informal economy. Significant proportion of people entering the labour market lacks the necessary education and skills to secure employment in the formal economy. Global evidence shows that most educated and skilled workers are more likely to be working outside the agricultural sector either as employers or salaried workers. The least educated tend to work in the agricultural sector while people with medium or intermediate education are more likely to work as non-agricultural own account workers and non-agricultural non-paid employees (Otto, Kalusopa & Kimani, 2015).

Politically, the informal economy in many ways reflects the failure of the state in several areas of governance including economic governance. The state has legitimate role in mediating economic exchanges among individuals and firms. The state establishes courts; property rights, provides mechanisms for pooling risks and generally sets the rules that govern the activities of economic actors and the operations of the modern economy. The rules include balancing the power relations among economic actors including the relations between labour and capital. All these are part of what a functioning state does or is supposed to do to address market failures and even serve as market when private initiatives fail to do so. And the state is invested with enough powers to monitor, enforce and coerce economic actors to comply (Otto, Kalusopa & Kimani, 2015). If informality is seen as economic agents undertaking economic activities without complying with the norms set by the state, then the question arises why such non-compliance occur on such large scale and almost endlessly? One possible answer is that the firms and individuals are deliberately excluded by a dysfunctional state from critical state benefits. In this sense the state is postulated to deviate from the ideal state described above. The state is captured by special interest either in business or in labour. In alliance with the political elites in the state bureaucracy, undertake to *exclude* the great mass of the people from benefits provided by the state (Otto, Kalusopa & Kimani, 2015). And in most cases, the dis-functionality is sustained by underlying political-

economy equilibrium in which the beneficiaries of the status quo are too powerful to fend off change. The excluded are too weak and poor to mount any meaningful challenge to the equilibrium (Otto, Kalusopa & Kimani, 2015) (Figure 3-1).

Figure 3-1: Framework for Understanding Informality



Source: (Otto, Kalusopa & Kimani, 2015).

In this report, informality therefore is placed in the context of the historical explanation of underdevelopment in that during colonialism, a small capitalist sector of the economy was grafted onto pre-capitalist forms of production (ANSA, 2006). This type of capitalism did not transform the economy as a whole, thus failing to produce dynamic growth and development. The report adopts the view that colonial capitalism was totally dependent on external factors such as markets in, and capital from Europe. As a result, the majority of the labour force and the colonised countries themselves were marginalised in the global economy. Thus, market forces cannot resolve underdevelopment because they tend to reinforce the very distortions that perpetuate underdevelopment. This is the colonial legacy of African economies and post-independence governments are guilty of perpetuating this legacy. Clearly, there are three economies consist of three broad sectors in most African countries, namely (ANSA, 2006:15):

- a) The **formal economy**, which consists of capitalists and wage workers, caters for less than 20 percent of labour force. This sector consists of enterprises of various sizes (either state-owned or privately owned) and is relatively productive compared to the other sectors. External forces such as Africa's trading partners and foreign investors shape the output and the production methods.
- b) The **urban informal economy** has become a permanent feature in many African countries. It is characterised by easy entry and exit, and driven by self-employment activities. Informal enterprises are run by small groups of people. Productivity and wages tend to be low and the sector absorbs surplus labour from the rural and formal sectors. Overall, about a third of Africa's labour force is involved in informal sector activities and in several countries the informal economy has become the "mainstream" economy.
- c) The **rural (or communal) economy** is the original or pre-capitalist sector which exists in several variations. Pre-colonial African societies ranged from non-hierarchical communal societies to feudal societies that were class-based. Levels of technological development also differed significantly. The communal sector is highly differentiated, with the majority of households involved in low productivity farm and other subsistence work. Surplus generation is low and primarily used for consumption (not accumulation).

The problem of underdevelopment lies in the fact that the majority of Africa's labour force is involved in low productivity work that results in low incomes and consumption levels. The formal economy is linked to the global economy through exports, imports, foreign direct investment (FDI), aid and technology. Its incomes are relatively high while the rural/communal sector provides surplus labour for both the formal and urban informal sectors. Underdevelopment is visible in the inability of the formal sector to generate jobs for the surplus labour in the rural and informal sectors. The latter sectors are unable to achieve high productivity that can generate surpluses. This can only change if the current distortions within the African economies and their link to the global economy are addressed.

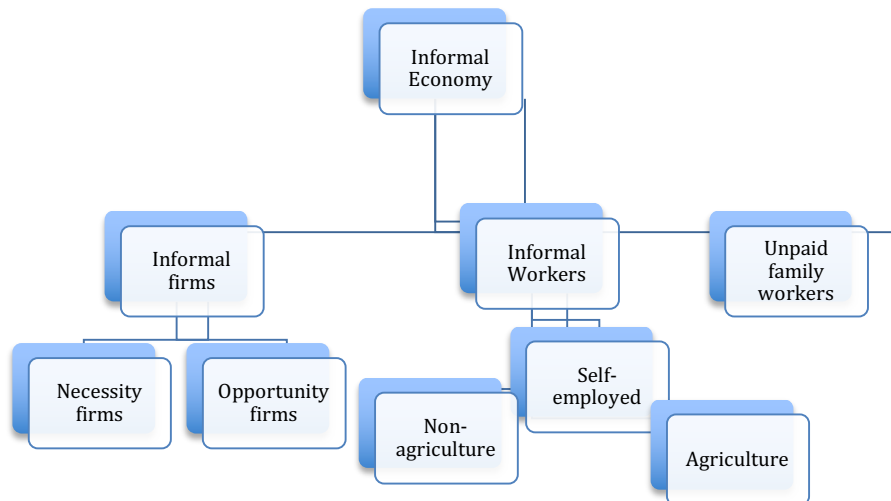
It is important to note that one trend in the informality discourse is the conception that informality is no longer confined to a distinct sector of the economy – where there appears to be the switch from informal sector to informal economy. It has therefore, become

customary to talk of informal employment as distinguished from informal sector employment. Usually, faced with adversarial state and its institutions and forced by necessity to cut costs in a fiercely and unfair global competition, many firms keep significant part of their business off the books (Otto, Kalusopa & Kimani, 2015). The trend in most countries studied is that firms that are formally registered operate partially informally (Otto, Kalusopa & Kimani, 2015). They employ labour informally giving no contract of employment and refusing to register them for social security (Otto, Kalusopa & Kimani, 2015). Indeed, some firms register indicating a willingness to do formal business but after few years retreat completely into informality.

A study of Cote d'Ivoire, Kenya, Nigeria and Senegal confirmed that about 5 percent of firms that registered at start-ups later relapsed into informality (AfDB, 2012). There are number of reasons for this. First, the AfDB study showed that a major push factor is the unofficial payments that businesses are required to make in order to "get things done". A second factor is inability of firms to climb the productivity ladder. Added to these factors were the question of access and costs of finance and low education/skills among others. It was also found out that most of the remaining partially informal or completely relapsing into informality occurred because the political economy equilibrium allows it. This is where the state is either disinterested or lacks the necessary capabilities to enforce. With no tangible benefits, firms and individuals doing costs-benefits analysis finds it profitable to exit from formal structures.

Therefore, in terms of typology for the mapping of the informal economy in Zambia, in the context of this study, the informal economy consists of informal enterprises and informal workers. The informal enterprises are not registered with the appropriate state agencies. Such enterprises may or may not have workers. Some of these enterprises have apprentices while others rely on unpaid family labour. Those with workers normally do not register their workers for social security. Such workers are therefore not contributing to pension and not earning pension right. A few of these enterprises and their owners may respond to a business opportunity and are frequently referred to as opportunity entrepreneurs. That majority, however, are in business out of necessity; their owners are referred to as necessity entrepreneurs (Figure 3-2).

Figure 3-2: Conceptual Framework for the Typology of the Informal Economy



Source: (Otto, Kalusopa & Kimani, 2015).

The distinction between necessity and opportunity entrepreneurs (firms) is at the heart of the debate about why firms and individuals operate informally. The idea of necessity firms takes us back to early work by Lewis (1954), Fields (1975) and Dickens and Lang (1985) and others, who have argued that lack of alternative employment in the formal sector forces many workers to set up businesses in the informal economy. Others have also argued that entry into the informal economy is a decision motivated by a desire to exploit profitable business opportunities and less of a necessity (Maloney, 2004; Yamada, 1996, Saavedra and Chong, 1995). There are also informal workers, who may be working either as wage employees, unpaid family workers or self-employed. The evidence is that the vast majority of informal workers are self-employed globally and in Africa. The ILO estimates that self-employment accounts for 72 percent of non-agricultural employment in Africa. While including agriculture brings the total to about 83 percent (World Bank, 2014).

The study's conceptual infrastructure informing the study exploration and mapping of the informal economy, therefore, combines the ILO's approach and a framework anchored in the political economy of African development.

4.0 KEY STUDY FINDINGS

This section presents the key findings of the survey with informal market vendors in Luapula, Copperbelt, Lusaka, Eastern and Southern Provinces. It starts by presenting results related to the structure of the informal economy in Zambia. It then presents results related to the following: income levels pertaining to types of business; social security mechanism being used by informal market traders; perceptions of formal pensions schemes; willingness to pay to a hybrid mutual fund; mapping of key stakeholders supporting informal workers; social security mechanisms used by informal workers; key stakeholder institutions supporting informal economy workers; income levels from market activities; perceptions of formal pensions systems; willingness to contribute to the mutual hybrid fund; amount willing to contribute, and livelihood patterns. As noted above, almost two thirds of the vendors surveyed operate within fixed premises in the market, so the views here tend to come from informal market traders.

4.1 Informal Economy in Zambia: Employment Structures

The study establishes that the Zambian economy and labour markets are characterized by pronounced informality. Large proportions of economic activities are undertaken outside the legal and institutional framework. Most importantly, informality has been growing (Table 4-1) Currently, About 73.4 percent of employment is secured informally (CSO, 2018). The proportion of employed persons in the informal economy in rural areas was 85.8 percent and 65.7 percent in 2018 (CSO, 2018).

Table 4-1: Employment in Formal and Informal Economies, 2005-2018

Year		Formal Employment (%)	Informal Employment (%)	Employed Persons
2005	Total	12	88	4,131,531
	Male	17	83	1,941,820
	Female	6.0	94	2,189,711
2008	Total	11	89	4,606,846
	Male	15	85	2,391,785
	Female	6	94	2,215,061
2012	Total	15.4	84.6	5,499,673
	Male	22.3	77.7	2,702,410
	Female	8.7	91.3	2,797,263
2014	Total	16.10	84	***
	Male	24.2	75.8	***
	Female	8.8	91.2	***
2017	Total	34.6	65.4⁶	2,971,170
	Male	-	57.7	
	Female	-	42.3	
2018	Both	26.6	73.4⁷	2,948,971
	Male	-	58.8	1,274,013
	Female	-	41.2	891,003

Source: CSO, Labour Force Survey (2014); Labour force Survey (2017); LFS (2018) *** denotes data not available

Table 4-1 also reveals a gender dimension to employment in the informal economy in Zambia. In 2014, for instance, 91.2 percent of the females in employment were in informal employment compared to 75.8 percent of the males. In comparison, formal employment in 2014 was dominated by males who accounted for 24.2 percent of the total employment to 8.8 percent of the females in total employment. Besides, Table 4-1 reveals that between 2005 and 2014, there was a proportionately higher increase in males in formal employment (from 17.0 percent in 2005 to 24.2 percent in 2014) than in the females in employment (from 6.0 percent in 2005 to 8.8 percent in 2014). From a gender perspective, therefore, women have been the most affected by the limited formal sector employment opportunities.

Several other economic activities including the operations of enterprises take place outside of formal tax and regulatory authorities. For economic units, these are engaged in the production of goods and services with the primary objective of providing incomes and employment to the persons concerned (CSO, 2012). These units typically operate on a small-scale basis, with a low level of organization and with little or no division of labour and capital as factors of production. Labour relations, where they exist, are based mostly on casual employment, personal and social relations rather than contractual arrangements with formal guarantees. The rural areas accounted for 70.9 percent and the urban areas at 29.1 percent. Of the total

⁶ Figure excludes household employing sector that is largely informal

⁷ Figure excludes household employing sector that is largely informal

persons involved in own use production work, 2,669,003 persons were involved in the production of goods and 1,222,270 persons were involved in the provision of services (CSO, 2018)

Economic activities by workers, on the other hand, comprises own account workers and employers, contributing family workers, employees who have informal jobs and members of producer cooperatives (CSO, 2012). Own-account workers and employers have their own informal sector enterprises and are usually characterized by absence of registration with the national authority, lack of contributions to a social security scheme and lack of entitlement to annual paid and sick leave by workers. In 2012, this form of employment constituted about 44 percent of total informal employment in Zambia (CSO, 2012).

Another dimension is that contributing family workers, irrespective of whether they work in the formal or informal sector enterprises. These account for 34.8 percent of total employment (LFS, 2012). Then there are employees who have informal jobs, whether employed in the formal sector enterprises, informal sector enterprises, or as paid domestic workers by households. In addition, there are members of informal producers' cooperatives and persons engaged in the own-account production of goods exclusively for own final use by their household, such as subsistence farming (LFS, 2012).

The most visible and highly urbanised group of informal economy operators are vendors who predominantly operate in streets or organised market places despite street vending being an offence⁸. Broadly, informal economic activities in Zambia can be seen ranging from fishing to mining; small scale manufacturing to construction; from service delivery mainly in taxis and commuter bus transportation to small shops, barbershops, hair saloons, retail outlets and car repairs; from subsistence farming to vending and hawking; from '*marketeers*' selling perishable goods, new and second hand clothes to money exchangers; from those with some crafts or skills like mechanics, plumbers, bricklayers, electricians, painters, artists, watch repairers, musicians, and photographers to shoe makers, tailors and carpenters. In short, heterogeneity is the word that best describes almost all aspects of the informal economy in Zambia - as almost every sector of the Zambian economy has an informal component. The focus of the study was, however, on informal market vendors who predominantly operate in organised market places.

⁸ According to the law governing markets (Market Act Cap 290 of the laws of Zambia), street vending is an offence and any person who carries out such trade is liable to be convicted and may be subjected to a custodial sentence.

4.2 Informal Market Vendors: Characteristics, Business Structure and Environment

Most of the traders surveyed are female, relatively young, and have secondary education (Table 3-1). Women account for over two-thirds of the traders in Southern, and over 60 percent in Copperbelt and Eastern Provinces. Over half of the traders surveyed were aged 25 to 44. In Eastern Province, the young make up an even higher proportion (65 percent). Copperbelt has a higher proportion of traders having secondary education relative to the other four provinces surveyed. The great majority of traders (90 percent) own their own business, and in most cases (79 percent) the owner is the sole employee. Less than 10 percent of those interviewed were non-owner employees. Informal market vendor businesses are relatively well-established with the average operation period for two-thirds of the traders being over two and half years and an all-round business operation during the year (Table 3-1). This suggests that market vendors have a steady cash flow although this tends to be on the low side.

Table 4-2 Key Demographics of Market Vendors (% vendors reporting)

	Luapula (n=183)	Copperbelt (n=219)	Lusaka (n=191)	Eastern (n=214)	Southern (n=178)	Total (n=1,023)
Gender						
Male	48	34	48	38	24	38
Female	52	66	52	62	76	62
Age Group						
15-24	12	7	10	8	14	10
25-34	30	23	32	24	34	28
35-44	27	31	26	41	28	32
45-54	19	22	20	19	16	19
55+	13	17	13	8	7	12
Education level						
No Education	0.6	0.9	6	4	3	3
Primary education	33	24	23	35	24	28
Secondary	60	70	61	66	63	62
Tertiary	6	5	10	5	10	7

Source: Survey Questionnaire

Table 4-3: How business is conducted (% vendors reporting)

	Luapula (n=183)	Copperbelt (n=219)	Lusaka (n=191)	Eastern (n=244)	Southern (n=178)	Total (n=1,023)
Occasional	3	0	0	0	2	1
Seasonal	7	2	2	2	1	3
All Year	90	98	98	98	97	97
Other						

Source: Survey Questionnaire

4.2.1 Reason for Choosing Market Trading Activity

Market traders see their work as providing stable and better income that is denied to them in the formal economy (Table 3-3; Box 2). In this sense, market vending affords them stable and better income to work their way out of poverty and deprivation, and has allowed them — especially the women — to provide for their families.

Table 4-4: What is the main reason you chose to be a market trader? (% vendors reporting)

	Luapula (n=183)	Copperbelt (n=219)	Lusaka (n=191)	Eastern (n=244)	Southern (n=178)	Total (n=1,023)
Family Tradition	26	20	31	11	13	6
Only profession known	16	23	31	13	16	21
Stable and better income	33	40	30	64	30	48
Others	20	23	14	22	21	25

Box 3: Reason for working as market traders

“I didn’t want a situation whereby I am continuously asking for financial help from my husband, even for small items like match sticks.” “I came here in 1991 [when] my children were still small.”

“My husband had just died. I told myself to just start selling in the market. That’s how I continued selling and the children had enough food and were growing. I know the good that is in the market because my children never sleep hungry. In my business I have found something to sustain my family. Two of my children have since gotten married, and my grandchildren also eat food from my stand. That’s why I love the market.”

“I started my business after my husband died and left me with small children. I tried to work as a maid but my salary was not enough to sustain my family. So when I got my salary of K300, I came here with this money and bought a stand made of planks. I started selling Nshima [maize meal] and I did this business for many years.”

Source: Mwango et. al., (2019:13)

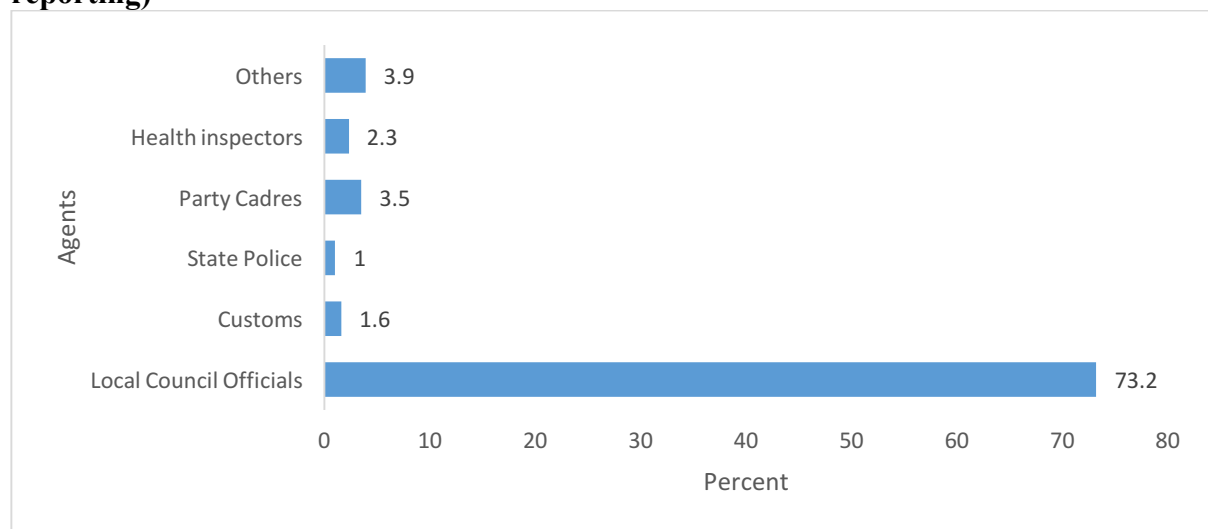
A study by Mwango et al. (2019) found that on average, “each market trader directly supports six people, and more than 90 percent of traders interviewed support households of four people or more (Mwango et al., 2019). Market trading is, therefore, a major means of reducing household poverty and vulnerability. Extension of social protection coverage to such households would ensure that such household’s future cash flows are guaranteed. About three- quarters of the traders reported that they were not registered with any existing pension fund, although they would be willing to contribute to a ‘hybrid mutual fund’ despite earning relatively little money.

4.2.2 Operational Environment

Despite its importance, the informal economy sits uncomfortably within policy, and historically it has gone through cycles of accommodation and repression. For example, “street vendors in Lusaka have faced repeated pressure to relocate to government-sponsored spaces or face eviction, but these forced relocation policies have been met with resistance and have consistently failed” (Mwango et al, 2019:7). Main reasons can be advanced for this but vendors perceive that they can reach their customers more effectively out on the streets than inside government-provided buildings (Mwango et al, 2019; Ndhlovu, 2011).

The study, therefore inquired into the operational environment of informal market trader to understand what problems they faced with state agents in the day-to-day business operations. About two-thirds of all vendors said they faced harassment from council officials who repeatedly asked for levies, but follow-up discussions with market vendors suggest it is not the payment of levies that they find unfair but the modalities of levy collections that sometimes carried out by intermediaries on behalf of local council officials. As such, the specific need is that of protection from intermediaries that collect levies at market without the established regularities of collections.

Figure 4-1: Main state agencies with whom vendors had problems (% vendors reporting)



Source: Survey Questionnaire

Other notable challenges faced by vendors include: lack of capital and access to credit. Traders bemoaned that “they could not access loans from commercial banks because of their informal status, and often had to resort to money lenders who charge high interest rates. They expressed the desire for loans, for example from microcredit institutions, but many mentioned that they would not want those loans to be disbursed by an association”. A

notable finding was that most of the traders rely on the credit extended to them by their suppliers to survive. *“We get the cooking oil from the supplier on credit and only pay once we have sold the cooking in the evening”*, noted one key informant in Lusaka. *“The suppliers help us and we do appreciate it”*. *And we also help them because there is that good relationship in working so when suppliers find that business is not going well, they can also dish out the supplies to their trusted clients, that’s how we manage.”*

4.3 Income Levels Pertaining to Market Vendors’ Business

With regards to income levels pertaining to market traders’ businesses, the study establishes that while informal trading businesses are not especially costly to operate, the profits are also quite low. The average monthly turnover of running a business in the market is about K2939.39 (approximately US\$ 230), with a minimum of K1, 414.29 (US\$110) and a maximum of K5, 125.29 (US\$400). About half of the vendors reported an average monthly profit of K1, 785.12 (US\$140) (Table 4-5).

Table 4-5: Monthly Turnover and Profits of Market Vendors (in Zambian Kwacha)

	Minimum Monthly Turnover (n=569)	Average Monthly Turnover (n=344)	Maximum Monthly Turnover (n=583)	Total Monthly Expenditure (n=450)	Total Monthly Profit (n=577)
Mean	1414.29	2939.99	5125.29	4435.28	1785.12
Median	350.00	1050.00	2000.00	2000.00	800.00
Mode	500.00	-	2000.00	-	1000.00

Source: Survey Questionnaire

The study also finds that participation in the market is crucial for women’s financial independence and for providing employment opportunities for the youth. For many traders, working in the local market is the only way out of poverty in a world with very few other opportunities. The entry barriers into the business are low, meaning that it is relatively easy for someone without much money or experience to set up a shop. Vendors use the income from their business for food, to make contributions to Savings Groups, to pay for education (school fees), medical bills, rentals and housings.

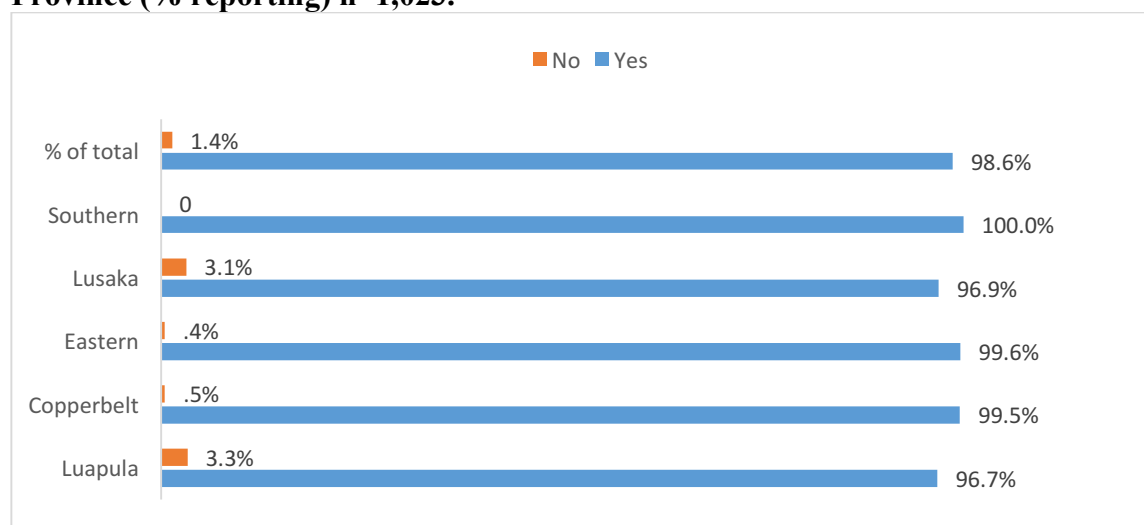
4.4 Social Security Mechanisms being used by Informal Market Traders

The literature reviewed suggests that there are two major types of informal social security mechanisms predominant in Zambia, namely traditional or family support systems and self-organised mutual aid arrangements. Traditional family support systems are essentially kinship-based anchored on the extended family as an important social security institution which provides support to its members in the event of exposure to risks or seasonal shocks (Kaseke and Olivier, 2010). In this regard, the extended family looks after its own sick, orphans, older persons and the invalid. This support thrives on the principle of solidarity whereby the risks are shared within the extended family system (Kaseke, 2013). It is, however, instructive to note that the bonds that define the extended family system have been weakening owing to changes in the value system, urbanisation and the influence of globalisation (Kaseke, 2013). The weakening of these bonds has consequently eroded the effectiveness of the extended family as a social security institution.

Self-organised mutual aid arrangements on the other hand, are community or neighbourhood-based support systems (Kaseke and Olivier 2008). Essentially, mutual aid arrangements are membership-based and are not defined by kinship ties (Kaseke, 2013). The affected persons voluntarily form a group or an association or cooperative to address the unmet needs. Thus, one has to be a member of a scheme or organisation and make regular contributions to appropriate the benefits of the scheme. Mutual aid arrangements are put in place to meet specific needs which are not being met at all or are not being met fully by an existing social protection system. This explains why such schemes are referred to as self-help mutual schemes. Self-help or mutual aid schemes are on the rise in Zambia. Common examples of these mutual aid arrangements in Zambia include informal savings groups, '*chilimba*' and a vector of credit schemes such as '*kaloba*' and supplier credit.

In this regard, the study explored social security mechanisms being used by informal market traders. First the participants were asked whether they had heard about informal forms of social security (e.g. informal savings groups or '*Chilimba*'), almost all the study participants (99 percent) indicated that they had heard about informal forms of social security although only about half (51 percent) had previously participated in these schemes. However, a Chi-square test of association was performed and a significant relationship was found between awareness of informal forms of social security and participation in these schemes, $X^2(1, 999) = 6.1, P = 0.013$. A significant proportion of informal market traders, therefore, participated in informal forms of social security (Figure 4-2).

Figure 4-2: Awareness of Informal forms of social security among market traders by Province (% reporting) n=1,023.



Source: Survey Questionnaire

On further investigation, the study found that many informal market traders relied on Informal Saving Groups, *Ichilimba* and Kaloba as a strategy to capitalise, and to insure their business and to smoothen household consumption. Together, Savings groups, *Ichilimba* and Kaloba constituted about 80 percent of the forms of social security being used by informal market traders. The least forms of social security (5 percent) were private and NGO-supported social security mechanisms while Government supported mechanisms (such as food packs, citizen’s economic empowerment programmes) constituted about 10 percent.

Table 4-6 Common forms social security mechanisms among informal market traders (% vendors reporting)⁹

Social Security Mechanism	Frequency	Percent
Savings Group	790	30
<i>Ichilimba</i>	682	25
<i>Kaloba</i>	682	25
NGO supported social security mechanism	120	5
Government-supported social security mechanism	258	10
Private sector-supported social security mechanism	120	5
TOTAL	2,652	100

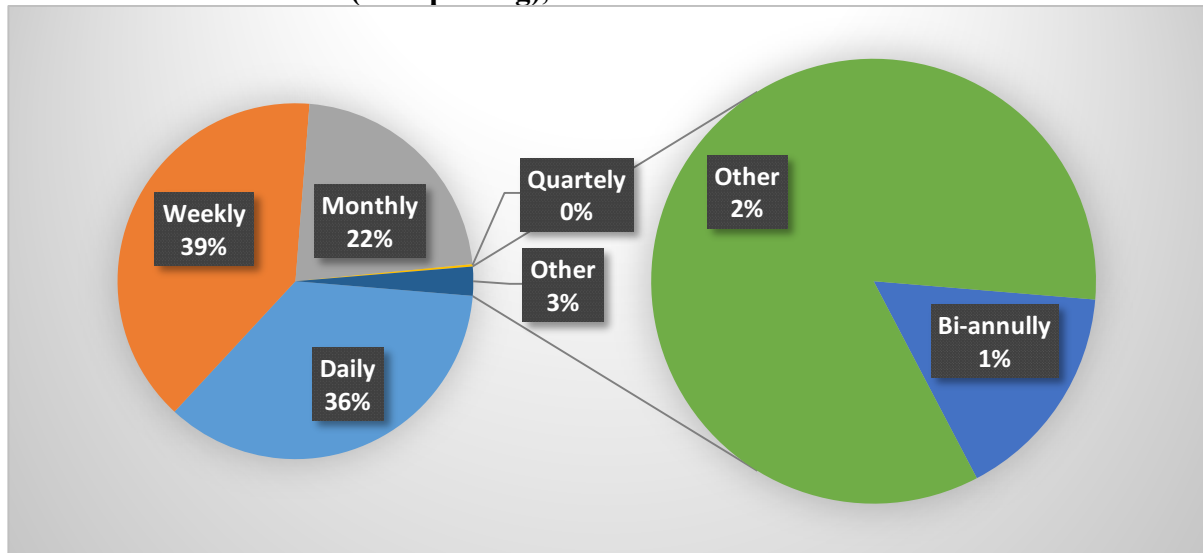
Source: Survey Questionnaire

A related question explored for participants reporting participating in informal social security mechanism was how often they made contributions to these schemes. The study established

⁹ Note that this was a multiple set response question. Hence, total frequencies are greater than the reported sample size for the study.

that the frequency of paying contributions ranged between daily (36 percent) to monthly (22 percent) with a higher frequency being weekly (39 percent). In this regard, majority of informal market traders made their contributions to informal mechanisms for social security on a weekly basis (Figure 4-3).

Figure 4-3: Frequency of contributions to informal social security mechanism among informal market traders (% reporting), N=532



Source: Survey Questionnaire

The bottom line is clear. Savings Groups, or *Ichilimba* are the main forms of social security being used among informal market traders and the contribution frequency are so designed as to range from daily to monthly contributions. Given that income from sales varies, contributions frequencies ranging from daily to a monthly provide members a secure place to save, the opportunity to borrow in small amounts and on flexible terms, and affordable basic insurance services. These Savings Groups are composed of 15 to 25 self-selected individuals who meet regularly and frequently to save; amounts are based on each member's ability. The principle is that groups pool the savings to make loans on which they charge an affordable service fee or interest rate which in turn increases the loan fund. Market groups generally operate in nine to 12 month cycles. At the end of every cycle, the accumulated savings and interest earnings are shared out amongst the membership thus providing useful lump sums to members. After each share-out, groups immediately begin another cycle of saving and borrowing. Members may decide to make an exceptional savings contribution right after share-out to re-capitalise the loan fund. This allows the loan fund to grow to fairly substantial amounts.

The popularity of the informal group savings model could be harnessed to buttress efforts at extending social security to the informal economy. In this regard, a hybrid mutual fund that includes a pension fund component would stand in better stead to succeed than compelling informal market traders to register with existing pensions systems.

4.5 Social Security Registration and Perceptions of Formal Pension Systems

Formal social security registration is a rather controversial subject among informal market traders. However, even if the need for social security is not spontaneously expressed, the growing phenomenon of informal savings groups and *Ichilimba* makes it rather apparent that the need for social security is compelling.

4.5.1 Reasons for Registration and Non-Registration to Formal Pension Scheme

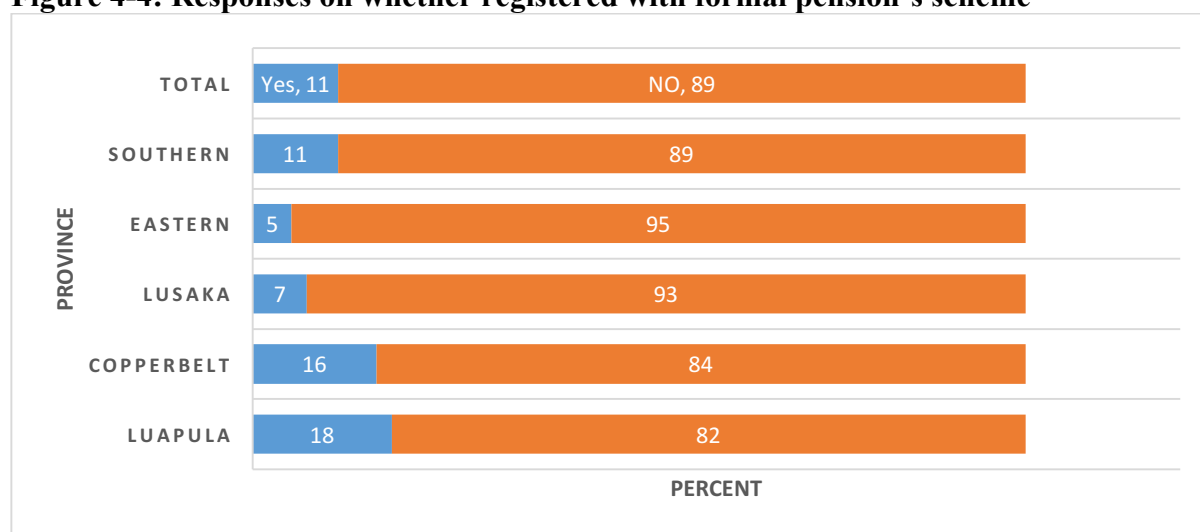
When asked whether they were registered with any formal pension’s scheme (e.g. NAPSA), the response of most traders (89 percent) was negative (Table 4-7, Figure 4-4).

Table 4-7: Responses on whether registered with formal pension’s scheme (%)

	Luapula (n=159)	Copperbelt (n=217)	Lusaka (n=183)	Eastern (n=227)	Southern (n=170)	Total (n=958)
Yes	18	16	7	5	11	11
NO	82	84	93	95	89	89

** Chi square goodness of fit test was significant; $X^2(2, 960) = 1341, p = 0.00$.

Figure 4-4: Responses on whether registered with formal pension’s scheme

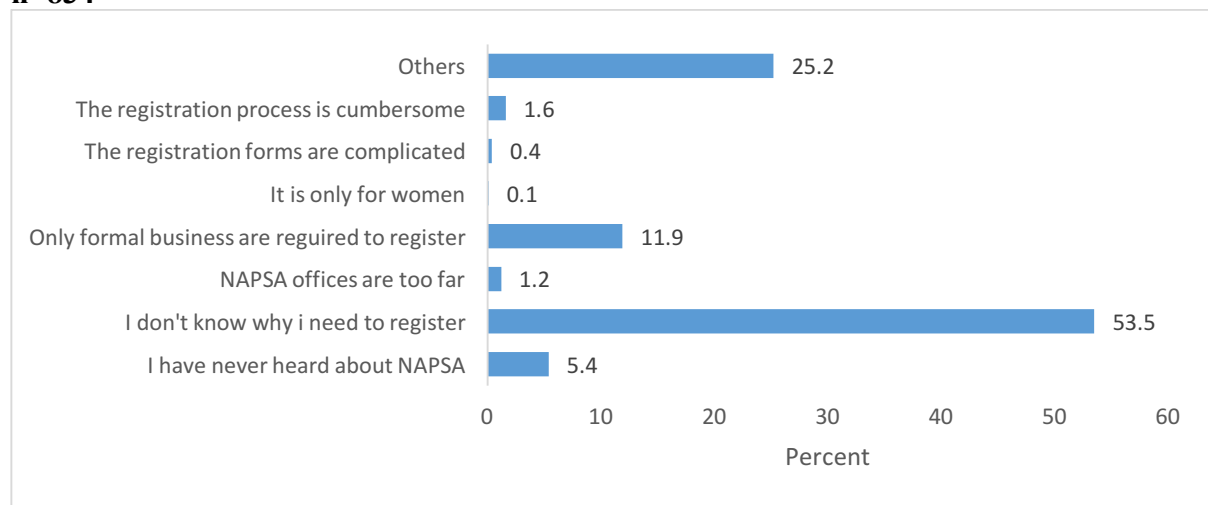


** Chi square goodness of fit test was significant; $X^2(2, 960) = 1341, p = 0.00$.

The major reason why most informal market vendors where not registered with any existing formal pensions scheme was lack of knowledge on the benefits of registering (Figure 4-5)

and also the perceived difficulties in-cashing benefits given the long-term nature of old age pensions(Figure 4-5). Most existing pensions schemes (e.g. NAPSA) requires contributions over a long period (e.g. 180 months) for one to be eligible to access the benefits. Reluctance to contribute is also fed by negative image of public pension schemes (PSFP, LASF, NAPSA) due to some poor experiences of people in their community and market places.

Figure 4-5: Reasons for not registering with a formal pensions scheme (% reporting), n=834



** Chi square goodness of fit test was significant; $X^2(8, 834) = 1919, p = 0.00$.

Table 4-6: Extent of Agreement on whether businesses must draw loans from pensions contributions (% Vendors reporting)

	Luapula (n=161)	Copperbelt (n=210)	Lusaka (n=180)	Eastern (n=240)	Southern (n=177)	Total (n=970)
Strongly Agree	70	76	45	44	45	56
Agree	4	9	6	5	3	5
Not Sure	23	12	47	50	52	37
Disagree	1	1	0	1	0	0
Strongly Disagree	2	2	2	0	0	1

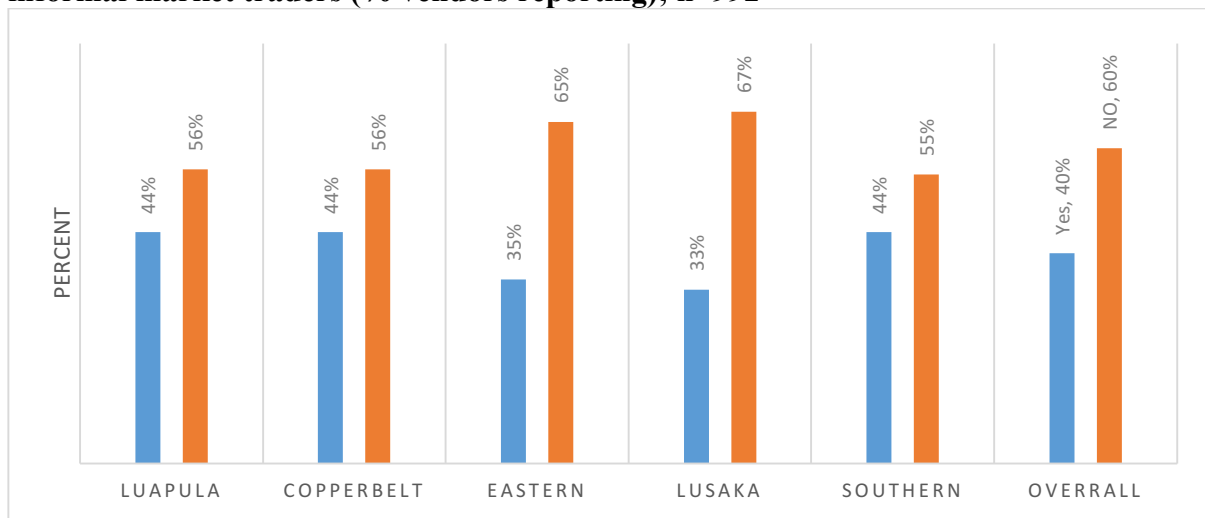
** Chi square goodness of fit test was significant; $X^2(5, 972) = 1647, p = 0.00$.

More information might, therefore, be required to dismiss misconceptions about formal pension schemes. For instance, an ILO Study on the feasibility of extending coverage to small-scale farmers observes that “initially small-scale farmers were apprehensive about registering for NAPSA but that when they received more information on NAPSA and the scheme, the majority of farmers stated that they would like to join”(ILO Study). The report further notes that “interviewed farmers stated that they were not covered by the WCFCB and were under the impression that the WCFCB is intended to provide coverage for commercial and emergent farmers rather than the small-scale farmers”.

The negative perceptions about informal market traders and Formal pensions schemes could therefore be remedied by more information. In Nchelenge's Kashikishi Market, the market committee even objected to the research team interviewing market traders when they heard the research was looking into the possibility of extending social protection coverage to informal market traders. Their apprehension was about the fear that compulsory deductions that would be made on their small incomes would adversely affect their cash flow. They also argued that their priority was access to credit which pensions funds do not currently provide. *"If it is the question of registering market traders for NAPSA, we don't want that here"*, said the market committee chairman.

The general perceptions about whether existing pension systems meet needs of informal market operators are highlighted in Figure 4-6. The general perception was, therefore, negative. About 60 percent of the participants did not think that formal sector pension schemes met their specific needs. Almost two-thirds of participants in Lusaka (67 percent) and Eastern Province (65 percent) reported negative perceptions while over half of participants in Luapula (56 percent), Southern (55 percent) and Copperbelt (56 percent) provinces reported negative perceptions about formal sector pension's fund. On aggregate, therefore, a higher proportion of participants had negative perceptions about formal pensions systems and their effectiveness to meet specific needs of informal market traders. This negative perception bears significance in considering what modality of social protection coverage would likely succeed among informal market traders. While existing policy thrusts appear to be proceeding along the line of capacitating formal pension's schemes such as NAPSA to deliver options for extended coverage, there may be merit in considering a bottom up approach that would circumvent this negativity and stand in better stand to be acceptable among the informal market traders. A novel approach may be of the essence.

Figure: 4-6: General perceptions on whether formal pension schemes meet needs of informal market traders (% vendors reporting); n=992



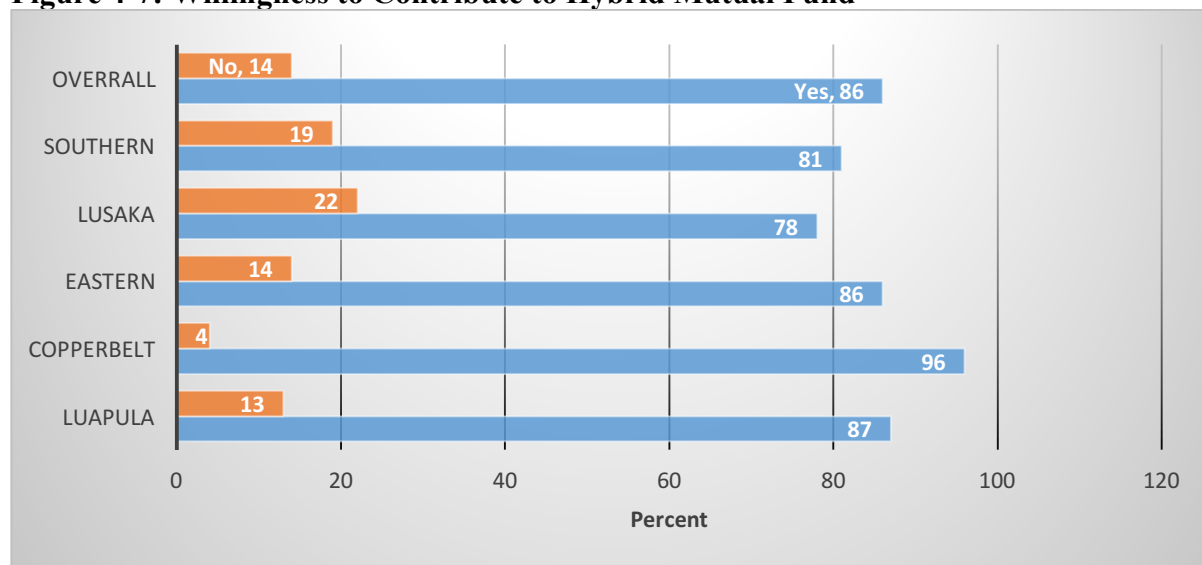
** $X^2(2, 990) = 551, p = 0.00$.

4.6 Willingness to Contribute to a Mutual Hybrid ‘Pensions’ Fund

4.6.1 Willingness to contribute to mutual fund, frequency of payment and preferred method

Given the existing perceptions about existing formal pension schemes, the study sought to establish the willingness of informal market traders to contribute to a mutual hybrid fund that would be so tailored as to meet their specific needs. Such a scheme would harness aspects of the informal social security mechanisms currently in use, such as savings group, and create a mutual pension fund. The willingness to contribute to such a fund among participants was significantly high at 86 percent. The responses were generally on the high side: Copper belt (96 percent); Luapula (87 percent); Eastern (86 percent), Southern (81 percent) and Lusaka (78 percent) - Figure 4-7.

Figure 4-7: Willingness to Contribute to Hybrid Mutual Fund



Source: Survey Questionnaire

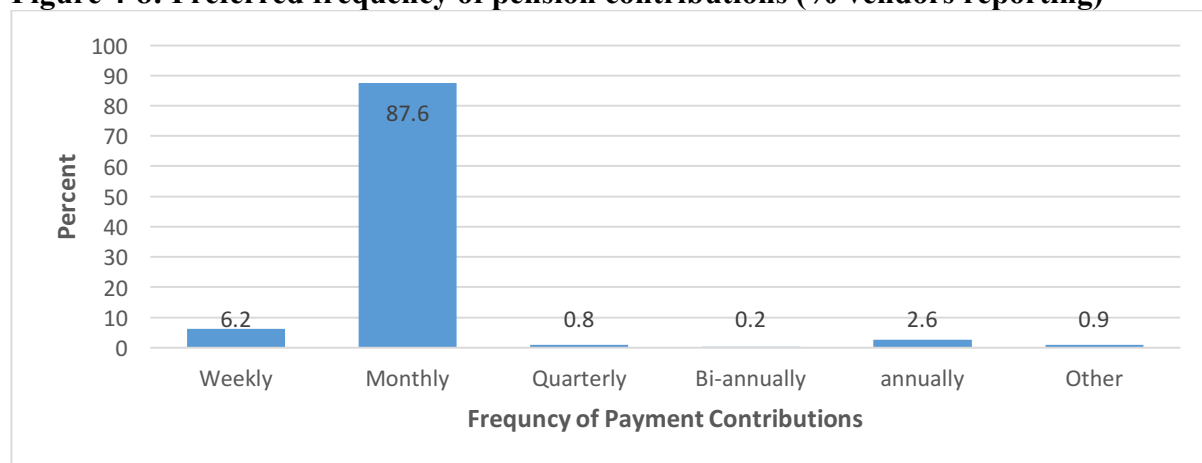
The preferred method of making such payment was cash (53 percent) followed by mobile money (39 percent) and the preferred frequency for making payments was monthly (about 88 percent) – Figure 4-8 and Table 4-7. Only Lusaka had participants preferring payments being made through mobile money (54 percent) compared to cash payments (36 percent). Electronic transfers were least preferred with less than 1 percent of the study participants preferring payments through electronic transfers.

Table 4-7: Preferred Payment Methods for Contributions (% vendors reporting)

	Luapula (n=157)	Copperbelt (n=204)	Lusaka (n=144)	Eastern (n=204)	Southern (n=154)	Total (n=865)
Cash	54	57	36	50	64	53
Bank Deposit	10	6	8	4	5	6
Electronic Transfer	0	0	1	0	1	<1
Mobile Money	36	37	54	45	22	39
Other	1	0	0	2	0	<1

Source: Survey Questionnaire

Figure 4-8: Preferred frequency of pension contributions (% vendors reporting)

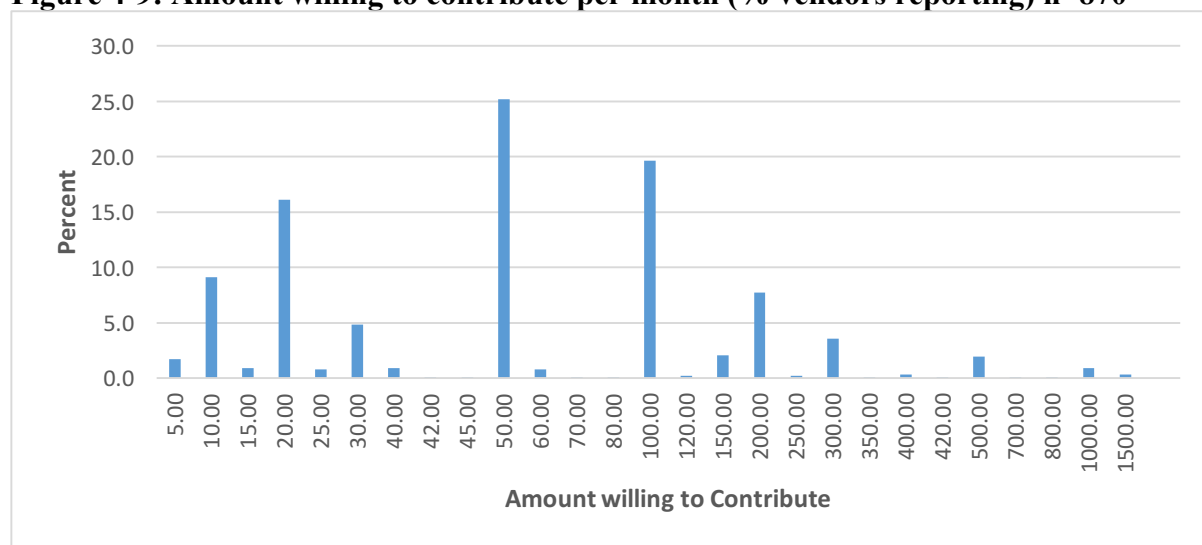


Source: Survey Questionnaire

4.6.2 Amount willing to contribute per month

Evidently, and granted that benefits and modalities are explained and that provided the mutual fund has taken into account specific features and circumstances of informal workers, a significant proportion of ‘marketeters’ will be willing to contribute towards the hybrid mutual fund. Majority of informal market stated a willingness to pay K50 monthly, with a median amount of K51 and an average (mean) amount of K 115 per month – Figure 4-9. The K50 per month amount most were willing to contribute corresponds to 5 percent of median monthly income and 2 percent of mean monthly income reported earlier.

Figure 4-9: Amount willing to contribute per month (% vendors reporting) n=870



Source: Survey Questionnaire

4.6.3 Preferred benefits

Comprehensive social protection aims at providing income security for individuals and households to cope with risks and vulnerabilities along the life-cycle. Benefits provided by existing formal social security schemes are limited to old-age, survivorship, invalidity and employment injury. To some extent, risks of health care, sickness and maternity are provided for through taxes (health care) or employers' liability (sickness and maternity) but with many limitations. In order to understand what specific benefits informal traders would like to be covered under the hybrid mutual fund, the most recurrence themes were reported as follows:

- Access to soft loans
- Funeral cover/grant
- School fees
- Medical expenses/health cover
- Mortgage/building materials
- Old-age pension
- Child/family benefits
- Access to accumulated savings

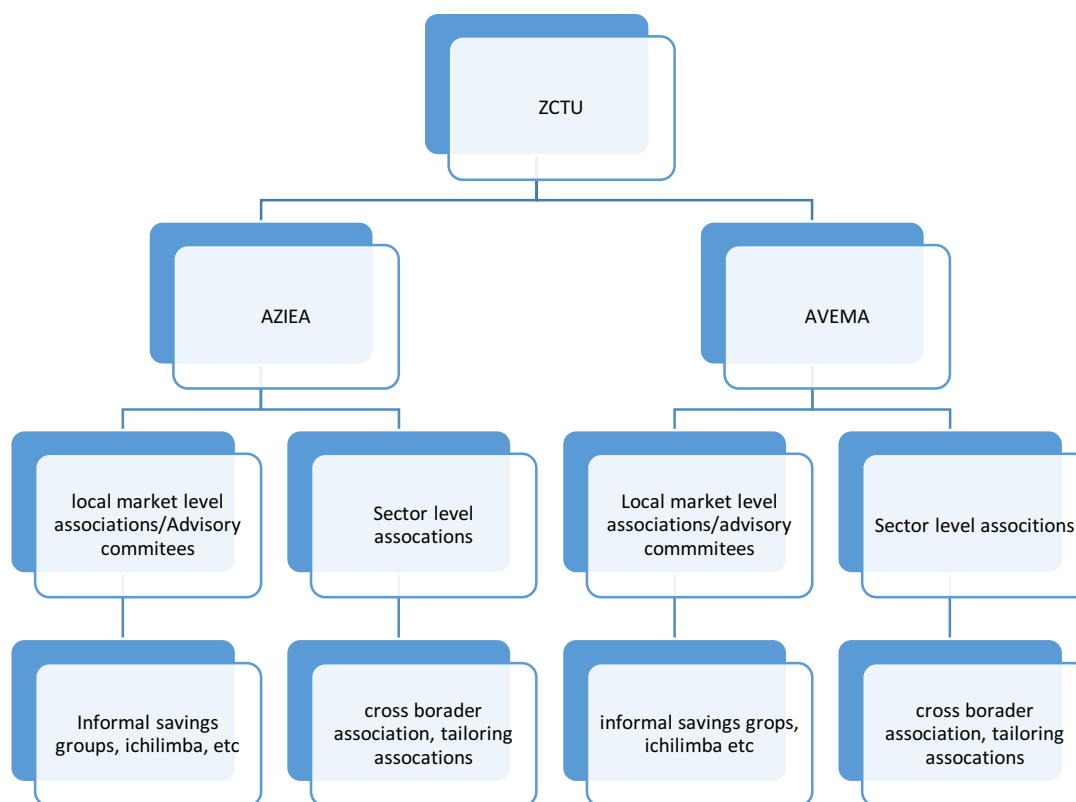
Evidence from the responses confirmed that informal market traders are more concerned by their most immediate needs, particularly access to credit, funeral cover, school fees and medical aid. It would, therefore, be prudent for the hybrid mutual fund to build in these benefits in the package.

4.7 Mapping of Key Stakeholders Supporting Informal Workers:

4.7.1 Informal associations mapping

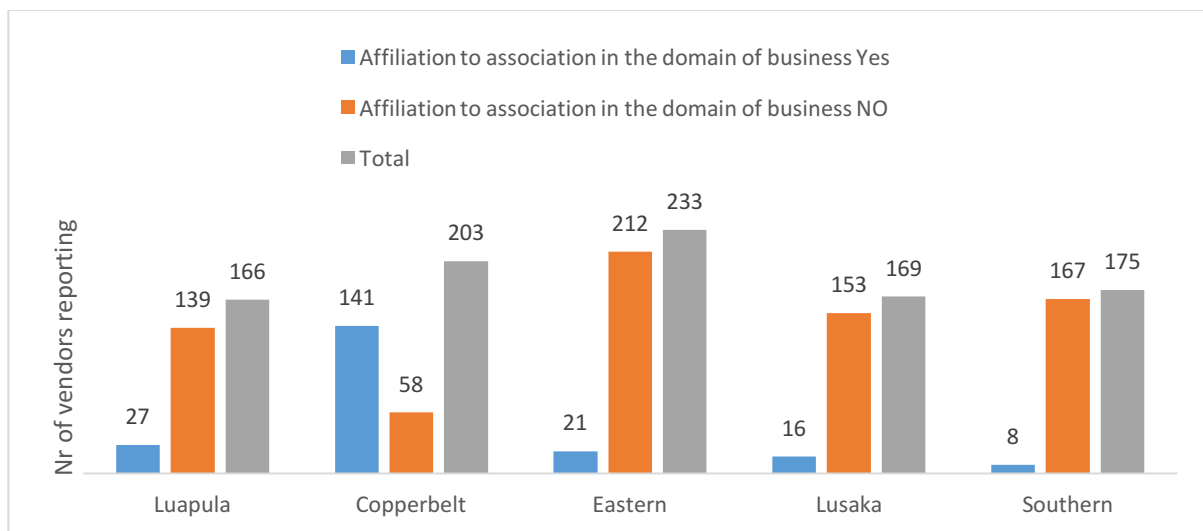
The study established that there are mainly two nation-wide informal economy associations, namely AVEMA and AZIEA; although there is another emerging association called NATMAZ. Both these associations are affiliates of the Zambia Congress of Trade Unions (ZCTU). However, they are also local level associations that are spread across the five provinces but these are members of one of the two national-level informal economy associations (Figure 4-10).

Figure 4-10: Mapping of National Informal Economy Associations



The study also established that while national level informal economy associations have strong national level structures, grassroots level structures remain nascent urging the need for more capacity building of these institutions to foster cohesion, inclusiveness and unity of purpose. A huge proportion of market traders in the five provinces report not belonging to the two national level informal economy associations (Figure 4-11). Also notable from Figure 4-11, is that there is a concentration of membership to informal economy association on the copper belt province urging the need for improved spread of membership coverage.

Figure 4-11: Proportion of market traders reporting to be members of the national level informal economy associations, (Nr. reporting by province)



Source: Survey Questionnaire

The actual specification of number of associations and there spread across the five province is provided in Appendix 1.

Overall, the study findings agree with earlier findings that suggest that there is great distrust with associations, but at the same time vendors have great need and desire for the types of things that associations can bring: training and capacity building; credit and finance; and better political representation. Training could improve enterprise returns and worker employability, turning what are frequently marginal and survival activities into decent work fully incorporated into the main economic activity by the vendors. Capacity building for progressive, non-partisan organisations that have an important role to play to help vendors meet their needs is therefore recommended. These associations could also be capacitated to be agent drivers for the mutual hybrid fund this study proposes.

4.7.2 Other stakeholders

The study establishes that the structure of the informal economy in Zambia consists of all economic activities by workers and economic units that are not covered or insufficiently covered by formal arrangements and have no coverage to social protection. For economic units, these are engaged in the production of goods and services with the primary objective of providing incomes and employment to the persons concerned (CSO, 2012). These units typically operate on a small-scale basis, with a low level of organization and with little or no

division of labour and capital as factors of production. Labour relations, where they exist, are based mostly on casual employment, personal and social relations rather than contractual arrangements with formal guarantees. Economic activities by workers, on the other hand, comprises own account workers and employers, contributing family workers, employees who have informal jobs and members of producer cooperatives (LFS, 2012). Own-account workers and employers have their own informal sector enterprises and are usually characterized by absence of registration with the national authority, lack of contributions to a social security scheme and lack of entitlement to annual paid and sick leave by workers. The most visible and highly urbanised group of informal economy operators are vendors who predominantly operate in streets or organised market places.

Broadly, therefore, the study establishes that the structure of the informal economy in Zambia cuts across a wide spectrum of economic activities which can be seen as ranging from fishing to mining; small scale manufacturing to construction; from service delivery mainly in taxis and commuter bus transportation to small shops, barbershops, hair saloons, retail outlets and car repairs; from subsistence farming to domestic work, vending and hawking; from '*marketeers*' selling perishable goods, new and second hand clothes to money exchangers; from those with some crafts or skills like mechanics, saw millers, plumbers, bricklayers, electricians, painters, artists, watch repairers, musicians, and photographers to shoe makers, tailors and carpenters. In short, heterogeneity is the word that best describes almost all aspects of the informal economy in Zambia - as almost every sector of the Zambian economy has an informal component. It is this heterogeneity that presents organisational challenges.

Further, the study establishes that organisation structures exist in the informal economy and that this can broadly be mapped as: internal organisational structures and external organisational structures. Internal organisational structures are those created by informal economy workers and enterprises themselves for achieving purposeful goals while external organisational structures comprises key external stakeholder institutions supporting the informal workers and economic units. Examples of internal organisational structures include AZIEA, AVEMA, informal savings groups and other internal lending schemes such as "Chilimba" while external organisational structures include an array of external stakeholder institutions that include: Government Ministries such as Ministry of Labour and Social Security, Ministry of Local Government; National Pensions houses such as NAPSA,

WCFCB; Local authorities such as council; Micro-Finance institutions; International development agencies such as the ILO.

Table 4-8: Structure of key stakeholder institutions supporting Informal market traders

Institutions/organisation	Internal stakeholders	External stakeholders	Nature of support
Government Ministries		✓	Policy and regulatory
International Development Agencies		✓	Programme and project
National Pensions Houses		✓	Formal social protection
Local Councils		✓	Market infrastructure
Microfinance Institutions		✓	Micro-credit
Micro-insurance institutions		✓	Micro-insurance
Mobile Network Providers		✓	ICT
Mobile Money Transfer Agencies		✓	Electronic money transfer
Commercial Banks		✓	Savings
Market Associations	✓		Rights protections, advocacy
Informal Savings Groups	✓		Informal social protection, micro-credit, insurance fund, social capital

Each of these structures present opportunities and challenges but the bottom-line appear to be that informal market vendors trust more of their own structures to enable them achieve their purposeful goals, including provision of credit and social protection.

4.8 Livelihood Trends

Livelihood trends of informal market vendors was captured in the study to give a sense of the livelihood pathways of informal market traders in the five targeted provinces. As Blanc and Lloyd posits, “market vendors are confronted with variety of choices regarding their roles in and out of the households and are also constrained by many factors beyond their control, like macroeconomic factors, labour market opportunities, the specific family to which they belong and social norms relating to these roles (Blanc and Lloyd, 1994). The choices available to them, for instance, whether to contribute or not to contribute to social protection may vary with the broad profile of these factors which find expression in their income flows, assets, food security, household resilience and general well-being. Hence, this study also aimed to relate to this aspect. A useful starting point in this regard was to relate to the seasonality of income among informal market traders. Deriving from how business of market traders

performed within the last twelve months, a schedule of expected cash-flows and potential disposable income for informal market traders is shown in Table 4-9 below:

Table 4-9. Market vendor’s income trends within the year

	Month	Level of potential disposable income
1	January	Low
2	February	Low
3	March	Average
4	April	Average
5	May	High
6	June	High
7	July	High
8	August	High
9	September	Average
10	October	Low
11	November	Low
12	December	Low

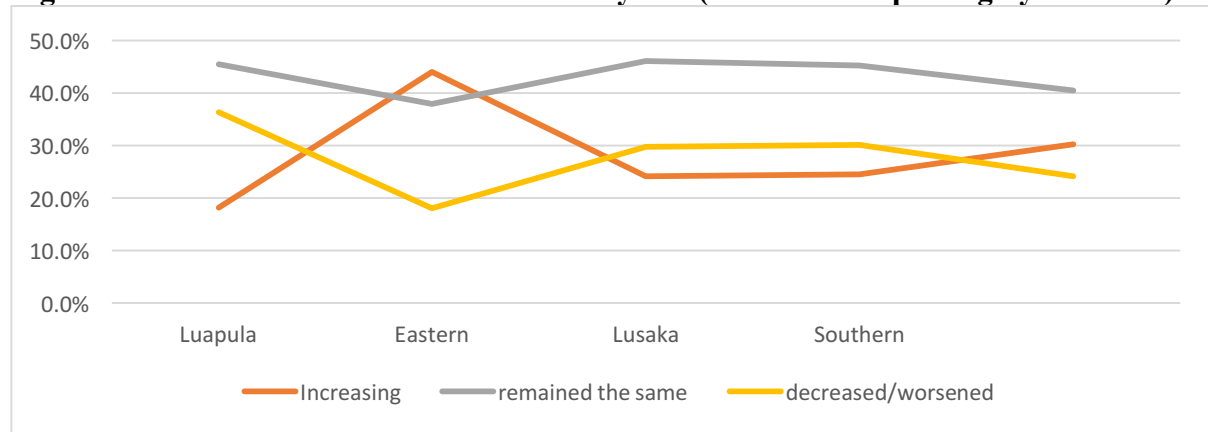
Source: Survey Questionnaire

The study established that the level of income among market traders tends to be on the high side between the months of May and August, then assume average proportions around September and dips between the months of October and February. A similar, although not exactly the same pattern was also established by an ILO/FAO Study investigating the feasibility of extending social coverage to small-scale farmers in Zambia (Gourant, 2015). Most fundamentally, this cash-flow pattern seems to generally correlate with the weather patterns and timing of food crop harvest from the farming community. This seasonality may have implication for determining the contribution frequency. Where a seasonal contribution is preferable, this may have to be in the months of April to September. The majority of market traders, however, preferred the frequency of paying for the contribution monthly (January-December).

Market traders were also asked to self-report their livelihood trends in the last three to five years in relation to their income, assets, food security, resilience and well-being. Figures (4-10; 4-11; 4-12; 4-13 and 4-14) summarise livelihood trends over the last 3-5 as across the provinces.

Generally, most market vendors felt that their livelihood status had remained more or less the same over the last 3-5 years. About 41 percent reported that income levels had not changed over the last 3-5 years while 31 percent felt that income levels had generally increased while 25 percent felt that their income status had deteriorated (Figure 4-10).

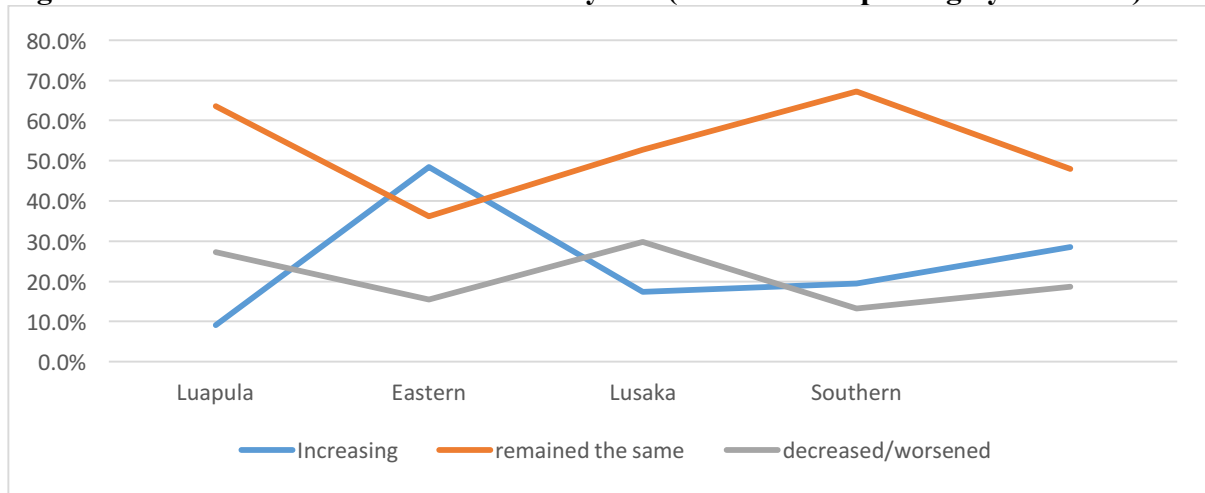
Figure 4-12: Income trends over the last 3-5 years (% venders reporting by Province)



Source: Survey Questionnaire

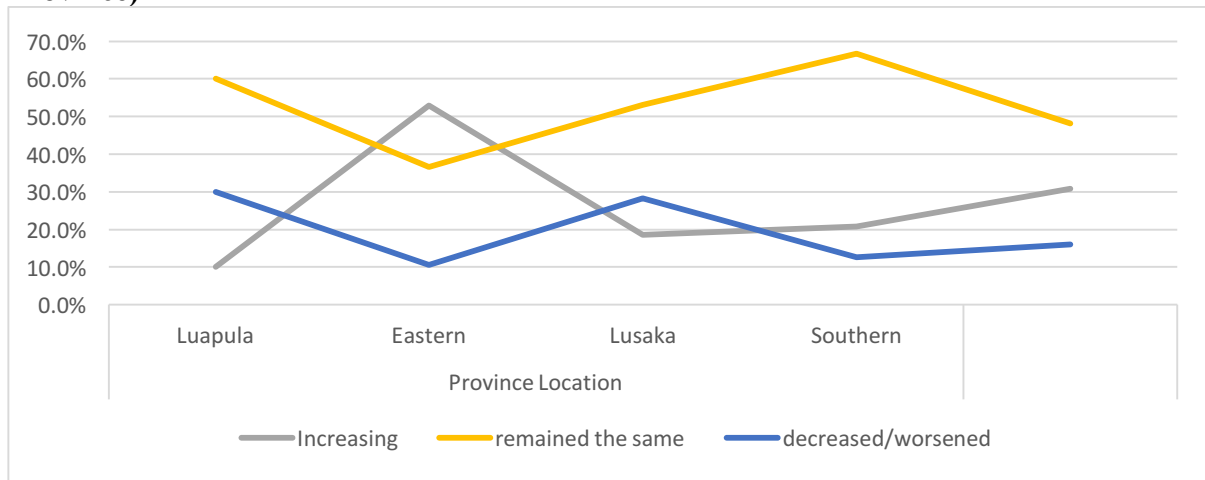
With respect to the asset accumulation, about half (50 percent) reported that their assets had remained the same while a third (30 percent) indicated that asset levels had increased. About 20 percent reported a deterioration in the asset levels (Figure 4-13). The trend was similar in terms of food security, resilience and well-being (Figures 4-14, Figure 4-15, Figure 4-16). The bottom line is clear. The livelihood trends across the five provinces are related, and the relationship between them is that of stalled progress over the last 3-5 years in terms of income, asset accumulation, food security, resilience and household well-being. This situation mirrors the general economic circumstances across much of the national economy where growth in aggregate income has been constrained, the food security situation has been precarious; and the ability to withstand hardship chequered across various economic groupings. A redeeming note, however, is that market vendors reporting a deterioration in their livelihood patterns over the last 3-5 years were in the minority, providing a basis for hope and optimism that future scenarios are likely to assume a rising trend and that contributions to a mutual pensions fund would likely not be hampered.

Figure 4-13: Asset trends over the last 3-5 years (% venders reporting by Province)



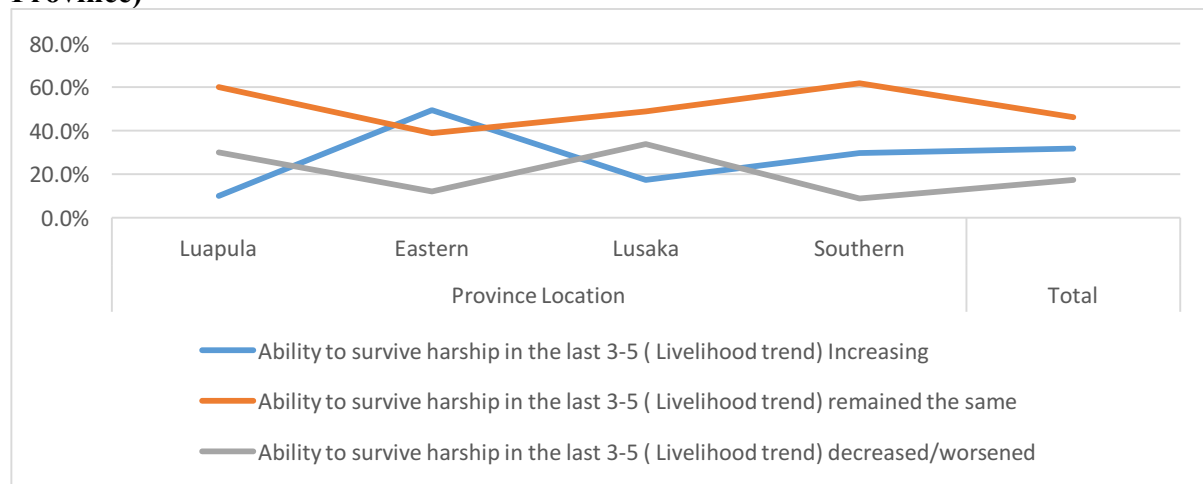
Source: Survey Questionnaire

Figure 4-14: Food security trends over the last 3-5 years (% venders reporting by Province)



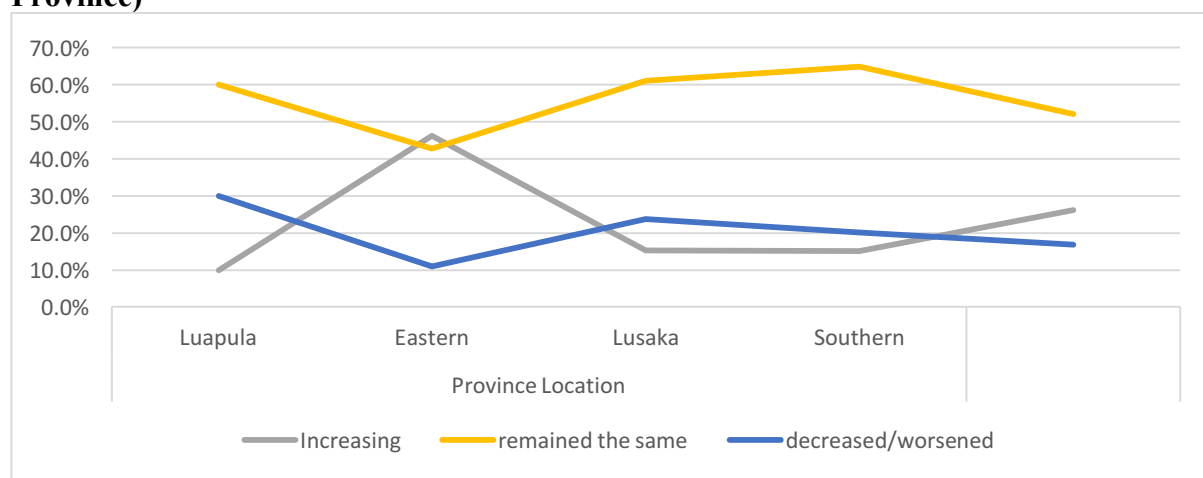
Source: Survey Questionnaire

Figure 4-15: Ability to survive hardship over the last 3-5 years (% vendors reporting by Province)



Source: Survey Questionnaire

Figure 4-16: General well-being over the last 3-5 years (% vendors reporting by Province)



Source: Survey Questionnaire

Vendors were also asked to indicate their top 5 expenses in the last six months prior to the study. This gave a sense of their expenditure profile. A summary of the expenditure profile is shown in Table 4-10. As seen, the top five expenses in the last six months prior to the study were: 1. Food, 2. Savings Group Contributions, 3. School fees, 4. Medical bills, 5. Water Bills. Evidently, a higher proportion of expenses were on food and contributions towards Savings Groups schemes. A higher proportion spent on food is consistent with what would be expected of low income households. What is interesting however is that informal market

traders report a higher proportion of expenditure on informal social protection through savings groups. This savings behaviour in relation to participation in informal savings group demonstrates their recognition of the critical role that informal social security plays in the sustainability of their business and household well-being. This result bears significance in modelling a new pension scheme which must harness this demonstrated expenditure pattern.

Table 4-10: Ranking of Major Expense categories by Vendors

Rank	Expense	Percent Vendor Reporting
1	Food	58.0%
2	Informal Group Savings	58.0%
3	School Fees	48.9%
4	Medical bills	48.1%
5	Water Bills	45.6%
6	Fuel	45.6%
7	Building construction	43.1%
8	Electricity Bills	43.1%
9	Rentals	39.9%
10	Transport	39.9%

Source: Survey Questionnaire

5.0 SUMMARY AND IMPLICATIONS FOR POLICY AND ACTIONS

5.1 Summary

The report started with an observation and a question. The observation was that the informal economy plays a critical role in the lives of millions of individuals worldwide, and that it provides livelihood opportunities for the urban poor and rural households, while at the same time serving as a buffer between employment and unemployment. The evidence presented in this research confirms the critical role played by informal market vendors in providing opportunities for employment and livelihoods to millions of Zambians. The question was: to what extent are informal workers and employers covered by social protection provisioning: The answer to the question is that a vast majority of informal workers and employers are not

covered by formal pension systems and that they hold negative perceptions about the existing pension system to meet their unique needs.

In this section, key insights of the study, existing informal economy structures and specific needs and main challenges faced by informal market vendors are summarised. The section ends by suggesting opportunities for policy intervention and action.

The study provides a key opportunity for a policy approach that is based on evidence rather than assumption or preference.

5.1.1 The importance of market trading for employment, income generation and livelihoods

The study establishes that informal market trading offers crucial opportunities for self-employment, livelihoods and income generation, especially for women, the young, and the less-educated. The study shows that women (62 percent) are by far the biggest group of informal traders in the market, and this is consistent with other studies in Zambia (Mwango et al, 2019; Fuseni et al., 2019). Due to the relative ease of entry into informal market trading, for many women and the youth cohort, market vending is one of their only chances to start a business, gain financial independence and to provide for their families. This was also confirmed by the finding that the great majority of traders who own their businesses are the sole employee.

In terms of livelihoods, the findings of this study show that informal trade provides stable and better income that is denied to them in the formal economy. In this sense, it provides pathways to work out of poverty. The importance of informal market trading has been well-documented across African cities (Skinner, 2019). The study findings suggest that market trading is a major means of employment and sustainable livelihood.

5.1.2 Existing informal economy structures;

The study establishes that the structure of the informal economy in Zambia consists of all economic activities by workers and economic units that are not covered or insufficiently covered by formal arrangements. For economic units, these are engaged in the production of goods and services with the primary objective of providing incomes and employment to the persons concerned (CSO, 2018). These units typically operate on a small-scale basis, with a low level of organization and with little or no division of labour and capital as factors of production. Labour relations, where they exist, are based mostly on casual employment,

personal and social relations rather than contractual arrangements with formal guarantees. Economic activities by workers, on the other hand, comprises own account workers and employers, contributing family workers, employees who have informal jobs and members of producer cooperatives (LFS, 2012). Own-account workers and employers have their own informal sector enterprises and are usually characterized by absence of registration with the national authority, lack of contributions to a social security scheme and lack of entitlement to annual paid and sick leave by workers. The most visible and highly urbanised group of informal economy operators are vendors who predominantly operate in streets or organised market places.

Broadly, therefore, the study establishes that the structure of the informal economy in Zambia cuts across a wide spectrum of economic activities which can be seen as ranging from fishing to mining; small scale manufacturing to construction; from service delivery mainly in taxis and commuter bus transportation to small shops, barbershops, hair saloons, retail outlets and car repairs; from subsistence farming to domestic work, vending and hawking; from ‘*marketeers*’ selling perishable goods, new and second hand clothes to money exchangers; from those with some crafts or skills like mechanics, saw millers, plumbers, bricklayers, electricians, painters, artists, watch repairers, musicians, and photographers to shoe makers, tailors and carpenters; from to domestic services. In short, heterogeneity is the word that best describe almost all aspects of the informal economy in Zambia - as almost every sector of the Zambian economy has an informal component. It is this heterogeneity that presents organisational challenges.

Further, the study establishes that organisation structures exist in the informal economy and that this can broadly be mapped as: internal organisational structures and external organisational structures. Internal organisational structures are those created by informal economy workers and enterprises themselves for achieving purposeful goals while external organisational structures comprises key external stakeholder institutions supporting the informal workers and economic units. Examples of internal organisational structures include AZIEA, AVEMA, informal savings groups and other internal lending schemes such as “Chilimba” while external organisational structures include an array of external stakeholder institutions that include: Government Ministries such as Ministry of Labour and Social

Security, Ministry of Local Government; National Pensions houses; Local authorities such as council; Micro-Finance institutions; and International development agencies such as the ILO.

Each of these structures present opportunities and challenges but the bottom-line appear to be that informal market vendors trust more of their own structures to enable them achieve their purposeful goals, including informal social protection and provision of credit.

5.1.3 Social Protection Mechanisms being used by Informal economy workers

The main informal social security mechanisms being used is informal savings groups, *ichilimba* and *kaloba*. The Savings Groups are basically an improved form of the traditional ASCA (Accumulating Savings and Credit Associations). They provide members a secure place to save, the opportunity to borrow in small amounts and on flexible terms, and affordable basic insurance services. These Savings Groups are composed of 15 to 25 self-selected individuals who meet regularly and frequently to save; amounts are based on each member's ability. Groups then pool the savings to make loans on which they charge an affordable service fee or interest rate which in turn increases the loan fund.

Groups generally operate in nine to 12 month cycles. At the end of every cycle, the accumulated savings and interest earnings are shared out amongst the membership thus providing useful lump sums to members. After each share-out, groups immediately begin another cycle of saving and borrowing. Members may decide to make an exceptional savings contribution right after share-out to re-capitalise the loan fund. This allows the loan fund to grow to fairly substantial amounts.

Informal trader's savings groups also have an 'insurance fund' dimension (sometimes referred to as a *social fund*) that serves a variety of emergency and social purposes, according to rules set by the group. The insurance fund is kept as a separate fund and contributions are normally the same from each member. An example of this fund was assistance during funerals of a member.

5.1.4 Risks, Challenges and Opportunities for informal workers - policy change and action

Traders face a number of challenges, including lack of access to capital and credit, risk of market fires and harassment from local council officials. The government acknowledges the size and existence of the informal economy and the need to extend social protection coverage, but policy is strongly biased towards formalisation. Given the existing policy bias

towards formalisation, efforts at extending social security coverage to the informal economy have been piece meal. Incidentally, there is no pension house nor fund that effectively responds to the felt needs of informal vendors. Existing pension schemes are largely inaccessible to most informal vendors due to formal sector bias and regular contributory requirements. Fundamentally, the study establishes that informal vendors don't believe that formal pension house can meet their unique needs.

The bottom line is clear. The existing policy and regulatory framework is not favourable to the informal economy, particularly informal market vendors, but windows of opportunity do exist to extend social protection coverage. For example, the National Pension Scheme Authority (NAPSA) is working constructively to devise a way to incorporate informal sector workers into a pension scheme. Positive examples from Ghana and Nigeria, however, suggest an informal sector – oriented fund that will cover the vast informal workforce might point appropriate the way forward rather than incorporating them into existing formal sector-oriented pensions systems.

5.2 Recommendations

The following recommendation are made:

5.2.1 Establishing a Hybrid Mutual Fund

This study's findings suggest that there is great distrust with existing pension's houses, but at the same time vendors have great need and desire for the types of benefits that a well-tailored and acceptable fund can bring: social protection; credit and finance; and better representation. A hybrid mutual fund stands in better stead to be accepted, trusted and have an important role to play to help vendors meet these needs. Thus, the study recommends the establishment of a stand-alone hybrid mutual fund. Studies show that micro-pension schemes such as the recommended hybrid mutual fund insulate low-income earners against poverty in old age.

According to a 2009 OECD paper on Insurance and Private Pensions authored by Fiona Stewart Juan Yermo, pensions reduce the poverty gap ratio by 13 percent in South Africa and increase the income of the poorest 5 percent of the population by 50 percent. Also, families receiving a pension in the country are 11 percent less likely to be poor. Due to the perceived

advantages of micro-pension in Nigeria where informal employment is increasing and many in formal employment are hired in consultancy roles that deny them of pension benefits, PenCom has a goal of covering 30 million people in the informal sector under its Micro Pension Plan (MPP) by 2024.

As Sean Kline said recently on the Microfinance Practice listserve: "...a savings-led, self-managed fund is not only a powerful phenomenon in the most remote rural areas where banks and MFIs fear to tread, but this is a good enough solution to many, though not all, financing needs among millions of poor people. Therefore, establishment of a hybrid mutual fund that incorporates aspects of the group savings group model and elements of social insurance is highly recommended.

5.2.2 Understanding the limits and promise of informal workers' organisations.

The study findings agree with earlier findings that suggest that there is great distrust with associations, but at the same time vendors have great need and desire for the types of things that associations can bring: training and capacity building; credit and finance; and better political representation. Training could improve enterprise returns and worker employability, turning what are frequently marginal and survival activities into decent work fully incorporated into the main economic activity by the vendors. Capacity building for progressive, non-partisan organisations that have an important role to play to help vendors meet their needs is therefore recommended. These associations could also be capacitated to be agent drivers for the mutual hybrid fund.

5.2.3 Resolving the issue of levies and taxes

A big complaint from vendors is the collection of 'unofficial levies', and in general a confusion of who they are paying and for what. Some of these levies are political in nature, especially in Lusaka, and may be harder to tackle. But the official government levies can be simplified, and greater transparency in how they are used could lead to improved compliance. In this sense, administrative simplification is an important tool for removing barriers to formalization (introduction of simplified registration systems, single window processing,

electronic forms, etc.) A major task in the efforts to encourage formalisation will be to deal with the notion that it is all about bringing them into the tax net. Past attempt to formalize has been frontloaded with the aim of taxing operators in the sector. While a few people in the informal economy are in the position to pay tax and are indeed capable enough to be outside the tax bracket, the vast majority of informal workers in Zambia are too poor to be taxed. Government can help by implementing a five-year tax moratorium for informal enterprises/workers that register their businesses. The argument if government can grant tax breaks for multi-national corporations, they should equally be able to do it for employers and workers struggling to eke out a living in the informal economy.

5.2.4 Finalise and implement the strategy on extension of social security coverage

Clearly, 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, basically, because they are far more exposed to serious safety and health hazards. In this context, importance must be placed at 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. The study, therefore, recommends speedy finalisation and implementation of the Draft National Strategy on the Extension of Social Security to the Informal Economy in Zambia.

5.2.5 Labour legislation and its application in the informal economy

The study establishes that Zambia's economy largely comprises a large informal sector group characterised 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 legislations, such as the National Pensions Scheme Act, Employment Act, Workers Compensation Act and the Minimum Wage Act providing for informal sector workers, compliance and enforcement remained weak. In this regard, reform of the labour laws and social protection system was emphasised especially in extending provision of social security coverage to informal sector workers as well. A legal framework is essential to guarantee the development of good governance in relation to the informal economy in Zambia. 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 sector and the extension of its benefits is essential. Good practice entails that options for achieving regulation are: i) extension of the scope of application of the law; and ii) promulgation of a special regulatory system. This entails (a) respect fundamental principles and rights at work; (b) respect and adjust to the legislative culture and to the needs of its labour market; (c) allowing for the possibility of flexibility, not create differences among workers or lead to arbitrary standards unjustifiably differentiated according to the production sector in the informal economy. It's therefore recommended to:

- 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.
- Set up “one stop” information advisory kiosks for the informal economy workers for effective dissemination and sharing of information on labour rights, organising strategies and education.

5.2.6 Enterprise development support for informal economy

The ILO Recommendation No. 189 (1998) stresses that to promote entrepreneurship, innovation and creativity so that enterprises, irrespective of their small size or location, are able to create productive jobs, 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) support structures and services for micro- and small enterprises; and iv) representation and organization of micro- and small entrepreneurs and development of cooperative structures. The study established that the need for financing is one of the main priorities of

micro and small entrepreneurs in the informal economy in Zambia. In many of the 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.

5.2.7 Credit Financing Challenges

The study established that 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 sector businesses to produce tangible collateral was also identified as a contributing factor which worsens the situation. It was also noted that there is inadequate capacity among enforcement agencies in ensuring compliance of standards. There is 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.

5.2.8 Enhancing the role of the state

There is 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 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 completely 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 a fair revenues from its natural resources to address the many infrastructure constraints that frustrate businesses in the country.

5.3 Conclusion

The informal economy plays a critical role in the lives of millions of individuals Zambia. It provides livelihood opportunities for the urban poor and rural households, while at the same time serving as a buffer between employment and unemployment. However, the vast majority of workers in the informal economy are largely excluded from social protection and are highly vulnerable to various shocks. This raises fundamental questions about the rights of informal workers, including the right to social protection that has, hitherto, been denied. While efforts at transitioning the informal economy into the formal economy may have merit, the challenge of social protection urges the need to adopt a pro-active agenda that recognises and views the informal economy as dynamic, adaptable and entrepreneurial in its own right capable of managing a stand-alone mutual hybrid pensions' fund. The experience and lessons from the operations, ownership and management of informal savings groups speak volumes about the preferred operational modality of a pension's scheme that can succeed in the informal set-up. The study leaves no doubt that a hybrid mutual fund can work best for the informal economy, particularly for market traders.

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Appendix 1: Informal Economy Associations Operative in the Five Provinces

Name of Informal Economy Association	Province Location					Total
	Luapula	Copperbelt	Eastern	Lusaka	Southern	
MARKET ADVISORY COMMITTEE	0	1	1	0	0	2
AVEMA	3	124	0	0	0	127
AZIEA	1	3	0	0	0	4
BANA MARKET ASSOCIATION	1	0	0	0	0	1
BAULENI MARKET CO-OPERATIVE	0	0	0	1	0	1
CHILYAPA ADVISORY COMMITTEE	5	0	0	0	0	5
CHONGWE MARKET CO-OPERATIVE	0	0	0	1	0	1
CODEP	0	0	1	0	0	1
DRIVERS ASSOCIATION	1	0	0	0	0	1
FALI	0	0	1	0	0	1
FAMILY	1	0	0	0	0	1
FISP FARMER ASSOCIATION	1	0	0	0	0	1
KAFYA ASSOCIATION	1	0	0	0	0	1
KATATIKA SILC	1	0	0	0	0	1
KATONDO MPC	0	0	1	0	0	1
LUAPULA SMALL SCALE BUSINESSES	1	0	0	0	0	1
LUNDAZI MARKET ASSOCIATION	0	0	1	0	0	1
MARKET ADVISORY COMMITTEE	0	0	1	0	0	1
MARKET ADVISORY COMMITTEE	0	0	2	0	0	2
MARKET CO-OPERATION	0	0	1	0	0	1
MARKET ADVISORY COMMITTEE	0	0	0	0	1	1
MARKET ADVISORY COMMITTEE	0	0	4	3	1	8
MARKET ADVISORY COMMITTEE(NAVUTIKA)	0	0	1	0	0	1
MARKET COOPERATIVE	0	0	0	1	0	1
MARKET NETBALLERS	0	0	1	0	0	1
MARKETERS COMMITTEE	1	0	0	0	0	1
MCF	0	0	1	0	0	1
MICRO LOAN	0	0	0	0	1	1
MICRO LOANS	0	0	0	0	1	1
MUKANDA BELE	0	0	1	0	0	1
MUKASHA	1	0	0	0	0	1
MULTI-PURPOSE COOPERATIVE	1	0	0	0	0	1

MUSONDA SMART BUSINESS ASSOCIATION	1	0	0	0	0	1
NATMAZ	0	7	0	0	0	7
NIEGHOORHOOD WATCH	0	0	0	1	0	1
SELF HELP	0	0	0	1	0	1
SICHIKWEUKWE COOPERATIVE	0	0	0	0	1	1
SIDO	0	0	0	1	0	1
SILCONCONE	1	0	0	0	0	1
SILK VILLAGE BANKING	0	0	0	1	0	1
SINDA WOMEN'S DEVELOPMENT ASSOCIATION	0	0	1	0	0	1
TAILORS ASSOCIATION OF BAULENI	0	0	0	1	0	1
TAZIMANI KUKOTA	0	0	0	0	1	1
TEUSHEKO GROUP	0	1	0	0	0	1
TIMBER ASSOCIATION	2	0	0	0	0	2
TWAFWANE	1	0	0	0	0	1
TWAFYANE	1	0	0	0	0	1
TWIKATANE	0	0	0	1	0	1
VICTORY MEN'S CLUB	0	0	1	0	0	1
VILLAGE BANKING	1	0	0	3	1	5
NATMAZ	0	1	0	0	0	1
WOMEN S LOBBY ASSOCIATION	0	0	1	0	0	1
YOUTH COMMITTEE	0	0	0	0	1	1
ZAMBIA MARKETEERS & WORKERS ASSOCIATION	0	1	0	0	0	1
ZAMBIA RED CROSS	1	0	0	0	0	1
ZANAMAKA	0	0	0	1	0	1
	183	219	244	191	178	1017

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