



Labor and Globalization

Kwabena Nyarko Otoo

## Informality and Labour Regulations in Ghana



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*Kwabena Nyarko Otoo:*

## **Informality and Labour Regulations in Ghana**

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The book makes a major contribution to the controversy about the factors driving the persistence and expansion of the informal economy. Unlike most other studies which either take a structuralist or an actor's choice approach to the topic, this study combines a careful assessment of the economic, social and political circumstances promoting informality with a meticulously carried out econometric analysis of the dominant characteristics of workers as well as enterprises in the informal economy in comparison to those in the formal economy. Its finding is that contrary to the neoliberal view, overregulation is not the primary driver of informality. Rather economic underdevelopment, which in turn is a result of the interplay of neoliberal policies and insufficient state capacity, is the main cause of informality.

**Key words:** Labour markets, informality, labour regulation, development, Ghana

*Kwabena Otoo* is the Director of the Labour Research and Policy Institute of the Trades Union Congress (TUC), Ghana. He has worked with the TUC for the past 14 years.

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### ***List of Abbreviations***

AFRC	Armed Forces Revolutionary Council
AHD	Akosombo Hydroelectric Dam
APS	Aborigines Protection Society
BACs	Business Advisory Centres
BNL	Binomial Logit
BoG	Bank of Ghana
CEPA	Centre for Economic and Policy Analysis
CLO	Compulsory Labour Ordinance
COCOBOB	Cocoa Marketing Board
CPI	Consumer Price Index
CPP	Convention People's Party
DB	Doing Business
EAP	Economically Active Population
ERP	Economic Recovery Programme
EPLs	Employment Protection Legislations
FDI	Foreign Direct Investment
FES	Friedrich Ebert Stiftung
G7	Group of Seven Industrialised Countries
GAMA	Greater Accra Metropolitan Area
GDP	Gross Domestic Product
GHS	New Ghana Cedis
GII	Ghana Integrity Initiative
GLSS	Ghana Living Standards Survey
GNP	Gross National Product
GSS	Ghana Statistical Service
GTZ	German Technical Cooperation Agency
IAA	Irrelevant Alternatives
ICLS	International Conference of Labour Statisticians
IFC	International Finance Corporation
IJD	Instituto Libertad y Democracia

ILC	International Labour Conference
ILO	International Labour Organisation
IMF	International Monetary Fund
ISI	Import Substitution Industrialisation
ISSER	Institute of Statistical, Social and Economic Research
JHS	Junior High School
LAC	Latin America and Caribbean
LSMS	Living Standard Measurement Survey
MBs	Mandated Benefits
MDRI	Multilateral Debt Relieve Initiative
MNL	Multinomial Logit
MSEs	Medium and Small-Scale Enterprises
MW	Minimum Wage
NAL	National Alliance of Liberals
NBER	National Bureau of Economic Research
NDC	National Democratic Congress
NGOs	Non-Governmental Organisations
NLC	National Liberation Council
NLM	National Liberation Movement
NOTICE	Notice Period
NPRA	National Pensions Regulatory Authority
NPP	New Patriotic Party
NPP	Northern People's Party
NTC	National Tripartite Committee
OECD	Organisation for Economic Co-operation and Development
OLS	Ordinary Least Squares
PDA	Preventive Detention Act
PHC	Population and Housing Census
PNDC	Provisional National Defense Council
PNDCL	Provisional National Defense Council Law
PP	Progress Party

PPP	Purchasing Power Parity
PRB	Population Reference Bureau
PWD	Public Works Department
RGD	Registrar General’s Department
SAP	Structural Adjustment Programme
SEV	Severance Pay
SHS	Senior High School
SOC	Social Overhead Capital
SOEs	State-Owned Enterprises
SSA	Sub-Saharan Africa
SSNIT	Social Security and National Insurance Trust
SSPP	Single Spine Pay Policy
TIN	Tax Identification Number
TWA	Temporary Work Agency
TUC	Trades Union Congress – Ghana
UGCC	United Gold Coast Convention
UK	United Kingdom
US	United States
WDI	World Development Indicators
WIEGO	Women in Informal Employment Globalising and Organising



# Chapter 1

## Introduction and Background

### *1.0 Introduction*

The Ghanaian economy and labour market is dominated by informality. Nearly 90 percent of the Ghanaian workforce is informally employed. For enterprises, the majority of them operate outside formal rules. These workers and enterprises contribute significantly to the national output. Informal economy is, therefore, a major source of livelihood for many Ghanaians.

Despite its enormous contributions towards generation of employment and improvement of output, informal economy faces special challenges. First, informal workers face significant decent work challenges including lack of or inadequate legal and social protection. Second, significant proportion of informal workers is affected by poverty. Third, informal enterprises are frequently denied state support, which could help grow their businesses because they operate outside the legal and institutional framework. Fourth, the large swathe of workers and enterprises working and doing business openly outside state regulations presents a challenge to state authority and legitimacy. With the expansion of informal economy, the challenges are mounting. This thesis focuses on understanding the rapid expansion of informal economy and analysing if such expansion is a result of overregulation of the Ghanaian labour market. The analysis is done in a quantitative framework. Beyond the quantitative analyses, the thesis also attempts to explain the large and growing informality in a political economy framework.

The notion that the large and growing informal economy in Ghana is caused by excessive regulation of the Ghanaian labour market has been a trending narrative in the last three decades. The extensive liberalisation of the Ghanaian labour market beginning in the 1990s has been based on this narrative. However, little empirical analysis has been done with regard to labour regulations and labour market performance in general and informality in particular. The narrative has essentially been based on studies elsewhere that purportedly uncovered a link between excessive regulations and poor labour market performance. By focusing on labour regulations and informality, this study makes an important contribution to labour market development in Ghana. The application of quantitative data and analyses to labour regulations and informality is a novel approach to the study on Ghana. Most studies on Ghana, which looked at informality, have tended to be qualitative in nature. The three datasets employed in the study allows for trend analyses of regulations and informality, making it possible to make causal inferences.

Most importantly, this study combines the results of the quantitative analyses with historical, political, social, and economic analyses of the Ghanaian state to explain the rising recourse to informality. The quantitative analyses show that while labour regulations cannot be ignored completely in search of answers to the rising levels of informality, they (regulations) cannot be held up as the leading cause of informality in Ghana. In recognition of the heterogeneous nature of informality and its complexity, the study explored further answers in a framework that encompasses recent history, politics, and economy, and the society of Ghana.

In economic terms, the neoliberal reformulation of economic policy in Ghana has led to acute shortage of jobs in the formal economy pushing many job seekers into the informal economy. At the social level, the rapid growth of the Ghanaian population and labour force has outpaced the capacity of the formal economy in terms of job creation. This, combined with high levels of illiteracy and low skills has constrained job creation in the formal economy. The economic and social factors are sustained by a political process characterised by a weak state unable to undertake the complex task of governance, including the enforcement of the social contract. Many citizens have responded to the economic, social, and political failures by withdrawing from formal rules. They have taken refuge in the informal economy where they conduct their affairs with minimal interventions from the state.

### **1.1 Background**

According to the recent estimate done by the Ghana Statistical Service (GSS) nearly 90 percent of the Ghanaian workforce is employed in informal economy. More than two-fifths (46 percent) of the active population is self-employed (GSS, 2014a). The formal wage sector appears stagnant and even declining as most new jobs are created in the informal sector. A total of 300,000 individuals enter the labour market every year, out of which about 2 percent are absorbed in the formal sector (Baah-Boateng and Ewusi, 2013). The remaining 98 percent are compelled to seek employment in informal economy.

Despite being a major source of income and livelihoods for many Ghanaians, the presence of large number of workers and enterprises whose activities are conducted outside the legal framework, act as a barrier to inclusive development, challenging the state capacity and affronting the rule of law. Moreover, despite many attempts both at the level of theory and policy to address informality, the phenomenon has persisted and even grown. Except for a few people, the majority, who have been trapped in the informal economy, face huge decent work deficits and tend to have higher than average poverty levels.

The continued expansion of informal economy, therefore, constitutes a major challenge not only to national development but also to the on-going efforts to reduce poverty. Given this, informal economy has received considerable attention in recent times. At the national level, there have been attempts to rope in informal workers and their enterprises into the tax net by getting them to contribute to the payment of direct taxes. At the international level, the focus has been on ‘formalising the informal economy’ by implementing a series of national-level policies and programmes that are intended to admit informal operators to a country’s formal laws, norms, and procedures.

While these efforts are commendable, they have failed to yield the desired impact. Informal economy continues to expand and the level of vulnerability for informal operators in Ghana is on the rise. Part of the reason is that both at the level of theory and policy, there is a wide disagreement on many aspects of the informal economy discourse, including the reasons for its continued expansion. Indeed, in the last four decades since the term ‘informal sector’ was first used (Hart, 1973) it has been debated intensely within the International Labour Organisation (ILO), academia, and policy circles. Contrary to earlier predictions that informality would disappear as countries move towards development, the phenomenon has persisted and even expanded beyond its historical confines. In the process, the discourse has transitioned from the informal sector to informal economy (ILO, 2002a), recognising that informality is no longer confined to a distinct sector.

The burgeoning academic and policy literature that has emerged in the last four decades has intensified the disagreement on the precise definition and constitution of informal economy. Reflecting on the many facets of the informality phenomenon, many researchers and policymakers have used different definitions and concepts to characterise it. Some definitions have restricted informality to urban non-agricultural economic activities and the employment they generate (Harris and Todaro, 1970; Gockel, 2001). Others have included rural agriculture in the definition of informality (King, 1990; Ninsin, 1991; Adu-Amankwah, 1999). Enterprise size defined as the number of workers employed has also been used to delineate the informal sector. Conformity or non-conformity to standards including international labour standards has also been used to define the informal economy. Different definitions reveal the many lenses with which the academic and policy community have tended to view informal economy. However, they also produce one consensus, the notion that informal economy is heterogeneous. That is, there are considerable variations in the type and conditions of work and earnings across the informal economy.

Beyond this consensus, literature remains highly polarised regarding the causes of informality. Adherents of the dual economy model conceive informal



economy as marginal economic activities to which people turn because they have little or no opportunity in the formal economy. The expansion of informal economy is explained in terms of the slow growth of industrial economic activities compared to the growth rate of the population. Dualists also allude to the growing mismatch between skills of job seekers and the structure and demands of modern economy. Structuralists view informal economy as consisting of economic activities that are subordinated to the formal economy, providing cheaper labour and inputs to the formal economy and thereby increasing its competitiveness. Structuralists indict the nature of capitalist accumulation as the primary driver of informality. Writers of the legalist orientation uses the legal regime as the basis for distinguishing formal and informal economic activities, describing the former as legally protected while the latter not. Regarding causes, legalists are of the view that a hostile legal regime stifles the growth of formal enterprises and forces job seekers into the informal economy. For the voluntarists, informality is a rational choice made by citizens based on cost-benefits analysis of informality in relation to formality.

Neoclassical economics, which has guided the economic policy in Ghana for the past three decades, combines the legalist and voluntarist approaches in explaining informality. It assumed being part of the Structural Adjustment Programme (SAP) and successor policies, which by taming the state, removing regulatory and institutional constraints, and allowing unfettered markets to allocate resources, would bring in unprecedented economic growth. With economic growth and development, total employment would increase, and access to the formal sector employment would improve. Informal economy will diminish and disappear eventually, as growth picks up and economy develops. Informal economy may, therefore, be regarded as transitory (Marcelli, Pastor and Joassart, 1999; Ribe, Robalino and Walker, 2010).

This benign view about how economic growth was going to decimate informal economy appears to have missed the actual pattern of economic growth and employment over the last 30 years. First, the promised high rate of economic growth, which was to follow market-based reforms, including deregulation of the labour market, did not materialise. Economic growth as revealed by Gross Domestic Product (GDP) has averaged about 5 percent over the last three decades (Otoo, 2015). Second, and more importantly, the modest GDP growth rate has coincided with the growth of informal employment and the decline of formal wage employment. Informal economy has shown considerable resilience even as the economy registers consistent growth (see Chapter 3).

Despite the obvious failure of neoclassical policies at least in respect of employment and informality, advocates attribute the failure of market-based reforms to accelerate employment creation and reduce informality, not to the reforms they pushed but rather to the fact that reforms did not go far enough.

The argument runs as follows: Ghana like most other countries in Africa is saddled with burdensome labour regulations that, constrain employment creation in the formal economy and promote informality. According to this view, 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 the requirement for severance payment make employers reluctant to hire labour in good times when they are in a position to do so. Mandated benefits such as social security contributions increase the tax wedge; employers who are not able to afford the mandate refuse to hire or hire informally. Minimum wage legislations combined with the bargaining power of unions raise wages above the market clearing rate and shut the door of formal employment to many workers.

Countries were advised to deregulate labour markets by abolishing laws and regulations that are thought to constrain employer action with respect to their workforce. The launch of the 'Doing Business' report by the World Bank and subsequent ranking of countries on the restrictiveness or otherwise of their labour regulation regime provided additional impetus for steeper liberalisation of labour markets.

Most of the studies that informed the view that labour regulations are bad for labour markets and employment have taken place in advanced OECD economies and also in Latin America. There has been few empirical analysis of the impact (if any) of regulations on labour markets in Africa, particularly, Ghana (Fox and Oviedo, 2008). At the same time, the evidence provided by these studies remains inconclusive and provide little guidance for policy. This notwithstanding, the view that excessive regulation of the labour market in Ghana has choked off the economy's ability to create decent formal employment, remains strong. For example, the 'Doing Business' report of the World Bank ranked Ghana as 145th most difficult economy for employing workers (World Bank/IFC, 2009). The difficulty of firing (dismissal) index is estimated at 50 compared to 10 for Denmark and Burkina Faso. The firing cost to the employer is estimated at 178 weeks of salary compared to zero cost in Denmark and 34 weeks of salary in Burkina Faso.

Given the complex nature of informality in Ghana and elsewhere in Africa, results of studies in advanced OECD economies cannot be transposed to explain the link between informality and labour regulations in Ghana, more so, when the evidence evinced by these studies remain inconclusive. This study, therefore, undertakes an empirical analysis of the link between labour regulations and informality in Ghana. The main research question is 'Do regulations cause both workers and enterprises to self-select into the informal sector?'

Apart from addressing the assumed connection between informality and labour regulations, the thesis attempts to explain the growing dependence on informality by developing a political economy model that looks at state capacity and the social contract and how they influence the growth of the informal economy. The informal economy is placed in the larger context of politics, society, and economics, and above the narrow confines of labour regulations.

## **1.2 Theoretical Approach and Method**

The theoretical approach involves a dual economy model with formal and informal enterprises and workers. Workers are assumed not to have much choice between working in the formal or informal sector given the general lack of what might be called ‘good jobs’ in Ghana. Enterprises are assumed to have a choice between operating in either the formal or informal economy. Formal workers are those registered for social security or have described themselves as formal. All others are assumed to be informal workers. Formal enterprises are registered with the relevant national or sub-national institutions; those that are not registered are informal enterprises. As indicated earlier, the neoclassical proposition is that workers and enterprises make implicit cost-benefit analyses with respect to the formal rules and regulations. In this analysis, workers and enterprises frequently decide against joining the formal economy and rather join the informal one or remain informal. They find the rules and regulations prevailing in the formal economy too costly compared to the benefits. This has been the neoliberal storyline, which has already dovetailed into policy leading to sweeping deregulation of labour markets with devastating consequences for the rights and welfare of workers.

This theory is subjected to an empirical test using a binomial logistic model in which informality is assumed as a choice variable for enterprises [and workers] who find it beneficial for their interests to avoid official regulations. Given the assumption that workers do not have a choice regarding formality or informality, the model explores individual worker characteristics that determine the allocation of workers into either formal or informal sectors of the Ghanaian economy. As indicated earlier, firms are assumed to have a choice between locating in the formal or informal economy. The econometric model, therefore, examines the nature of the relationship between informality and labour regulations by determining the role of labour regulations in the choices enterprises make between formality and informality.

The remainder of the thesis is structured as follows. Chapter Two is devoted to a review of the empirical literature. Chapter Three describes Ghana’s economy and labour market. It discusses the economic policy and performance in the mediate post-independent era and the period after 1983. In the first era, economic policy had a socialist orientation with the heavy dominance of the

state. In the second era, economic policy swung in the direction of neoclassical economics; the state was rolled back, and markets gained pre-eminence in the allocation of resources. The chapter also shows that despite moderately improved economic situation since the adoption of liberal economic policies, labour market performance has been poor. Formal employment has declined and informality has increased. The chapter concludes with an assessment of state capacity in Ghana.

Chapter Four takes a deeper look at informality and labour regulations in Ghana. It begins by addressing issues of definition of informality. It looks at industrial relations and labour regulations in Ghana. It also discusses informal workers and informal enterprises and delves extensively into the typology of informality. It concludes with a discussion of whether people/workers rationally choose informality. Chapter Five is devoted to a discussion of the econometric strategy and description of the data. In Chapter Six the econometric results are presented for all five regressions: three for the informal worker model and two for informal enterprise model. Chapter Seven develops a political economy framework for understanding informality. Chapter Eight concludes the thesis.

## Chapter 2

### Labour Regulations and Informal Employment: A Review of the Theoretical and Empirical literature

#### *2.0 Introduction*

This chapter presents the literature on informality, tracing its history from informal ‘sector’ to informal ‘economy’. The chapter analyses the main theoretical and empirical debates on informality highlighting the three main schools of thought – dualism, structuralism, and legalism – and how they conceive informality. The chapter also provides a foundation for empirical work of the thesis, including the theoretical and empirical approach followed in this study.

The chapter shows that informal economy literature is large and diverse. Three main schools of thought namely, the dual economy model, the structuralist model, and the legalist model dominate the theoretical literature. The dualists partition the broad economy into formal and informal sectors with limited interactions between the two. They attribute informality to under-development reflected in the small size of the industrial or capitalist sector of most developing countries. For the structuralists, the economy is segmented into several fragments that are structurally related and interlinked. The structuralists attribute persistence of informality to the nature of capitalist accumulation. That is, they argue that, the constant urge for profit requires maintaining a large pool of labour on the margins whose activities subsidises the capitalist sector. The legalist distinguishes between the formal and the informal economy using the legal regime. They contend that the labour market in most developing countries is saturated by costly regulations, which compel enterprises and workers to operate in the informal economy where they could avoid such burdensome regulations. This view remains the most dominant and has already induced several reforms that aim to reduce or dismantle altogether regulations with adverse implications for workers’ rights.

The empirical literature has been equally extensive but mostly concentrated in advanced OECD economies and also in Latin America. The results have largely been inconsistent. However, the view that informality results from over-regulation remains strong.

In this study, the view that informality is caused by regulations is subjected to an empirical test. The approach encompasses a dualistic model with formal and informal workers and enterprises. Formality has benefits and costs. However, given the laxity in enforcement, enterprises are free to choose between the two sectors and the choice is based on their assessment of costs versus benefits. Informal workers assume not to have choice and are only allocated into either

sector on the basis of characteristics that are specific to them, their location, and household.

## **2.1 The Informal Economy**

In a study of the economic activities of low-income migrants<sup>1</sup> in Accra, Hart (1973) first used the term ‘informal sector’ to describe income-generating activities of the urban sub-proletariat in Ghana. The ILO (1972) adopted and popularised the terminology in its multidisciplinary employment mission to Kenya in 1972. Moreover, for the next four decades, the informal sector, as a concept, would become widely debated regarding its meaning, characteristics, causes, and effects.

Several labels have been used to describe the informal sector both before and after Keith Hart. These labels include (but not limited to) ‘irregular economy’ (Ferman and Ferman, 1973), ‘subterranean economy’ (Gutmann, 1977), and ‘underground economy’ (Simon and Witte, 1982; McCroham and Smith, 1986). Other labels include the ‘black economy’ (Dilnot and Morris, 1981), and the ‘shadow economy’ (Cassel and Cichy, 1986). There are also common media clichés including ‘invisible’, ‘hidden’, ‘submerged’, ‘shadow’, ‘unofficial’, ‘unrecorded’ or ‘clandestine’ (US Department of Labor, 1992).

Since the term informal sector was first used, more than four decades ago, there has been considerable disagreement over its definition, character, and its causes as it relates to the activities and the entities or persons involved. The subject of informal sector has been studied and interrogated by and from the perspective of economists and tax specialists,<sup>2</sup> anthropologists, and sociologists. From these varied perspectives, considerable insights have been gained into the informality phenomenon. However, these perspectives have raised disagreements (Losby et al., 2002) and even confusion (Kanbur, 2009) on the subject.

The various perspectives have one common denominator as they seek to define the informal sector; they have tended to define the informal using the formal sector as the reference point. Therefore, the informal sector by definition and characterization refers to all income-generating activities that take place outside

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<sup>1</sup> The study focused on the Frafras, a Northern Ghanaian group, who have migrated to Accra.

<sup>2</sup> Economists and tax experts have tended to focus on economic activities that are unregulated and involving the use of direct fiscal cash. Anthropologists and sociologists focused on the role of such economic activities in the household for community survival and reproduction.

regulated enterprises and employment relations (Hart, 1973; ILO, 1972, 2002). The International Conference of Labour Statisticians (ILO, 1993) defined the informal sector to include household enterprises or unincorporated enterprises owned by households and this includes:

1. informal own-account enterprises, which may employ contributing family workers and employees on an occasional basis; and
2. enterprises of informal employers, which employ one or more employees on a continuous basis.<sup>3</sup>

The above description of the informal sector sharply distinguished it from the formal sector. Formal sector activities are regulated, while those of the informal sector are not. The sharp distinction between formal and informal sectors dates back to the French Physiocrats, who envisioned an economy comprising productive agriculture and a small non-agricultural sector (Silverman, 1992). Following the dualist tradition of the Physiocrats, Ricardo (1817) and Marx (1867) saw the agricultural sector as the static of the two sectors even though it was the dominant sector. Since the 1950s, economic dualism became a formal model with the publication of *Economic Development with Unlimited Supplies of Labour* by Sir Arthur Lewis in 1954.

There have been many variants of the dual economy model, but nearly all of them make reference to the agricultural and industrial sectors. Also, nearly all of them associate the agricultural sector with the rural, traditional or informal sector and the industrial sector with the urban, modern or formal sector. Implicit in this characterisation was the notion that the traditional or informal sector was marginal or peripheral and that transiting from the agricultural, rural or traditional to the industrial, urban and modern economy was always desirable (ILO, 2002a). Thus, in the past half-century, economic policies became explicitly concerned with how to bring this about.

In 2002, the ILO mooted the idea of ‘informal economy’ as opposed to the ‘informal sector’, recognising that the efforts to eliminate or at least reduce informality have not only failed but also that informality has persisted and expanded and is manifesting in different guises within the ‘formal sector’ itself. The expansion has not been limited to developing countries where the informal sector was ‘discovered’. Informality, particularly as it relates to employment relationships, has spread to the developed and industrial countries of the world where flexibility and informality in production have become an enduring part of

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<sup>3</sup> See ILO, 1993.

the globalisation phenomenon. Mass production, a defining feature of the factory system since the industrial revolution, by the 1980s had begun to fade. Small-scale, decentralised, and flexible production units, was becoming the norm (Chen, 2012). The notion of job-for-life became endangered as non-standard jobs, hourly rate, and piece-rate jobs replaced permanent contracts.

In addition, crisis-hit countries in Latin America and SSA, where Structural Adjustment had uprooted many from secure employment in the public sector witnessed a phenomenal expansion of the informal sector (Panford, 2001). The informal sector became the only avenue for those who had lost their jobs as well as those entering the labour markets for the first time. Firms struggling to stay competitive adopted various forms of employment arrangements bearing all the features of informal employment. Thus, informal employment appeared in various guises in the formal sector.

This made the term ‘informal sector’ inadequate in describing the dynamic changes taking place in labour markets around the world (ILO, 2002a). Informality was no longer confined to a distinct ‘sector’, or specific industry group or economic activity. The informal economy as a concept encompasses the disparate but expanding array of workers and enterprises, who share a common feature; they are unrecognised since they operate on the margins and are outside the realm of formal regulations. They may differ regarding the industrial or production sector where they operate and in terms of their employment status. But they share a common feature of operating informally. Their economic activities and relationships with others do not conform to existing legal codes or part of it even though the activities themselves are legal.<sup>4</sup>

The International Labour Conference (ILC) defined the term ‘informal economy’ as comprising ‘all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements’ (ILO, 2002a). The expanded definition broadens the concept of informality from the narrow focus on unregistered enterprises incorporating all informal arrangements including those that take place in registered formal enterprises (Chen, 2012). It also brings to the fore the concept of ‘informal

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<sup>4</sup> Here a distinction is made between informal economic activities and criminal activities. We also recognise that criminal activities do take place in the informal economy. But the vast majority of informal activities produce goods and services that are legal even though those activities are not registered or regulated. It is also important to state that informality does not preclude the existence of rules and norms. Informal operators have their own systems of rules and norms by which they regulate their activities.



employment’ as opposed to ‘employment in the informal sector’. The 17th ICLS defined informal employment as the total number of informal jobs, whether carried out in formal enterprises, informal sector enterprises or households during a given reference period (Husmanns, 2004).

## **2.2 The Informal Economy Literature**

Evidently, a lot is already known about the informal economy or sector. It is large and growing around the world (ILO, 1993 2002a; Mazumdar, 1975a). The notion that it will disappear with growth and development has faded.<sup>5</sup> For the most part, the large swathes of workers trapped in informal employment have low productivity and earn low incomes despite working long hours. There are instances of highly productive enterprises in the informal economy with good earnings. The diversity of the informal economy is well recognised.

Despite the broad consensus, there remains considerable theoretical disagreement and even confusion over the exact conceptualisation and characterisation of the informal economy (Moser, 1978; Kanbur, 2009). Even more controversial is the theoretical and policy positions on the causes of informality. The literature is rich but polarised. The changing dynamic of the global labour market and the evolution and adaptation of informal responses have added to the controversies. This section reviews the main theoretical debates regarding the conceptualisation and characterisation of informal economy. The section will also review the main theoretical positions regarding the causes of informality.

### **2.2.1 The Dualists**

In his seminal paper, ‘Economic Development with Unlimited Supply of Labour’, Arthur Lewis (1954) set the stage for theorising about informal economy. Lewis’ theory is set in the tradition of the dual economy<sup>6</sup> model, which as we have noted, dates back to the French physiocrats. However, Lewis adopted the ideas of the classical dualism of Ricardo (1817) and Marx (1867), who like the physiocrats characterised the economy as segmented into

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<sup>5</sup> In large parts of the world ‘development’ itself has become illusory. At the same time in countries where ‘development’ was realised, informality has simply failed to go away.

<sup>6</sup> Economic dualism has been a common source for the many competing models seeking to conceptualise and characterise the informal sector.

agriculture and industry.<sup>7</sup> But unlike them regarded the agricultural sector as stagnant while the industrial sector is accorded a dynamic and expanding status (Silverman, 1992). In the world of the physiocrats, society or economy was dominated by agricultural activities and was thought to be stagnant. While other non-agricultural activities were visible, they were markedly insignificant in comparison to the large agricultural sector (Fei and Ranis, 1961). These activities were associated with the ‘sterile classes’. Thus, the literature identifies physiocrats with agrarianism, as the economies of all countries, at least before the eighteenth century, were overwhelmingly agricultural.

The transition from classical physiocrats to dualism was marked by the emergence of a dynamic but small and commercialised (formal) industrial sector co-existing with a large subsistence agricultural sector (informal) in many parts of the developing world. At this point in the theoretical development, the industrial revolution had taken place, and the world was becoming aware of the remarkable progress of the wealthy industrial countries. The dualists conceptualised the non-agricultural sector, which was earlier considered ‘parasitic’, as the dynamic industrial or formal sector capable of producing a surplus. In turning the stables, all other activities outside the industrial sector were seen as marginal and informal in terms of their productivity and growth potential. Such economic activities (outside industry) provide incomes for the poor shut out of the formal industrial sector and a safety net for people affected by economic crisis (Hart, 1973; ILO, 1972; Tokman, 1978). These models do not allow the possibility of working in the informal sector as a voluntary option.

The assumption of marginality makes informal firms and workers ‘inferior’ compared to their counterparts in the formal sector. The dualist had assumed that labour supply is unlimited to the traditional informal economy and this drives the marginal productivity of labour there to almost zero (Lewis, 1954; Fei and Ranis, 1961). Therefore, dual economy models have preoccupied themselves with how policies could transform marginal activities in subsistence agriculture and often the rural sector into industrial/urban activities. The model makes room for both large agricultural and small industrial sectors to produce surplus while recognising that the agricultural sector is subject to diminishing marginal returns. The problem then is how to move the economy and society away from dependence on subsistence agriculture to dynamic industrial activities.

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<sup>7</sup> Other two model pairs often identified in the literature to describe the two-sector economy include ‘urban and rural’ and ‘traditional and modern’.

Despite considerable variations, a central theme in the dualist conception of informality is that on its own it is incapable of generating autonomous economic growth (income) and consequently productive employment. Hart (1973) questioned this conceptualisation even though his analysis is based on dualistic categorisation between wage employment and self-employment.<sup>8</sup> The key distinction between Hart's analyses and those of earlier dualists was his identification of informal economic activities that he thought were capable of generating autonomous income and therefore, a source of productive employment.

Regarding causes, dualists postulate informality as a product of necessity and a direct consequence of under-development (Lewis, 1954; ILO, 1972, Hart, 1973; Gibson and Kelley, 1994; Tokman, 2007; Amin, 2009). In many developing countries, the formal industrial or capitalist sector is small and unable to absorb the large army of labour that preferred to be employed in the formal sector. Capital is scarce and often concentrated rather than being thinly spread. Those who cannot find employment in the capitalist sector are forced by necessity to work in the 'subsistence' informal sector.

The capitalist sector uses reproducible capital and workers there are classified as 'productive workers', working with capital and producing products whose values exceed their wages. Workers in the subsistence sector do not use reproducible capital and often have lower output per head compared to those in the capitalist sector. With time, as the economy develops and the capitalist sector expands as more capital becomes available, more workers will be pulled from the subsistence sector to the capitalist sector (Lewis, 1954). This process will continue as long as the capitalist surplus is reinvested until the surplus labour is eliminated. At this stage, the economy is fully commercialised as the Lewis turning point is reached (Ranis, 2004).

Capital formation or the expansion of the formal capitalist sector is dependent on three factors. First, the real wage must be held constant. Second, and flowing from the above, the capitalists' surplus must expand. Third, the expanding capitalist's surplus must be reinvested to create more capital and to draw more labour into the formal capitalist sector. This virtuous cycle is broken when the real wage rises.<sup>9</sup> The capitalist's surplus is reduced, and capital accumulation

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<sup>8</sup> According to Hart (1973), two sectors differ in relation to the degree of rationalisation of work; whether or not labour was recruited on permanent/regular basis or fixed-term/casual basis.

<sup>9</sup> Or the surplus is repatriated.

falters halting the process of absorbing labour from the subsistent informal sector. In a neoclassical sense, therefore, most dualists attribute the failure of capitalist expansion to rising wages (Lewis, 1954).

### *2.2.2 Structuralists*

While dualistic models allow some level of interaction between the formal capitalist sector and the informal subsistence sector as in the reallocation of labour from the latter to the former, they nevertheless argue that the two sectors are separate. This is where structuralism enters the fray with a modified conceptualisation. According to structuralists, the economy is segmented not into two, but into several fragments that are structurally related and interlinked (Moser, 1978, Castells and Portes, 1989). They argue that the sharp distinction between the formal and informal do not fit the real world and is at best observable only at the extremes (Breman, 1976).

The central feature of the structuralists' model is that rather than being distinct, the formal and informal sectors merely represent the two ends of a continuum, which are complimentary to each other. Structuralism admits economic segmentation but argues that there are several segments, which display varying degrees of formality or informality. The various segments are at the same time structurally linked with one another in a complex web of relationships stretching from production to distribution. This makes any description and partitioning of the economy into two sectors unrealistic and unsatisfactory. A chain of empirical studies in developing countries has documented a vast array of production units outside the wage sector of large-scale enterprises with significant internal differentiation (Gerry, 1974; Bryant, 1976; Moser, 1978). In this ocean of small production units, employment relations differ vastly and so are modes of production. There are wage earners, the self-employed, contributing family workers, and casual day labourers. These production units are embedded in a complex network of dependent relationship with the capitalist sector. The activities and relations are numerous and diverse including sub-contracting, as well as outworkers and agency.

In some respects, Hart's work on informality originally cast in the dualistic tradition also laid the groundwork for the structuralist perspective recognising not only the inter-linkages but also the productive role played by '[informal] workers in supplying many of the essential services on which life in the city [formal sector] is dependent'. As noted earlier, this formulation puts Hart apart from the earlier dualistic models, which characterised the informal sector as marginal and unproductive. In a study of informal sector activities, Berndt (1976) showed the important role of informal sector activities in developing countries in providing specialised goods and services. In the series of employment missions conducted in the early 1970s, the ILO recognised the

productive role of the informal sector and called for measures including positive attitude of governments to promote the sector (Moser, 1978).

A major source of contention within the structuralist perspective has been the nature of interaction between the informal sector and the formal capitalist sector. There are two schools of thought here. Authors of Marxist orientation posit the relationship as dependent and exploitative. The informal sector is identified as being in a subordinate position to the formal sector, supplying it with cheap labour and other specialised services. In a study of street traders in Colombia, Bromley (1978b) found large swathes of traders trapped in 'potentially exploitative working relationships with large enterprises'. Even among the self-employed, there are several cases of dependence, for example, among sub-contractors and people engaged in commission-based retailing activities as well (Bromley and Gerry, 1979). Most of these workers and the small-scale enterprises they work for play critical roles in enhancing the competitiveness of the formal capitalist sector. They lack basic work and income security because of their dependence status. It is this exploitative dependency that is argued as constraining the growth of small-scale enterprises.

There are also authors, reformist in orientation, who view the structural relations between formal and informal sector firms and activities as complementary and even benign. For example, Weeks (1975) argued on three counts that having an informal sector alongside the formal capitalist sector is advantageous. First, the informal sector could be a source of cheap consumer goods demanded by people at the lowest level of the income ladder and obviate the need for large-scale imports as the economy expands. Second, the informal sector could provide the foundation for the development of an indigenous capital. Third, a growing informal sector could provide an alternative labour-intensive mode of industrialisation compared to the traditional approach of capital-based industrialisation. From this benign view, Weeks recommends policies that ensure more and better integration of the formal and informal sectors.

Regarding causes, structuralists argue that the persistence of the informal economy and petty commodity production is explained by the very nature of capitalist accumulation. The constant urge for profits – the animal spirit – induces innovation and diffusion of technology giving capitalism and capitalists their dynamic character. At the heart of capitalism's innovativeness is the need to cut costs every step of the way as it strives to stay competitive. Technological development has been the bastion of the drive for competitiveness. However, there is a limit to what technology can do in advancing the profit motive. The informal economy, viewed as subordinate to the formal capitalist sector, provides a mechanism for the latter to achieve lower inputs and labour costs.

Lewis (1954), writing within the dualistic model and having assumed on reasonable grounds that wages in the capitalist sector is a function of earnings in the subsistent sector, introduces the idea of capitalists having intrinsic interests in holding down the productivity and earnings of the subsistent informal sector. He writes: ‘Thus, the owners of plantations have no interest in seeing knowledge of new techniques or new seeds conveyed to the peasants, and if they are influential in government, they would not be found using their influence to expand the facilities for agricultural extension’ (Lewis, 1954).

The subordination of the informal sector and peasantry to the whims of the capitalist sector has become an inherent part of capitalist accumulation. It takes its root from colonialism and imperialism in which the colonial economies were structurally linked to metropolitan economies but within a dependent and exploitative framework.

In discussing the imperial roots of capitalist exploitation Lewis argues as follows:<sup>10</sup> ‘The imperialists invest capital and hire workers; it is to their advantage to keep wages low, and even those cases where they do not actually go out of their way to impoverish the subsistence economy, they would at least very seldom be found doing anything to make it more productive’ (Lewis, 1954).

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 (Moser, 1978). In a study of small-scale sectors in Calcutta, Bose (1974) described a paternalistic relationship where the overbearing dominance of large-scale enterprises in the formal capitalist enclave force smaller production units in the informal sector to operate in markets where they pay higher for inputs and receive less for their outputs. The differential, it is argued, directly goes to the benefit of the formal sector. Bose argues from a series of case studies, that the exploitation persists because, the structural articulation of the relationship means neither the exploited informal production units nor the capitalist perpetrators can afford to do without it. Bose argues: ‘the underdevelopment and backwardness of the informal sector are necessary

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<sup>10</sup> As John Williamson and Milner noted in the *World Economy: A textbook in international economics*. New York: Harvester/Wheatsheaf, colonialism bequeathed to the colonial economies a unique role of ‘hewers of wood and drawers of water’.

conditions for the development and advancement of the organised, formal sector dominated by few oligopolistic houses

In his study of the petty commodity sector in Ghana, Bryant reaches a similar conclusion as Bose. He maintains that petty commodity production existed before the entry of foreign capital. Foreign capitalists found the sector to be useful and necessary, as it provided them with a convenient vehicle for the exploitation of the indigenous population. He writes:

*Given the pre-existing economic structure, it was unprofitable for individual foreign entrepreneurs to invest either in production for the home market or in the production of agricultural raw materials for export. In this context, the early capitalist entrepreneurs aimed to benefit from the underdevelopment rather than the development of the economy. To do this they had to encourage the development of commodity production, and this had the effect of breaking down the pre-colonial structure of production, producing the petty commodity form. The development of the petty commodity sector allowed foreign mercantile capital to extract surplus value by mediating between metropolitan producers and the Ghanaian market; ... it allowed foreign mining capital to extract surplus value through the payment of low wages, a condition made possible by the provision by petty commodity production of cheap substitutes for consumption goods which would otherwise have had to be imported, and by the maintenance of subsistence production in labour catchment areas (Bryant, 1976)*

The informal sector performs an equilibrating role in sustaining and nourishing the formal capitalist sector. By providing cheap inputs, it helps the formal sector to reduce production cost and improve competitiveness. It also provides low-cost products including food and housing that justifies the payment of low wages to those 'lucky' enough to have employment in the formal sector. These exploitative linkages constitute a formidable barrier to the growth of the informal sector and its ability to accumulate capital.

Within the formal sector itself, the proliferation of various flexible production systems are part of the capitalist drive to lower costs by adopting arrangements that are typically associated with the informal sector (Swaminathan, 1991). In contemporary global production systems, flexibility is most associated with the ease with which firms can hire and fire labour (Brusco, 1982) as they adjust to changes in the global economy. Maintaining a large pool of labour in the subsistence economy and on the fringes of the formal capitalist sector considerably weakens the resolve of labour to resist flexibility in all its dimensions. The central message from structuralists is that capitalism is so structured to preserve the status quo.

### 2.2.3 *The Legalists*

Flexible production systems require certain regulatory and institutional framework to be effective. That framework, it is argued, by the legalists, should afford firms, small and large, the freedom to hire, use and dismiss labour in

ways that enhance their competitiveness and helps achieve their profit maximising objectives. Once flexibility in the use of labour is achieved, firms will expand and absorb the growing number of workers banishing the necessity for people to seek employment in the informal sector.

Legalists follow the tradition that has long drawn a sharp distinction between the informal and formal sectors. The informal sector is described as 'unprotected' while the formal sector is protected (Mazumdar, 1975a). The 'unprotected' informal sector comprises the self-employed, owners of small and unregistered firms, the petty traders, and 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 large-scale enterprises and the absorption of job seekers into the formal economy. The regulatory burden also includes bureaucratic red tapes and corruption that frequently accompany the enforcement of rules (Hirschman, 1970; Olson, 1982; De Soto, 1989).

In the view of legalists, informality represents an inefficient use of labour and a distortion of the formal sector (Mazumdar, 1975a, Silverman, 1992). They are concerned with the slow pace of labour absorption into productive employment in the formal sector. This is attributed to factors including market forces, institutional arrangements, and public policies that segment the labour market and impede the flow of labour from unproductive uses in the informal sector to the formal sector.

The formal sector is described as restricted and characterised by low labour turnover, difficulty of entry, adoption of capital-intensive technology and large-scale bureaucratic organisations. Workers in the sector have access to better working conditions, higher than average earnings, and higher security of tenure. It is argued that by removing the distortions in the formal sector it will boost its expansion including its labour-absorptive capacity and the informal sector will eventually be eliminated. The legal system becomes the culprit for the ballooning informal sector as it is deemed to constraint the efficiency of the formal sector. Thus, among other remedies, legalists generally push for substantial deregulation of the economy but more so the labour market (De Soto, 1989).

Empirical studies seeking to evaluate the impact of the regulatory regime on informality have proliferated. Their findings have been inconsistent suggesting that other factors could be important in explaining the persistence and even growth of the informal sector. Loayza (1996) used the highest corporate income tax rate as a proxy for the tax burden in a study of 31 countries in Latin America



and the Caribbean (LAC). The study covered the period between 1980 and 1992. He found that informality increases with a rise in the highest corporate tax rate. Friedman, et al., (2000) studied 64 countries from the OECD, Latin America and emerging countries. Their result was different; a higher tax rate correlated with a lower share of the unofficial economy. They explained that at least in the richer countries, high taxes allow the state to provide better public services, which goes to offset the cost of the tax. By controlling the 'legal environment' ('law and order' as a proxy for the provision of public goods), the authors showed that the tax variable was no longer statistically significant in the Ordinary Least Squares (OLS) regression. The authors further showed that the tax rate on its own is inconsequential; its administration is what matters regarding whether or not it affects the size of the unofficial economy.

One aspect of the regulatory burden that has featured prominently in the legalist charge on the legal system is labour regulations. The mainstream position is that strong regulations obstruct the wheels of the labour market and prevent the market from reaching optimal outcomes. In the attempt to explain economic dualism, legalists take the position that excessive regulations segment the labour market between protected insiders – incumbent workers – and outsiders – informal workers and the unemployed. By increasing the costs of labour and preventing adjustments, regulations protect the interests of the few in formal employment against the many in the informal sector. Regulations, therefore, perpetuate and intensify economic dualism between the covered (workers in the formal sector) and uncovered (jobseekers, temporary workers, and workers in the informal economy) workers.

A quarter century after the publication of his seminal paper in 1954, Arthur Lewis (1979), bemoaned the rising urban wages in less developed countries. He attributed it to trade unions and 'their strict control of entry', 'civil service unions raising government pay', the pressure of governments on foreign employers and minimum wage regulations (1979, pp.225 and 277). Within a neoclassical framework, Lewis explained that these factors give rise to less employment in the formal sector and more in the informal sector. Harris and Todaro (1970) argued that urban wages are 'politically determined' and are frequently above the wage level that clears the market.

Mazumdar (1976) and his colleagues at the World Bank followed this theoretical pathway pointing to informality as an escape by rational economic actors including workers from the burden imposed by labour regulations. In fact, Mazumdar makes use of labour regulations in drawing the line between formal and informal sectors arguing that labour regulations are present in the formal sector but absent in the informal sector. On this basis, he referred to the formal sector as the 'protected' sector and the informal sector as the 'unprotected' one. Protected by actions of government and of trade unions, the

formal sector becomes distorted and circumscribed, unable to expand optimally and leaving the large swathes of people seeking employment with no option other than taking refuge in the informal ‘unprotected’ sector.

The legalists, therefore, do not place much weight on the characteristic feature of an enterprise when defining and conceptualising the informal sector. Those features such as the small-sized operations, low productivity and earnings and use of rudimentary technology among others are either imposed or sustained by the regulatory regime. The assumption is that small-scale units unencumbered by regulations are efficient.<sup>11</sup> Hernando de Soto (1989) characterises the informal sector as ‘the refuge of individuals who find the costs of abiding by the existing laws in the pursuit of legitimate economic objectives exceed the benefits’.

This way of defining and looking at informality also provides the causal explanation for its persistence and growth over time. Hence, it is argued that government rules and regulations including minimum wage laws and social security provisions combined with the activities of trade unions are the major causes of informality (Rauch, 1991; Esfahani and Salehi-Isfahani, 1989; Mazumdar, 1976). Such regulations constrain employment creation in the formal economy and promote informality. According to this view, 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 the 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.

Writing on the informal economy in Peru, De Soto (1989) concluded that state statutory interventions and regulation constitute a barrier to the growth of enterprises. While recognising the importance of what he calls ‘efficient’ laws ‘in order to free and increase the vendors’ entrepreneurial energies, and to allow them, within the competitive process in which they are immersed, to use their talents to the full’, he nevertheless insist that excessive regulations are bad for the growth of formal enterprises and fuel informality.

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<sup>11</sup> Little, Mazumdar and Page (1987) affirmed the validity of this argument.

There have been many empirical studies, but their results have been largely inconsistent. Loayza (1996) used an index constructed by Rama (1995) as a proxy for restrictions on the labour market and concludes that the size of the informal sector is a positive function of the labour market restrictions and a negative function of the quality of government institutions. This implies that as labour regulations increased enterprises and workers respond by retreating into the informal sector where they can evade the regulatory burden.

Gajigo and Hallward-Driemeier (2012) studied the question: ‘why some firms abandon Formality for Informality?’ in four African countries: Cote d’Ivoire, Kenya, Nigeria, and Senegal. The study found that productivity and corruption (regarding unofficial payments to public officials) lead firms to exit into informality after registering and operating as formal firms. At the same time, informal firms are likely to move into formality as a result of rising productivity, better access to finance, and increased education.

Ingram, Ramachandran, and Desai (2007) used the World Bank Enterprise Survey data to test the hypothesis that firm’s decision to operate formally or informally is based on benefits and costs associated with being formal or informal. Their study covered six African countries namely Kenya, Senegal, South Africa, Tanzania, Uganda, and Senegal. They found that formality is correlated with benefits and costs imposed by the investment climate. That is formality correlates positively with perceptions regarding availability of electricity, access to finance and access to land. It however correlates negatively with the rate of taxation and corruption. The study also found that the perception regarding constraints imposed by labour regulations is positively associated with formality.

Most of the empirical studies focused on some aspects of labour regulations and how they impact the size of the informal sector. Among the frequently studied labour regulatory variables are Minimum Wages (MW); Employment Protection Legislations (EPLs); Mandated Benefits, and the existence and activities of trade unions.

There is growing literature on the effect of minimum wages on informality but the evidence thus far is inconclusive. Studies that have analysed the view that minimum wages tend to shift employment and economic activities generally to the informal sector have produced inconsistent results. Some studies have estimated increases in informal employment and a corresponding decrease in formal employment resulting from minimum wage laws (e.g., Jones 1997 for Ghana). Gindling and Terrell (2007a) identified no effect on informality in Costa Rica.

Within a neo-classical framework, Jones (1997) estimates the impacts of a binding minimum wage on formal and informal sector employment in Ghana in a dualistic labour market where coverage is incomplete. She estimates that

Ghana's minimum wage policies in the 1970s and 80s impacted negatively on the formal sector employment but positively on informal sector employment suggesting displacement of workers from the formal sector to the informal sector. Rauch (1991) also worked in a neo-classical framework and concluded that the informal sector expands, as firms deliberately remain small to qualify for exemptions from minimum wage policies.

Employment Protection Legislations (EPL) such as (advance) notice before dismissal and severance payment afford workers job and income security, both when they are employed and in the event of redundancies. Advance Notice and severance pay give workers time and resources to search for new jobs and to deal with difficulties associated with job loss. EPL also strengthens employees' commitment to their jobs and employers. It encourages both workers and employers to invest in training and upgrading of skills, which can improve productivity. Workers who have security of tenure are less likely to resist beneficial changes in technology and work practices.

However, EPL lengthens the redundancy process and increases costs for firms. Firms faced with immediate and costly adverse shocks are not able to adjust their workforce and are compelled to keep workers they may not need. Employers, it is argued, become reluctant to hire labour during times of expansion as they face a higher cost of dispensing with such workers during economic downturns. The currently employed have longer job tenure; limited risk of losing their jobs and a wage rate that exceeds the equilibrium wage. Informal workers and the unemployed find it ever more difficult to assess formal sector jobs. EPL, therefore, reduces employment in the formal sector, induces self-employment and increases unemployment

Theoretically, the effects of EPL on employment remain unclear. EPL is assumed to limit both hiring and dismissals. In the face of such laws, firms become reluctant to employ labour (Lindbeck and Snower, 2001). They rather would like to invest in capital. At the same time, by increasing the costs associated with disengagement, EPL discourages dismissals. The net effect then depends on which effect dominates the other. In affirmation of the theoretical ambiguity, the empirical evidence has equally been mixed. Most of the studies have focused on the impact of EPL on employment and unemployment and in particular their impacts on different age cohorts within the labour market (OECD, 2004, 1999 Scarpetta, 2006; Bentolila and Bertola, 1990; Bertola, 1990; Freeman, 2009; Kugler, 2004; Montenegro and Pages, 2004; Haltiwanger, Scarpetta and Schweiger, 2008).

In general, Employment Protection Legislations are often confined to the formal economy and are, therefore, not expected to affect the size of either the formal or informal economy (Kucera and Roncolato, 2008). However, by increasing hiring and firing costs to the employer, such legislations limit the capacity of

the economy to draw more people into formal employment. EPL then shut the door of formal employment to the unemployed, recent entrants to the labour market, and the large numbers in the informal economy which, often desire formal employment. In the absence of formal social protection such as unemployment insurance as is the case in most developing countries coupled with the gradual disintegration of the extended family support system, those unable to find employment in the formal sector take refuge in the informal economy.

Loayza and Rigolini (2006) estimated the effects of credit, labour, and business regulations on the size of self-employment in a cross-country panel data. Their sample consisted of 42 developed and developing countries for the period between the mid-1980s to 2004. For the entire sample, the study estimates statistically significant positive relationship (at 10% confidence level) between stronger regulations and self-employment. By limiting their sample to developing countries and also to countries in Latin America and the Caribbean, the correlation turns negative, though not statistically significant, implying that for developing countries, there is no such relationship between stronger regulations and self-employment.

In *Law and Employment*, a volume edited by Heckman and Pages (2004), seven studies evaluated the effect of 'job security costs' (i.e., cost of dismissing a worker) on formal employment in Argentina, Barbados, Brazil, Chile, Jamaica, Peru, and Trinidad and Tobago. In two of the countries (Argentina and Peru), higher job security costs are found to correlate significantly with lower formal employment. Lower formal employment does not necessarily imply rising informal employment. For Argentina, further analysis shows that the impact of job security costs on informal employment depends on the definition of informality. When informal employment is defined to include only workers in informal enterprises, the share of urban informal employment decreased in the 1990s. However, when informality is defined as workers not covered by social security, the share of informal employment increased. For Peru, job security decreased in the 1990s leading to a rise in formal employment and also in urban informal employment, regardless of the definition.

Heckman and Page-Serra (2000) studied the effects of job security costs (measured as the costs of dismissing a worker according to law)<sup>12</sup> on the share of non-agricultural self-employment. The study is based on a cross-country

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<sup>12</sup> This was translated into months of wages.

panel data with samples of Latin American, Caribbean, and OECD countries. The study period is from 1990 to 1999. Two methodological estimates were made: one based on OLS cross-country variations and another across time (fixed effects). The first (OLS) produced positive correlation between job security costs and self-employment. The second (fixed effects) came up with a negative correlation and here the estimates and the statistical significance of the correlation are much stronger.

In Africa, there have been very few studies that looked at the labour market effects of employment protection legislations (EPL). Fox and Oviedo (2008) studied the impacts of EPL on employment growth (net) and showed that employment growth is not associated with measures of labour regulations. They showed that compared to inadequate infrastructure, limited access to credit and other factors, firms perceive regulation as a minor obstacle.

Another aspect of the labour regulatory regime that has elicited intense debate has been the sets of regulations that are collectively called Mandated Benefits (MBs). These benefits include but are not limited to social security, employment injuries compensation, paid maternity leave, and paid annual/sick leave. The mainstream theoretical position is for mandated benefits funded by employers to reduce employment and give rise to informality. By increasing the cost of one type of labour – formal sector workers – mandated benefits reduce formal employment and can potentially shift employment to the informal sector where employers may not be required to provide such benefits, or they can easily evade them. In general, this will be the case, when the benefit is worthless to workers and wages are rigid downward (Summers, 1989). The higher the costs of mandated benefits, the greater would be the dis-employment effects. The distortions are greatest when the costs of providing benefits are not equally distributed between workers and employers.

However, when workers value the benefit, as they mostly do – and wages are flexible workers tend to pay part and in some cases the full cost of delivering the benefit in the form of lower wages (Freeman, 2009). In such situations, the costs of providing the benefits are fully or partially shifted to workers with no or fewer dis-employment effects (Kugler and Kugler, 2003). In advanced countries, some studies have documented cases where workers pay for the full cost of benefits they receive from their employers (Gruber, 1997) and cases where they (workers) bear the greater part of the cost (Gruber and Krueger, 1991).

When workers value the benefit, and they are willing to accept lower wages, mandated benefits should not raise labour costs. It should not affect labour demand or shift employment into the informal sector. Wages and benefits are two important elements in the compensation package of workers. In the real

world, higher wages are traded off against relatively lower mandated benefits and vice versa.

Chile's decision to switch funding of social security from payroll taxes to general revenues resulted in increases in wages (Gruber, 1997), implying that workers absorbed the payroll tax in the form of lower wages. However, in situations where wages do not fall to accommodate the payroll tax, labour cost would be higher. This might affect labour demand in the covered sector (the formal sector). Kugler and Kugler (2003), finds that in Colombia, the lifting of the payroll tax resulted in minimal raises in wages. They attribute the 'less-than-full-shifting' to the weak linkages between taxes and benefits, as well as wage rigidities. This means that the tax incidence fell disproportionately on employers, and might have affected labour cost and demand in the formal sector.

Mandated benefits that are targeted at some groups of workers may also change the composition of the workforce and bias hiring against beneficiaries. For example, maternity leave provisions might lead employers to discriminate against women of childbearing age in their recruitment and wage setting decisions. In the United States, the introduction of anti-discrimination legislation that mandated health insurance coverage including childbearing costs resulted in wage shifting, and increases in hours worked by women of childbearing age. This implies that workers tend to bear most of the costs imposed by these laws. In Canada, policies that guarantee time off and secure jobs for new mothers increased participation rate for women before childbirth and rate of return to the same employer after childbirth (Baker and Milligan, 2005).

The empirical evidence concerning the impact of mandated benefits on labour markets and in particular on informality is limited. Developing Countries tend to have several mandated benefits schemes. However, little has been done by way of analysing their impacts (Summers, 1989; Helppie and Macis, 2009). A study of the impacts of maternity benefits in Taiwan showed that it increased participation rate both in terms of hours and total employment of women (Zveglic and Meulen Rodgers, 2003). MacIsaac and Rama (1997) studied the impacts of Ecuador's 13th, 14th, 15th, and 16th salaries and other mandated bonuses and payments. Their result showed large amounts of wage shifting, which they attribute in part to the weak enforcement of the country's minimum wage law. Almeida and Carneiro (2008) studied mandated benefits, employment, and inequality in a dual economy model in Brazil. The study showed that at the top of the formal wage distribution, workers absorb the costs of mandated benefits in the form of lower wages. However, wage rigidity at the bottom meant that employers bear the higher proportion of the costs of

providing benefits. This makes low-wage jobs more attractive to low-skilled self-employed workers.

There is virtually no study on the impacts of mandated benefits on the size of the informal sector. Helppie and Macis (2009), however, draw attention that ‘generous mandated benefits may raise incentives for workers to seek jobs in the informal sector or for firms to operate informally, thus increasing the size of the unregulated economy’ in developing countries.

Trade unions and their activities and how they impact labour market outcomes have also received considerable attention in the literature. Across the world, unions vary both in terms of their presumed independence and strength. Some unions are active in organising and collective bargaining. Others, particularly in developing countries, are more involved in the political process than in collective bargaining (Freeman, 2009). This implies differences in the extent of union impact on labour market outcomes.

The standard neo-classical view is that, as with nearly all labour market institutions, unions impede the efficient functioning of the labour market and produces wage effects that reduce employment and increases unemployment. The argument is fairly simple and straightforward: unions raise wages above equilibrium wage rate and compel profit-maximising firms to cut jobs, hours or both. This reduction in employment translates directly into increased unemployment or reallocation of labour in the informal economy. The union-induced wages lead firms to invest in capital or resort to subcontracting to lower production costs. Firms become sensitive to fluctuations in the business cycles, refusing to employ labour in good times and also embarking on temporary layoffs in bad times.

The empirical literature on the impacts of unions or unionisation on labour market outcomes is rich and extensive. The literature has concentrated mostly on the impacts of unions on wages and non-wage aspects of the employment contract (Lewis, 1963, 1986; Freeman and Medoff, 1984). A few have linked the union wage effects to total employment and job tenure (Lewis, 1963; Montgomery, 1989).

Other studies have explored the potential impacts of union activities on the size of the informal economy. In a study of the role of labour market institutions in explaining developments in shadow economies in European countries Fialova (2010), found that trade union density along with other labour market institutions (with the exception of EPL) have less straightforward and robust effects on the size of the shadow economy. Elgin (2012) used cross-sectional panel data for 30 countries over the period 1960 to 2009, to investigate the relationship between unionisation and the informal economy. He found strong and robust negative correlation between unionisation and the size of the informal economy.



Despite the apparent richness of the literature, results concerning the impacts of labour regulations on informality and other labour market outcomes have generally been inconsistent. Even so, the most influential development agencies around the world have tended to adopt a position in which labour regulations are seen as deleterious for labour markets – lowering employment in the formal economy and forcing job seekers into the informal economy.

## **2.3 The Foundation – Research Approach**

### *2.3.1 Addressing Informality*

As the literature illustrates, informality is a complex phenomenon. The informal economy encompasses a wide range of economic actors with varying degrees of motivation. The sector includes workers who take up employment to enable them and their families survive because they cannot obtain their preferred employment in the formal economy. There are also workers who shun employment in the formal economy and start their own businesses, which offer them more money and more flexibility (Fields, 2005). The informal economy also contains micro-enterprises, which have little or no potential for growth and with no intention to engage state institutions, or whose growth potential is scuttled by excessive government bureaucracy including costly and cumbersome registration procedures (De Soto, 1989). There are also firms seeking desperately to avoid taxation and regulatory mandates in an environment of pervasive avoidance made possible by weak enforcement capacity. This includes firms that are registered with the appropriate state institutions but for whom a substantial part of their operations remain off the radar of enforcement agencies.

These categories are by no means exhaustive, but they convey an idea of heterogeneity and complexity of actors and their motivations thereof. They also show that informality at least in its traditional usage is a symptom of underdevelopment of both the economy and the polity. While informality is appearing in various guises in the developed countries, it remains essentially a developing country phenomenon. In economic terms, countries at lower levels of development as measured by Gross National Income tend to have a larger share of the informal economy (Schneider, 2005).

Therefore, development theory and policy over the past half-century have focused on the process of raising incomes and on how to make that process effective. The assumption as we have already alluded to was that as countries develop and incomes rise, more of the workforce will come to be working in the formal economy. Informality was seen as a blip, which will be addressed in the normal course of development. In the two decades after the end of the Second World War, the world was united in the quest to achieve ‘development’ for the

huge mass of people in the third world whose lives continued to be blighted by poverty. Third world countries were characterised by low life expectancy, high infant mortality, low educational attainment, and a large proportion of the population trapped in informal self-employment in agriculture. All of these countries share a common feature of having low per capita incomes. The development challenge came to be defined as one of how to raise incomes and improve the range of possibilities, including the range of goods and services that are available to the poor.

In this period, 'development' was equated to industrialisation (Rostow, 1960; Hirschman, 1958). All the countries that were then classified as 'developed' were to an extent possibly also industrialised. The industrial sector was seen as the key that unlocked the wealth and the modernity that went with it. The idea of 'catching up' with the industrialised countries was simply beguiling. The industrialisation drive was also about increasing the capacity of countries to engage in the manufacture of finished products. Thus, countries emerging from centuries of colonialism and desiring to fulfil the aspirations of their peoples, embarked on large-scale industrialisation programmes. Invoking the Prebisch-Singer thesis of secular deterioration in terms of trade, many countries commenced their industrialisation process on the back of the domestic market (Williamson and Milner, 1991). In what became known as Import Substitution Industrialisation (ISI), industries of various kinds were established in all sectors to produce for the domestic market goods and services that used to be imported.

The building up of industries followed one strand of modernisation theory, which posited the problem of under-development as one of a shortage of capital, which also arises from low savings rate. The assumption then was that large-scale industrialisation by the state, based on import substitution, and was necessary to create investment capital while saving on foreign exchange. With time, it was assumed that the industry would provide the resources needed for the development of the entire economy (Moser, 1978). In the Lewis tradition, it was assumed that industrial expansion of the kind envisaged under state-led industrialisation would expand the capitalists' formal sector while creating more opportunities for wage employment. In this process, it was all about expanding the modern sector of the economy believing as the planners did that there is an ultimate and inevitable positive relationship between output growth, employment and labour productivity (Moser, 1978). Over time, Lewis' surplus labour whether in agriculture, casual jobs or retailing would be absorbed into wage employment in the formal capitalist sector. The Lewis' turning point would have been reached.

This benign view of how economic development was going to eliminate or at least reduce informality had missed the actual pattern of development by several inches. It did not take long for that realisation to dawn. By the mid-1960s,

optimism was beginning to fade. Many third world countries and their leaders along with the many development experts they employed realised that their either diagnosis or prescriptions (or both) were wrong; and they did not sufficiently address the challenges they had set out to deal with. Industries had been established, but their countries were not industrialising at least at the pace they had dreamt of. Put differently, countries were not acquiring and developing industrial capabilities as fast as it would enable them to address the problem of under-development. The growth of incomes had been too slow; poverty remains widespread, and so are unemployment and underemployment. The industrial capitalist sector has failed to expand in ways that will absorb labour from the 'traditional' sector, despite the proliferation of all manner of industries.

A notable feature of import substitution industrialisation was that industries that were established were heavily capital-intensive, ignoring the fact that the initial advantage of most third world economies lay in labour-intensive activities. The capital cost was exorbitant. The envisaged foreign exchange savings could not materialise because the import content of production regarding equipment and imported raw materials was excessive. The industrial enclaves that emerged in this period consumed more resources than they created (Rapley, 2002). This, combined with poor functioning of the state bureaucracy, induced large-scale inefficiencies that floundered the industrial ambitions of most third world countries. Concerns about persistent and widespread, unemployment and underemployment heightened even for those economies that were growing as large numbers of the urban workforce were forced out of necessity to seek employment in the sprawling urban informal sector.

As argued by Hans Singer (1970), third world economies were not attaining the 'Lewis Turning Point'. The extensive use of capital-intensive technology meant that even for economies that were growing, employment creation was on a limited scale. The problem was compounded by rapid population growth resulting from progress in health and disease control. Singer (1970) predicted the persistence of labour market dualism in which high levels of casual self-employment and underemployment coexist with limited wage employment in developing countries.

As the 1970s drew to a close, the problems of economic decline had become palpable in much of the third world. Countries have not only depleted their foreign exchange reserves, but equally importantly they have accumulated large amounts of external debts than they could service, let alone repay. The economic crisis was on the horizon crystallising in the early 1980s. As the crisis intensified, more and more people took refuge in the informal economy as the prospects of finding standard employment in the formal sector dwindled (Tokman, 1978).

Countries turned to the International Monetary Fund (IMF) and the World Bank for assistance. In exchange for debt restructuring and in some cases outright forgiveness, countries were ushered into a programme of economic reform under the general rubric of Structural Adjustment Programme (SAP)<sup>13</sup>. Structural adjustment is embedded in neoclassical economics. The primary objective was to lay the foundation for growth (Konadu-Agyemang, 2001) while strengthening the external payment position of countries. The programme sought to realign relative prices in favour of productive activities (and away from rent-seeking), dismantle controls, rehabilitate economic and social infrastructure, and encourage private savings and investments. Other objectives included the restoration of fiscal and monetary discipline and liberalisation of trade and external payment systems (World Bank, 1987a).

Structural adjustment is premised on the notion of ‘less state and more markets’. The assumption was that the state itself was an important part of the difficulties that confront third world economies (Otoo, 2013; Rapley, 2002). The state was rolled back, and market forces were deployed. Industrialisation was de-emphasised as an explicit goal of economic policy. Industrial development was to be achieved through improvements in the incentives structure using exchange rate and trade policy, privatising state-owned enterprises, encouraging private investments, and streamlining the regulatory framework. Trade liberalisation was identified as a tool for industrial policy: by reducing tariff rates and removing quantitative restrictions on trade, domestic producers particularly in the manufacturing sector would become more competitive as they face a fiercely competitive external environment. The structural adjustment programme also entailed a switch from import substitution industrialisation to export-led industrialisation.

In general, structural adjustment brought the market to prominence placing it at the centre of the development efforts. The state was assigned a secondary role of providing ‘enabling environment’<sup>14</sup> for markets to operate. State retrenchment included large-scale privatisation of state enterprises and a radical downsizing of the public sector workforce. In the tradition of neo-classical

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<sup>13</sup> Structural Adjustment is a process of reforming economic policies and governance institutions for purposes of achieving improved resource allocation, enhancing economic efficiency, and achieving overall economic growth, which bolster an economy’s resilience to shocks. Structural Adjustment was designed by the World Bank and IMF and was first introduced in Turkey in 1980.

<sup>14</sup> See World Bank, 1981

economics, structural adjustment contained bouts of deregulation policies with particular focus on the labour market. In an influential study by the National Bureau of Economic Research (NBER), it was argued that labour market regulations along with other state interventionists policies (such as trade restrictions, credit rationing and social insurance taxes) tend to increase the cost of labour compared to capital. The regulations and other interventions led to the adoption of capital-intensive production systems in most third world countries. The expectation was that by deregulating the labour market, wages would fall and this would attract investments and increase employment (Rapley, 2002).

While de-emphasising the obsession with industrialisation, structural adjustment focused the attention of countries and economic policy on economic growth. In fact, the obsession shifted from industrialisation to GDP growth. The central assumption was that by removing regulatory and institutional constraints and allowing unfettered markets to allocate resources, countries would achieve higher economic growth rates. As economies grow and develop, the rate of employment creation would accelerate (Ribe, Rabalino and Walker, 2010; World Bank, 1991); the majority of job seekers would get access to employment in the formal sector; the informal economy would diminish and disappear. Here again, as in the 1950s and 60s, the informal economy was regarded as transitory. With growth and development, it is only a matter of time for it (informal economy) to disappear.

Once again, reality did not bear the optimism, not even for countries that experienced GDP growth. First, the large-scale redundancies that occurred in the public sector radically reduced in a short space of time, not only the public sector workforce but also the share of the formal sector in total employment.<sup>15</sup> In Ghana, for example, a large contingent of the public sector workforce, numbering over 200,000, were axed from the public sector between 1985 and 1990 (Panford, 2001). In implementing the redundancy, it was assumed that those who lost their employment would find productive employment in the formal private sector. But the formal private sector failed to grow. As expected, in the absence of formal social protection mechanisms and the weakening of the family support system, many that lost public sector jobs found their way into the informal economy.

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<sup>15</sup> It is important to underscore the fact that, in much of the third world, the implementation of statist policies had meant that the public sector became a major source of employment, accounting for more than half of total formal employment.

Second, the optimism that GDP growth acting in concert with institutional reforms including deregulatory measures would revive the private sector (Konadu-Agyemang, 2001) and enhance its ability to provide good quality jobs did not materialise. While GDP growth rebounded for many countries that had a decade earlier experienced declining or even negative growth, it failed to reach the spectacular levels promised by the reformers. However, even the modest growth that was achieved went along with the declining share of formal employment in total employment.

The formal private sector failed to respond positively to the reform measures inspired by structural adjustment and in ways that would have allowed it to draw more of the workforce into formal employment. Therefore, along with those that lost their employment in the public sector, nearly all new entrants to the labour market were compelled to seek employment in the informal sector. As the state retreated, the private sector was stymied by the very neo-classical policies that were supposed to redeem it. The private sector simply could not replace the public sector as a source of decent employment. Consequently, the informal sector ballooned across the developing world.

Advocates of structural adjustment and neo-liberalism attribute the failure of market-based reforms to accelerate employment creation and reduce informality, not to the reforms they pushed but rather to the fact that the reforms did not go far enough. The argument has remained the same as it was at the start of structural adjustment. That is, developing countries continue, to be saddled with burdensome labour regulations that constrain employment creation in the formal economy and promote informality.

In the 1990, World Development Report, the World Bank, perfectly captured this regulation-induced view of informality in the following words:

*Labor market policies – minimum wages, job security regulations and social security – are usually intended to raise welfare or reduce exploitations. But they actually work to raise the cost of labor in the formal sector and reduce labor demand. ...by trying to improve the welfare of workers there [formal sector], government reduced formal sector employment, increased the supply of labor to the rural and urban informal sectors, and thus depressed incomes where most of the poor are found (World Bank, 1990).*

This assessment by the World Bank motivated some of the radical labour reforms adopted by the countries that were implementing structural adjustment policies. More than a decade later, neoclassical economists continue to hold the view that labour markets in developing countries remain encumbered by restrictive regulations. In 2009, the *Doing Business* Survey, a flagship knowledge product of the World Bank and the International Finance Corporation (IFC) argued, ‘overly rigid labour regulations are associated with a larger informal sector’.

With the launch of *Doing Business*, the World Bank took the debate around labour regulations a step further. By grading and ranking countries by whether or not they have in place worker protection rules – limitations on hours of work, minimum wages, and requirements for advance notice before dismissal and severance payment among others – the *Doing Business* report has motivated reforms in several countries. The reforms encouraged by *Doing Business* have often gone in one direction: countries are encouraged to reduce or dismantle altogether worker protection regulations to improve their rankings and make their economies investor-friendly.

This is, despite the fact that the empirical literature on the impact of regulations on informality has yielded inconsistent results. The various studies have failed to uncover any general laws. Additionally, and as noted earlier, most of the studies that continue to inform the flexibility recommendations have taken place in advanced OECD countries. The dearth of empirical studies in developing countries, particularly in Sub-Saharan Africa, is well recognised (Fox and Oviedo, 2008). At the same time, most of the studies have tended to look at the impacts of one or few sets of regulations on decisions to operate formally or informally (Loayza, Servén and Sugawara, 2011).

In most cases, the regulatory variables are so restricted to the labour market that they ignore other social and economic factors that may also impact decisions to operate formally or informally. Certainly, labour regulations depending on the way they are designed and their mandate level may impact labour market decisions. Moreover, it is trite knowledge that most employers are happy with light or even lax labour regulations. But that do not determine their entire economic behaviours.

### *2.3.2 Labour Regulations*

In contrast to other markets, labour markets are characterised by a lack of competitiveness largely due to the uneven market power between employers and workers (World Bank, 2006). This is particularly true in countries where workers' rights to organise and bargain collectively are not fully respected. In such situations, government interventions, by way of regulations, become necessary to safeguard the security of tenure and even the safety of workers. Such regulations are also necessary for long-term growth and preservation of social and political stability. Beyond the general market failures that necessitate regulatory interventions, the distinctive nature of the labour market itself makes regulations almost inevitable. It is only in the labour market that the object of the transaction between the buyer (employer) and seller (worker) – labour services – is not separate from the seller. Labour service is not a homogenous commodity; it might include specific or range of skills, personal attributes and attitudes as well as time. The employer buys not only these services but also the

‘right’ to command the use of these services. The transaction is complicated by the fact that the employer-employee relationship inherently involves some element of subordination. In many countries, common law interpretations continue to regard the relationship as one of ‘master-servant’. Society must or ought to be interested in how those in stronger positions (employers) relate to those in weaker positions (workers). This interest is often exercised through enacting regulations that guide the interaction between employers and workers.

Society’s sense of fairness pushes it to regulate labour market exchanges. Moreover, fairness matters a great deal not only to workers but also to investors. Investors seek rules that guarantee the protection of property rights. Rules assure them that the returns on their investments will not be expropriated<sup>16</sup>.

If legal protection for those who invest capital is good for growth and prosperity, similar protection for those who invest their human capital cannot be expected to harm growth and prosperity. By offering legal protection for workers – human capital investors – society signal incumbent workers to put in more efforts and others particularly the younger generation to invest more in building their human capital. This cannot be bad for economic performance. It is equally fair that legal protection is offered to workers so that they can also enjoy the fruits of their labour. This is in the spirit of the adage ‘a fair day’s wage for a fair day’s work’.

Fairness matters not only for social justice; it is also an important issue for economics (Hoffer, 2010). Regulations that deliver fair and higher wages and income protection for workers and their families (the bulk of consumers) can spur consumption, investments and growth. In the absence of that earnings from work stagnate even as productivity and profit increase. This can hurt long-term growth.

#### **2.4 Theoretical Approach**

The International Labour Organisation (ILO) defines informality as all economic activities (including wage employment) ‘that is not recognised, regulated, or protected by existing legal or regulatory frameworks and non-

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<sup>16</sup> Many economists agree that these rules are good for growth and long-term prosperity. The reason is simple and yet powerful: by affording those who take the risks and invest capital, the legal right to enjoy the fruits of their investments governments are providing the right signal and context for others (foreign or domestic investors) to invest in their economies.



remunerative work undertaken in an income producing enterprise'. Chen (2006) defines the informal economy as consisting of enterprises and workers that operate outside the realm of regulated activities and employment relationships. According to Hart (2006), 'To act informally is to be free and flexible; but the term also says what people are not doing – not wearing conventional dress, and not being regulated by the state'.

The above definitions imply among other things both a correlation and causal relationship between regulations and informality; that informal workers and enterprises avoid regulations or simply operate in an environment characterised by absence of regulations. According to Chen (2006), economic agents operate informally because 'the regulatory environment is too punitive, too cumbersome or simply non-existent'. She argues that informal firms would be willing to join the formal economy if they were to receive the benefits of formality. Schneider (2002) holds the view that 'the increased intensity of regulations is another factor which reduces the freedom of individuals engaged in the formal economy' and that regulations increase labour costs, motivating enterprises and workers to operate informally. He asserts that countries with burdensome regulations tend to have a disproportionate share of the unofficial economy in total GDP.

In 1991, at the International Labour Conference, the ILO posed what it called 'the Dilemma of the Informal Sector'. The Dilemma is 'whether to promote the informal sector as a provider of employment and income or to seek to extend regulations and social protection to it and thereby reduce its capacity to provide jobs and incomes for an ever expanding workforce'.

This Dilemma as false as it was presupposes that regulations and social protection measures limit capacity to create employment. The neoclassical policy community seized this Dilemma to push for greater deregulation of labour markets around the world. Given the popularity of this view and the fact that it has already dovetailed into policy, it is necessary to undertake country-specific analysis to determine its veracity. At the same time, as already alluded to much of the literature on the impacts of labour regulations have taken place in advanced OECD economies, very little has been done in Africa and Ghana for that matter. Besides, the existing literature has followed in the tradition of cross-country studies, which frequently ignore country-specific features. Moreover, most have looked at one aspect of labour regulations and how they affect labour market outcomes, thus ignoring the possibility that informality may, after all, be caused by multiple factors, including those beyond the labour market.

The theoretical approach, therefore, involves a model that incorporate a dualistic economy with formal and informal sector firms. In the formal sector, firms have legal status and therefore enjoy the legal protection by having

registered with specified state agencies. Formality is assumed to facilitate firms' access to financial services, infrastructure, and other public services, all of which enhances enterprise growth (Ingram, Ramachandran and Desai, 2007). At the same time, formal firms face increased input costs in particular labour costs and taxes. These include the costs of entry, which encompasses lengthy, costly, and bureaucratic registration processes. On the labour demand side, apart from wages, firms face costs related to payroll taxes, mandated benefits, and costs emanating from employment protection rules.

As a result of the laxity in enforcement, informal firms frequently escape tax payment. They are not subject to payroll taxes; mandated benefits and costs associated with employment protection rules. Firms are free to operate formally or informally. Following the argument of the legalists, and of other writers, in this model, firms undertake implicit cost-benefit analysis based on which they decide to operate formally or informally (Ingram, Ramachandran and Desai, 2007; de Soto, 1989).

Following Loayza, Servén and Sugawara (2011), the model explored the notion that informality is essentially a fundamental feature of under-development. This means that the cost-benefit analysis that firms are assumed to make, occur within, and are affected by structural features of the economy, society, and the polity. This leads to the introduction of socio-economic variables related particularly to education and demographics in the model.

## **Chapter 3**

### **The Ghanaian Economy, Labour Market and Politics (1957-2014)**

#### ***3.0 Introduction***

This chapter provides an overview of Ghana's economy and labour market since it attained independence from British rule. It examines economic policies and performance in broadly two periods. The first period covered the two decades after independence when economic policies followed largely a socialist orientation with the state taking the centre stage of economic activities. The period marked by large-scale attempt at industrialisation. Though the industrialisation drive floundered, it had positive effects on employment. The second period stretched from the mid-1980s up to the present day. In this period economic policies turned neoliberal, starting in 1983. Industrialisation was de-emphasised and economic growth was overtly stressed upon. Economic policy became preoccupied with economic growth. Though the spectacular growth that was promised failed to occur, the country achieved positive growth rates of about 5 percent annually for the last 30 years. However, formal employment continued to decline. Most workers sought employment in the informal economy.

The chapter also reviews the response of the labour market to economic policies. It focuses on the nature of employment, unemployment and under-employment, child labour and the level of earnings. It also analyses the Ghanaian state with a focus on state capacity. It shows that the Ghanaian state suffered catastrophic decline for many years owing to several factors including the ethnic configuration of the country, the series of military rules, tribalisation of politics and nature of economic policy.

Consistent and up-to-date information on the Ghanaian economy and labour market has always been difficult to obtain. In the last three decades, macroeconomic data has generally become available following the implementation of economic reforms. Data on Gross Domestic Product is now available on a quarterly basis. Price data (inflation) is available on monthly basis. These pieces of data are often scattered. This chapter pulls the relevant data together to give a picture of the state of Ghanaian economy. Unlike macroeconomic data, data on the labour market do not exist even on annual basis. The latest information on the Ghanaian labour market is contained in the GLSS6 survey conducted in 2013. This, combined with the survey data of 1999 and 2006, as well as the population censuses conducted in 1984, 2000 and 2010, are the major sources of data for the labour market section.

### **3.1 Nature of Economic Policy and Performance (1957-2015)**

This sub-section is devoted to analysis of the economic policies implemented in the first two decades after independence and those pursued under the guidance of the World Bank and the International Monetary Fund. The section also appraises economic performance in the two broad periods.

#### **3.1.1 Economic Policy and Performance before 1983**

Ghana's economy has undergone profound changes since independence in 1957. As the first African country south of the Sahara to have gained independence a lot was expected from this small country on the west coast of Africa both by its citizens and those of other countries on the continent that sought to emulate her political achievements. By current standards, Ghana at independence was a middle-income country. Macroeconomic indicators showed a stable economy with hardly any inflationary pressures (Frimpong-Ansah, 1991). Gross international reserves were impressive. With a relatively high per capita GDP, well-functioning public administration, sound budgetary situation, and virtually no balance of payment constraints, the country hit the path to 'modernisation' on a clean bill (Killick, 2010).

This impressive national economy became the launching pad for the modernisation of the Ghanaian society. The idea of 'catching up' with the industrialised countries was simply beguiling. The country pursued aggressive industrialisation programme that built industries meant to manufacture for the domestic market products, which in the colonial regime were imported.

At independence, Ghana like most countries in West Africa inherited an economy that was structured to produce raw materials for exports and import manufactured products mostly from Europe. The colonial logic was that as most countries in West Africa including Ghana did not have industries and were rich in raw materials it was advantageous for those countries to export raw materials and use the proceeds to import manufactures. Therefore, Ghana exported cocoa, timber and mineral products principally gold, diamond and bauxite. Nigeria exported cocoa, groundnuts and later oil. This arrangement proved beneficial for much of the colonial period principally because commodity price was generally good on the world market.

Ghana emerged from colonialism with this pattern of development. The country specialised in the production and export of raw materials and import of manufactured products. Consequently, more than two-thirds of the GDP emanated from agriculture and related activities. By this set-up, the economy became more open and dependent on international commerce. For instance, in 1960 about 30 percent of Ghana's GDP was linked to foreign trade. This is not to say that there were no efforts at industrialisation. Some efforts were made

towards building industries, but these were too little and fragmented. They were mostly foreign owned and concentrated in the mines helping to produce an enclave economy right before independence.

After independence, the political elites realised that the economic prosperity they had so eloquently promised the people of Ghana during the anti-colonial struggles could not be delivered using the colonial economic framework they inherited<sup>17</sup> (Otoo, 2013). The need to restructure the economy from dependence on production and export of raw materials to the manufacturing of finished products for domestic market became obvious. Economic restructuring, however, became conceived more in political terms than economics. Post-independent leaders faced potentially explosive political imperative: how to satisfy the material needs of a people whose lives have been ‘battered’ by centuries of colonialism? The independence struggle itself had brought a level of enlightenment never seen before; it raised hopes and evoked political consciousness. Post-independent leaders struggled to satisfy the material needs of a people. The political response came in threefold. First, the more politically influential groups were co-opted and internalised into party structures. Second, groups that could not be absorbed were repressed. Third, the ruling party became diffused into state structures, blurring the distinction between party and state (Killick, 2010). The government became dictatorial eventually resulting in the imposition of a one-party state.

The economic response was to embark on large-scale industrialisation projects aimed at transforming the structure of the economy as rapidly as possible. Around 1961,<sup>18</sup> the first government broke with the economic policies inherited from the colonial administration (Killick, 2010). In the framework of the ISI, the government, relying on state machinery, embarked on an ambitious programme of industrialisation. The tasks of development and modernisation were principally steered by the state.<sup>19</sup> As noted by Killick (2010), the government had the intention of shifting the state-owned industries to the

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<sup>17</sup> During the anti-colonial struggles, the nationalist leaders had identified colonialism and by extension all that is European as the cause of all that is wrong in the Ghanaian society. The refrain was that independence – and in this case self-determination – was the necessary and sufficient condition for economic prosperity. Kwame Nkrumah was forthright that he would ‘transform Ghana into a paradise within a decade’.

<sup>18</sup> Ghana became a Republic in July 1961.

<sup>19</sup> The entrepreneurial efforts of the state was justified on the grounds that the country lacked a functioning middle class capable of modernising the country at the pace desired by the political elites.

domestic private sector whenever the latter was in a position to finance and manage them. This failed to materialise as state socialism was forged to its logical conclusion.<sup>20</sup> The private sector was suppressed even further, and market incentives became distorted in a manner that proved counter-productive.

Development planning became central to economic management. The prime objective of the economic policy was to establish an economy that was self-sustaining. The developmental goal was to build a socialist state (Nkrumah, 1968). By the time the first post-independent government was overthrown, more than hundred state-owned enterprises had been established covering all sectors and dotted across the entire country. The state became heavily involved in direct economic activities in all sectors of the economy, producing goods for export and undertaking imports of essential raw materials (Baah, 2006a). By the mid-1960s, the state directly accounted for 40 percent imports and more than 60 percent exports (Nkrumah, 1968).

The industrialisation programme was supported by other policies including high tariff barriers, fixed exchange rates and fixed interest rates, directed credit lines, establishment of marketing boards and fixing of most prices among others (Ayeetey and Harrigan, 2000). Imports of what the political elites considered non-essential goods were banned. Products that could be imported had quota restrictions. Domestic industry, mostly state-owned, became beneficiaries of subsidies. Monetary policy objective was to deliver low interest rates. Ceilings were imposed on interest rates. Credits were politically directed to preferred sectors. This was complemented by, the establishment of large state-owned banks, which came to dominate the banking sector.

In line with the socialist objectives, fiscal policy became more accommodative. This allowed for massive investments in social overhead capital (SOC) including both economic and social infrastructure. Several schools were built across the country including the establishment of two universities. The rail network was extended. The Tema Port including the Tema Township was built. Tema was linked to Accra by a first-class motorway built with concrete, the first of its kind in Africa. The Volta Lake, the largest man-made lake at the time in the world, was built making it possible for the construction of the Akosombo

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<sup>20</sup> In a debate in the National Assembly (1960), Kwame Nkrumah made clear his view about the domestic private sector in the following words: ‘we would be hampering our advance to socialism if we were to encourage the growth of Ghanaian private capitalism in our midst’.

Hydroelectric Dam (AHD) and facilitating the provision of electricity across the country and beyond.

The investments rapidly expanded the economy, particularly the public sector. Large swathes of workers were drawn from the rural non-wage sector to the public sector and in particular to the state-owned enterprises. Public sector employment swelled accounting for over 80 percent of the total formal employment between 1960 and the early 1980s (Baah, 2006a). With strong backing and cooperation of the unions, public sector wages were set high compared to the earnings in the rest of the economy.<sup>21</sup> The high wages in the public sector was also a deliberate government policy to attract people into employment in the formal sector and away from rural non-wage employment.<sup>22</sup> The economy expanded as reflected in the GDP numbers. Per capita GDP saw a significant increase. For instance, in 1960 real GDP per capital in Ghana in purchasing power parity (PPP) was estimated at US\$1,049.00 compared to US\$690.00 in South Korea.

Industries established together with the development of both economic and social infrastructure considerably expanded employment. Public sector employment was the most important source of employment for most Ghanaians entering the labour market from the education system. Between 1960 and 1965, direct public sector employment expanded by an astonishing 93,000 or 63 percent (Killick, 2010). Employment growth was approximately at the same pace as labour force growth with each growing at 2.2 percent annually between 1960 and 1970 (GSS, 2005). Figures based on membership of the Trades Union Congress (TUC, 2007) indicate rapid growth of formal employment in the first six years of independence. In 1963, the combined membership of the 17 unions that made up the TUC stood at 324,648. The period also witnessed a marginal drop in unemployment rate even as participation rate remained unchanged. Most significantly, the nature and forms of employment were shifting, even if gradually, towards the formal economy with the public sector leading the way.

However, the economic growth experience of early post-independence days was ephemeral. The growth momentum slowed considerably particularly after the overthrow of Nkrumah's government in 1966. However, prior to the overthrow,

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<sup>21</sup> The unions had been instrumental in the struggle for independence. They had worked alongside the Convention People's Party that formed the first government after independence and were effectively in bed with the government.

<sup>22</sup> In the early post-independence period, Ghana's economy was characterised by acute shortage of labour, particularly male and skilled labour (see Lewis, 1954).

signs of economic decline were on the wall. The economic expansion of the immediate post-independence period lasted only up to the first half of the decade as economic decline became palpable after the overthrow of the first government in 1966. Between 1960 and 1969, per capita GNP dipped.

Despite the establishment of many industries, the country failed to develop any appreciable industrial capabilities. This shows that while it takes industries to industrialise, there is more to industrialisation than merely opening industries (Otoo, 2013). Additionally, economic management objectives also became excessively concerned with social equity,<sup>23</sup> discouraging private investment in critical infrastructure. Many economic analysts have often cited the emphasis on social equity that sought essentially to address developmental concerns of the marginalised sections of the society in the formulation and implementation of economic programmes as the fundamental cause of economic decline in Ghana (Killick, 2010). It has been argued that the many interventions that were made in pursuit of social equity generated huge disincentives for investments in critical areas of the economy and ultimately undermined growth itself. In the end, social conditions that were expected to improve through an all-inclusive interventionist approach to development floundered.<sup>24</sup>

After a brief interlude of economic recovery in the first two years of the 1970s, the spectre of decline witnessed in the second half of the 1960s resumed until about the first half of the 1980s. The period between 1972 and 1982 is described as the lost decade when the economy almost collapsed, and all macroeconomic variables turned in the wrong direction. Between 1972 and 1983, average GDP growth was -0.5 percent per annum (World Bank, 1987a). Low and fluctuating growth also coincided with a high rate of inflation. For the most part during the lost decade, inflation was in double digits peaking at triple digits in 1977 (121.2 percent), 1981 (100.4 percent) and 1983 (142.4 percent).

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<sup>23</sup> Ghana joined the International Labour Organisation in 1957, the very year the country gained independence. The country ratified most of the ILO Conventions in less than a decade of its existence as independent nation with the aim of protecting workers from exploitation.

<sup>24</sup> At the same time, the Nkrumah government is fondly remembered for the many important social and economic infrastructure some of which remain critical to economic performance up to the present day.



### 3.1.2 Economic Policy and Performance, 1983 and Beyond – The Era of Structural Adjustment

By the beginning of the 1980s, Ghana, like most countries in Sub-Saharan Africa (SSA) had accumulated huge debts that it could not service, let alone repay. In exchange for debt restructuring (including outright forgiveness), the country was ushered into a painful process of adjustment under the banner of Structural Adjustment Programme (SAP). This, among other things, entailed abandoning the state-led industrialisation policies. In its place, the country embraced market-driven policies. The state-owned enterprises (SOEs)<sup>25</sup> were privatised almost overnight, and the public sector workforce was radically downsized. Protective tariff walls were dismantled as both external trade and payment regimes were liberalised. Financial markets were deregulated and interest rates were liberalised determined by the market. The investment regime was also liberalised. At the heart of the new economic management was the idea that the “state” was part of the problem of economic decline that the country faced. Therefore, an important first step in addressing the crisis was to roll back the state. Market fundamentalism then took hold.

When adopted in the 1980s, proponents argued that rolling back the state and deploying the forces of markets would provide a sanguine climate to herald robust growth that will eventually trickle to everybody in society. The market fundamentalist viewed the state with incredible hostility. Government actions intended to help the poor distort market incentives, stifle growth and eventually hurt the very people it intended to help. Government regulations are a burden for businesses, stunt business growth and hold back economic progress (Coats, 2011). The ‘poor’ economic growth record of the 1970s and early 1980s singularly measured by GDP was held up as proof of the failure of the state-led approach. This was difficult to challenge. After all, the national debt had ballooned beyond the country’s ability to pay. Inflation was spiralling and the economy and society were tethering on the brink of collapse. Moreover, these were the days of Thatcherism when the resurgence of neoclassical economics was in full swing.

The solution lay in abandoning the state and unleashing the power of the markets. Pruning down regulations, tearing down the tariff walls, maintaining

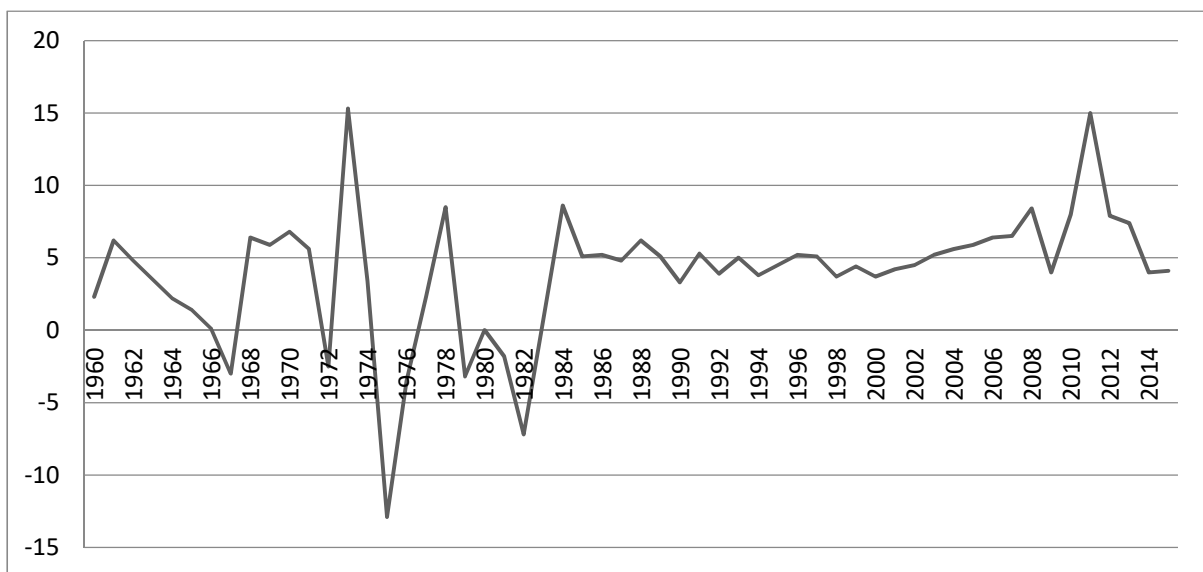
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<sup>25</sup> See Gyimah-Boadi, E. and Jeffries, R., 2000. The political economy of reform, in E. Ayeetey, J. Harrigan and M. Nissanke (eds.), *Economic Reforms in Ghana: The Miracle and the Mirage*, pp.32-50. James Currey Ltd. 73 Botley Road, Oxford OX2 OBS, UK

fiscal rectitude and taming inflation would facilitate a superior growth performance was the argument. The faith in the ability of markets not only to repair the economic malady but also to deliver prosperity became difficult to challenge. As has become evident in the last three decades neo-liberalism and market fundamentalism leave no room for contrary views. The set of policies contained in the Washington Consensus was considered magical at all times and in all contexts. All other policies were considered wrong-headed and bound to lead to gloom.

Economic growth did indeed return following the implementation of structural adjustment policies. From negative growth rates of 0.5 percent between 1972 and 1983, GDP growth averaged to 5.6 percent between 1984 and 2013 (see Figure 3.1). Growth picked up significantly after 2000 reaching over 6 percent after 2006. In 2008, economic growth was 8.4 percent. In the last five years, GDP growth improved significantly, peaking at 15 percent in 2011 with the commencement of commercial oil production. Growth averaged to 8.66 percent between 2008 and 2012.

**Figure 1: GDP Growth Rates (1960-2015)**

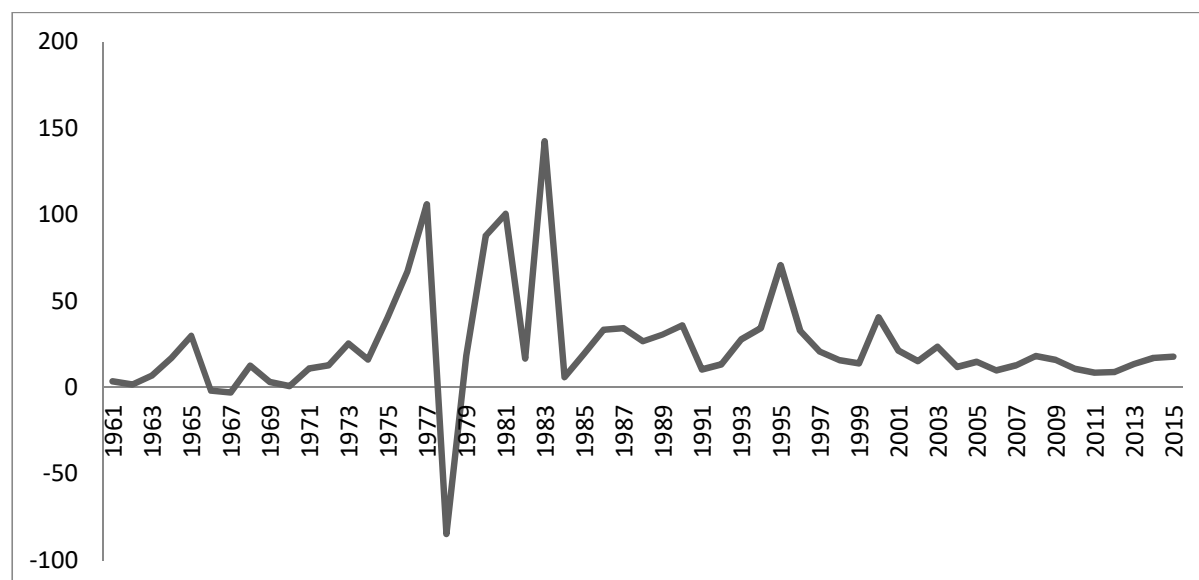


*Source: Constructed from National Accounts, Ghana Statistical Service.*

The recovery of the economy came along with relatively low inflation. Throughout the 2000s, as the inflation rate declined, real GDP increased. The decline in inflation led to significant fall in key interest rates. The Treasury Bill rate declined from 38 percent in 2000 when the inflation rate was 40.5 to 9.6 percent with a corresponding inflation rate of 10.5 percent. The average lending rates fell from 47 percent in 2000 to 23 percent. At the end of 2012, inflationary pressures began to build and in the very first quarter of 2013, inflation again reached the double-digit zone.

Economic growth was principally driven by the export of natural resources and raw materials. Few primary products dominated the national export basket. Cocoa, gold and timber made up more than two-thirds (71%) of the national export revenues (BOG, 2008). In 2012, Gold and Cocoa accounted for 62 percent of total exports (ISSER, 2013). Export diversification, which was to follow liberalisation, failed to occur. The non-traditional export sector, which received considerable support in the 1990s, woefully failed to live up to expectations. Non-traditional exports remained low and still overwhelmingly in the form of primary commodities (fish, shea-butter, etc.) with virtually no processing. In general, export revenues went up by more than four times in the past two decades. This was made possible by, increasing volumes of export and occasional increases in international prices of major export products (cocoa and gold).

**Figure 2: Inflation Rate in Ghana (1961-2015)**

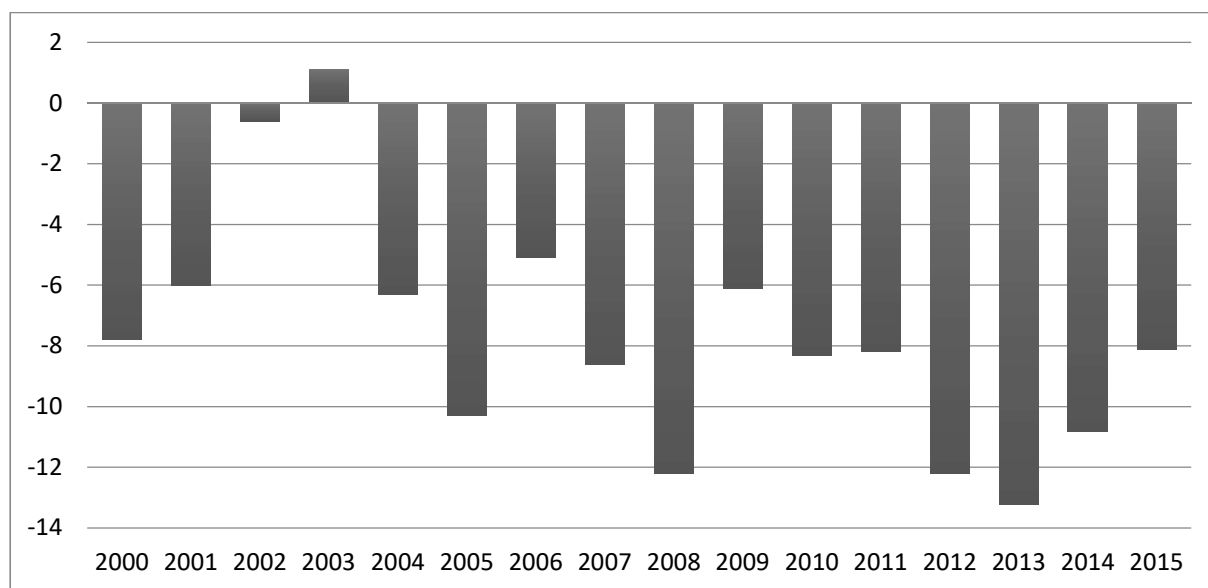


*Source: Ghana Statistical Service, CPI Bulletin, Budget Statements, various years.*

However, the export ‘boom’ paled into insignificance when compared with the import surge that followed trade liberalisation. Imports increased by more than six-fold during this period. The terms of trade declined from about 75 percent in 1990 to 54 percent in 2009. This means that export revenues only paid for about half of the import expenditure. This was reflected in the large and growing current account deficit. In 1990, the balance of trade (merchandise export minus import) recorded a deficit of US\$303 million, equivalent to 8.5 percent of GDP. By 2010, the deficit had increased to US\$2.77 billion representing 8.3 percent of GDP. In 2012, the current account deficit was estimated at US\$4.92 billion or 12.2 percent of GDP. It increased further to US\$5.8 billion in 2013 before narrowing to US\$3.6 billion or 13.2 percent of GDP in 2014.

A direct consequence of the persistent current account deficit was a steady depreciation of the national currency, the cedi. Large bouts of currency depreciation in the context of import dependency have fuelled domestic inflation and inflationary pressures. Thus, increases in domestic prices resulting from currency depreciation failed to cure the current account deficits and the domestic price inflation became persistent.

**Figure 3: Current Account Deficit/GDP (%)**



Source: Budget Statement, various years

The deficits were financed through increases in the interest rates to attract foreign capital.<sup>26</sup> The assumption that underpinned increases in the interest rate was that it would dampen domestic consumption and help cut imports. So far, this has remained a mirage. There is no evidence of a decline in domestic consumption. Imports kept rising faster than exports given a certain permanency to the current account deficits. The interest rate has also been used as a tool to fight inflation.<sup>27</sup> This too has failed as the Ghanaian economy continues to be mired in persistent high inflation and inflationary expectations.

Monetary policy has been conservative in support of the disinflationary objectives leading to high interest rates, which tend to constrain investment,

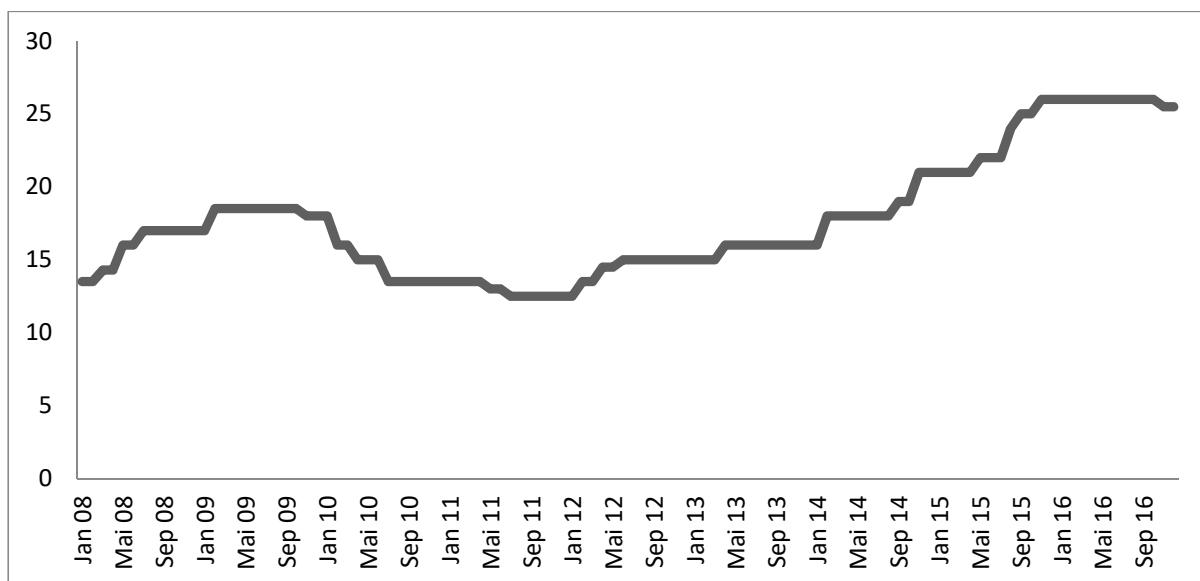
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<sup>26</sup> In the process, large amounts of foreign capital in the form of loans have flocked into the country to finance the import binge. This has led to a situation where the national debt has become unsustainable every other decade.

<sup>27</sup> See Bank of Ghana website.

growth and employment creation. At the same time, the task of curbing inflation remained illusory. Interest rates continued to be high and rising. Rates on the 91-day and 182-day Treasury Bills went up from 10.7 percent and 11.3 percent in December 2011 to 22.9 percent and 22.88 percent in December 2012 respectively. Similarly, rates on 1-year and 2-year fixed notes increased from 11.3 percent and 12.4 percent in December 2011 to 22.9 percent and 23 percent in December 2012. The long-dated instruments such as 3-year and 5-year bonds also rose from 14 and 14.3 percent in 2011 to 24 percent and 23 percent, respectively, during the period. The average base rate for the commercial banks now stands at over 23 percent. Effective lending rates are more than 30 percent.

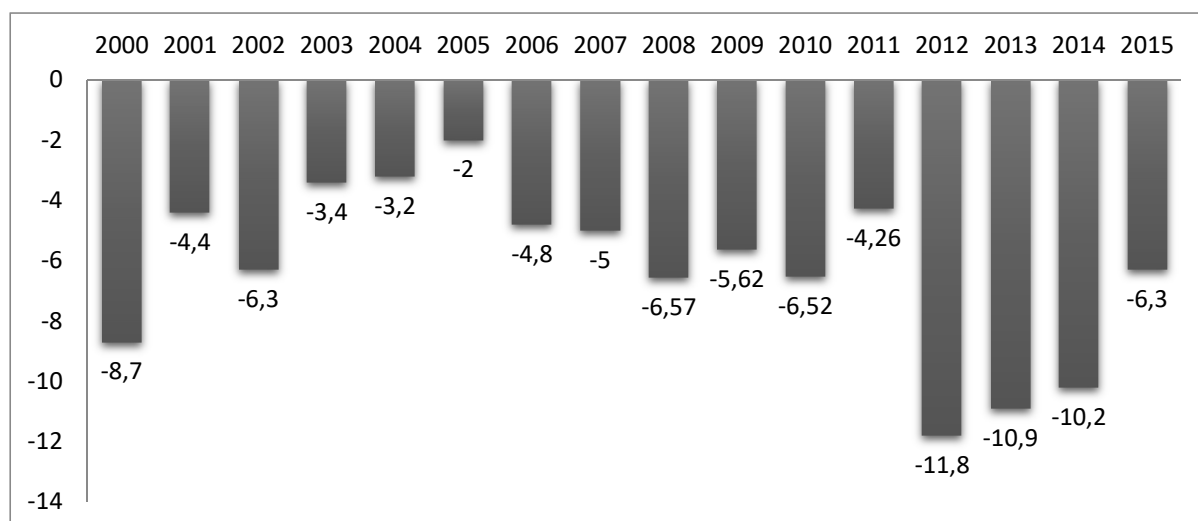
**Figure 4: Bank of Ghana Monetary Policy Rate (2008-2016)**



Source: Bank of Ghana, 2017.

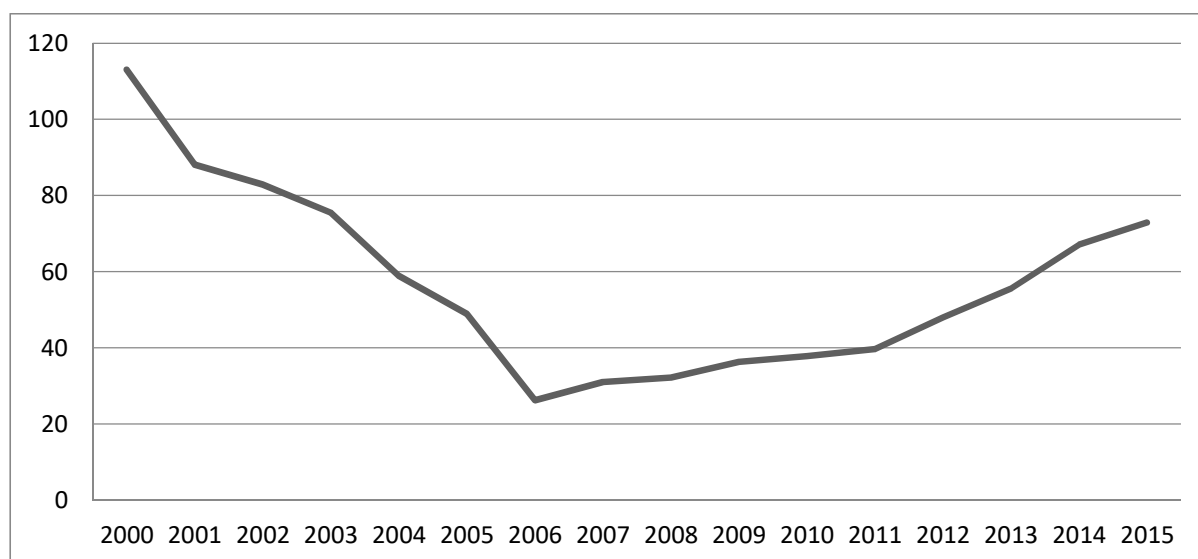
Despite the expressed objective of fiscal consolidation as part of measures to control inflation, government finances have consistently been in the red. Since 2000, the overall fiscal balance has been in deficit. The deficit tends to widen during elections years depicting the political business cycle. The primary source of the deficit has been excessive spending and low revenues due mainly to the inability of the state to mobilise tax revenues. As discussed in this study, large swathes of economic actors operate in the informal economy and are frequently said to be outside the tax net. In the formal sector, big earning companies, particularly in the natural resource sector, have continued to enjoy massive tax incentives, which tend to deprive the state of resources for national development.

**Figure 5: Fiscal Deficit/GDP (2000-2015)**



Source: Constructed from the National Accounts, Ghana Statistical Service, Bank of Ghana and Ministry of Finance.

**Figure 6: Public Debt/GDP Ratio (%) 2000-2015**



Source: Compiled by author based on data obtained from the Bank of Ghana.

A combination of persistent current account deficit, rising interest rates and fiscal deficits has resulted in increasing national debt. Debt to GDP ratio reached 113 percent in 2000. It declined to 26 percent in 2006 following the debt relief granted to the country as part of the Multilateral Debt Relieve

Initiative (MDRI) of the Group of Seven Most Industrialised Countries (G7).<sup>28</sup> The debt stock has since risen to 67 percent. Since 2009, the country's debt stock has risen by 700 percent or 116 percent annually (Bawumia, 2015).

### **3.2 Structure of the Ghanaian Economy**

As shown in Table 1, in the period 1970-75, agriculture accounted for more than half (52 percent) of GDP. In 1980, agriculture contributed 54.5 percent of GDP with industry (14.8 percent) and services (32.3 percent) contributing the remainder. Since the mid-1980s agriculture witnessed a precipitous decline. Both industry and services saw steady increases in their contributions to GDP. The services sector had overtaken agriculture as the largest contributor to GDP. In 2006, the sector's contribution to GDP was 48.8 percent. By 2012, the sector's contribution to GDP had increased to 50 percent. The industrial sector now comes second to the services sector. In 2012, industry contributed 27.3 percent to GDP. In 2012 agriculture's contribution to GDP (at 22.7 percent) was the least.

Analyses of Ghana's economic growth record since the mid-1980s helps us to explain the continuous decline of agriculture. Agricultural growth lagged behind the rest of the economy. For instance, for the period 1987-90, agricultural GDP grew by 1.3 percent compared with the overall GDP growth of 3.3 percent. Indeed, in 1990, agricultural GDP growth was minus 2 percent. This depressed overall GDP growth, which fell from 5.1 percent in 1989 to 3.3 percent in 1990. Since 1983, both industry and service sectors have maintained healthy growth rates in excess of overall growth rates. For the period 1987-90, industry growth was 7 percent, second to the service sector, which grew at an average rate of 7.9 percent.

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<sup>28</sup> In 2001, Ghana joined the league of Highly Indebted Poor Country (HIPC) initiative. The country received debt forgiveness totalling to US\$4.2 billion.

**Table 1: Sectoral Contribution to GDP (1970-2012)**

<b>Year</b>	<b>Agriculture</b>	<b>Industry</b>	<b>Service</b>
1970	50.7	19.3	30
1975	47.7	21	31.3
1980	54.5	14.8	30.7
1985	45.2	16.8	38
1990	43.5	26.5	30
1991	43.3	26.1	30.6
1992	42.1	25.8	32.1
1993	40.8	26.4	32.8
1994	40	24.9	35.1
1995	42	24.9	33.1
1996	40.8	27.9	31.3
1997	40.4	28	31.6
1998	40.6	27.3	32.1
1999	40.5	27.6	31.9
2000	39.6	27.8	32.6
2001	39.6	27.4	33
2002	39.5	27.5	33
2003	39.6	27.1	33.3
2004	40	27.2	32.8
2005	39.5	27.6	32.9
2006	30.4	20.8	48.8
2007	29.1	20.7	50.2
2008	31	20.4	48.6
2009	31.8	19	49.2
2010	29.9	18.6	51.5
2011	25.3	25.6	49.1
2012	22.7	27.3	50

*Source: Compiled by author based on data obtained from the National Accounts of GSS*

The under-performance of the agricultural sector has driven many people out of the sector as both productivity and incomes in the sector fell. The 1984 Population and Housing Census estimated agricultural employment at 61 percent of the Economic Active Population (EAP). This dropped to 50 percent in 2000 and then finally to 41 percent in 2010. The 2013 Ghana Living Standards Survey put the number in agricultural employment at 45 percent of the total labour force. Clearly, the contribution of agriculture to growth but also to employment has declined.



**Table 2: Growth Rates in Major Sectors, 1972-2013**

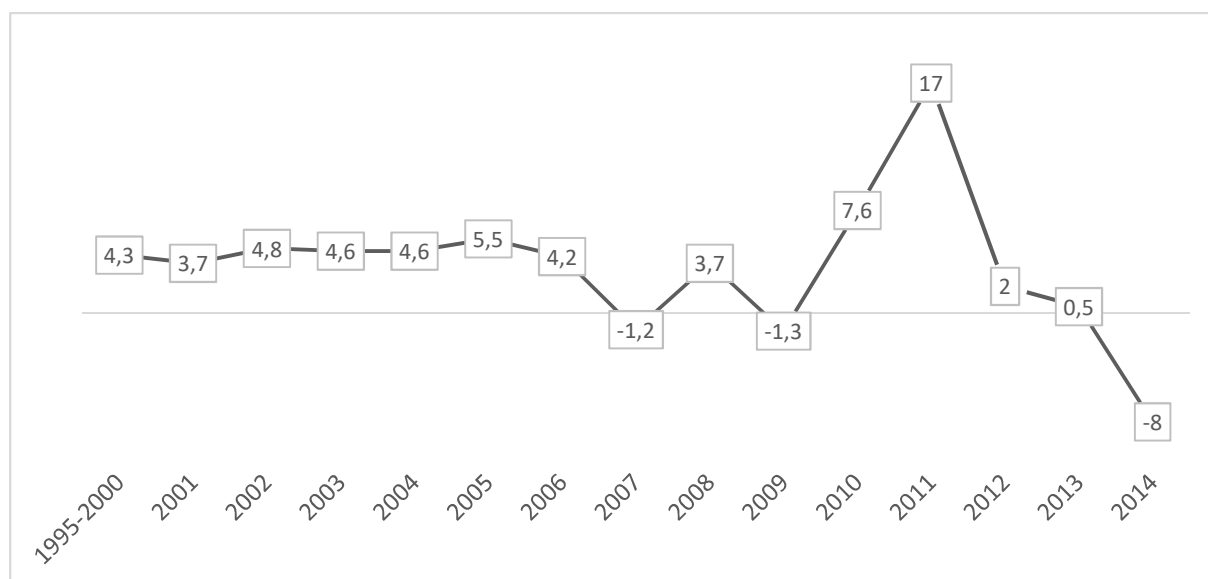
Sector	72-75	76-82	83-86	87-90	91-95	96-00	01-05	06-10	11-13
<b>Agriculture</b>	-2.3	1.4	1.5	1.3	2.7	3.9	5.2	4.8	<b>2.8</b>
<b>Industry</b>	1.9	-7.3	5.6	7.0	4.3	4.5	5.1	8.0	<b>19.9</b>
<b>Service</b>	<b>0.2</b>	<b>1.2</b>	<b>5.7</b>	<b>7.9</b>	<b>6.1</b>	<b>5.8</b>	<b>5.3</b>	<b>7.5</b>	<b>9.8</b>

*Source: Ayeetey and Harrigan, 2000; GSS, 2014, 2010.*

Agriculture's contribution to GDP has declined faster compared to the drop in agricultural employment. The bulk of the national workforce remained in agricultural employment. The growing sectors, industry and service, have not added much to employment. Industry has had the highest growth rates over the past three decades with growth peaking at 42 percent in 2011 with the onset of oil production. However, the growth poles in industry are traditionally not associated with strong employment growth. For instance, mining has been a strong driver of not only industrial growth but also overall GDP growth. Mining employment has tumbled even as its output has soared. Mining employs less than 1 percent of the Ghanaian workforce. According to the Ghana Chamber of Mines (2003), formal mining employment reduced from 21,272 in 1994 to 14,311 in 2002. Formal employment in the mines reached over 30,000 in the 1950s.

The contribution of the manufacturing sector to both GDP and employment continues to decline. Its growth has lagged behind overall GDP growth (see Figure 3.7). For the period 1995 to 2014, the manufacturing sector grew by about 3.3 percent, well below overall output growth. However, this growth was largely due to the growth of small firms that hardly undertook export. Already, in 1993, in a World Bank report, edited by Baah-Nuako and Teal, the authors had drawn attention to the fact that the structural adjustment reform programme had adversely affected larger exporting firms. In 2006, the Living Standards Survey data showed that 55 percent of the manufacturing firms were micro enterprises employing less than five workers.

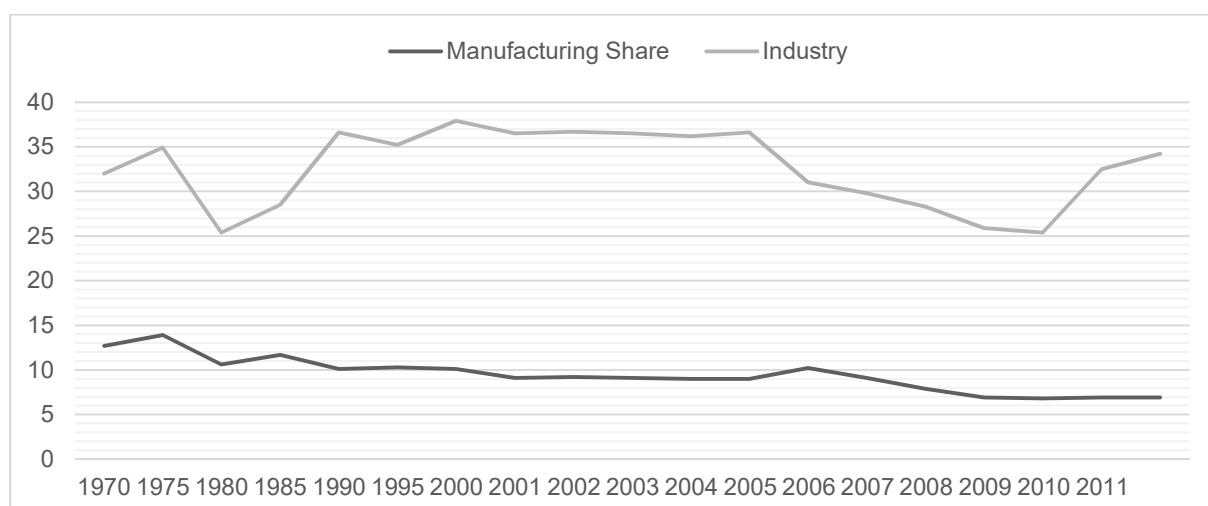
**Figure 7: Manufacturing Growth Rate (1995-2014)**



Source: Compiled by author based on data from GSS.

Regarding contribution to overall output, the manufacturing sector also lost grounds. Manufacturing contribution to GDP declined from about 14 percent in 1975 to 6.7 in 2013. The industrial sector’s contribution to total output over the same period increased from 19.3 percent to 27.3 percent (see Figure 6.8). Much of the increase in industrial output emanated from the natural resource sector as gold production rebounded following the enactment of a new mining code in 1985. In 1975, the contribution of mining to GDP was 2 percent. This increased to 7.3 percent in 2007 and reached 8.8 percent in 2012.

**Figure 8: Share of Industry and Manufacturing in GDP (1970-2011)-Percent**



Source: Compiled by author based on data from GSS.

The only sector with simultaneous increases in both contributions to GDP and employment over the period has been the service sector. The 1984 Population

and Housing Census estimated service sector employment at 26 percent of total employment. In 2000, the service sector was employing about 33 percent of the workforce (GSS, 2000). By 2010, service sector employment had shot up to 42.3 percent (GSS, 2010). Data from the Ghana Living Standards Survey (GLSS) confirm the rising level of employment in the service sector. The 1992 GLSS data estimated employment in the sector at 27.8 percent of total employment. The fourth round conducted in 1999 estimated services employment at 31 percent. This reduced slightly to 29 percent in 2006 before rising sharply to 37 percent in 2013.

Further analyses of the services sector show that the subsectors that have grown and contributed most to GDP are not the ones that have created the most employment. For instance, the finance and insurance subsector accounted for 4.8 percent of GDP in 2000. Its contribution to total employment was estimated at 1.5 percent for the same year (Killick, 2010; GSS, 2013). In 2010, the share of finance and insurance in GDP had increased to 5.2 percent. However, its share in total employment decreased to 0.7 percent. Real estates services also saw increases in contribution to GDP from 2.2 percent in 2006 to 4.8 percent in 2012. Its contribution to total employment decreased from 0.8 percent to 0.1 percent for the period.

The sub-sectors that have grown less and seen a decrease in their share of GDP are also the ones that have gained most in terms of employment. The share of trade and related activities in GDP declined from 6.4 percent in 2006 to 5.6 percent in 2012. At the same time, its share of total employment had gone up from 15.2 percent in 2006 to 20 percent in 2012/2013. The contribution of the transport sector to GDP declined from 13 percent in 2006 to 11 percent in 2012. Its share of employment rose from 2.8 percent to 3.8 percent over the same period.

The sub-sectors that have gained in terms of employment are also the traditional informal sectors. There is no evidence that these sub-sectors have undergone any formalisation process. On the contrary, the sub-sectors that are usually associated with formality have relapsed into informality. For instance, significant proportions of workers wearing suits and tie in the banking hall have employment characteristics that clearly put them in the informal sector. This has been made possible by the inability or the failure of the state and its institutions to enforce the basic employment legislations.

The structure of exports has remained virtually unchanged (see Tables 3.3 and 3.4). Few primary products dominate the national export basket. Cocoa, minerals and timber make up about two-thirds of the national export revenues (Bank of Ghana, 2012). For the period 2001 to 2012, cocoa export revenues averaged at 28.2 percent of the total merchandise exports. Minerals consisting of gold, diamonds, bauxite, and manganese constituted 42 percent of the total

merchandise exports. Table 3.3 shows that three products provided on average of about three-quarters of the total exports revenues of the country for the period 2001-2012.

**Table 3: Exports Earnings from Cocoa, Timber and Minerals (Percent of Total Export Earnings)**

<b>Year</b>	<b>Cocoa</b>	<b>Timber</b>	<b>Minerals*</b>
<b>2001</b>	20.4	9.1	37.0
<b>2002</b>	22.4	8.9	36.5
<b>2003</b>	34.9	7.6	38.9
<b>2004</b>	39.2	7.7	33.5
<b>2005</b>	32.4	8.1	36.9
<b>2006</b>	31.8	5.3	43.4
<b>2007</b>	26.3	6.0	56.4
<b>2008</b>	28.5	5.9	45.3
<b>2009</b>	31.1	3.0	44.5
<b>2010</b>	27.9	2.3	49.2
<b>2011</b>	22.5	1.3	39.4
<b>2012</b>	20.5	0.88	42.6

*Source: Bank of Ghana, 2012, Minerals Commission*

Despite the continued national efforts to promote the non-traditional export sector, available data suggest that exports have increasingly been dominated by, cocoa timber and minerals. Export diversification, an explicit objective of the economic reforms initiated in the mid-1980s has failed to occur. In absolute terms, the value of non-traditional exports has been more than doubled, increasing from US\$1,340.90 million in 2008 to US\$2,364.40 in 2012. However, the share of non-traditional exports in total exports declined from 23 percent to 17 percent over the same period. Beside, non-traditional products were largely unprocessed commodities.

**Table 4: Composition of Ghana's Exports (2011-2015)**

	<b>Merchandise Export Earnings</b>				
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Gross total exports (US\$ million)	12785.4	13552.4	13751.9	12983	10357
cocoa total	2870.8	2828.6	2267.3	2382.9	2763.9
<b>cocoa (%)</b>	<b>22.5</b>	<b>20.9</b>	<b>16.5</b>	<b>18.4</b>	<b>18.4</b>
Minerals (total)	5062.8	5770.5	5140.7	4516.3	3322.7
<b>Minerals (%)</b>	<b>39.6</b>	<b>42.6</b>	<b>37.4</b>	<b>34.8</b>	<b>39.9</b>
Timber (total)	165.7	131	165.8	183	202.1
<b>Timber (%)</b>	<b>1.3</b>	<b>1.0</b>	<b>1.2</b>	<b>1.4</b>	<b>2.4</b>
other exports (total)	4686.1	4822.3	6178.1	5900.8	4068.3
<b>other exports (%)</b>	<b>36.7</b>	<b>35.6</b>	<b>45</b>	<b>45.5</b>	<b>39.3</b>

*Source: Computed by author based on data obtained from GSS and BOG.*

### **3.3 Ghana's Labour Market**

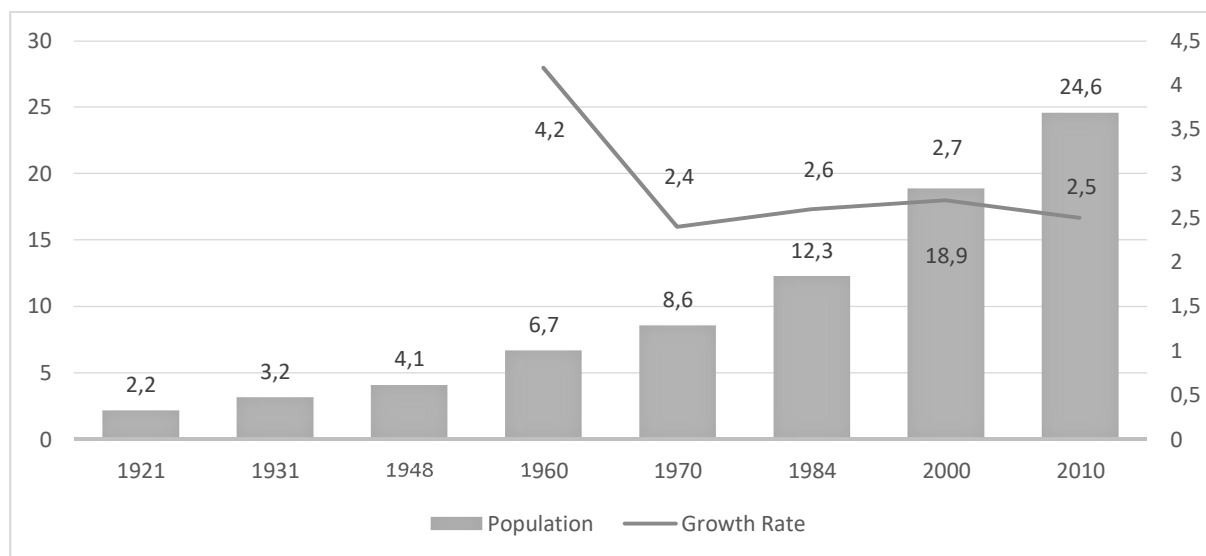
#### **3.3.1 Demographic Profile of Ghana**

As shown in Figure 3.9, in 2010, Ghana had a population of 24.6 million (GSS, 2012). In 1960, the country's total population was estimated at 6.7 million (GSS, 2013). This means that in 50 years the population has nearly quadrupled. Between 2000 and 2010, the population stock increased by 30.4 percent. The annual average inter-censal growth rate is 2.5 percent. At this rate, it will take approximately 28 years for Ghana's population to double (GSS, 2012) compared to 230 years for the United Kingdom. The intercensal growth rate has averaged about 2.6 percent since 1960. It increased from 2.4 percent in 1970 to 2.7 in 2000 before declining to 2.5 in 2010 (GSS, 2013).

In 2000, 41.3 percent of the population was below 15 years. In 2010, the proportion had reduced slightly to 38.3 percent. This compares to the global average of 26 percent, though it is slightly below the African average of 42 percent (PRB, 2012). The proportion of the population 65 years and older declined from 5.3 percent to 4.7 percent. Females constitute about 51 percent of the population with males accounting for 49 percent. Another unique

characteristic of Ghana's population is that it is a youthful one. Youth<sup>29</sup> constitutes more than a third (35.3 percent) of the population.

**Figure 9: Total Population and Population Growth Rates (1921-2010)**



Source: GSS, 2013

The majority (51 percent) of the population resides in urban areas. In 2000, the proportion of the population that lived in urban areas was 43.8 percent indicating that in the last decade, more and more people have come to settle in urban areas. The bulk of urban dwellers live in Ashanti and Greater Accra regions where most of Ghana's modern industries and commercial activities are concentrated. In the remaining eight regions, the level of urbanisation is below the national average. The Ghanaian population is fairly literate. About 74 percent of the population aged 11 years and older can read and write. The literacy rate is high among males (80.2 percent) compared to females (68.5 percent). For the population aged 15 years and older 71.5 percent is literate, which also means that more than a quarter (28.5%) is not literate.

<sup>29</sup> Youth is defined to include persons between ages 15 and 24.

### 3.3.2 Structure of the Labour Force and Employment in Ghana

#### 3.3.2.1 The Working Age Population

The working age population is defined to include persons between age 15 and 64 years.<sup>30</sup> As the previous section has shown, Ghana's population is quite young. In 1999, the Ghana Statistical Service (GSS, 2000) estimated that 5 out of every 10 Ghanaian were below 20 years of age. More than two-thirds (69 percent) of the population was below 30 years. About 14.7 million of the population were of seven years and about 9 million were between 15 and 64 years (GSS, 2000). In 2006, 18 million persons were seven years and older. About 12 million of these were in the working age bracket (GSS, 2008). In 2013, an estimated 19 million people were seven years and older. The working age population is estimated at 14.6 million (GSS, 2014). For the period 1999 to 2013, the working age population has gone up by about 56 percent.

Majority of the working age population was categorised as Youth<sup>31</sup>. All three datasets used in this thesis showed that more than a third of the working age population falls within the age group of 15-24 years. The large share of youth reflects the general population structure of the country. Given that the bulk of Ghana's population is below 15 years, the youth population growth rate has tended to exceed the overall growth of the national population. Between 2000 and 2005, the population of youth grew by 6.5 percent compared to the national population growth rate of 2 percent during the same period (Perry, G. et al., 2007). For the period, 2000 to 2010, the overall intercensal growth rate was 2.5 percent. By this extraordinary growth, the country is adding over 300,000 people to its pool of job seekers every year.

Consistent with their share of the national population, females outnumber males in the working age population (see Table 3.5). In the 1999 data, females constituted about 54 percent of the working age population with males making up the remaining 46 percent. In 2013, the proportion of females decreased only slightly to 53 percent. Despite the dominance of females, we will see later in

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<sup>30</sup> The legal minimum working age in Ghana is 15 years and the compulsory retirement age is 60 years.

<sup>31</sup> Youth is defined as persons between 15 and 24 years. However, Ghana officially defines youth to include persons between 15 and 35 years. By this definition, youth then constitutes nearly two-thirds (62 percent) of the working age group (see Otoo et al., 2009).

this chapter that males tend to be more active in the labour market compared to females.

**Table 5: Sex Distribution of the Working Age Population (1999-2013)**

Year	Males (in millions)	Females (in millions)	Total
1999	4.32	5.03	9.35
2006	5.81	6.46	12.27
2013	6.80	7.80	14.60

*Source: GSS (2000, 2008, and 2014).*

### 3.3.2.2 Labour Force and Economic Activity Rate

Labour force is the proportion of the total population that engages or is available to engage in economic activities. It is also referred to as the economically active population. It is made up of the employed and the unemployed. In 1999, the Ghana Statistical Service (GSS, 2000) estimated a crude activity rate at 64 percent (Otoo, et al., 2009).<sup>32</sup> For the population aged seven years and older, the economic activity rate was estimated at 77 percent. The activity rate was highest for males (78 percent) compared to females (76 percent). The participation rate is slightly higher in rural areas (77 percent) than in urban areas (76 percent).

**Table 6: Economic Activity Rates by Age, Sex and Locality (1999)**

Age Group	Male	Female	Urban	Rural	Ghana
7-14	25.5	30.3	26.0	28.2	27.8
15-24	69.3	64.3	61.0	69.0	66.6
25-44	87.8	80.9	80.8	85.4	83.8
45-64	77.1	78.3	87.8	88.0	87.9
65 +	77.1	78.3	75.1	78.6	77.7
All	78.1	75.8	76.4	77.5	77.2

*Source: Main report, Ghana Living Standards Survey, GLSS4 (GSS, 2000).*

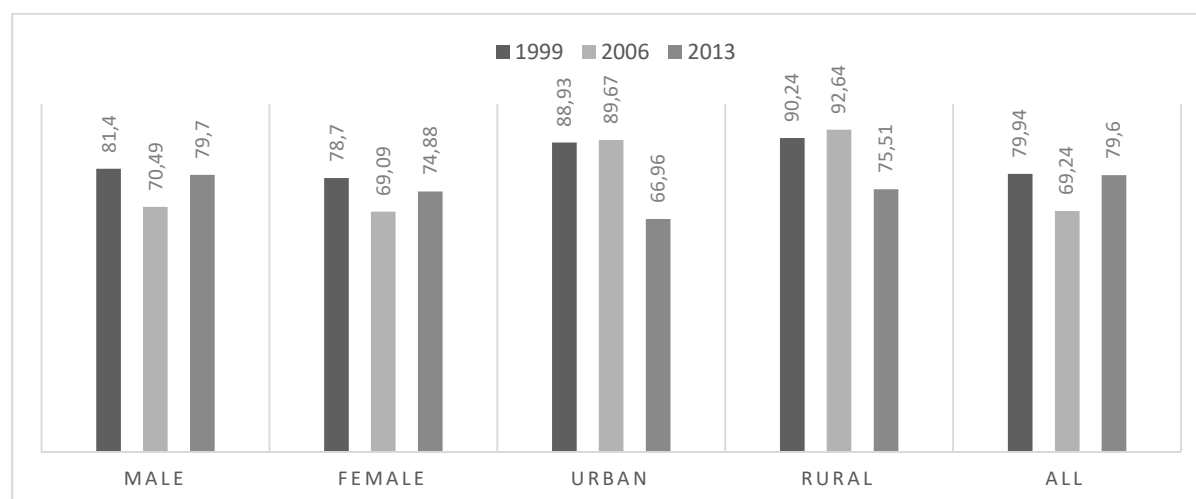
The data also suggests that participation in the labour market increases with age up to 64 years and after that it begins to decline. As expected, children between

<sup>32</sup> Crude activity rate refers to the percentage of economically active population to the total population.



the ages of 7 and 14 (28 percent) have the lowest participation rate while adults between the ages 45 and 64 (88 percent) have the highest participation rate. For the relevant age group of 15-64 years, economic activity rate is estimated at about 80 percent (see Figure 3.10).

**Figure 10: Economic Activity Rates (1999-2013) (in Percentage)**



Source: Computed from GLSS 4, 6, and 6 data.

The 2006 living standards data showed economic activity rate of 54 percent for the population aged 7 years and older. This indicates a marked decline in economic activity rate between 1999 and 2006, reflecting a reduced participation rate of children and the elderly (see Table 3.5). For the population aged between 15 and 64, participation rate increases to 70 percent. That is, nearly 7 out of 10 persons aged between 15 and 64 participate in the labour market. As in the 1999 data, the participation rate is slightly higher for males (55 percent) than females (53 percent). The rate is also higher in rural areas (55 percent) compared to urban (47 percent) areas. It is also observed that participation in the labour market increases with age and declines after 64 years.

**Table 7: Economic Activity Rate by Age, Sex and Locality (2006) (in Percentage)**

Age Group	Male	Female	Urban	Rural	Ghana
7-14	13.9	11.8	4.2	7.6	12.9
15-24	38.9	39.2	26.6	40.9	39.0
25-44	89.2	83.1	79.8	93.0	85.9
45-64	90.9	84.7	82.3	92.3	87.6
65 +	62.6	46.0	41.2	54.7	53.5
All	54.9	53.4	47.3	55.4	54.1

Source: Main report, Ghana Living Standards Survey, GLSS5 (GSS, 2008).

In the 2013 data, economic activity rate rises sharply to about 80 percent for the population aged between 15 and 64 years. The activity rate is higher for males (79.7 percent) compared to females (74.9 percent). The relatively low participation rate for females reflects the many cultural and socio-economic constraints, which inhibit their participation in the labour market. Females tend to be overburdened with non-market activities in the household including childcare and care for the elderly, sick, and infirm. Consistent with the trend observed in 1999 and 2006, in 2013, the participation rate is higher in rural (75.5 percent) than in urban (67 percent) areas. As in previous years, participation rises with age. However, the participation rate increases faster with age reaching 96 percent at 39 years and declining after 44.

### 3.3.2.3 Employment

As expected, in a developing country with underdeveloped social protection scheme and a crumbling extended family support system, significant proportion of the adult population is employed or working. For the adult population that is 15 years and older more than eight out of 10 (82.1 percent) was employed in 1999. The proportion of the adult population that is employed is highest in rural (84 percent) than in urban (78 percent) areas and for males (84 percent) compared to females (81 percent).

**Table 8: Employment Status of Population Aged 15 Years and Older, by Sex and Locality (in Percentage) – 1999**

Employment Status	Urban			Rural			Ghana		
	male	female	all	male	female	all	male	female	all
Working/employed	79.6	77.4	78.3	86.0	82.3	84.0	84.0	80.7	82.1
Not working	20.5	22.5	21.7	14	17.8	16.1	16.1	19.3	17.9
Unemployed	13.2	10.9	11.9	4.4	4.2	4.3	7.2	6.4	6.7
Inactive	7.3	11.6	9.8	9.6	13.6	11.8	8.9	12.9	11.2

*Source: Main report, Ghana Living Standards Survey, GLSS4 (GSS, 2000).*

*Note: The figures may not add up to 100 percent due to the rounding up to the nearest decimals.*

In 2006, almost 7 out of 10 (69 percent) adults aged 15 years and older were employed. In absolute terms, it amounted to 9.15 million employed individuals. The employed population was higher in rural areas (75 percent) than in urban (60 percent) areas. Employment was also higher for males (71 percent) compared to females (67 percent). In 2013, the proportion of the adult population that was employed increased to 75.4 percent, reflecting higher activity for all age groups. The pattern of employment regarding locality and sex followed a similar trend as in 1999 and 2006. In the 1990s, the male unemployment rate exceeded that of females. However, after 2000, females

recorded a slightly higher unemployment rate than males. The female unemployment rate was 6.2 percent in 2006 compared to 5.4 percent for males.

**Table 9: Employment Status of Population aged 15 years and older, by sex and locality (%) - 2006**

Employment Status	Urban			Rural			Ghana		
	male	female	all	male	female	all	male	female	all
Working/employed	63.6	57.0	60.1	75.6	74.3	74.9	70.7	67.2	68.8
Not working	36.4	43.0	39.9	24.4	25.7	25.1	29.3	32.8	31.2
Unemployed	8.1	9.0	8.5	3.5	4.3	3.9	5.4	6.2	5.8
Inactive	28.3	34.0	31.3	20.9	21.4	21.2	23.9	26.7	25.4

*Source: Main report, Ghana Living Standards Survey, GLSS5 (GSS, 2000).*

*Note: The figures may not add up to 100 percent due to the rounding up to the nearest decimals.*

**Table 10: Employment Status of Population Aged 15 Years and Older, by Sex and Locality (in Percentage) – 2013**

Employment Status	Urban			Rural			Ghana		
	male	female	all	male	female	all	male	female	all
Working/employed	73.2	67.1	69.9	83.6	79.8	81.6	78.3	73.0	75.4
Not working	26.8	32.9	30.2	16.4	20.2	18.4	21.3	27.0	24.5
Unemployed	4.7	5.0	4.9	3.1	3.4	3.3	3.9	4.3	4.1
Inactive	22.1	27.9	25.3	13.3	16.8	15.1	17.8	22.7	20.4

*Source: Main report, Ghana Living Standards Survey, GLSS6 (GSS, 2014).*

*Note: The figures may not add up to 100 percent due to the rounding up to the nearest decimals.*

Tables 7, 8, and 9 show a sharp rise in the proportion of adult population, which was economically inactive between 1999 and 2006. The inactive group more than doubled from 11 percent in 1999 to 25 percent in 2006 before declining to 20 percent in 2013. Except for the 1999 data, inactivity is most pronounced in urban areas than rural areas. The inactive group is frequently ignored in standard labour market analyses where the focus is on the economically active population. However, inactivity gives an indication of the level of dependency.<sup>33</sup> The inactive group includes persons who have given up

<sup>33</sup> See Otoo et al., 2009

employment search after unsuccessful attempts. It also includes the socially excluded such as the disabled and the aged.

### 3.3.2.4 Status in Employment

This refers to the employment relationship between the employer and the employee – explicit or implicit (GSS, 2014). For the currently employed, majority (46.4%) is classified as self-employed or own account workers in 2013. A little over one-fifth is employed as contributing family workers. The own account employment and contributing family employment (68.7%) are designated as the vulnerable employment. According to (Baah-Boateng and Ewusi 2013), the share of vulnerable employment in total employment was 74.9 percent in 2000; it increased to 75.5 percent in 2006 before declining to 71.5 percent in 2010. The incidence of vulnerability or precariousness of employment is higher among female workers (78%) compared to their male counterparts (58%). Vulnerable employment is also the highest in the rural (84.5%) than in urban (52.1%) areas.

The most current estimate shows that only about a fifth (22.5) of the employed is in paid employment (GSS, 2014). These are designated as ‘employee’ in Table 10. In 1999, the workforce in wage employment was 14 percent. It increased to 17 percent in 2006. Analyses of population census reports show that the proportion of the employed in paid employment has decreased between 1960 (19.8 percent) and 2010 (16 percent).<sup>34</sup> Paid employment is concentrated in urban areas. Just about a tenth of the rural labour force is in paid employment compared to more than one-third in urban areas. Males (32.2 percent) are more likely than females (13.2%) to have paid employment. Employers constitute just about 6 percent of the total labour force.

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<sup>34</sup> See population data analysis report, vol. 1, 2005.

**Table 11: Status of Employment (in Percentage) - 2013**

Employment status	Urban	Rural	Ghana		
			Male	Female	Total
Employee	35.1	10.5	32.2	13.2	22.5
Employer	8.9	3.5	6.9	5.5	6.2
Own Account Workers	40.4	48.3	41.9	50.5	46.4
Contributing Family Workers	11.7	32.5	16.4	27.9	22.3
Apprentice	3.7	1.5	2.3	2.8	2.6
Other	0.2	0.0	0.1	0.1	0.1
Total	100.0	100.0	100.0	100.0	100.0
Vulnerable Employment	52.1	84.5	58.3	78.4	68.7

*Source: Ghana Statistical Service: Ghana Living Standard Survey (GLSS VI, 2012/13)*

Table 11 indicates that the private sector is the largest employer in Ghana. The private sector employs more than 90 percent of the total workforce; its share in total employment has remained at about 94 percent between 1999 and 2013. The majority of the private sector workforce is employed in the informal economy, which in 1999 accounted for 80 percent of the total employment. By 2013, the share of informal employment had increased to 88 percent. The public sector employs just 6 percent of the workforce.

**Table 12: Distribution of Employment (in Percentage) by Institutional Sector (1999&2013)**

Institutional Sector	1999	2013
Public	6.2	5.9
Private formal	7.5	6.1
Informal	86.3	88.0
<b>Total</b>	<b>100</b>	<b>100</b>

*Source: Ghana Statistical Service (2000 & 2014): Ghana Living Standard Survey (GLSS 5, 1998/99; GLSS 6, 2012/13).*

### 3.3.2.5 Unemployment Rate<sup>35</sup>

It is also clear from the three data sets that open unemployment is low and falling in Ghana. It declined from 6.7 percent in 1999 to 4.1 percent in 2013 for the population that was 15 years and older. In 1999, the unemployment rate was 8.2 percent for the adult population between the ages 15 and 64. Unemployment is most prevalent in urban areas compared to rural areas. In 1999, the unemployment rate for the 15 to 64-year group in urban areas (13.4 percent) was more than double of that in rural areas (5.5 percent). The unemployment rate was much higher in Accra (16.6 percent) than in other urban localities (12 percent) of the country. In 2006, urban employment rate (8.5 percent) was twice of that of rural areas (4.3 percent) for the adult population. For the working age population (15-64), urban unemployment was estimated at 6.3 percent; it was a little higher in Accra (8.9 percent) compared to 1.6 percent in rural areas. The gap narrowed considerably in 2013 even though urban unemployment exceeded that of rural unemployment.

The relatively low unemployment rate is explained by how unemployment is defined and measured. According to the Ghana Statistical Service, the unemployed are persons who did not engage in any work, had no attachment to a job or business and were ‘potentially’ available for jobs (see main report GLSS 6, 2014). Given the absence of a formal social protection scheme that offer assistance to people who are not working it becomes too costly for people to stay openly unemployed. Also, the communal nature of the Ghanaian society means that there is always something for people to do regardless of how long they work and how much they earn. The reality is that most Ghanaians are working; open unemployment is too costly for the majority of them.

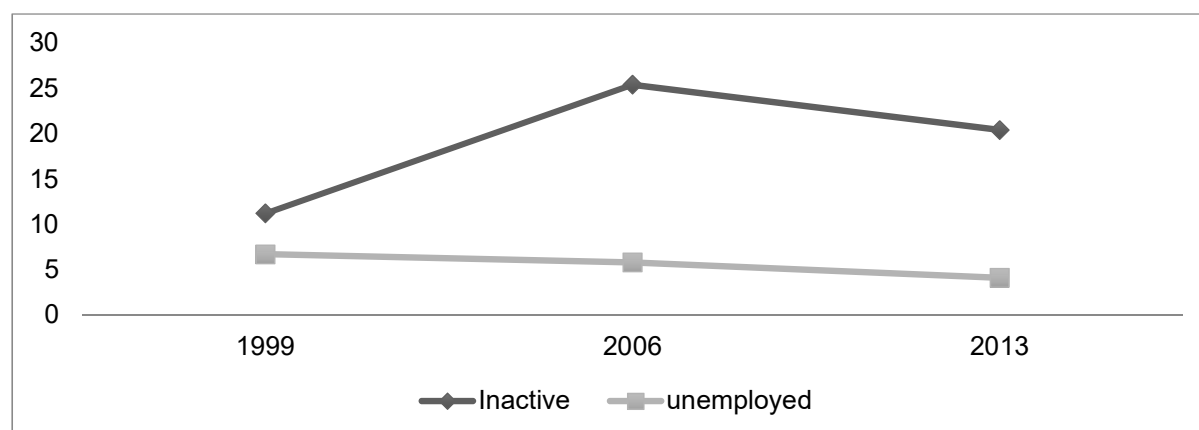
The available data reveals that unemployment is most prevalent among young people. In 2006, the overall estimate of unemployment was 3.6 percent for a population aged between 15 and 64 years. However, for young people between 15 and 24 years, the unemployment rate rises to 4.1 percent. It declines to 1.9 percent for the population aged between 45 and 64 years. In the Greater Accra Metropolitan Area (GAMA), youth unemployment rises to 10.4 percent even though the unemployment rate in urban areas is 6.5 percent. The unemployment rate for young males and females is the same overall even though males suffer

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<sup>35</sup> The unemployed are persons are who did not engage in any work, had no attachment to a job or business and were ‘potentially’ available for jobs (see main report GLSS 6, 2014).

higher unemployment (7.1 percent) in urban areas compared to females (5.9 percent).

**Figure 11: Unemployment Rate for Adult Population (1999-2013)**



Source: Author's Calculation based on GLSS 4, 5 and 6.

**Table 13: Unemployed Population by Age and Sex, 1960-2010**

Age Group	Sex	1960	1970	1984	2000	2010
15-24	<b>Total</b>	<b>63.8</b>	<b>71.1</b>	<b>74.5</b>	<b>36.1</b>	<b>45.6</b>
	Male	59.9	67.5	70.5	35.8	45.5
	Female	71.1	82.0	79.5	36.5	36.9
25-44	<b>Total</b>	<b>28.2</b>	<b>24.6</b>	<b>21.8</b>	<b>38.4</b>	<b>42.0</b>
	Male	32.5	28.2	25.9	37.0	41.8
	Female	19.5	15.6	16.7	39.7	42.2
45-64	<b>Total</b>	<b>6.4</b>	<b>3.2</b>	<b>2.6</b>	<b>15.6</b>	<b>9.0</b>
	Male	6.3	3.8	2.8	16.0	9.5
	Female	6.6	1.8	2.4	15.3	8.6
65+	<b>Total</b>	<b>1.6</b>	<b>0.6</b>	<b>1.1</b>	<b>9.8</b>	<b>3.4</b>
	Male	1.4	0.5	0.8	11.2	3.2
	Female	2.2	0.6	1.3	8.6	3.6

Source: 1960, 1970, 1984, 2000 and 2010 Population Censuses (see Ghana Statistical Service 2010; Population and Housing Census: National Analytical Report, 2013).

The phenomenon of higher than average unemployment rate among young people has persisted since the 1960s. The 1960 population census estimated that nearly two-thirds (64 percent) of the unemployed were between 15 and 24 (see Baah and Achakoma, 2007) years. For 1970 and 1984, youth share of the unemployed was 72 percent and 75 percent respectively. In 2000, more than one-third (36.1 percent) of the unemployed were between the ages 15 and 24 years, even though that age cohort constituted 19 percent of the total population.

The high level of unemployment among the youth reflects on the generally low level of employment creation in Ghana and youth-specific factors that limit their employability. First, labour demand has been too weak even as the economy continues to register positive economic growth rates. The employment content of economic growth in Ghana has been low precisely because growth in the dynamic and employment generating sectors particularly manufacturing has been slow and even negative. Growth has been led and made possible by the intensive exploitation of natural resources including cocoa, timber, solid mineral resources, and lately crude oil. On the supply side of the labour market, there are two issues: the quantity and quality of job seekers, particularly, young workers entering the labour market.

As we have seen, Ghana's population is doubling every 28 years. The growth of the population is remarkable by all accounts and is clearly above the capacity of the economy to absorb. Even more noteworthy is the size and rate of growth of the youth population. Available data indicates that the youth population growth rate is three times more than the growth rate of the general population.

The second issue on the supply side of the labour market relates to the quality of job seekers. The country continues to under-invest in education and preparation of youth for the future labour market. While investments in education particularly primary education have gone up increasing enrolment at all levels, education quality appears to have been compromised.<sup>36</sup> Infrastructure has failed to keep up with the rising numbers. Already, a large contingent of youth, have missed the opportunity for schooling and to develop their human capital. Too many young people have entered the labour market with neither skills nor qualification. Most did so too early in their lives having skipped the opportunity to develop their human capital. Too many young people enter the labour market after Junior and Senior High school. The majority of these JHS and SHS graduates lack the basic numeracy and literacy skills to secure employment (ISSER, 2010). National policies and programmes appear to have no place for such unfortunate ones.

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<sup>36</sup> See World Bank, 2011: Education in Ghana.



### 3.3.2.6 Underemployment

The low unemployment rate in the Ghanaian labour market is masked by, high levels of underemployment and informal work (see Section 3.2.3 and Chapter 4). The underemployed is defined to include all persons who work for 40 hours or less a week and indicated a desire to work for more hours if the opportunity is offered to do so. The underemployment rate gives an indication of the extent of under-utilisation of human capital. The available data showed that a significant proportion of the workforce is working less than 40 hours. The 1999 GLSS data showed that nearly two-thirds (65 percent) of those who worked, reported working 40 hours or less. Out of this, 26 percent reported that they would like to work for more hours. For persons with 15-64 year group, the underemployment rate was estimated at 15.7 percent.

The 2006 data showed that 40 percent of those who worked or reported working did work for 40 hours or less with 7.3 percent of them indicating a desire to do more hours if there was any opportunity. In 2013, one-third (32.4 percent) of the employed reported of having worked for 40 hours or less. However, only 2 percent of these indicated a desire to work more hours. This low rate of underemployment could be attributed to a growing perception that ‘good’ jobs are hard to come by and there is no point in searching for non-existent jobs.

When underemployment is defined only as time-related referring to individuals 15 years and older in employment and who worked less than a specified working time, the rate increases sharply. In 2013, one-third of the workers were underemployed.<sup>37</sup> There is high underemployment among the workforce in vulnerable employment (85.6 percent) comprising the self-employed (50.6 percent) and contributing family workers (35 percent). Female (36.6 percent) underemployment rate is higher compared to males (29.5 percent). Underemployment is most pronounced for young people (53.6 percent) between the ages 15 and 19.

Underemployment is most pronounced in rural areas compared to the urban areas. In 2006, rural underemployment was estimated at 8.8 percent compared to 5.1 percent for urban areas. In fact, in rural areas, half of those who worked did work for 40 hours or less. This compared to a quarter in urban areas. The high level of underemployment in rural areas is linked to the seasonality of the main form of employment – farming – in rural areas. Agriculture or farming in Ghana is rain-fed implying in the dry season that most farmers become

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<sup>37</sup> The working time used here is 35 hours or less.

temporarily redundant. In the 2006 data, almost two-thirds of the workers in agriculture were underemployed. In 2013, underemployment was 62 percent for persons employed in agriculture compared to 39 percent for non-agricultural workers.

### 3.3.2.7 Child Work/Labour

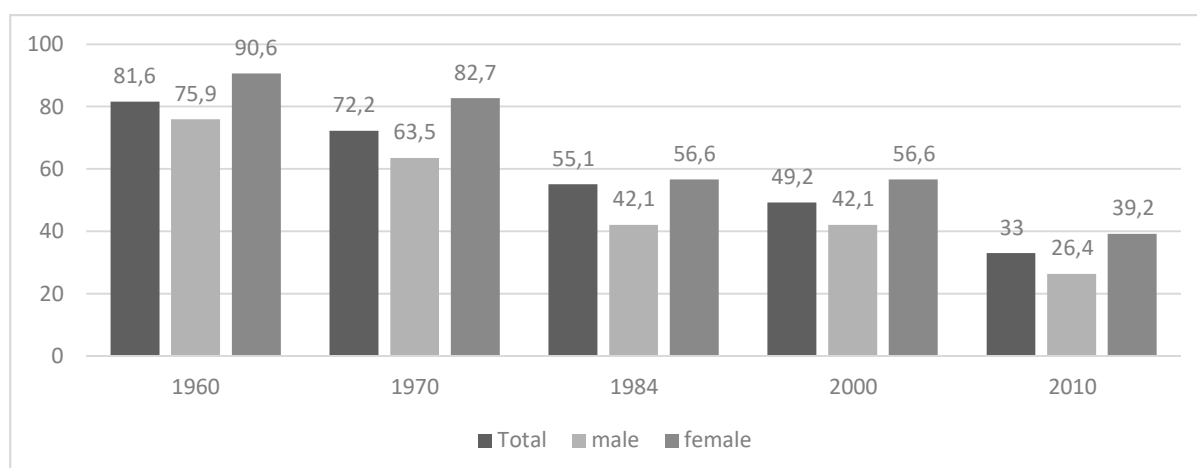
The Ghanaian labour market has a large number of working children. In the 1999 data, a little over one-quarter (25.5 percent) children between the ages of 7 and 14 were economically active. The proportion of economically active children dropped to 13 percent in mid-2000. In 2013, the Ghana Statistical Service (GSS, 2014) estimated that 24.7 percent children between the ages 5 and 14 were working of which 21.2 percent were classified as child labourers. For those in child labour, 11.8 percent were estimated to be in hazardous child labour.

Thus, a large segment of the child population in Ghana – about 1.4 million – children according to the GLSS6 data – are out of school. As indicated elsewhere, these children are missing the opportunities for education and development of their human capital. They would more than likely constitute the weakest segment of the future Ghanaian labour market. Having missed the opportunities for schooling these children will find it harder to take advantage of employment opportunities in the formal labour market should such opportunities become available. Child labour then becomes a potential driving force for the persistence of the informal economy in Ghana.

### 3.3.2.8 Educational Attainment of the Labour Force

The educational level of persons eligible to work, that is, the adult population has seen tremendous improvements over the last two decades, even though a significant proportion of the adult population is without any form of formal schooling. In 1999, about one-third of the adult population had never been to school. This proportion increased to 35 percent in 2005. In 2013, a quarter of the adult population had never been to school, and less than a one-fifth had attained secondary education or higher (GSS, 2000; 2008, and 2014). Data from the population and housing census analytical report shows that in 1960 more than 8 in 10 of the employed population had never been to school. The proportion of never-been-to-school has since dropped to a third of the employed population in 2010 (see Figure 3.12). The educational profile of males has always been better than females. In 2010, nearly four out of every ten of the employed females had no formal schooling compared to about a quarter of males.

**Figure 12: Employed Population with No Formal Schooling (1960-2010)**



*Source: 1960, 1970, 1984, 2000, and 2010 Population Censuses (see Ghana Statistical Service (2010 Population and Housing Census: National Analytical Report, 2013).*

Few of the employed have attained secondary education or higher. In 2010, employed persons with secondary education or higher were only about one-fifth of the employed population. Among females, just about a tenth had secondary education or higher (GSS, 2013). The large proportion of the workforce with no formal education partly explains why the majority of the workforce is found in low productivity sectors where earnings and the general quality of employment are also low.

### 3.3.2.9 Distribution of Employment by Industry or Economic Sector

The dominance of the agricultural sector in total employment has persisted throughout the post-independence period despite a reconfiguration of GDP in favour of services. The bulk of the workforce is employed in the agricultural sector. About 46 percent of the employed are working in agriculture, forestry and fishing sector (GSS, 2014). In both 1999 and 2006, more than half (55 percent) of the employed were in agriculture and related employment (GSS, 2000, 2008). The 1984 Population and Housing Census estimated agricultural employment at 61 percent of the Economic Active Population (EAP). This dropped to 50 percent in 2000 and then finally to 41 percent in 2010 (GSS, 2005, 2013). Thus, agriculture continues to shed numbers as both its growth and contribution to GDP declines. Agricultural employment is predominantly rural. In 2013, more than two-thirds (71.1 percent) of the rural workforce was employed in the agricultural sector down from three-quarters (75.3 percent) in 2006. Only about 17 percent of the population in urban areas was employed in the agricultural sector in 2013 (GSS, 2000, 2008, 2014).

After agriculture, the next largest employer is the wholesale and retail trade sector, employing about one-fifth (19.5 percent) of the total employed population in 2013 followed by manufacturing (9.1 percent). Thus, agriculture,

trade and manufacturing account for nearly three-quarters (73.3 percent) of the total employment in 2013 (see Table 3.14). Despite receiving the lion's share of total Foreign Direct Investment (FDI)<sup>38</sup> to Ghana over the last three decades, mining employment remains under 2 percent of the total employment. The finance and insurance sector employs less than 1 percent of the employed population despite the recent boom in the sector with the influx of many banks from Nigeria and elsewhere.

**Table 14: Distribution of Employment by Economic Sector (in percentage), 2013**

Economic Sector	Percent
<b>Agriculture</b>	<b>44.7</b>
<b>(Crops, Forestry and Fishing)</b>	
<b>Industry</b>	<b>14.4</b>
Mining and Quarrying	1.6
Electricity, Water & Gas	0.4
Manufacturing	9.1
Construction	3.3
<b>Services</b>	<b>40.9</b>
Wholesale and retail trade	19.5
Transport, Storage, info & comm.	4.2
Accommodation & food services	3.9
Finance, Insurance, Real Estate	0.8
Public Administration & Defence	0.8
Education and Health	4.6
Others	7.1
<b>All Sectors</b>	<b>100.0</b>
Total employment (Million)	12.04

*Source: Ghana Statistical Service: Ghana Living Standard Survey (GLSS VI, 2012/13).*

As shown in Table 3.14, for the broad sectors, agriculture (44.7 percent) remains the biggest employer followed by service (40.9 percent) and industry (14.4 percent). Thus, the composition of employment in the industrial sector is a reverse of GDP composition, indicating the perversity of the economic transformation experienced in Ghana since independence. While agriculture is

<sup>38</sup> The proportion of Ghana's FDI that went to the mining sector increased from 57.5 percent in the period 1994-2000 to 82.9 percent in 2003. Since then, proportion of FDI in mining in relation to the total FDI to Ghana has been more than two-thirds.

the largest employer in rural areas, in urban areas majority of the workforce is employed in the service sector.

### 3.3.2.10 Formal and Informal Employment

Regarding formal and informal employment, there has been a steady trend towards informality, especially after the 1980s. Table 15 shows that in 1970 the public sector employed 70 percent of the total formal sector workforce. Public sector employment increased to 86 percent in 1980 and remained above 80 percent throughout the 80s (see Table 15). The mass redundancies implemented in the late 1980s and early 1990s adversely affected the numbers in public sector employment and sharply reduced the shares of the public sector in total employment. By the end of the 1990s, the share of the public sector in total formal employment had reduced to about 50 percent. Its share in total employment had also dipped to about 6 percent. The formal private sector has also lost grounds in terms of its contributions to total employment.

**Table 15: Public and Private Formal Employment in Ghana (1980-91)**

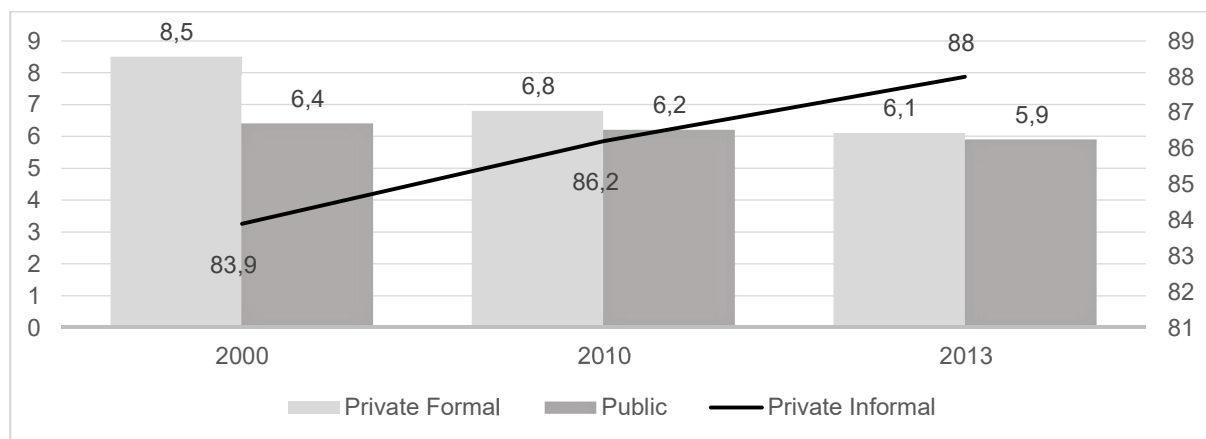
Year	Private	Public	Total	Share of Private Sector (%)	Share of Public Sector (%)
1980	46,000	291,000	337,000	13.6	86.4
1985	67,000	397,000	464,000	14.4	85.6
1986	66,000	347,000	414,000	15.9	84.1
1987	79,000	315,000	394,000	20.0	80.0
1988	55,000	252,000	307,000	17.9	82.1
1989	38,000	177,000	215,000	17.7	82.3
1990	40,000	189,000	229,000	17.5	82.5
1991	30,000	156,000	186,000	16.1	83.9

*Source: Ghana Statistical Service Quarterly Digest of Statistics, 1998.*

The Population and Housing Census data for 2000 and 2010 showed the declining shares of both public and private formal employment. Between 2000 and 2010, public sector employment was only 6 percent of the total employment. The private formal sector's share declined slightly from 8 percent to 7 percent (see Figure 3.13). The informal sector's share of total employment increased from 84 percent in 2000 to 86 percent in 2010. Informal employment is the most dominant form of employment in rural areas where 95 percent of the workforce is employed. In urban areas, informal employment makes up 80 percent of total employment. The level of informality is higher among females (92.2 percent) compared to males (83.5 percent).

The rise of informal employment in the last two decades has been the most enduring feature of economic adjustment. It has also been the most unexpected. Structural adjustment and its successor programmes had assumed that a retreat of the state was necessary for economic resurgence including the generation of formal employment by the private sector. While the adjustment measures did improve the performance of the Ghanaian economy as measured by the growth of Gross Domestic Product (GDP), the employment performance has, however, been most disappointing. The absolute numbers of people in employment in public and private formal sectors have increased. In proportionate terms, however, the formal sector has declined and continued to do so since the 1990s.

**Figure 13: Institutional Sector of Employment (2000-2010) (in Percentage)**



*Source: 2000 and 2010 Population Censuses (see Ghana Statistical Service) (2010 Population and Housing Census: National Analytical Report, 2005 & 2013).*

This can be attributed to three main factors. First, constraints on the private sector induced by the adjustment policies including the sweeping liberalisation of international trade, placing the nascent Ghanaian private sector in unfair competition with industries in advanced countries and also China. Compared to the Ghanaian private sector, industries from the advanced world and China have at their disposal excellent infrastructure. They are also beneficiaries of massive subsidies, which allow them to sell at below production costs. The second is the policy of freezing employment into the public sector that has been implemented since the 1990s. The third factor relates to the growth rate of the country's population. The national population growth has been too rapid compared to the capacity of the economy.

### 3.3.2.11 Wages and Incomes

Historically, incomes in Ghana are low in both absolute and relative terms. The national minimum wage, a benchmark wage has remained below US\$2.00 for the most part of the last three decades (see Table 16). In 2000, the monthly minimum wage was US\$17.00. It increased to US\$51.00 in 2009. In 2007, the minimum wage reached US\$2.00 a day (or US\$54.00 per month). The minimum wage for 2013 constitutes 55 percent of the average wage. Even so, a significant proportion of Ghanaian workers earns below the minimum wage. In 2006, the GLSS V data showed that 46 percent of food crop farmers and 17 percent of all informal economy workers earn below the minimum wage.<sup>39</sup>

**Table 16: Minimum Wage Trend in Ghana (2000-14)**

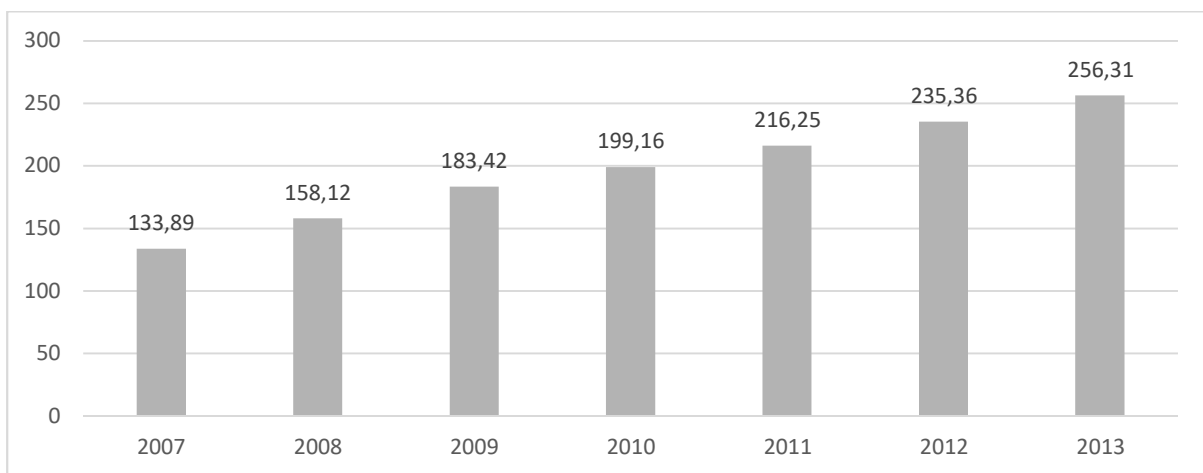
<b>Year</b>	<b>Monthly National Minimum Wage (GH¢)</b>	<b>Percentage increase in Monthly National Minimum Wage (%)</b>	<b>Nominal Exchange Rate (GH¢/\$)</b>	<b>Monthly National Minimum Wage in US\$</b>
2000	11.34	44.83	0.682	17
2001	14.85	30.95	0.7	21
2002	19.31	30	0.8	24
2003	24.84	28.67	0.85	29
2004	30.24	21.74	0.9	34
2005	36.45	20.54	0.91	40
2006	43.2	18.52	0.91	47
2007	51.3	18.75	0.99	53
2008	60.75	18.42	1.006	50
2009	71.55	17.78	1.4282	50
2010	83.97	17.36	1.4421	58
2011	100.71	19.93	1.49	67.59
2012	120.96	20.11	1.9	63.66
2013	141.48	16.96	2.2	64.31
2014	162	14.50	3.1	52.26
2015	189	16.67	3.8	49.74

*Source: Author's calculations; TUC (2014)*

<sup>39</sup> In 2006, almost one-fifth of the public sector workers earned below the national minimum wage.

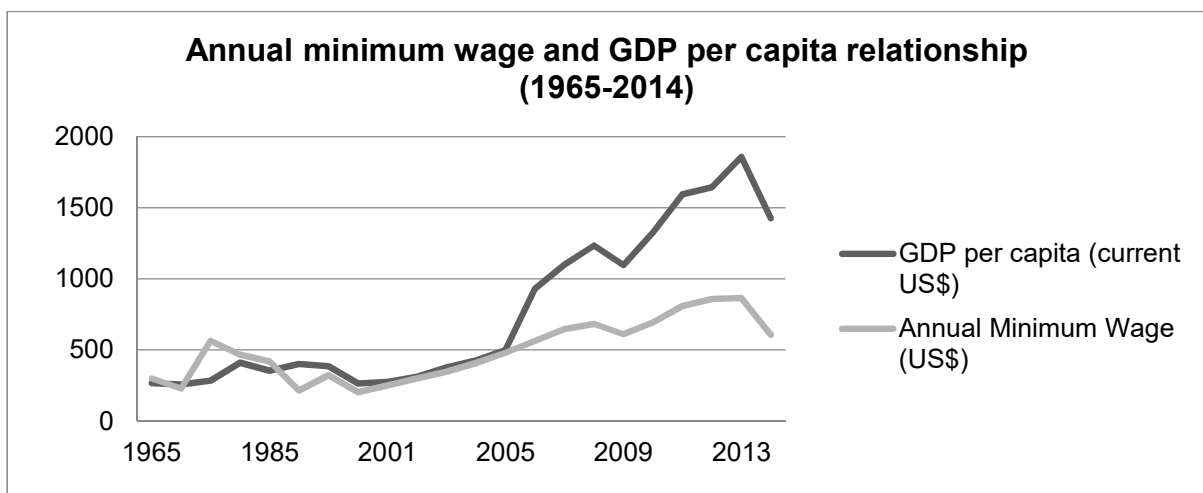
Based on an average monthly wage of GHC118.80 estimated in 2006 by the Ghana Living Standards Survey (GSS, 2008), Otoo (2013) estimated average wage of GHC256.31 for 2013 (see Figure 3.14). The cumulative increase in the average wage between 2006 and 2013 comes to about 113 percent. For the same period, the cumulative inflation rates stand at 173 percent. In real terms, therefore, wages in Ghana have exhibited considerable downward flexibility. Figure 15 compares per capita GDP and the national monthly minimum wage all expressed in US dollars. The figure showed that since the 1980s, the minimum wage has lagged behind capita income and that the gap between the two keeps widening especially after 2005.

**Figure 14: Average Monthly Wage (2007-2013)**



Source: Author's calculations from GLSS V data.

**Figure 15: Annual Minimum Wage and GDP Per Capita (1965-2014)**



Source: GSS (National Accounts), TUC (2014).

Figure 16 plots annual GDP per capita as a ratio of annual minimum wage covering the period between 1963 and 2013. The plot shows that the ratio of



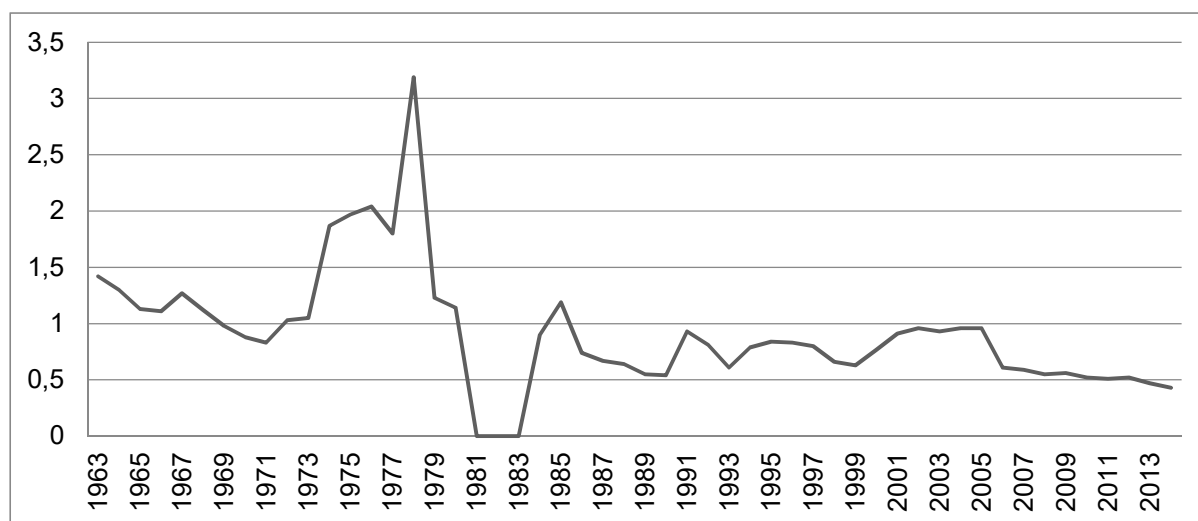
minimum wage to GDP decreased in the mid-1980s when structural adjustment was implemented. It remained stagnant for the most part of the 1990s and had since 2006 been on a downward trend.

Comparison of the national minimum wage and inflation, show that minimum wage growth exceeds the growth of prices (see Figure 17) indicating increases in real earnings. This has to be interpreted with caution, bearing in mind the following: first, the figures show the real minimum wage attained in the 1990s and 2000s are still below their levels in the 1970s. Baah (2005) points out that real earnings in 1992 were half their levels in 1977, falling further to 43 percent in 1999. Second, many authors and practitioners, who have paid close attention to the figures, have criticised the apparent gain in the real minimum wage. The accuracy of the Consumer Price Index (CPI) used to calculate inflation in Ghana has always been in doubt (Mazumdar & Mazaheri, 2002). Throughout the 1980s and most of the 1990s, the 'basket' that formed the basis for calculating the CPI and hence inflation, was determined in 1977. This 'basket' remained until 1997. Given the far-reaching changes introduced by structural adjustment in the 1980s and 90s including the sweeping liberalisation of imports, the CPI 'basket' may have changed significantly and no longer reflected the cost of living in the country.<sup>40</sup>

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<sup>40</sup> People familiar with inflation politics in Ghana are always cautious in using inflation figures and when they do they are extra cautious in interpreting their results. The two main political parties have openly traded accusations at each other for manipulating inflation figures to score political point. The party in government often seeks political capital for reducing inflation while the opposition berates the government for manipulating the inflation figures indicating that they do not reflect the cost of living in the country.

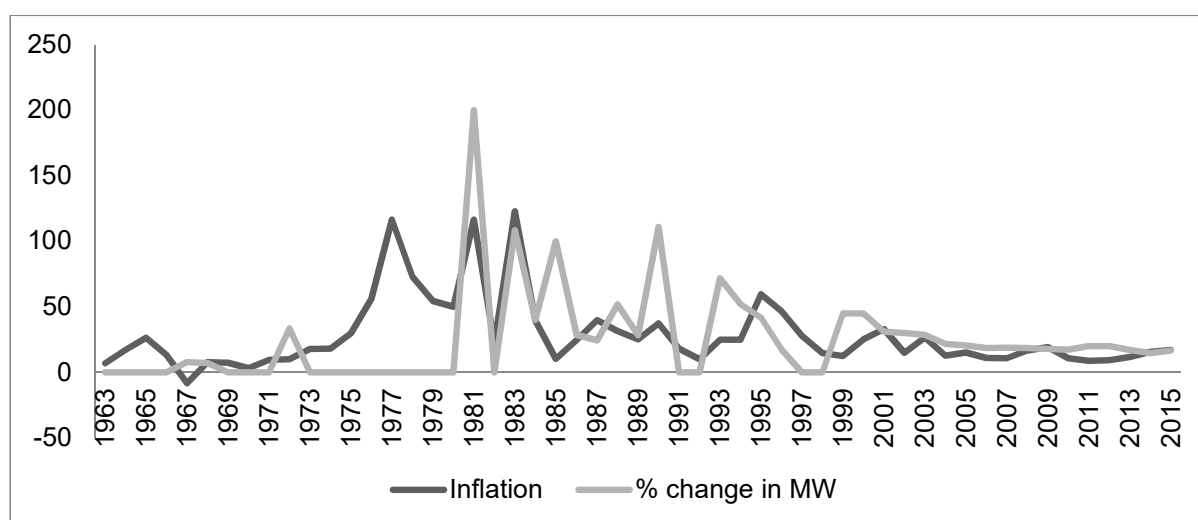
**Figure 16: Minimum Wage/GDP per Capita Ratio (1963-2013)**



Source: GSS (National Accounts), TUC (2014)

Third, a significant proportion of the workforce does not earn the minimum wage. The 1999 GLSS data showed that more than half of the Ghanaian workforce earned below the national minimum wage. A remarkable feature of structural adjustment and the subsequent programme of ‘getting the institutions right’ was actually to weaken national institutions that had something to do with enforcing regulations. The minimum wage legislation was last published in the National Gazette in 1991, significantly debasing its legality as a statutory instrument.

**Figure 17: Inflation and Minimum Wage Trends (1963-2015)**



Source: GSS (various years); TUC (2016).

Wages/earnings differ widely among various socio-economic groups. The GLSS6 estimated average monthly earnings of GHC393.12 or US\$178.69. For persons in paid employment, the average monthly earning was at GHC495.47 or US\$225.21. Persons employed in the electricity, gas, steam and air conditioning

subsector have the highest earnings (GHC1, 738.80 per month). Their earnings exceed average economy-wide earnings by over 400 percent. Activities of households as employers are the least paid subsector, with average monthly earnings of GHC151.20. This group is followed by, persons in agriculture and related activities whose average monthly earnings were estimated at GHC179.28. In 2006, earnings were highest in finance and insurance activities, followed by activities of extra-territorial organisations. In 2013, earnings in finance and insurance had dropped to the eighth position. Earnings in education and public administration increased substantially to occupy the second and third positions respectively. Both education and public administration benefited from the implementation of the Single Spine Pay Policy (SSPP) in 2010, which has raised the public sector pay substantially. In both years (2006 and 2013), the least paid sub-sectors were activities of private households and agriculture.

Males (GHC481.68) tend to have higher earnings compared to females (GHC313.20), with male earnings exceeding that of females by about 53.8 percent. In 2006, the average monthly earnings reported by males (GHC131.76) were 22 percent higher compared to average monthly earnings reported by females (GHC108.00). Thus, the gender-wage gap has widened over the period. Average monthly earnings in urban areas (GHC511.92) were about 81 percent higher than average earnings in rural areas (GHC282.96).

### **3.4 State Capacity in Ghana**

#### **3.4.1 Background**

In the last quarter century, Ghana has enjoyed relative political stability in a West Africa sub-region mired in one form of political conflict or the other. In 1992, the country embarked on political reforms, which culminated in the adoption of a multi-party constitutional rule. The reforms followed prolonged military dictatorship spanning over two decades. Since 1992, the country has held seven (7) presidential and parliamentary elections. In 2000, 2008 and 2016, the elections resulted in the peaceful transfer of political power from one elected government and party to another. The New Patriotic Party (NPP) wrestled power from the National Democratic Congress (NDC) in 2000. The NDC regained power in 2008 and remained in power until 2016 when the NPP regained control over the reins of government.

The relatively peaceful elections and transfer of political power through the ballot box has been celebrated widely both in Ghana and internationally for several reasons. First, relative to its history, the Fourth Republic, as the current political dispensation has come to be known, has been the most enduring constitutional period where constitutionally elected governments have successfully ended their term of office. The country now has two former presidents who stepped down after two terms in office in accordance with the provisions of the 1992 Constitution. Second, the regularity of elections every four years have come not only to underpin a belief that military rule is a thing of the past but equally importantly assured Ghanaians of a sacred privilege in the choice of leadership for their country. Finally, given the internecine and prolonged conflicts in West Africa and the role of elections in generating such conflicts, the relatively peaceful elections in Ghana became the exception that proved the rule. The international community became interested in the Ghanaian experience and the lessons it holds for the rest of the West African sub-region.

Indeed, when the current democratic dispensation is compared to Ghana's post-independent history and the experiences of other countries in Sub-Saharan Africa, the country scores higher than average marks. The four-year elections cycle has come to be respected. Presidents who have exhausted their constitutional mandate leave office without any serious attempt to manipulate the constitution to extend their stay in power. Moreover, despite the acrimony that has come to characterise elections, losing parties have often accepted defeats while the victors have demonstrated magnanimity. The political landscape also boasts of perhaps the freest media in Africa. Freedom of speech is firmly guaranteed and Ghanaians have exercised that freedom to the fullest. Also, the constitution opened up the political space for civil society activism. Many civil society initiatives have since emerged in several areas of national life including human rights, politics, education, health, governance and religion among others (Ayee, 1998). These features are often absent in the body politic of many African countries.

### *3.4.2 State Weakness*

#### *3.4.2.1 Partisanship and Constitutional Deficiencies*

These notwithstanding, politics in Ghana and the on-going constitutional experiments are beset with several problems, which have had an adverse impact on the performance of the Ghanaian state. First, a long tradition dating back to the immediate post-independent era, where governing party structures are chaotically fused into state institutions (Amamoo, 1981; Shillington, 1992) has persisted into the Fourth Republic. This is epitomised by the insistence of ruling party officials to sit in the cabinet when the Constitution clearly spells out the

membership of cabinet. This is also evident in the wide-ranging appointing powers of the president allowing him or her to fill state institutions including enterprises that are supposed to be commercially oriented with party men and women (Gyampo, 2015). This political fusion has enabled ruling parties to appropriate state resources for themselves and their loyalists and enfeebled the state (Gyimah-Boadi, 1997; Ayee, 1998).

Second, other aspects of the Constitution have circumscribed the oversight responsibility of the legislature (parliament) over the executive guaranteed under the same Constitution. By the dictates of the 1992 Constitution, all bills for purposes of law making ought to emanate from the executive. Individual members of Parliament could not, therefore, sponsor bills for law making. The Constitution also requires the president to nominate at least half of ministers from among members of parliament. All these imply in theory and practice the political dominance of the legislature by the executive, making it almost impossible for the former to hold the latter to account as demanded by the Constitution. The Parliament is no longer seen as a bulwark against the excesses of the Executive.

Third, the Fourth Republic has suffered from extreme partisan polarisation. Politics in Ghana is straightforward – black or white. It is, either you are with us or against us. There is no middle ground in contemporary Ghanaian politics. The two main parties, the NDC and NPP, and their followers have adopted entrenched positions on issues of national importance, substituting party/sectional interests for the national interests. Discussions of ‘national issues’ including debates in Parliament are conducted on strict party lines with political actors shifting positions depending on whether they are in government or opposition.

Partisanship has been made worse and also reinforced by the strictures of the 1992 Constitution, which overwhelmingly endows governing parties (in particular the president) with considerable powers as reflected in the appointing powers of the president. The president appoints all district/municipal/metropolitan chief executives (mayors), who according to the Constitution are supposed to be non-partisan but who are de facto heads of governing parties in their respective districts/municipalities/metropolis (Ayee, 1998). The president also appoints 30 percent of the members of all the assemblies in addition to a large number of national-level appointments. In what has become known as winner-takes-all politics, party people have become major beneficiaries of not only these appointments but also government contracts and procurements (Gyampo, 2015; Sandbrook and Oelbaum, 1997).

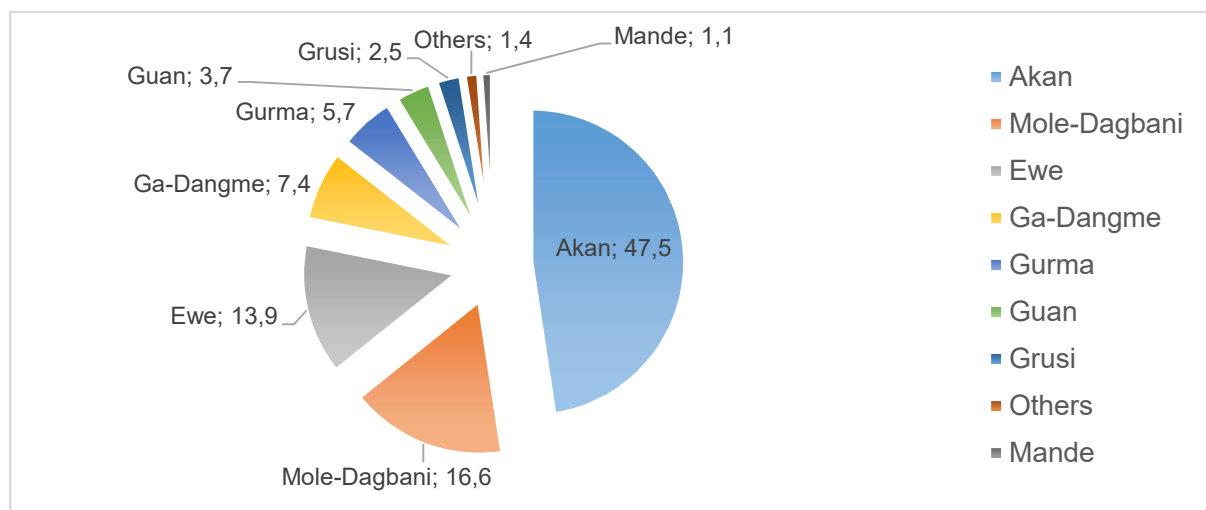
The unfortunate aspect is that partisan positions are not expressed on any clearly defined ideological lines. This allows the political elites to switch from one position to another in defence of their personal and group interests. In such

flippancy, the national interest is sacrificed for parochial political interest. They can rally the population around their narrow interests using the powerful tool of ethnicity, in whose fertile womb has laid, the seed for the long-term ethnic polarisation that has stained national life and enfeebled the Ghanaian state (see Shillington, 1992).

### 3.4.2.2 Ethnic Configuration of the Ghanaian State

The Ghanaian state is a multi-ethnic one, hosting several groups with distinct linguistic or cultural identities. There are at least ten (10) major ethnic groups with each sharing common beliefs, values, and norms that relate to a common cultural background (GSS, 2014). As a separate group, Akans (47.5 percent) constitutes the majority of the Ghanaian population followed by the Mole-Dagbani (16.6 percent) and Ewes (13.9 percent). Just as in other parts of Africa, the disparate ethnic groups were cobbled together to form present-day Ghana. Little attention was paid to the complicated systems of tribes and ethnic minorities. The borders were drawn in a manner that partitioned households into different countries completely disregarding cultural and historical affinities. While this manner of state formation served the imperial purpose of ‘divide and rule’ it also laid the foundation for inter-ethnic dissension (Lane and Ersson, 1994), which has affected the viability and performance of nearly all African states including Ghana.

**Figure 18: Major Ethnic Groups in Ghana (2010) (in Percentage)**



Source: GSS, 2012.

Several political scientists and sociologists have pointed to the difficulty of state building in societies buffeted by the occurrence of several ethnic or culturally distinct groups (Rokkan et al., 1970; Diamond, 1988a; Lane and Ersson, 1994). That state stability and performance are both adversely affected in situations of extensive and intensive ethnic dissent, open or tacit (Lane and Ersson, 1994). The difficulty lies in the fact that the disparate groups making up the state most

often share different histories and myths about themselves and each other (Smith, 1991) leading to common misconceptions and even hatred for each other.

### 3.4.3 *Enfeebling the State*

This section is devoted to the analyses of the declining capability of the Ghanaian state and highlights the leading factors that have accounted for this. The ethnic configuration of the state makes it difficult to establish a strong state *ab initio*. Leadership failures have compounded the difficulties imposed by having so many disparate ethnic groups. Further difficulties are to be found in the nature of the economic and social policies that have been pursued since the early 1980s under the aegis of the World Bank and the International Monetary Fund.

#### 3.4.3.1 Exploitation of Tribal Allegiances

The difficulty of building a robust state capable of meeting the needs and aspirations of citizens have been compounded by leadership failures, particularly at the political level. By 1951, political independence appeared on the horizon. The prospect of independence set the stage for domestic struggles over the control of the post-colonial state (Chazan and Pellow, 1986). The contestation opened up the cleavages mostly along ethnic lines that have stained Ghanaian politics and national life throughout the post-independent period with deleterious impacts on the Ghanaian state (Shillington, 1992). Leadership on all sides actively exploited the ethnic cleavages to the fullest in an audacious attempt to control post-colonial Ghana.

Ghana became self-governing in 1951. In that year Kwame Nkrumah's Convention People's Party (CPP) won a decisive victory in the elections for the Legislative Assembly. Full independence was achieved in 1957. Kwame Nkrumah and the CPP remained in power until 1966 (Frimpong-Ansah, 1991; Shillington, 1992; Killick, 2010). Nkrumah began his political career in the Gold Coast in 1947 as the General Secretary of the United Gold Coast Convention (UGCC). In 1949, he broke ranks with his UGCC colleagues on ideological grounds to form the CPP. The UGCC was a nationalist political movement of middle-class lawyers and merchants more conservative in their approach to politics, national liberation and development in general. Nkrumah was a revolutionary and also a continentalist with a grandiose agenda that went well beyond Ghana.

In his autobiography he wrote (Nkrumah, 1975: 240. Quoted in Frimpong-Ansah, 1991):

*I have never regarded the struggle for the independence of the Gold Coast (Ghana) as an isolated objective but always as a part of a general historical pattern...Our task is not done, and our safety is not assured until the last vestiges of colonialism have been swept from Africa.*

With a decisive break from the UGCC, Nkrumah mobilised the support of the grassroots and the downtrodden and with it he easily wrestled power from the nationalist. Nkrumah's victory alienated a large segment of the Ghanaian intelligentsia who became side-lined in favour of the 'varandah boys' of the CPP. The nationalists constituted themselves into the National Liberation Movement consisting mainly of British-educated intellectuals with the strong backing of the Ashanti chiefs. Ashanti nationalism quickly became the rallying point of opposition to Nkrumah and the CPP (Killick, 2010). While the NLM had legitimate and valid reasons for opposing Nkrumah and the CPP, they inexplicably, chose to resort to ethnic nationalism. Ninsin (2007) explained this in the larger context of the 'degrading power of tribalism'. Nkrumah and his CPP responded in equal measure, setting the commoners and in particular the minority ethnic groups against Akans in general and Ashantes in particular.

At independence, Nkrumah had sought to build a strong and united Ghana free from all parochial interests. Nkrumah was aware that the country he had led into independence was simply a collection of different tribes (Ninsin, 2008), each of which can be regarded in its own right as a separate nation. He was aware of the weaknesses of the state, the economy and the poverty that pervades national life. However, the independence struggle itself had the simple message that colonialism was the sole reason for all that is wrong with the lives of the people (Otoo, 2013) and that Ghana and Ghanaians would prosper once colonialism was uprooted (Ninsin, 2008). In 1949, Kwame Nkrumah captured the optimism of the political elites in the following words: We will transform the Gold Coast (Ghana) into a paradise in ten years.<sup>41</sup>

The independence Constitution had settled all disputes about the structure of Ghana and banished doubts about the unity of the country. Nkrumah's decisive electoral victories in 1951 and 1954 had not only silenced the tribalists, traditionalists, federalists and the secessionists but most importantly, these elements accepted the unitary nature of the Ghanaian state believing as they did that it was possible to exercise and secure political power within the framework provided by the Constitution.

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<sup>41</sup> See Killick, 2010.



However, events immediately after independence in 1957 and even before, when self-government was attained, cast considerable doubts about the unity of the nation arose. The opposition consisting mainly of the intelligentsia had lost power and influence. They began organising along tribal lines. They also resorted to violence. As indicated earlier Nkrumah and the CPP responded in equal measure. In 1957, government passed the Avoidance of Discrimination Act, which made it illegal to form political parties along ethnic, religious, and regional lines. However, this also led to the dissolution of the National Liberation Movement and the Northern People's Party (NPP). The two parties were forced to merge into the United Party (UP). A year later in 1958, the CPP government passed the Preventive Detention Act (PDA), which allowed the president to detain anybody indefinitely and without trial. The PDA became a potent instrument for annihilating opposition to Nkrumah and his government (Shillington, 1992).

In 1964, the country became a one-party state. Except for the CPP, all other political parties were proscribed. By this time, Nkrumah had taken over as the General Secretary of the CPP in addition to his earlier role as the life Chairman of the party. With the proclamation of the one-party state, ipso facto, Nkrumah also became a de facto (if not de jure) president of Ghana. State authority became centralised in the president and the CPP. Public service became highly politicised as the governing party took over administrative decision-making in several areas of national life (Chazan, 1988). Whatever little hope the opposition had to capture and exercise political power in the conventional sense was obliterated. According to Shillington (1992), this '...was possibly Nkrumah's greatest error of political judgement'. At this point, the only way to effect a change of government was the physical removal of Nkrumah.

Around this time, the Ghanaian economy had begun to falter. The social, economic and even political costs of the large-scale industrialisation programme that have been mounting since the mid-1950s had reached a proportion where they were beginning to undermine national development. The excessive concentration of political power in the president and the party (CPP) was generating the expected momentum towards both economic and political decay. Politically, the leadership became increasingly isolated from real happenings in the country. Close associates of the president including cabinet ministers refrained from expressing their views or letting the president know the reality (Frimpong-Ansah, 1991). In economic terms, the country had accumulated huge external debts having depleted the over 200 million pounds reserves left by the colonial administration (Killick, 1978; Shillington, 1992). Despite the massive investment in industry with gross capital formation reaching 23 percent in 1964-5, the economy failed to grow. The national account showed a decline in per capita GNP indicating that probably the economy had retrogressed (Killick, 2010).

The emphasis on industry and infrastructure and the mode of development financing proved economically deleterious and politically destabilising. The fiscal burden of development fell disproportionately on cocoa and cocoa farmers. The cocoa industry became heavily taxed so as to destroy incentives for further investment and expansion in the sector (Frimpong-Ansah, 1991). The Cocoa Duty and Developments (Amendment) Bill of 1954 reduced the producer price of cocoa from 637 cedis per tonne in 1954 to 268 cedis per tonne for the next five years.<sup>42</sup> This infuriated the cocoa farmers, particularly those in Ashanti, whose interests were linked to those of the traditional rulers – the cocoa farmers themselves. Thus, when the world market price of cocoa reached 450 pounds in the 1950s, the cocoa farmer only received 150 pounds. At its peak, 60 percent cocoa incomes were taken in taxes and ‘voluntary contributions’ (Beckman, 1976: 279-80). For middle-class intellectuals and nationalists who had fallen out with Nkrumah, the cocoa-pricing regime became a potent arsenal for mobilisation against Nkrumah and his modernisation drive. The struggle was wrapped in tribal tones. The powerful traditionalists in Ashanti but also in Ahafo interpreted the heavy taxation of cocoa as an onslaught on Ashantes.

They (Ashantes) publicly denounced the cocoa policies of the Nkrumah government. They also demanded a federal constitution as a solution to what they perceive as the growing dictatorship of the Nkrumah regime (Andoh, 1984 as cited in Frimpong-Ansah, 1991). The response of the government took on ethnic vendetta as well. The government sought the support of traditional rulers in Brong and Ahafo who disassociated themselves from statements regarding the cocoa levy emanating from the Ashantes and further declared their unflinching support for the prime minister and his government. For this show of support, the government created a separate region, Brong Ahafo, for the Brong Kyempim Federation (Dunn and Robertson, 1973). As noted by Frimpong-Ansah (1991), the victory over the Ashante farmers had the long-term effect of shattering incentives and confidence of farmers with devastating consequences for the future of the cocoa industry.

The handling of the cocoa sector was only a part of the neglect, which the agricultural sector as a whole suffered in the over-zealous attempt to industrialise the country as quickly as possible. Thus, by the early 1960s, Ghana

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<sup>42</sup> Nkrumah had taken the colonial position, first articulated by Seers and Ross (1952) that controlling the price of cocoa was necessary in order to rein in inflation (Nkrumah, 1957: 179).

for the first time became a net importer of food. Cocoa prices had begun to fall at the world market. Cocoa output fell from 572,000 tonne in 1964/5 to about 400,000 tonne a year later (Gyimah-Boadi and Jeffries, 2000). The balance of payment position had become precarious and debts, most of them short-term supply credits, were mounting. Foreign exchange shortages ensued leading to severe shortages of basic consumer goods (Hutchful, 1989; Killick, 2010; Gyimah-Boadi and Jeffries, 2000). The economic malaise and the political stalemate provided a convenient justification for the overthrow of the Nkrumah regime.

### 3.4.3.2 Economic Decline and Political Instability

In February 1966, the combined forces of the military and the police overthrew Nkrumah and his government. This set the stage for a series of military interventions in Ghanaian politics with devastating consequences for the economy and standard of living of Ghanaians. The soldiers and the police themselves constituted themselves into the National Liberation Council (NLC). The NLC was not just an alliance of soldiers and police; it was also one of Akans/Ashante and Ewes. However, by the time NLC handed over power to civilian administration in 1969, the unity that had goaded them to overthrow Nkrumah had not only disappeared but more importantly, the top brass of the Council was visibly divided along tribal lines. The Progress Party (PP), which took over from the NLC, inherited the tribal divisions and exploited it further to its ruin and that of the country. The PP, led by K.A. Busia, won the 1969 elections by appealing directly to Akan solidarity. The National Alliance of Liberals (NAL), the main opposition, won the overwhelming endorsement of the Volta region populated by Ewes.

These tribal divisions have permeated Ghanaian politics and society to the present day. Throughout the 1970s, the country became the theatre for military adventurism. The PP government was overthrown in January 1971. The military junta led by I.K. Acheampong proved catastrophic in economic, social and political terms. Corruption flourished as nearly every government initiative became tainted. The economy entered a prolonged period of decline; inflation and unemployment rose steadily. By 1977, inflation had inched up to triple digits. Economic and social infrastructure including that for health and education crumbled. With rising prices and falling incomes, accompanied by the scarcity of basic goods and services, and governed by corrupt and inept military men, Ghanaians, in general, were drawn into a system of corruption, profiteering, embezzlement and 'cheating'. That system became known as *Kalabule*. It was the only way, Ghanaians at the time thought they could survive, and so nearly everyone was involved. Price controls were erected in a futile attempt to control galloping inflation. However, the state and its apparatus

had become too weak to enforce them, and people openly disregarded the controls.

As the economic and social deterioration intensified, the country inched closer to political catastrophe. Before the end of the 1970s, two additional military coups were staged successfully. The Acheampong regime was overthrown in a bloodless palace coup in 1978. This was followed by a bloody insurrection of the junior military officers in 1979 culminating in the summary execution of eight senior military officers including retired officers and two former heads of state. The government of the Armed Forces Revolutionary Council (AFRC), led by Jerry John Rawlings, popularly known as JJ, which had carried out the executions, handed over power to a civilian administration in September 1979. On 31 December 1981, Rawlings came back to depose the civilian administration. Ghana was once again in the grip of military rule. The military established the Provisional National Defence Council (PNDC), which ruled Ghana until 7 January 1993.

#### 3.4.3.3 Structural Adjustment and State Capacity in Ghana

During the long reign of the PNDC, the economic situation improved at least by the standards of neo-classical economics. The country implemented a series of stabilisation programmes under the auspices of the IMF and the World Bank. As indicated earlier, the country implemented the Economic Recovery Programme (ERP) in 1983 and subsequently, the Structural Adjustment Programme (SAP) in 1986, all under the close guidance of and monitoring by the Bretton Woods Institutions. Economic growth returned after many years of negative growth. Inflation came down and foreign exchange shortages eased considerably. Foreign Direct Investment poured in particularly into the natural resource sector. The country received large amounts of foreign aid (Harrigan and Younger, 2000). The national currency achieved relative stability. The liberalisation of international trade meant an end to the acute shortages of basic consumer goods that have become characteristic of the economy since the 1970s. Rehabilitation of economic and social infrastructure got underway and new ones were built (Ayeetey and Harrigan, 2000). Moreover, a semblance of integrity had been restored to politics and society in general. However, these achievements came at considerable costs to state capacity.

First, as indicated in the preceding sections, the reformers behind structural adjustment viewed the state with incredible hostility. The state apparatus was indicted for all the economic and social ills of society. The public sector was deemed as overextended (World Bank, 1981) and bloated. With this ominous diagnosis, the stage was set for what Whitehead (1993: 1381) describes as 'veritable cannibalization of the state apparatus'. Measures, including large-scale privatisation of state-owned enterprises and heavy deployment of market forces, were instituted to trim down the state and its role in the economy. It was

believed that by taking such measures problems of rent seeking and patronage that have become endemic to Ghanaian politics, economy and society could be addressed. Given the bastardisation of the Ghanaian state arising out of the series of military takeovers and tribalisation of the public sphere just described, reform of the state and its institutions was necessary and desirable.

However, the orgy of reforms carried out under structural adjustment has led to a situation where the Ghanaian state has become thoroughly deformed (Otoo, 2011), unable to undertake the simplest task of governing. The architect of structural adjustment in many respects recognised the institutional debacle their policies have left behind (World Bank, 1989). Their response has been to superimpose so-called westernised best practice institutions on the country, institutions for which the implementers – the local elites – have no sense of ownership and are unable to understand their inner working mechanisms. Such institutions are culturally and historically disembedded from the Ghanaian society. They only serve the purpose of further complicating the institutional malaise that the country faces.

Second, while the adjustment measures improved the macroeconomic indicators and helped revive growth, the social circumstances of Ghanaians did not show major improvements. Measured unemployment remained low, but employment shifted rapidly into the informal sector as the state withdrew from direct economic activities. Good jobs became increasingly difficult to obtain. Earnings had also fallen in both nominal and real terms (Fine and Boateng, 2000). Poverty levels remained high. In 1991/92, more than half the population was classified as poor. The poverty rate has since fallen but the reality is that many Ghanaians find it difficult to procure the necessities of life for themselves and their families (Ninsin, 2007). Inequality of incomes and also of opportunities has widened. State provisioning even of education and health had deteriorated both in terms of availability and quality. Even in the economic realm, the Ghanaian economy is still considered fragile (Killick, 2000, 2010). Recent experience in deceleration of economic growth, rising national debt, rising interest rates and inflation, and jobless growth are but few indicators of an underdeveloped economy characterised by increased fragility.

#### *3.4.4 Opting Out of the State*

Given these conditions, many Ghanaians bearing the brunt of economic hardships and social deprivation have lost faith in the state; many have lost hope in the Ghanaian collective. The responses have been many and varied. Indeed, since the 1970s when both the Ghanaian polity and economy became mired in one form of crisis or another, many citizens withdrew from formal state authority and devised for themselves an array of informal survivalist strategies (Chazan, 1983). This partly explains the growing levels of informality not just

in employment but also in all other aspects of society including housing and human settlements. In this sense, informality became a response to specific economic challenges. To address the specific challenge of state failure in which the state ceases to be an effective structure for decision-making and allocation of resources, and also an arbiter millions of citizens sought alternative structure, and the structure they found was their tribe. In other words, Ghanaians retreated into the comfort zones of their tribes believing as they do that the tribe could at least offer them social security through solidarity networks. Hence, the proliferation of tribal/ethnic-based associations into universities and the Ghanaian diaspora reflect on the backward leap of the Ghanaian into tribal enclaves (Ninsin 2007).

The present Constitution, adopted in 1992, prohibits the formation of political parties on tribal or other sectional lines. The grim reality, however, is that the two main political parties – NPP and NDC – while laying claim to mass and national appeal are tribal in content. They derive much of their political support through their association with specific tribal groups – the Ewe and Ashante/Akan (Ninsin, 2007).

The resort to tribal politics is rational and calculated. In conditions of economic scarcity, the elites mobilise their tribesmen for the electoral victory that allow them to control the state and its resources. These resources are then appropriated for the enrichment of the elites leaving the crumbs for their tribal kith and kin. The main instruments for tribal mobilisation are the recreation of historical misconceptions about themselves and the other tribes generating real and imagined threat to their survival as a people if they do not unite and capture the state. The masses respond to these artificial imageries by voting for their tribesmen and women. Tribal politics thrives primarily because the state is weak even as it weakens it further. It thrives because economic and social policies have failed to generate sufficient wealth for equitable distribution. Above all, tribal politics thrives because in the words of Lee Kuan Yew ‘...tribal loyalties [in Africa] were stronger than [their] sense of common nationhood’ (Yew, 2000).<sup>43</sup>

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<sup>43</sup> In this context, Lee Kuan Yew specifically mentioned Ghana and Nigeria.

## **Chapter 4**

### **Informality and Regulations in Ghana's Economy and Labour Market**

#### ***4.0 Introduction***

This chapter describes the nature of informality in the Ghanaian economy and labour market, addressing issues of definition in the informality discourse. It then looks at business regulations in Ghana with a particular focus on labour market regulations and how those regulations affect the level and nature of informality. In the light of the existing regulations, the chapter estimates the size of informality both of employment and enterprises. The chapter also highlights various categories of informality and analyses the interface between the various categories and existing regulations. The chapter is further devoted to the analysis of earnings and poverty in the informal economy and concludes with an attempt to answer the question whether informality in the Ghanaian labour market is a rational choice made by entrepreneurs and workers.

The analysis in this chapter shows that the Ghanaian labour market has been subject to several regulations pre-dating the formal establishment of the Ghanaian state. Before independence, industrial relations were based on racial prejudice and compulsory labour. The chapter highlights the view that the distinction between formality and informality is best drawn using whatever legal criterion that law prescribes. It provides a justification for the adoption of the social security definition. On the basis of this definition, the chapter estimates the size of informal employment – 71 percent for 2013 compared to 88 percent, as estimated by the Ghana Statistical Service. It is shown that self-employment is the dominant form of informal employment in Ghana. There is also a large swathe of informal employment among wage employees, including the public sector. Regarding enterprises, the chapter defines informal enterprises as those that are not registered with any state agency. The chapter estimates the size of informal enterprise at 87 percent.

The chapter also makes a distinction between workers who are informal by virtue of failure to comply with social security law and those who are excluded from the law. The excluded include the self-employed and contributing family workers who are not legally required to contribute to social security. It concludes that workers may not willfully choose informal employment given that the level of poverty among workers is higher than the average poverty rate.

#### ***4.1 Definitional Issues***

As the preceding chapters indicate, informality or informal sector appeared in the academic literature early in the 1970s. Since then the intellectual discourse

has been large and diverse (Kanbur, 2009). At the same time, the informality discourse lacks a single most precise definition with which one can measure and compare the size and nature of informality across countries or even within the same country over time. Many researchers and policymakers have used different definitions and concepts to characterise the informal economy.

Some definitions have restricted informality to the urban non-agricultural economic activities and the employment they generate (Gockel, 2001). While admitting that informality exists in agriculture, Canagarajah and Sethuraman (2001) argue that agriculture should not be part of the informal economy, thereby insisting that agriculture requires a different analytical treatment. Others have included rural agriculture in the definition of informality (King, 1990; Ninsin, 1991; Adu-Amankwah, 1999).

Enterprise size defined as the number of workers employed has also been used to delineate the informal sector (Urrego, 1999; Boateng, 2001; Galli and Kucera, 2003).<sup>44</sup> Here the definition has varied considerably. Urrego (1999), for example, classified enterprises employing up to 10 workers as part of the informal sector in Columbia. However, writing on Kenya, Chune and Egulu (1999) defined informal economy to include enterprises employing between one and fifty workers. In Ghana, Boateng (2001) puts the number of workers employed by informal economy enterprises at five.

Conformity to international labour standards has also been used to characterise the informal economy. Enterprises whose activities do not conform to international standards of employment are classified as informal (Ratman, 1999), so too are the workers they employ. Conformity with standards also includes national laws mostly tax laws. On this basis, Schneider and Enste defined informality to encompass ‘all economic activities that would generally be taxable were they reported to the tax authorities’ (2000: 78-9).

These varied definitions reflect the heterogeneity of the informal economy, an issue most researchers and analysts recognised (Adu-Amankwah, 1999). They also point to the fact that perhaps, no single definition or conception is needed given that informality encompasses too many issues, notions and ideas to be accurately summarised in a single definition. Ratman (1999) recommends that informality be defined ‘around the objective of the search for definition’. The literature as a whole is replete with two broad definitions, which coalesced around productivity and legality (Khamis, 2009). The productivity definition is

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<sup>44</sup> See also Ingram, Ramachandran and Desai (2007).



based on the characteristics of a particular job and the enterprise offering the job.

By this definition, informal workers comprise the non-professionals, the unskilled, those in marginal jobs, and the self-employed. Informal enterprises are defined to include enterprises of a certain size usually defined as the size of the workforce. In most cases, enterprises employing five or fewer workers are designated as informal (Husmanns, 2004; Boateng, 2001). The workers in such enterprises are also described as informal workers. The Ghana Statistical Service (GSS) adopts this criterion in defining the informal economy. The GSS (2014) defines the formal sector to include, the public sector, and those in the 'private formal sector', which comprises economic activities and employment in medium and large-scale enterprises. To this economic activities and employment in local and international non-governmental organisations (NGOs), cooperatives and diplomatic missions is added.

The definitions relying on these characterisations provide analytical convenience. Conceptually, however, they are problematic. Such definitions assume, for instance, that small enterprises are less productive, hence, employment offered by such enterprises are generally less desirable. Some small enterprises can be more productive, offering stable and decent employment compared to bigger ones. The size definition implies falsely that every enterprise needs to be big in order to be productive, hence formal.

The legal definition is based on the extent to which economic activities including employment conforms to national laws and regulations to distinguish between informality and formality. Therefore, economic activities that are not conducted on the basis of national laws including labour laws and tax codes are designated as informal economic activities (Saavedra and Chong, 1999). In this thesis, this definition is adopted. Since the focus is on the labour market, I restrict myself to economic activities and employment in relation to labour regulations. As has been alluded to throughout this thesis, the choice of this definition is motivated primarily by a desire to test empirically the neoclassical proposition that informality of the labour market results from excessive labour regulations that incentivise enterprises and workers to operate informally.

Additionally, while not fully sharing the view that informality is caused by regulations, the approach in this thesis is sympathetic to the idea that the distinction between formality and informality is best drawn using whatever legal criterion national laws prescribe. The approach follows Hart who argued: 'Following Weber, I argued that the ability to stabilise economic activity within a bureaucratic form made returns more calculable and regular for the workers as well as their bosses. That stability was in turn guaranteed by the state's laws, which only extended so far into the depths of Ghana's economy' (Hart, 2006).

‘Formal’ incomes came from regulated economic activities and ‘informal’ incomes, both legal and illegal, lay beyond the scope of regulation.

For analytical convenience and also following the ILO, two levels of informality are addressed in this thesis: informal worker and informal enterprises. ‘Informal worker’ is defined in two ways: first, all workers who according to the data indicated that they were working in the ‘informal sector’, and second, all workers who are not registered for social security. The National Pensions Act (Act 766, 2008) requires employers to register their employees with the national social security scheme and make monthly contributions on their behalf.

The third tier targets the self-employed and workers in the informal economy. However, it is essentially a voluntary scheme (see section on regulations for details). Informal enterprises are defined as all enterprises that are not registered with the appropriate national authorities as required by law. The datasets have three agencies with which enterprises can register. These are the Registrar General’s Office, Offices of the District/Municipal/Metropolitan Assemblies and the Cooperative Council.

## ***4.2 Industrial Relations and Labour Regulations in Ghana***

### ***4.2.1 Brief History of Industrial Relations***

Ghana has a long history of industrial relations and in particular labour regulations, which pre-dates the formal establishment of the colonial government in 1874. For one thing, industrial relations in the Gold Coast (now Ghana) was one in which racial prejudice determined the mode of recruitment, and use and disposal of labour (Damachi et. al., 1979). During this period, industrial relations were geared towards bringing down the costs of administering the colony while retaining maximum benefits for Britain – the colonial master. Access to labour at lowest cost was of prime importance to the colonial state. Given the harsh conditions under which Africans were made to work, the majority showed no interest in working for the colonial government. Thus, the colonial administration resorted to the use of forced labour.

Series of labour legislations were either proposed or enacted to facilitate the recruitment of labour. Among these are the Master and Servants Act (1867), the Labour Ordinance (1875), Public Labour Ordinance (1881), Master and Servant and Foreign Employment Ordinance, number 18 of 1893, and the Roads Ordinance of 1894. The most comprehensive of the labour ordinances was the Compulsory Labour Ordinance (CLO) of 1895. This ordinance required chiefs to provide labour at the request of the colonial authorities. The rationale for the CLO and the others before it has been the subject of different interpretations. However, the urgency for cheap labour and the inevitability of invading the

Ashanti kingdom had run through most explanations (Akurang-Parry 2000-2001).

Incorporated in the ordinance were harsh penal sanctions for both the chiefs who failed to provide the needed labour and for workers who refused to work. Infringement of the ordinance was punishable – either one had to pay 10 pounds or suffer three months' imprisonment.<sup>45</sup> These pieces of labour legislations and labour practices were based on the colonial policy and mentality in which Africans were viewed as being lazy who only worked through coercion. The colonial government was in need of labour for the colonial project of appropriation in the mines, road and railway construction, plantation agriculture and head-porterage. In reality, however, the colonial government did not have the resources to pay for the labour it sought (Orde Browne, 1967). Hence, they resorted to the use of forced labour. Besides the compulsion of labour recruitment process, working conditions were marked by low and irregular pay, appalling working environments including poor health and safety standards. Low wages was justified because increased wages would depress labour supply since Africans were viewed as target workers; they would quit employment once they had accumulated enough money.

Compulsory labour was not limited to the public sector. Colonial authorities felt obliged to respond to the labour needs of European merchants and enterprises in the private sector. The opening of the mines in the mid-1890s marked a turning point in the industrial relations landscape of the Gold Coast (Ghana). It marked the emergence of formal wage employment in the private sector. The mines were in great need of workers, particularly for the undergrounds. However, most Africans dread the poor working conditions in particular abysmal health and safety standards in the underground mines. Therefore, it was only through the Compulsory Labour Ordinance that the colonial authorities dragged Africans into the mines.

Employment in the mines increased steadily from about 2,400 in 1894 to more than 30,000 in the 1930s. This shift in the structure of the labour market from purely agrarian employment to wage employment in the mines was involuntary. It was the manifestation of the extent of forced labour implemented in the Gold Coast. In both public and private sectors, workers who quit their jobs protesting

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<sup>45</sup> Based on information obtained from the Gold Coast Government Gazette No. 1 (1998), and quoted in Akurang-Parry (2000-2001), the Gold Coast Aborigines lamented as follows: 'King of Cape Coast was fined £100, was detained in gaol as a criminal prisoner for many hours, and was only released on the fine being paid'.

against the poor working conditions were prosecuted. In the absence of established disciplinary procedures at the workplaces, any form of punishment could be meted out to workers. For instance, workers could be fined a day's wage for minor breaches of very strict and unreasonable disciplinary standards. Worker participation in decisions that affected them was deemed too revolutionary to be countenanced.

As expected, Africans protested and waged long struggles against these inhumane treatments at the hands of the colonialists. In 1898, the new governor to the Gold Coast, Frederick Hodgson abrogated the Compulsory Labour Ordinance.<sup>46</sup> However, the annulment did not end forced labour in the Gold Coast neither did it improve the working conditions of African labourers. It only provided the colonial authorities with an alibi for continuing with forced labour while publicly denouncing it. Akurang-Parry (2000) argues that in response to pressure from the Aborigines Protection Society (APS), the Anti-Slavery Society, the League of Nations and the International Labour Organisation (ILO), the colonial state resorted to different labour policies and strategies that preserved and rationalised the use of forced labour.

With the conquest of the Ashanti Empire in 1900-01, forced labour was extended into the hinterlands. The now conquered Ashanti Empire and its vassal states were forced to provide labour for public works principally road and railway construction. With the outbreak of World War I in 1914, the labour programme was intensified in response to the urgent need for men, as part of the imperial war campaign. At this point, forced labour was disguised as the 'Chiefs' Bye-Laws'. The chiefs were directed to enact these bye-laws, which committed them to provide labour for the maintenance of roads.<sup>47</sup> Thus, laws mandating force took on a semblance of emanating from the palace in contrast to earlier laws where the colonial authorities enacted the laws and only required the chiefs to act as recruitment agents.

At this time, workers had begun to organise themselves into trade associations to promote their common interest (Adu-Amankwah, 1999). Worker protests against poor working conditions became rampant but highly spontaneous and

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<sup>46</sup> The governor realised that the Gold Coast had sufficient labour and that natives would be prepared to work if they were paid well and treated decently. On this basis, the governor set a general framework for the remuneration of hired labour. The framework also abolished what it called 'unnecessary harshness' including flogging.

<sup>47</sup> The bye-laws imposed a fine 'not exceeding 5 shillings on individuals who refused to work and those who disobeyed "lawful orders"'.

uncoordinated. Towards the end of the second decade of the twentieth century, the colony witnessed sporadic industrial actions by the mineworkers, the rail workers and those involved in public work (Britwum, 2007).

In 1919, the mineworkers staged what has been documented as the first strike action in the Gold Coast (Britwum, 2007). In December 1921, railway workers and those of the PWD declared a strike in protest at the attempt to reduce their wages. In 1925, the fishermen briefly laid down their tools to back their demand for an increase in their wages from 9 pence to 1 shilling and 6 pence. Besides these specific and isolated incidences of worker agitations, the general worker discontent was palpable and was already crystallising into specific industrial demands. For instance, as revealed by Britwum (2007), workers were already demanding pension rights, provision of protective clothing, and a halt to undue delays in the payment of their wages.

The response to these demands and associated industrial actions by the colonial government was the promulgation of the 'Regulation of Employment' Ordinance which sought principally to take away workers right to strike. The Ordinance made strikes highly punishable offence. Therefore, in 1921 the striking artisans and labourers were heavily fined. Nevertheless, the workers were relentless. Agitations continued and even intensified in the 1930s. The colonial authorities and the private employers instituted several measures to curb worker agitations. These, however, only served to induce further discontent and strengthened militancy not just against poor working conditions but also against colonial rule in general.

In 1931, the British Parliament issued 'Orders in Council' to the governors of the colonies with specific instructions for them to encourage the formation of trade unions and deal with the general discontent with wages. Arthiabah and Mbia (1995) argue that the British government had intended to shift workers' attention towards issues of industrial relations, principally wages, and away from political demands. In 1938, the Labour Department was established. Then in 1941, following a strike action by the rail workers over poor working conditions, the Trade Union Ordinance (Chapter 91) was enacted. This Ordinance recognised for the first time, the right of workers to form unions. The workers responded by forming several but weak and ineffective trade unions (Arthiabah and Mbia, 1995).

#### 4.2.2 Labour Regulations

Thus, by 1941, the first labour regulation in the Gold Coast – freedom to join or form a trade union – had been established.<sup>48</sup> The right to strike was also recognised de jure. Workers' right to pensions was also acknowledged in 1946 when the Pensions Ordinance was enacted. This ordinance established a non-contributory pension scheme, which provided cash payment and other benefits to spouses and children of Senior African Civil Servants. The Teachers' Pension Ordinance of 1955 also enabled certified teachers to benefit from the provisions of the 1946 Pension Ordinance while a superannuation scheme was established for university teachers at the University of the Gold Coast, now University of Ghana.

In 1957, Ghana joined the International Labour Organisation (ILO). The country immediately ratified all the 10 ILO Conventions<sup>49</sup> that were being applied by the colonial government. In 1958, the ratified conventions were transposed into national laws with the passage of the Industrial Relations Act of 1958. The Act established the Trades Union Congress (TUC) as the sole trade union centre. It made provisions for collective bargaining, conciliation, and arbitration. For the first time, the Act established a National Tripartite Committee as an advisory body to the Minister for Labour on matters affecting labour and labour relations. A major deficiency of the 1958 Act was that it limited collective bargaining to the private sector, denying public sector workers the right to bargain collectively. This meant that of the 24 unions that made up the TUC at the time, 11 with a total membership of 138,700 representing 44 percent of unionised workers were excluded from collective bargaining (Damachi, 1974).

The Industrial Relations Act of 1965 (Act 299) replaced the 1958 Industrial Relations Act. The 1965 Act extended collective bargaining to some workers in the public sector. Teachers and Civil Servants, however, remained excluded

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<sup>48</sup> In spite of the legalisation of trade unions, employers refused to recognise them. As explained by Adu-Amankwah, the mining companies refused to recognise the Mine Employees Union when it was formed in 1944.

<sup>49</sup> The conventions ratified in 1957 include: 1. C15 on Minimum Age (Trimmers and Stokers), 1921; 2. C16 on Medical Examination of Young Persons (Sea), 1921; 3. C19 on Equality of Treatment (Accident Compensation), 1925; 4. C.29 on Forced Labour, 1926; 5. C.45 on Underground Work; 6. C.50 on Recruitment of Indigenous Workers, 1936; 7. C.58 on Minimum Age (Sea, revised), 1936; 8. C59 on Minimum Age (Industry, revised), 1937; 9. C.64 on Contract of Employment (Indigenous Workers), 1939; and 10. C.65 on Penal Sanctions (Indigenous Workers), 1939.

from collective bargaining. The Act made provisions for collective bargaining, dispute settlement, strikes and lockouts, tripartite consultations and check-off of trade union dues among others. Regulations were also made on hours of work, overtime work, promotion, wages, leave and rest periods, holidays and dismissal procedures among other regulations. In 1987, a Workmen's Compensation Act (PNDCL 187) was passed making occupational injuries employer liability. Act 299<sup>50</sup> of 1965, the Workmen's Compensation Law and the ratified ILO Conventions provided the legal basis and regulation of industrial relations in Ghana until 2003 when a new law, Act 651 was promulgated.

The Labour Act (Act 651) of 2003 consolidated all existing pieces of labour legislations and in the process repealed these legislations except for the Workmen's Compensation Law. Act 651 then sets a comprehensive regime of regulations on employment. Below is a review of some of these regulations.

#### *4.2.3 Right to Organise and Collective Bargaining*

The right to organise is fundamental to trade unionism. It is right to freedom of association including the right to join or form a trade union. Ghana ratified ILO Convention 87 (1948), regarding Freedom of Association and Protection of the Right to Organise on 4 April 1961. Also, the 1992 National Constitution granted workers the right to join and form trade unions. The Constitution provided under Article 21(e) and 24(3) for freedom of association and protection of social and economic interests of all citizens.

Article 21(e) guaranteed 'freedom of association, which shall include freedom to form or join trade unions or other associations, national and international, for the protection of their interest' (Constitution of Ghana, 1992).

Article 24(3) provided that 'Every worker has a right to form or join a trade union of his choice for the promotion and protection of his economic and social interests'<sup>51</sup> (Constitution of Ghana, 1992).

Article 79, clause (1) of the Labour Act (Act 651) adopted in 2003 grant every worker the right to form or join a trade union to promote and protect the worker's economic and social interests. However, clause (2) of the same article precludes certain class of workers from forming or joining trade unions (Act

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<sup>50</sup> The 1965 Industrial Relations Act (ACT 299) was amended in 1967 and 1972.

<sup>51</sup> It is important to state that these provisions are classified as entrenched provisions under Chapter 5 of the Constitution.

651, 2003). In addition, the Security Services Act forbids military and paramilitary personnel from forming or joining trade unions.

The right to organise is a means to an end, the end being the ability to undertake collective bargaining. In Ghana, as in most other jurisdictions, the right to organise and the right to negotiate collectively are two distinct rights.<sup>52</sup> Ghana ratified ILO Convention 98 on the right of workers to undertake collective bargaining in 1959. In addition, the Labour Law (Act 651) makes elaborate provisions on the right of all workers and their unions to negotiate collective bargaining agreements and to have recourse to conciliation and arbitration. Collective bargaining rights have now been granted to teachers and civil servants as well.

#### *4.2.4 Minimum Wage*

Ghana ratified ILO Convention 26 (Minimum Wage-Fixing Machinery) in 1959.<sup>53</sup> The Labour Law of 2003 (Act 651) institutionalised the mechanism for determining the minimum wage by establishing the National Tripartite Committee (NTC) whose functions include the determination of the minimum wage. The Tripartite Committee comprises Minister for Labour (as Chairperson) and five representatives each from the government, employers' organisations and organised labour. The minimum wage provides a wage floor, below which it is illegal to pay a worker. It is determined annually.

#### *4.2.5 Mandated Benefits*

The labour law mandates employers to provide their employees several benefits. These benefits include social security, maternity (with full pay for female employees), paid annual leave and paid sick leave. Employers are also mandated to pay their employees during public holidays and to provide a lump sum payment when the employer terminates the employment contract.

#### *Social Security*

Ghana has not ratified ILO Convention 102, concerning Minimum Standards of Social Security. Nevertheless, Ghana's laws make adequate provisions for social security. As a statutory requirement, (see Pensions Act, Act 766 of 2008),

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<sup>52</sup> Therefore, until 2003, with the coming of Act 651, teachers and civil servants had the right to organise into associations but were excluded from collective bargaining.

<sup>53</sup> A minimum wage had been determined in the Gold Coast (Ghana) since 1939. This was unilaterally determined by the colonial authorities.



employers are to register their employees for the purpose of making social security contributions on their behalf. The employer is required to pay 13 percent of each employee's monthly basic pay (as employer contribution) into the social security fund. The employer is also required to deduct 5.5 percent of the employee's basic pay and pay it into the same fund every month.

### *Paid Leave*

Paid leave can take four basic forms namely, paid annual leave, paid vacation/holiday, paid sick leave and paid maternity leave. The Labour Act (Sections 20-32) makes detailed provisions on paid annual leave. Every worker is entitled to not less than 15 working days' leave in any calendar year. The law allows the employer in cases of urgent necessity to interrupt the leave of a worker. The employer would, however, bear the cost of interruption. Also, absence from work on public holidays or as a result of sickness does not form part of the annual leave of a worker. An agreement entered into by the employer and the worker to forgo leave is considered void.

Employees are also entitled to enjoy public holidays with full pay. This regulation covers temporary and casual workers as well. Such holidays are not to be counted as part of annual leave. Any work, performed on public holidays must be remunerated as overtime work. The law also grants workers sick leave with full pay.

### *Maternity Leave*

Ghana ratified Convention 103 on Maternity Protection in 1986. Section 57 of the labour law grants female workers a maternity leave of 12 weeks with full pay. This is in addition to any period of annual leave, the female worker is entitled to after the period of confinement. The female worker on maternity is also entitled to all other benefits to which she is otherwise entitled to during her period of confinement. The maternity period may be extended for at least two weeks in situations of abnormality or at the event that a female worker delivers twins. After the period of confinement, a nursing mother is entitled to an hour's break for purposes of nursing the baby.

### *Severance Pay*

Section 65 of Act 651 (2003) provides for the payment of 'Severance or Redundancy Pay' to an affected worker in the event of the organisation or company undergoing any arrangement that ends the legal relationship between the worker and the organisation or company. The amount of redundancy pay and the terms and conditions of payment are matters for negotiation between the employer and the affected worker or their representatives. In furtherance of this legal requirement, most collective bargaining agreements have redundancy clauses that define the severance package for employees in the event of the company declaring them redundant.

### *Hours of Work*

Ghana ratified the ILO Convention 1 on hours of work in industrial undertakings on 19 June 1973. By this, Ghana undertakes to limit the hours of work in public or private industrial undertakings to eight (8) in a day and 48 in a week. Ghana has, however, failed to ratify ILO Convention 47, which apart from being comprehensive also obliges ratifying countries to limit hours of work to 40 in a week.

Nevertheless, the labour law (Act 651) limits hours of work to eight in a day and 40 in a week. Commencement and closure of work are to be fixed by the rules and nature of any particular undertaking. The law also guarantees for workers daily a continuous rest period of at least 12 hours between two consecutive working days and 48 consecutive hours in every seven days of normal working hours.

### *Occupational Health and Safety*

Ghana has not ratified the ILO Convention 155, which deals with Safety and Health at the workplace. However, it has ratified Recommendation 120 on Hygiene (Commerce and Offices). Ghana has also ratified ILO Convention 115 concerning the Protection of Workers against Ionizing Radiation. Article 24(1) of the National Constitution (1992) provides that every person has the right to work under satisfactory, safe and healthy conditions. Also, under the Directive Principles of State Policy, Article 36(10) of the 1992 Constitution, the state of Ghana is obliged to safeguard the health, safety and welfare of all persons in employment. Again, Article 118 of the Labour Law (Act 651, 2003) enjoins employers to ensure that their workers work under satisfactory, safe and healthy conditions. Article 120 of the Labour Law (Act 651) directs employers to report to the appropriate government agency as soon as practicable, and not later than seven days from the date of the occurrence of occupational accidents, and diseases at the workplace. Employers are also required to maintain adequate statistics on diseases and accidents that occur at the workplace on a daily basis.

### *Welfare of Accident/Diseased Victims*

Article 21 of the ILO Convention 155 concerning occupational safety and health provides that occupational safety and health measures shall not involve any expenditure for workers. This implies that workers who in the course of their normal duties suffer accidents and diseases are to be taken care of by their employers. However, as stated earlier, Ghana has failed to ratify ILO Convention 155.

However, there are adequate national laws that give practical meaning to Article 21 of ILO Convention 155. The Workmen's Compensation Law (1987) places the onus of caring for accident victims on the employer and stipulates the methods for calculation of benefits/compensation and how payment is made.

The Labour Law (Act 651) only absolves the employer from the responsibility of caring for accident victims when a worker fails to comply with health and safety rules and where the injury is caused solely by non-compliance on the part of the worker.

#### *4.2.6 Contract of Employment*

Ghana ratified Convention 64 on Contract of Employment (indigenous workers) in 1957. Also, Section 12 of the Labour Law provides that ‘the employment of a worker by an employer for a period of six months or more for a number of working days equivalent to six months or more within a year shall be secured by a written contract of employment’. The law requires that the contract of employment specify, ‘in clear terms the rights and obligations of the parties’ to the contract (Act 651, 2003).

#### *4.2.7 Labour Inspection*

Ghana ratified ILO Convention 81, which requires ratifying member countries to maintain a system of labour inspection in industrial workplaces that secures the enforcement of legal provisions relating to conditions of work and protection of workers. The Labour Law (Act 651) provides for a system of labour inspection that secures the enforcement of legal provisions related to conditions of work and the protection of workers at their workplaces. These include provisions related to hours of work, wages, safety, health and welfare of workers, and the employment of young persons. The inspection is also to provide technical information and advice to employers and workers on how to apply and abide by the various provisions of the labour law.

### ***4.3 Informality in the Ghanaian Labour Market – the Informal Worker***

From the definition adopted by the Ghana Statistical Service (GSS, 2013), the level of informal employment is estimated at 88 percent of the total employment. This comprises informal employment in agriculture (46.1 percent) and non-agriculture (41.9 percent). In 1999, the level of informal employment was estimated at 80.3 percent (GSS, 2000). Clearly and as shown throughout the thesis, the level of informality has been growing. However, as stated in the previous section, the reason for designating all workers outside the public sector, medium- and large-scale private enterprises, NGOs, Cooperatives and Diplomatic Missions as being informal is not clear.

While workers in these organisations could be better paid and have relatively better working conditions, to assume that all workers in these organisations are formally employed – without stating the criteria for formality – is a simplistic over-generalisation (Kanbur, 2009). The definition tells very little, if any, about the working conditions of such workers and whether their working

arrangements conform to standards prescribed by the Ghanaian government or intentional organisations such as the ILO. There are some workers in small organizations, either in the agricultural or non-agricultural sector, who display employment characteristics that are better than their peers in the public sector or large private sector firms.

The social security definition allows for better appreciation of the working conditions of workers in all organisations small or big, public or private. In this definition, all workers who are not registered for social security and are therefore not contributing to the pension are designated as informal workers. For the 2013 data, more than seven out of every 10 workers (70.9 percent) were not registered for social security. Stated differently, some 29 percent of the workforce was contributing to social security. Interestingly, the social security variable correlates strongly with other variables that are associated with superior job quality. For instance, 29.9 percent of the workforce would be entitled to retirement pension when they retire from active employment, implying that they were contributing to social security. Approximately, the same proportion (28.9 percent) of the workforce was working in organisations or enterprises where a trade union exists. Moreover, a quarter (26.7 percent) of the workers has taxes deducted from pay at source.

The implication is that a given proportion of workers in small organisations (and probably also in agriculture) who by default are classified, as informal workers may not, after all, be that informal. More than one-third (38.1 percent) of the workforce has a written contract of employment. If we assume that 12 percent workers who according to the data had their employment secured by written contracts, then a much higher proportion (26 percent) of workers classified as informal also have a written contract of employment. A further 16.9 percent of 'informal' workers work in organisations where trade unions operate. More than one-third (36.3 percent) of these workers are entitled to sick leave or maternity or both, and 14 percent would have taxes deducted from their pay at source.

When compared with the other data used in this thesis, the trend towards increased informality is observed. In the 1999 data, about half of the workforce were registered for social security. By 2006, the proportion of workers contributing to social security had declined to 29 percent, same as in 2013. Trade union coverage had also declined from 42 percent in 1999 to about 29 percent in 2013. Regarding other benefits, we observe similar declines. In 1999, six out of every ten workers enjoyed paid holiday or paid sick leave, and a further 50 percent had free or subsidised medical care. In 2013, only four out of 10 workers had access to paid holiday with less than one-third having access to sick leave. Just about one-fifth of today's workforce is entitled to subsidise or free medical care. Sex disaggregation of the data, confirms the dominance of

females in the informal sector. While 31 percent males were registered for social security in 2013, only 27 percent females were registered for social security.

How do we classify workers and economic activities that are by law not required to contribute to social security? In so far as these workers are not contributing to a formal pension and their employment and economic activities do not conform to statutory regulations, they are classified as part of the informal economy. However, these workers and their economic activities have some additional characteristics that distinguish them from all others. That is, they suffer exclusion by and from the law and its benefits.

In Ghana's case over one-half of the workforce is in self-employment. These workers earn incomes, however low or irregular their incomes may be. They are essentially excluded from the law on social security; they can contribute but on a voluntary basis. Many of the self-employed lacking literacy in English language, also lack knowledge of the existence of the option to contribute to social security, and if they do, they have virtually no means of taking advantage. They cannot be expected to conform to a law that excludes them. Their exclusion is most appreciated when one considers the fact that significant proportion of these workers are either paying tax or the state continues to explore ways for them to do so; but very little is being done to admit them into the social security system. In 1999, nearly two-thirds (64 percent) of the workers had taxes deducted from their earnings even though a similar proportion (63 percent) was not registered for social security. For this reason, the empirical estimations undertaken in Chapter 6 of this thesis covered only those workers in paid employment for whom social security is compulsory.

A large segment of the workforce is excluded by, law and practice from state benefits including social security and other forms of social assistance. There is no political will for their inclusion. This is illustrated with the example of the average cocoa farmer who by the social security definition and by the definition of the GSS is classified as an informal worker. These farmers built a world-class cocoa industry with virtually no support from the state. However, the industry they built became confiscated by the state. The cocoa farmer in Ghana is the most heavily taxed in the history of the country. At some point, the farmer earned only 30 percent of the market price of cocoa. The purchase and export of cocoa have been monopolised by the state (Frimpong-Ansah, 1991). By this, the state had at its disposal a well-structured mechanism to absorb the cocoa farmer into the social security system or at least design a special scheme for them. However, the state failed to do so.

#### **4.4 Enterprise Regulations**

In Ghana, as in other jurisdictions, enterprises or businesses are required to comply with several regulations. The first of such regulations is the legal requirement for enterprises to register with designated state agencies. Enterprises can be registered or incorporated in several ways. These include Sole Proprietorships, Partnerships, Limited Liability Companies, Companies Limited by Guarantees and External Companies. By law, all enterprises have to register with the Registrar General's Department (RGD). According to the Company Code (Act 179, 1963), enterprises can acquire legal personality or status through registration with the Registrar General's Department. Registration can be done directly in the office of the Registrar General in Accra, at major Post Offices throughout the country and the Business Advisory Centres (BACs) of the National Board for Small Scale Industries (NBSSI).<sup>54</sup> For purposes of tax collection, enterprises are also required to register with District/Municipal/Metropolitan Assemblies as well as the Cooperative Council.

Registration comes with costs and also benefits. Among the costs is the registration fee charged by the institutions involved in the registration process. In 2015, the direct monetary cost of registering a sole proprietorship was GHC60.00 or US\$15.00 with a requirement for annual renewal of GHC25.00 or US\$5.00. For partnerships the registration cost is GHC150.00 or US\$40.00 with an annual renewal fee of GHC50.00 or US\$12.50. Incorporation of a Limited Liability Company attracts a fee of GHC330.00 (US\$82.50) plus a stamp duty of 0.5 percent of stated capital.

Besides the direct fees, the registration process involves several bureaucratic steps that impose costs on the yet-to-be-registered enterprise. Pre-registration, the entrepreneur must pay for name verification and reservation. Post-registration or concurrently, the entrepreneur must obtain a tax identification number (TIN), register with the National Pensions Regulatory Authority (NPRA) for purposes of social security. Enterprises are also required to register with the District/Municipal/Metropolitan Assembly in whose jurisdiction it intends to operate for a business license.

The enterprise registration process is fraught with several challenges imposing significant costs on individuals and groups that intend to register their businesses. There are often significant delays in processing registrations. The

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<sup>54</sup> NBSSI is part of the decentralised structure of the Ministry of Trade and Industry (MoTI).

delays could be explained by excessive centralisation of the registration process at the Registrar General's Office in Accra. The sight of the large numbers of people at that office in any particular working day makes one appreciate the enormity of the tasks at the department. At the same time, there is growing perception that delays are intentionally orchestrated to 'force' applicants to part with money in excess of what they are officially required to pay (GTZ, 2006). At the Business Advisory Centres, significant delays still occur even though the registration traffic at these centres is relatively low.

In a study of corruption in the business registration, the GTZ (2006) reported substantial differences in registration fees charged at the office of the Registrar General in Accra, the BACs and the Post Office. In 2006, the cost of registering a business at the BAC (GHC60.00) was more than twice the cost of doing so at the Post Office (GHC25.00). The study could not reconcile the inconsistencies in the official explanations. It, therefore, concluded that "speed money" may be transferred via official channels, but also mere bribes were included into the fees to be paid by MSEs without them knowing about it'.

Enterprises registration also entails benefits for those that do so. These benefits include but not limited to cheap credit and other financial services with relatively low-risk profile, access to public contracts and business support services provided by the state and other non-state entities. Registered businesses can also enjoy legitimate tax exemptions (with no harassment from tax authorities). Other benefits include access to courts for the resolution of conflicts, access to public infrastructure, including electricity and water. There is also evidence that registered enterprises are less subject to corrupt practices from state institutions and officials (UNIDO AND GTZ, 2008). These benefits accrue to registered enterprises on the assumption that the state is working well, providing and maintaining public infrastructure and the courts are adjudicating cases speedily and in a corrupt-free manner.

#### **4.5 Informal Enterprises**

In this thesis, informal enterprises are defined as those that are not registered with any of the designated state agencies. The 2013 living standards survey showed that 3.7 million households, representing 44.3 percent of households operate in non-farm enterprises. In the 2006 data, the proportion of households operating an enterprise was 46.4 percent. In 1999, some 1.9 million households were operating the non-farm household enterprise. This represented nearly half (49 percent) of all households. Thus, the proportion of households running non-farm enterprises has seen a decline between 1999 and 2013.

The data provides for three state agencies where household enterprises could register. These are the Registrar General's Department (RGD), the District, Municipal and Metropolitan Assemblies, and the Department of Cooperatives.

Enterprises that are registered with any of these state agencies are designated as formal; those that are not are informal. In 2006, about 15.7 percent of all household enterprises were registered. This implies that about 84 percent were not registered and thus operating informally. By 2013, the proportion of registered enterprises has declined to 12.6 percent, implying an increase in informal enterprises (87.4 percent) in line with the general trend. The numbers correlate strongly with the proportions of informal employment in total employment based on the definition used by GSS.

#### **4.6 Typology of Informality**

Regardless of the definition of informality one adopts, a key consensus that has emerged in the literature is that informal economy displays high levels of heterogeneity (Kilby, 1971; Adu Amankwah, 1999; Khamis, 2009, Chen, 2012). As argued by Kilby (1971), the informal economy ‘Heffalump is a variegated sort of animal, appearing in different forms in different places’. The large and growing informal economy is composed of disparate groups and sub-groups, sharing common features but also differing on several dimensions. In the approach adopted, the groups and sub-groups within the informal economy do not conform to the existing legal framework in carrying out their activities even though the activities themselves are legitimate. This much, they share a commonality. However, there are important differences. In respect of the law itself, not all groups and their activities are required to conform or comply with the laws. Compliance is made voluntary for some groups and compulsory for others.

The literature on informality has identified several typologies of informal economic activities. In broad terms, the literature categorises informal economy into the self-employed and wage employees. The self-employed are further sorted into employers (i.e., self-employed with employees), own-account employees (i.e., self-employed without employees), contributing family workers, and workers of producer cooperatives.<sup>55</sup> The self-employed do not earn wages; they work for profit or family gain or both. In the standard labour market analysis, the self-employed are not in the labour market;<sup>56</sup> they sell their labour services to themselves. The informal wage employees may be employed in establishments or enterprises that by definition are formal or informal (ILO, 2003; Chen, 2012). The establishment or enterprise may be registered and may

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<sup>55</sup> See WIEGO, 2012.

<sup>56</sup> If the labour market is defined as having a demand and supply components.



operate according to formal regulatory norms, but its employees may not be formally employed.

The literature classifies all these workers as informal workers in the sense that their activities and employment relations fall outside formal regulatory frameworks. However, the approach adopted in this thesis makes an important distinction. A distinction is made between workers and activities for which the law is mandatory and provides a mechanism for compliance and a penalty for non-compliance on the one hand and those for which no such mandate, mechanism or penalty exist. In the former instance, non-compliance qualifies such workers and activities as informal. In the latter, such workers and activities are also informal not in the sense of non-compliance but in the sense that the existing regulations do not cover their employment and activities; they (workers) and their activities are simply *excluded*<sup>57</sup> from formal regulations. Moreover, they have no way of joining since the mechanism for doing so either do not exist or when they exist are not appropriate for them.

#### 4.6.1 *The Self-Employed*

The largest segment of the Ghanaian workforce is in self-employment. In 1999, more than two-thirds (68.7 percent) of the workforce was self-employed (GSS, 2000). The proportion of the self-employed in total employment decreased to 55 percent in 2006 and then to 46 percent in 2013. The data also indicate that self-employment is shifting from agriculture to non-agricultural activities in urban areas. In 1999, about 39 percent of the self-employed were engaged in agricultural activities compared to 30.2 percent in non-agricultural employment. By 2013, the proportion of the self-employed in agriculture (26.4 percent) was the same as that in non-agriculture (26 percent). This reflects on the increasing shift of the population from rural (where agriculture is the dominant economic activity) to urban areas where few people were engaged in agriculture.<sup>58</sup> Females were more likely than males to be self-employed. In 2013, 56 percent of all employed females were self-employed compared to 49 percent males.

The self-employed are a convoluted group with sub-groups that display different characteristics. There are employers, and there are own-account workers who work on their own and do not employ anyone. The proportion of

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<sup>57</sup> See Maloney, 2004.

<sup>58</sup> In 2000, 44 percent of the Ghanaian population lived in urban areas of the country. By 2010, more than half (51percent) of the population was living in urban areas.

the self-employed with employees was 4 percent in 2006; it increased to 6 percent in 2013. The proportion of self-employed, having no employees, declined from 52 percent (in 2006) to 46 percent (in 2013). The proportion of the self-employed with employees is lowest in agriculture than in non-agriculture. In 2006, only 1.6 percent of the self-employed in agriculture had employees. The proportion of the self-employed in agriculture increased slightly to 1.7 percent in 2013. For the non-agricultural sector, 4.4 percent of the self-employed employed others in 2013 (GSS, 2014).

The self-employed are informally employed in so far as the existing regulatory frameworks do not cover their activities. They have no standard working hours; many work long hours and earn low incomes (see the section on earnings). Their working environment is characterised by poor health and safety standards. They are not socially protected either from occupational accidents/injuries, loss of employment or old age. Consequently, the poverty rate among the self-employed is highest compared to even the unemployed. In 2013, the poverty rate among the self-employed in agriculture was 39 percent compared to 28 percent poverty rate among the unemployed. To that extent, the self-employed are informal workers.

Regarding labour laws, the self-employed are largely excluded from whatever benefits the law offers. As stated earlier, the pension law makes social security compulsory for wage employees but for the self-employed it is voluntary. At the same time, the mechanism for the self-employed to contribute to social security under the law is unclear and in most cases unsuitable to their circumstances.<sup>59</sup> There is no genuine effort on the part of political and civil service authorities to facilitate their inclusion in any meaningful way.

#### *4.6.2 Contributing Family Workers*

These are workers who work in registered or unregistered family enterprises. They work mostly for what is commonly referred to as family gain, which might include profits or the expansion of a family business. The available data show that contributing family workers constitute the largest group of workers after the self-employed. In 2006, one-quarter of the workforce was employed as contributing family workers. The proportion of contributing family workers reduced slightly to 22 percent in 2013. Contributing family workers are mostly

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<sup>59</sup> As most of the self-employed workers lack sufficient education in English, the language barrier alone deters the self-employed from joining social security schemes.

found in the agricultural sector where 19 percent of the workforce work on family-owned farms and enterprises compared to the non-agricultural sector (3.4 percent) (GSS, 2014).

As in the case of the self-employed workers, contributing family workers suffer exclusion from employment laws. Indeed, contributing family workers are explicitly excluded from certain aspects of the labour law. Under Part IV of the Labour Act (Act 651), which deals with General Conditions of Employment, Sub-Part I, annual leave with pay, contributing family workers are excluded. In terms of social security, there is neither a provision nor a mechanism for such workers to contribute. There is no specific employer to hold responsible if it is assumed that the social security law itself is rigorously enforced. It is therefore not surprising that a considerable number of contributing family workers are not registered for social security.

#### ***4.6.3 Wage Employees***

A large proportion of wage earners are not registered for social security. In 2013, more than six out of 10 (61.6 percent) of wage employees were not contributing to pension. In 2006, two-thirds of the wage employees were not covered by social security. These are workers with a definite employer-employee relationship in which the employer is mandated by law (Act 766, 2008) to register the employee for purposes of making social security contributions on their behalf. However, as it turns out, these employees are not registered for social security. The employers are in clear breach of the law on social security.

Many reasons account for this non-compliance. First, like most other employment legislations, the social security law is not enforced. The employment ministry and its agencies mandated to enforce labour legislations are among the weakest institutions in Ghana. These institutions have suffered substantial under-funding in the last 30 years. Non-enforcement and non-compliance are reinforced by the peculiar situation of the workers involved. In 2013, the vast majority (67.4 percent) of these workers had either no formal education (11.6 percent) or only attained basic education (55.8 percent). With very low human capital these workers are vulnerable in the labour market; they remain the weakest segment of Ghana's job market.

#### ***4.7 Agriculture and Informality***

As shown in Chapter 3, agriculture has been very pivotal to Ghana's economy and labour market. In 1970 about 51 percent of GDP emanated from the agricultural sector. Agriculture's share of GDP has since dropped reaching 23 percent in 2012. At the same time, the bulk of Ghana's workforce remained in agriculture even though agricultural employment has also seen a decline in

recent years. In 2006, 55 percent of the workforce was employed in agriculture. The proportion declined to 45 percent in 2013.

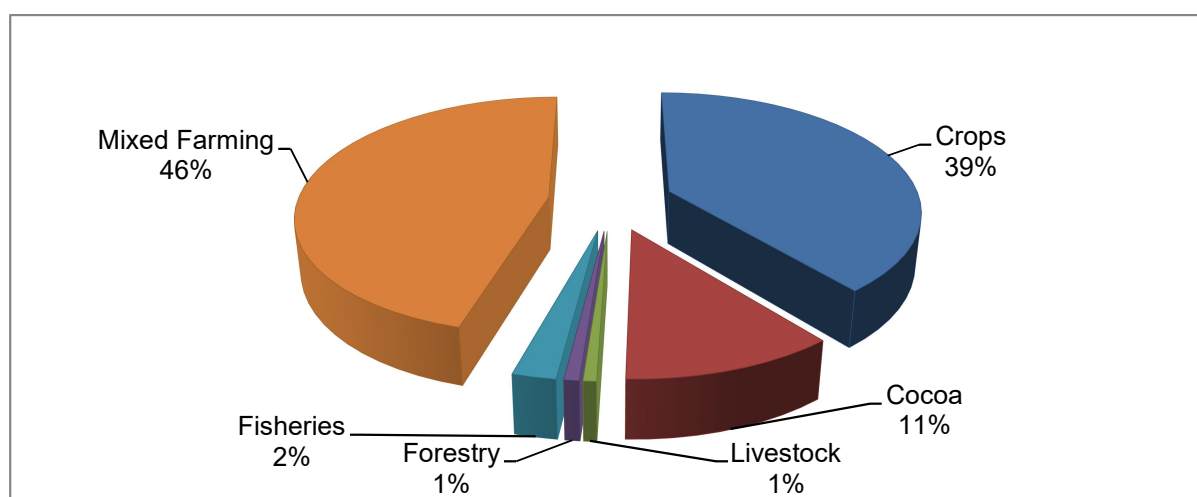
However, agriculture in Ghana suffers fragmentation; it is done on small-scale and relies mainly on traditional farming methods in which the cutlass and hoe remain the dominant instruments. Most farmers are engaged in subsistence farming with very limited links to either domestic or international markets. The Ministry of Food and Agriculture (MOFA, 2011) categorises agriculture into the following subsectors: crops, forestry, cocoa, livestock, and fisheries. Figure 19 shows the respective contributions of the sub-sectors to GDP in 2012. For purposes of this thesis and the data, agriculture is categorised into six subsectors, namely, crops, cocoa, livestock, forestry, fisheries, and mixed farming.<sup>60</sup> Together these sub-sectors employed a little over two-fifths of the workforce aged 15 years and older. The majority (46 percent) of agricultural workers are into mixed farming combining crop and livestock farming. The crops subsector employs nearly two-fifths of the agricultural workforce. The remainder of the agricultural workforce is employed in cocoa (11 percent), livestock (1 percent), fisheries (2 percent), and forestry (1 percent).

Only about 1.4 percent of these workers are paid wages. About half (49.9 percent) of the agricultural workers are self-employed, and a further 46 percent are contributing family workers. By the definition used by the Ghana Statistical Service about 96 percent people working in the agricultural sector is in the informal economy.

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<sup>60</sup> Mixed farming includes the combined production of crops and animals without specialised production of crops or animals. The size of the overall farming operation is not a determining factor. If either production of crops or animals in a given unit exceeds 66 percent or more of standard gross margins, the combined activity should be allocated to crop or livestock as the case may be. In our data it was not possible to determine the gross margins.

**Figure 19: Distribution of Agricultural Workforce (2013) – In Percentage**



*Source: Author's calculation from GLSS6.*

However, by the social security definition estimate of informality in the agricultural sector is about 88.4 percent for 2013, implying that only 11.6 percent of people working in agriculture have access to social security. Informality is, therefore, much higher in agriculture regardless of the definition one uses. Additionally, the agricultural sector is characterised by low earnings<sup>61</sup> and high levels of poverty. Monthly earnings in agriculture are less than half (45.6 percent) of the average earnings in Ghana and only about 15 percent of the earnings of people in the education sector (GSS, 2014). In 2013, for the population aged 15 to 64 years employed in agriculture, the poverty rate was estimated at 46 percent compared to the overall national poverty rate of about 21 percent.

It then becomes almost self-evident that the agricultural sector in Ghana exhibits characteristics that are common to all informal economy workers. In terms of the labour law, most agricultural workers are not covered. The question that remains is how relevant are the labour laws to the activities in the agricultural sector and the workers therein? For 50 percent of the workforce in agriculture who are self-employed, social security is a voluntary option. In agriculture, contributing family workers (46 percent) are best treated as self-employed because while working on a family land their earnings mostly accrue to them.

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<sup>61</sup> See Baah (2006) and Baah & Otoo, 2006.

As in the situation of the non-agricultural self-employed, the institutional mechanism for the inclusion of the self-employed in agriculture in the social security system is non-existent or at best irrelevant to the circumstances of the people in the agriculture sector. Agriculture in Ghana is mostly rain-fed and therefore seasonal in nature. This explains why under-employment is the highest in agriculture (61.5 percent) compared to non-agriculture (38.5 percent). This also means that incomes or earnings in agriculture are not only low but also highly irregular. Therefore, any system of social security that requires time-specific regular contributions would not attract people in agriculture especially when it is also voluntary.

Additionally, most agricultural workers lack formal education and they also lack knowledge of even the existence of the labour laws including social security. The 2013 data show that a little over two-fifth (41.8 percent) of the people working in agriculture have never attended school compared to one-fourth (25 percent) nationally. These people cannot be expected to go through the formal and legal processes required to join and remain in the national social security scheme or take advantage of any of the labour legislations. The state and its institutions appear disinterested in extending the ambit of the law to these workers (except when it comes to taxation) in a manner that is compatible with their circumstances.

We have already mentioned the cocoa sub-sector where most farmers (workers) are non-poor. They constitute about 6 percent of the national workforce and 11 percent of the agricultural workforce. These farmers are among those who are heavily taxed in Ghana. The Cocoa Marketing Board (COCOBOB), a state agency, is a monopsony buyer of cocoa. It fixes the price for cocoa and pays farmers through licensed buyers. Clearly, the state and its agency, the COCOBOD had the option to absorb cocoa farmers into either the national social security system or establish a special scheme for them. However, the state was either not interested or not even minded to it. These and other broader political economy issues are addressed in Chapter 7 where an alternate explanation for informality is offered.

#### ***4.8 Informality in Formal Establishments***

Informality is not confined to any distinct sector as previously thought (ILO, 1993, 2003). Instead, informality can be found in both incorporated and unincorporated enterprises. In the Ghanaian situation, informality can be found even in the government sector. It has, therefore, become customary to speak of informal employment, which captures employment in both formal and informal establishments that are not legally and socially protected (Chen, 2012).

In the 2013 data, significant proportions of workers in enterprises or establishments that are thought to be formal were not covered by social security.

In the government sector, which comprises the civil service, parastatals and other public service organisations, more than one-quarter (27.7percent) of the workers were not registered for social security. About 7 percent of the public sector workforce did not have a contract of employment. In 2006, the proportion of public sector workers not registered for social security was 38 percent. Those who indicated that they work in the formal private sector more than half (58.4 percent) were not registered for social security and one-sixth (15.5 percent) did not have a contract of employment. In 2006, a similar proportion of workers in the formal private sector (58.3 percent) did not have access to social security. In the finance and insurance subsector, nearly four out of every 10 workers (39.2 percent) were not registered for social security. These are the workers who in Hart's formulation were formally dressed, wearing suits and tie, and who one could encounter in the banking halls of Accra. These are the emerging class of informal workers in the so-called formal economy.

Informality in the formal sector has been attributed to several factors. As we have noted throughout this thesis, the neo-liberal legalist approach posits rising informality in the formal sector as an attempt by rational employers (sometimes in collusion with workers) to avoid costly regulations. In a fiercely competitive global environment where employers are seeking to cut every single cost item they could possibly imagine, the desire to avoid regulations such as social security would always be there. In Ghana there is evidence of employers colluding with their workers so that the latter would not be registered for social security. That collusion stems from a number of factors.

First, given that a large segment of the workforce has no formal education, many of them are also not aware of the existence of social security law and their rights of entitlement thereof. Second, the acute shortage of good jobs has meant that the labour market has effectively become employers' market. Employer preferences prevail over workers' rights and resolve. This means that employers are at liberty to register or not to register their employees for social security. Third, there is growing perception among both employers and workers that the national social security scheme is not serving the interests of workers and pensioners. For this reason, many workers display high levels of apathy towards their own contributions to the scheme and the management of the scheme in general.

In 2013, the average pension pay-out was GHC631.24. The minimum pension was GHC100.00 per month. With such low pensions, many workers show minimal interest in social security to the extent that some workers collude with their employers to under-declare their salaries so that they would pay a much-reduced contribution to the scheme. In 2010, the Social Security and National Insurance Trust (SSNIT) reported minimum monthly salary on which contributions were paid as GHC5.00 for 2009. This was against a monthly

minimum wage of GHC58.30. While significant proportion of the workforce do not earn the minimum wage, it was very unlikely that a worker who is registered for social security would be earning less than one-tenth of the minimum wage. And this brings us to the fourth factor, enforcement.

Informality or in this case non-compliance with applicable rules is made possible and cost-free because there is weak and in some cases non-enforcement of laws. Many employers do not comply with the laws because the laws are not enforced, and there is practically no cost to non-compliance. Non-enforcement emanate directly from the failure to invest in the institutions of the Ministry of Employment including the Inspectorate Division.

In broad terms, however, formal firms do not just informalised employment (or part of it), they also informalised significant proportions of their operations. This may result from a desire to avoid tax or from a sheer inability to record business transactions properly. Shielding business operations away from the purview of national authorities is not peculiar to Ghana. However, in Ghana, the practice is aided by weak enforcement combined with low or even lack of incentives for businesses to self-comply. When enterprises do not receive the benefits of formalisation they (particularly the big ones) tend to remain partially formal and partially informal (see Ingram et.al, 2007).

#### **4.9 Earnings in the Informal Economy**

In this section, we analyse earnings in the informal economy. Earnings in Ghana are low in both absolute and relative terms (Otoo et al., 2009; Baah, 2006a, 2006; Baah & Otoo, 2006). As indicated in the previous chapter, the national daily minimum wage does not exceed US\$2.00. Even so, a significant proportion of the workforce earn below the minimum wage (GSS, 2007, 2014). Compared to the formal sector, informal sector workers tend to earn low incomes.

Based on the 2013 data, nominal average monthly earning of GHC475.39 is estimated for both the formal and informal sectors. In 2006, average earnings were GHC91.28. In nominal terms, average earnings increased by more than four-fold between 2006 and 2013. In real terms, however, the increase was only 7 percent for the entire period. All the real gains in earnings actually accrued to the formal sector. Between 2006 and 2013, average earnings in the informal economy went up by over 360 percent. The corresponding price increases more than offset the nominal gains. Therefore, in 2006, average earnings in the informal economy had dropped to 44 percent of their levels in 2002. For the formal economy earnings in 2006 were 6 percent less than they were in 2002.



**Table 17: Nominal Average Monthly Earnings (1999-2013)**

Year	Formal	Informal	All	% increase
<b>Nominal Exchange Rate (GHC/\$) 2006 = 0.91; 2013 = 2.2</b>				
2006	184.78 (US\$203.05)	86.73 (US\$95.31)	91.28 (US\$100.31)	-
2013	954.77 (US\$433.99)	406.36 (US\$184.71)	475.39 (US\$216.09)	421%

**Table 18: Real Average Monthly Earnings (1999-2013): Real Monthly Index**

Year	Formal	Informal	All	Average CPI
<b>CPI: 2002=100</b>				
2006	94	44	46	197.5
2013	214	91	107	445.9

*Source: CPI: obtained from the Ghana Statistical Service; Earnings computed by the author from the GLSS 5 & 6 data.*

*Note: CPI figures are average for the year.*

In 2013, nominal earnings increased substantially by more than 400 percent (see table 17). In real terms, formal sector earnings were over 100 percent higher than they were in 2002. This increase could be explained by the implementation of the Single Spine Pay Policy in the public sector, which sought to place all non-political public sector workers on a single vertical salary structure. Between 2010 and 2014, the lowest pay on the public sector salary structure increased in nominal terms by 71 percent, and in real terms, the increase was 12 percent. The Single Spine Pay Policy impacted the pay levels significantly in the formal private sector. Given the interconnections between the formal and informal economies rising pay levels in the former would most likely have positive knock-on effects on the latter. Thus, the informal real sector wage index more than doubled from 44 percent in 2006 to 91 percent in 2013.

The decline in the informal sector earnings is also evident from analyses of median earnings as shown in Table 19. In 2006, the informal sector median earnings represented only 27 percent of their level in 2002. The overall median had actually decreased substantially in 2006 reaching just under one-fifth of the level attained in 2002. In 2013, the median for the informal sector was less than half (47 percent) of its level in 2002. The overall median for 2013 (45 percent) went up from their levels in 2006 but was below half of the level in 2002. The formal sector, however, experienced 35 percent real gain in median earnings.

**Table 19: Median Earnings, Formal and Informal Sector (2006-13)**

Year	Formal		Informal		All	
	Nominal	Real Earnings Index (2002=100)	Nominal	Real Earnings Index (2002=100)	Nominal	Real Earnings Index (2002=100)
2006	105	53	54	27	36	18
2013	600	135	210	47	200	45

*Source: CPI: obtained from the Ghana Statistical Service; Earnings: computed by the author from the GLSS 5 & 6 data.*

*Note: CPI figures are average for the year.*

#### **4.0 Informality and Poverty**

Informality and poverty are often seen as two sides of the same coin (Nazier and Ramadan, 2014). On the one hand, most informal economy operators are considered poor (Heintz & Vanek, 2007). However, poverty itself has been identified as one of the leading causes of informality (OECD, 2009a). There is also the view that in many developing countries where well-funded and predictable welfare programmes are lacking, the poor would be worse off without the informal economy (UN, 2006b). Therefore, informality and poverty tend to display a two-way causality: most informal workers are poor and most poor people tend to work informally. What does the data tell us about informality and poverty in Ghana?

According to the Ghana Statistical Service (GSS, 2014), about one-quarter (24.2 percent) of Ghanaians lived in poverty in 2013. In 2006, the poverty rate was estimated at about one-third (31.9 percent) of the population. Thus, in seven years between 2006 and 2013, poverty came down by about seven percentage points. For Ghanaians between the ages of 15 and 64 (the working age population) we estimate poverty rate of 21 percent and 18.5 percent for 2013 and 2006, respectively. The poverty rate, therefore, increased for the workforce and is consistent with the decline in the real earnings index as shown in Tables 17 and 18.

The poverty rate in Ghana varies significantly among various socio-economic groups and across different locations. The self-employed in agriculture (39.2 percent) have the highest rate of poverty in the country followed by the unemployed (28.1percent) and the self-employed in non-agriculture (12.8 percent). Formal sector workers in both the public (7.1 percent) and private (10.8 percent) sectors have the least poverty rate. In 2006, the poverty rate among the self-employed was 45 percent for those in agriculture and 17 percent for those in non-agriculture (GSS, 2014). The poverty estimates for the informal

economy are consistent with the sharper declines in real earnings experienced by the informal sector workforce during the period.

The relatively higher poverty rate among informal economy workers is explained by their individual characteristics. As indicated earlier most informal economy workers have lower levels of educational attainment. The data show that poverty tends to be higher among people with no education (40.3 percent) than those, for instance, with tertiary education (3.5 percent). Table 20 shows that poverty rate declines as the level of education increases. Since most informal economy operators have low levels of education, higher poverty rate can be assumed for these people and the data validates this. The data do not allow for a determination of what would have been the case regarding poverty if informal employment were not available. At the same time, we could infer from higher poverty among the unemployed (compared to self-employed outside of agriculture) that informality could be moderating not just overall poverty but most importantly the depth of poverty experienced by informal operators.

**Table 20: Poverty Incidence by Level of Education (2013)**

Education Level	Poverty Level (%)	
	Poor	Non-Poor
No Education	40.3	59.7
Basic Education	23.6	76.4
Medium Education	12.4	87.6
Higher Education	3.6	96.4
National	24.2	75.8

*Source: Author's calculation from GLSS6*

#### **4.11 Informality as Optimal Choice**

In the literature on informality, there are two contrasting views on motives for why people enter informal employment. One strand of the literature associates informality with involuntary choice induced by lack of opportunities in the formal sector. In this view, people who enter informality do so as a temporary endeavour, waiting for their preferred employment elsewhere in the formal sector. Informality then becomes employment of the last resort, without which the person becomes unemployed. The alternative view explored throughout this

thesis is that informality is a rational choice made by entrepreneurs who find in their interests to be informal (see Fajnzylber et al., 2007).<sup>62</sup>

The data do not allow for direct examination of whether enterprises and workers choose to be informal. However, it is possible to make some qualified statements on whether enterprises and workers are choosing informality on the basis of their job characteristics compared to their counterparts in the formal sector. As we have seen, more than two-third (67 percent) people choosing informal economy have either no formal education or basic education. Analyses of the GLSS6 data show that about a third (30 percent) of all informal economy operators are unable to read a phrase in the English language. These people are by default excluded from securing employment in the formal economy even if they desire such employment. Additionally, the poverty profile has shown that people who are informally employed are at a greater risk of poverty compared to those employed in formal economy. It is unlikely that people will deliberately choose to work informally given the relatively high rate of poverty associated with it.

However, informality has some advantages.<sup>63</sup> Informal economy people are mostly their ‘own bosses’. They have flexibility in work arrangements that are not normally available to their peers in the formal sector. Also, by working outside the legal framework, informal workers/enterprises are largely free from payment of taxes including payroll taxes. We explore these considerations by looking at the kinds of employment being sought by the population.

In the 2013 data, the majority (38 percent) of all those searching for employment were seeking employment in either small/medium scale enterprises (19.4 percent) or seeking self-employment (18.6 percent). Just about a fifth were looking for employment in the public sector (11 percent) and in large private sector enterprises (11.8 percent). Thus, the bulk of job seekers appear to be looking for employment in the informal economy. This may indicate a preference for informal employment. At the same time, it may also reflect a realistic assessment of job seekers that formal employment would be difficult to

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<sup>62</sup> Gary Fields’s ‘upper tiers’ and ‘lower tiers’ formulation provides a middle way in which some activities in the informal economy are preferred and entrepreneurs make a rationale choice for such activities. There are other activities which entrepreneurs are ‘forced’ to undertake because either they lack preferable alternatives elsewhere or their resource endowments would not allow them to undertake such activities. This also serves to underscore the notion of heterogeneity in informal economy.

<sup>63</sup> See Anuwa-Amarh (2015).

obtain. Open unemployment is a costly option for many job seekers. This is buttressed by the fact that in the same survey, two out of every five (39.7 percent) job seekers indicated that they just want 'any job'. This reflects the severity of the employment crisis in Ghana.

## **Chapter 5**

### **Methodology and Econometric Framework**

#### ***5.0 Introduction***

This chapter is devoted principally to the specification of the empirical model used in this thesis. Two main econometric models are specified. The first model is on informal workers while the second relates to informal enterprises. The chapter, however, begins with a survey of the methodological literature on labour regulations and informality in particular and labour market performance in general. It also provides information and analyses of the datasets used in the thesis as well as the variables included in the econometric estimations.

The methods review show that the most popular estimation strategy is regression analysis. Since informality is a latent variable, probit logit is most used. Majority of the studies have been cross-country. Given that this thesis is about testing the legalist approach to informality, the estimation strategy followed a probit logistic regression, which is the approach most frequently used by the legalists. Also, given that cross-country studies tend to ignore country specificities that may drive informality, this thesis focuses on Ghana where specific internal dynamics is employed to explain informality and its persistence.

#### ***5.1 Methodology and Estimation Strategies***

In general, labour market regulations and their impact on labour market outcomes are among the most studied topics in labour economics (Addison and Teixeira, 2003). The neoclassical narrative that says regulations are bad for labour market outcomes is among the most studied in the literature. The vast majority of these studies have taken place not only in the advanced OECD countries but also in Latin America. Few studies have been conducted in developing countries, particularly in Africa. However, interest in the subject is growing given the employment challenges that confront developing countries and the consensus that decent employment must be at the core of any effort to eliminate global poverty.

## 5.1 Developed Country Studies<sup>64</sup>

Labour regulations and their effects on labour market outcomes have been most intensely studied<sup>65</sup> in the advanced OECD economies. However, few of these studies have tackled the question of regulations and informality.<sup>66</sup> As has been stated earlier, some of these studies made conclusions about other labour market outcomes such as unemployment and participation rates that have greatly influenced thinking and policy about informality in the developing world.

In the 1990s, much of Europe experienced higher unemployment rates compared to the United States, which in the 1960s, till the mid-70s had an unemployment rate twice that of Europe. The reversal of fortunes despite similar macroeconomic policies shifted the attention of economists and policymakers away from macroeconomic questions to labour market institutions (Freeman, 2009). The shift in attention sparked empirical revolution in the labour market literature stimulating a large body of empirical studies seeking to uncover general laws on the impacts of regulations and the institutions they produce on labour markets.

A pioneering work in the field was Lazear's (1990) study of the impacts of employment protection regulations on various labour market outcomes in particular employment and unemployment rates. The study was a cross-country one comprising 22 countries over a period of 29 years running from 1956 to 1984. All 22 countries are high-income countries.<sup>67</sup> Lazear used two measures of employment protection. The first measure is Severance Pay (SEV) defined as months of pay a blue colour worker is entitled to upon termination. The second is the requirement for advanced notice (NOTICE) defined as the number of months of notice to a worker with a 10-year tenure before termination.

As expected in a pioneering work, Lazear's methodology and estimation strategy were simple and straightforward. The model consists of basic regression in which four different dependent variables were regressed on variables of interests (Severance Pay and Notice Period) in four separate equations. The four dependent variables are employment to population ratio,

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<sup>64</sup> The studies here are mostly cross-country studies.

<sup>65</sup> Thinking about regulations and how they affect labour markets predates empirical work on the subject for many years.

<sup>66</sup> This is understandable giving that informality has not been much of a problem in the advanced OECD countries until quite recently.

<sup>67</sup> The countries comprise the United States, Canada, Australia, New Zealand and most of the countries in continental Europe.

unemployment rate, labour force participation rate and the number of hours worked. Lazear's basic model can be written as:

$$y_{it} = c_i + \sum_j X_j + e_{it}$$

where  $y$  denotes the labour market outcome of interest (Employment to Population Ratio, Unemployment Rate, Labour Force Participation Rate and Average Hours Worked); the vector  $X$  is the severance pay ( $SEV$ ), and notice period ( $NOTICE$ )

The model was implemented in two ways. First, the basic model was run with and without country dummies. Second, two additional controls were introduced including working age population and the growth of Gross Domestic Product.<sup>68</sup> The model addresses issues of reverse causality or endogeneity of the explanatory variables in two ways: first, by adding a quadratic time trend, and second by regressing changes in severance pay between time  $t$  and  $t + 1$  on levels at time  $t$  of three of the four dependent variables.

Despite the parsimonious nature of the model and the obvious definitional challenges,<sup>69</sup> Lazear made far-reaching conclusions, casting labour regulations in a bad light and deepening the controversy. The specific conclusions are as follows. First, severance pay reduces the employment-population ratio. Stated differently, severance pay reduces the overall amount of employment available in an economy. Second, despite the theoretical ambiguity, Lazear concluded from his study that severance pay reduces unemployment rate. Finally, Lazear's estimates infer that severance pay leads to more workers moving from full-time jobs into part-time jobs as employers attempt to circumvent the law.<sup>70</sup> Here inference can be made of the effects of severance pay on a typical work, the equivalent of informal work in developing countries.

The main criticisms mounted against Lazear were two fold. The first relates to his measure of employment protection, which has been criticised as too narrow to fully capture the range of legal restrictions that pertains in a particular country. The second set of criticisms relates to econometric challenges inherent in his estimation. In particular, his estimation techniques do not sufficiently

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<sup>68</sup> The inclusion of the working age population is to understand how differences at the country-level demography affect results. For GDP growth rates, the assumption is that a growing economy would to an extent possible mute the impacts of regulations on labour market outcomes.

<sup>69</sup> Severance pay is only but a partial indicator of employment protection.

<sup>70</sup> In most countries, severance pay provisions do not cover part-time workers.



address the problems of country heterogeneity and autocorrelation (Addison and Teixeira, 2003).

In the years following Lazear's work, several studies have come on stream with refined methods, extended definition of employment protection and incorporation of other outcome variables (Addison and Teixeira, 2003).

Addison and Teixeira (2003) re-estimated Lazear's study by addressing some of the major challenges associated with the model. First, the re-estimated model incorporates a longer time period of 44 consecutive years. The average hours worked was dropped and replaced with long-term unemployment rate. Data on employment-population ratio, unemployment rate, and labour force participation rate were updated extending the period to 1999.

Second, the employment protection measure is replaced with a more comprehensive measure or a composite index<sup>71</sup> of the severity of employment laws. This necessarily implied extending the suite of explanatory variables to include other labour market institutions. It also implied changes in model specification and estimation procedures. The basic Lazear (1990) model is re-formulated as follows:

$$y_{it} = c_i + d_t \sum_j X_{ijt} b_j + e_{it} \quad (2)$$

where  $y$  denotes labour market outcome variables,  $X$  is the vector of explanatory and controls variables, which now incorporates institutional variables,  $t$  denotes the five-year periods into which the data set is sub-divided,  $d_t$  is the time effect for period  $t$  and  $c$  captures country specific effects.

The model also included an interaction term combining labour market institutions and time and is intended to capture the combined effects shocks and institutions. The idea behind this interaction term is that 'bad' labour regulations are likely to bite more negatively in bad times. The model, at this stage takes on a non-linear form:

$$y_{it} = c_i + d_t + \mathbf{1} \sum_j X_{ijt} b_j + e_{it} \quad (3)$$

Before estimating the re-formulated model, Addison and Teixeira (2003) ran the basic Lazear (1990) model and performed a number of robustness tests. In the first instance, a most restrictive form of the basic Lazear model was estimated

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<sup>71</sup> The composite index captures important aspects of the employment regulatory regime including delays inherent in the dismissal rules, and whether or not fixed-term contracts are permitted.

omitting country dummies. The results lend broad support to Lazear's conclusion that protecting employment negatively affects employment, labour force participation and unemployment. In the second instance, country dummies were introduced, and this alters the results. The coefficient on the SEV variable turns insignificant in both employment-population ratio and long-term unemployment rate equations. In the third instance, the authors run a test for autocorrelation, rejecting the null hypothesis of no serial (first-order) correlation. The subsequent re-estimation renders all coefficient estimates of the main proxy for employment protection (SEV) statistically insignificant.

The estimation of the re-formulated model, which addresses the parsimony of the basic Lazear model throws up interesting results: most of the parameter estimates are no longer significant. At the same time, the results lend some credence to the basic proposition of Lazear. That is, and as expected, at higher levels of employment protection both employment and labour force participation decrease.

Grubb and Wells (1993), investigated the relationship between employment regulations and what they call 'patterns of work'. Among the employment regulations considered in their study are: (1) restrictions on employers' freedom to dismiss workers; (2) limits on the use of legal validity of fixed-term contracts; (3) regulations on the use of temporary work agency (TWA) work; (4) restrictions on weekly hours of regular or overtime work; (5) limits on shift, weekend and night work; and (6) restraints on employers' use of part-time work. They also constructed an omnibus index called 'overall regulation of dependent work'.<sup>72</sup> The 'patterns of work' investigated include: (1) total employment; (2) employee employment; (3) self-employment; (4) part-time work; (5); and (6) temporary work among others.

Without specifying any model, they use simple correlations and regression analysis to identify the nature of the relationship between employment regulations and various work patterns. The analysis is done for both the index that capture the overall measure of regulation and specific regulatory measure. Their analysis showed that the employment-population ratio correlates negatively with the overall regulation of dependent work. The employee-population ratio is strongly negatively correlated with the overall regulation of dependent work. Self-employment is also strongly positively correlated with the

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<sup>72</sup> This index captures restrictions on dismissals, restrictions on fixed-term contracts, and restrictions on overtime, working hours, weekend and night working.

overall regulation of dependent work. That is the share of self-employment in total employment increases and strongly so with the regulation of dependent work. Part-time work is negatively correlated with the regulation of dependent work. Temporary work has a positive correlation with the overall regulation of dependent work.

Grubbs and Wells (1993) complemented their correlation analysis with results of employer and employee surveys. These surveys evaluate the level of employer and employee dissatisfaction with employment regulations. With the exception of redundancy payment, employers in the United Kingdom generally do not consider employment regulation as an obstacle to hiring. This is to be expected given that employment in the UK is least regulated among the sample countries. At the same time, even in countries with relatively higher levels of employment regulations such as Portugal and to some extent Germany and Greece, employers express less dissatisfaction with employment regulation than might be expected from the rankings. In all the countries (except the UK) more than half employers expect employment to increase if regulations and hiring and dismissals are slashed.

Elgin (2012) used a panel data framework to test the correlation between unionisation and the size of the informal economy in a sample of 30 OECD countries. His specified model can be written as:

$$Union_{i,t} = \beta_0 + \beta_1 IS_{i,t} + \sum_{k=2}^n \beta_k X_{ki,t} + \theta_i + \gamma_t + \varepsilon_{i,t}$$

where  $Union_{i,t}$  is the union density (percentage of labour force belonging to a labour union),  $IS$  represents size of the informal sector as a percentage of GDP,  $X_{ki,t}$  are the control variables included in the regression equation,  $\theta_i$  and  $\gamma_t$  are country and period fixed effects respectively and  $\varepsilon_{i,t}$  is the error term. The subscripts  $i$  and  $t$  respectively represent country and year. The analysis addresses the problem of endogeneity by running a regression based on GMM estimator. It also included one-period lagged values of the union variable in the right hand side variables. To detect any possible long-run effects, the estimations were conducted using panel ordinary least squares (OLS) estimator. Time-series averages of the cross-sector, was also estimated by OLS using a cross-section framework:

$$Union_{i,t} = \beta_0 + \beta_i IS_i + \sum_{k=2}^n \beta_k X_{ki} + \varepsilon_i$$

Results from the fixed-effects estimations and the dynamic panel data estimations all pointed to a significant negative correlation between unionisation and the size of informal economy. The OLS with panel data run in

a cross-sectional regression turned up the same results: that a larger informal economy is associated with a larger union density.

Altogether, these studies lend support to the idea that labour regulations and the institutions they embody are generally not good for employment outcomes. A major criticism of studies based on cross-country analysis is that observed variations are driven primarily by country comparisons. Country specificity regarding dynamics in the labour market including demographic changes within a country and the degree of enforcement are too often ignored in such studies. And this casts a long shadow of doubt over the validity of results.

Some studies have therefore focused on individual countries exploiting in-country variations in labour regulations across time and space. Such studies have proliferated in advanced European countries, but only a few have focused on non-standard employment, the equivalent of informal employment in developing countries.

Bauernschuster (2009) studied the effects of changes in dismissal protection rules on hiring and firing behaviour of small firms in Germany. The study employed difference-in-difference methodology. The difference-in-difference methodology is akin to undertaking natural experiments to detect causal effects. However, the methodology attempts to address the issue of unobserved variables or characteristics of the treatment group, which might also affect the outcome variable of interest. In this case, the treatment group dummy, which enters the regression equation, correlates with the error term, producing biased estimates of the treatment effects. When using time-series data for the treatment group, time effects unrelated to the treatment group and not captured sufficiently in the control variables might lead to biased estimates.

The problem of biased estimates is addressed through the application of difference-in-difference techniques. This requires the availability of cross-section for both treatment and control groups, which cover before and after treatment. The strategy assumes away the existence of time-varying unobserved variables of the outcome variables that produce observed differences in treatment group and control group.

In a typical difference-in-difference approach, the treatment effect is estimated using an equation of the form:

$$Y_i = \alpha + \beta Z_i + \gamma D_i + \delta(Z_i * D_i) + \varepsilon_i$$

where  $Y_i$  is the outcome variable for the treatment group before ( $Y_i(0)$ ) and after ( $Y_i(1)$ ) treatment is administered,  $\beta$  captures time effects common to both the treatment and control groups,  $\gamma$  represents time-invariant baseline difference between treatment group and control group,  $\delta$  is the difference-in-difference estimator entering the equation as coefficient on the interaction of treatment group ( $Z_i$ ) and time ( $D_i$ ) dummies and  $\varepsilon_i$  is the error term.

In implementing the model Bauernschuster (2009), grouped establishments covered by the reforms into three, namely, establishments with up to 5 employees, establishments between 6 and 10 employees, and those with between 11 and 20 employees. These establishment size dummies are included in the estimations. Establishments with more than 10 and up to 20 employees served as the control group. Other control variables included in the model are dummies for the presence or otherwise of a works council, a union contract, founding year, and innovation.

The results showed that the difference-in-difference estimator  $\delta$ , which is the coefficient of the treatment group dummy, and time dummy is not significant on dismissals implying the reforms had no effects on dismissal behaviour of small firms. However, the relaxed dismissals rules did positively increase hiring, albeit, marginally. Further, the results showed that being subject to union contract had no effect on hiring or firing behaviour of small firms. The presence of works councils does lower both hiring and dismissals. More crucially, the reforms changed the composition of employment contracts as the covered small firms became prone to offering permanent contracts and less of temporary ones (Skedinger, 2011).

#### *5.1.1 Developing Country Studies*

The employment challenge in much of the developing world has persisted despite numerous reforms and subsequent growth of national economies. This has attracted attention to dynamics in labour markets, in particular, regulatory regimes that underpin labour markets across developing countries. Studies have proliferated particularly in Latin America, in the attempt to understand the impacts of regulations on labour market indicators. As expected, a significant amount of these studies has concentrated on informality in the labour market, an important feature of the developing country labour market.

A leading proponent of the regulation-induced informality hypothesis, De Soto (1989), sought to evaluate the role of law in fostering informal economy in Peru. He and his team of researchers at the Instituto Libertad y Democracia (ILD) went about this by talking to Peruvians who operate in the informal economy. They got conflicting answers and views regarding the impacts of the legal system. People in the formal economy complained about cumbersome regulations and those in the informal economy didn't want to hear anything about the law. For the lawyers the law was benign.

The ILD then established a small factory on the outskirts of Lima and simulated the process of obtaining a legal status for the firm. In all, the firm had to go through 11 different procedures to obtain a legal status. Complying with the 11 procedures required 289 days. The financial cost per procedure was estimated at US\$194.40. The total cost of compliance was estimated at US\$1,231, 32 times

the monthly living wage at the time. This is in addition to the costs of remaining formal, which was evaluated using a sample of 50 small firms employing between one and four workers. The sampled firms were engaged in activities with a high level of informality – baking, knitting, dressmaking, shoemaking, and furniture making and woodworking.

When they examined the returns posted by the businesses, the ILD estimated the direct costs of remaining formal at about 347.7 percent of a firm’s pre-tax profits and 11.3 percent of its production costs. A little over one-fifth (21.7) of the costs is tax-related, more than two-thirds (72.7 percent) are ‘other legal costs’ and the remaining (5.6 percent) being the cost of public utilities. Among the ‘other legal costs’, labour cost is singled out as significantly increasing the costs of remaining formal. This, according to De Soto (1989), forces firms to use more capital and less labour. This ominous conclusion has had far-reaching implications for policy and also for more rigorous studies in the developing world in the effort to uncover the role of labour regulations in generating informality.

Rei and Bhattacharya (2008) used two separate definitions of informality to test for the determinants of the informal economy. The two definitions are (1) income generation in the informal economy as a proportion of GDP and (2) informal employment as a proportion of total non-agricultural employment. These two constitute the dependent variables. The study uses cross-country regressions for both income and size measurements. The sample includes 111 developing countries for income measure and 24 countries for employment measure. In both regressions, the independent variables consisted of a large number of institutional and policy variables that have been identified in the literature.

They estimate a linear regression model of the form:

$$Inf_{i,t} = \beta_0 + \sum_j \gamma_j x_{j,it} + \sum_n \eta_n z_{n,it} + \sum_l \lambda_l k_{l,it} + \sum_p \sigma_p h_{p,it} + \delta_i + \varepsilon_{i,t}$$

where  $Inf_{i,t}$  is the size of the informal economy in country  $i$  at time  $t$ , and the  $X$ s are  $j$  institutional quality variables, the  $Z$ s are macroeconomic controls, the  $K$ s are  $l$  policy variables,  $h$ s are  $p$  interactions  $\delta_i$  are fixed or semi-fixed control

variables and  $\varepsilon_{i,t}$  is the error term. This serves as the baseline model and is modified depending on data availability<sup>73</sup>.

The institutional variables include an index of labour market regulations, an index of regulatory constraints on businesses, an index of workers' rights, an index of women's social rights, indicator of the level of democracy, indicators of government effectiveness, the rule of law, and control of corruption. The last three variables were aggregated to produce a composite index called 'overall quality of public administration'. This was to gain degrees of freedom and to address possible multicollinearity. Other institutional variables include a separate index of government size, government intervention in the economy and banking policy. The policy variables include an index of overall tariffs, index of free trade, the ratio of total trade to GDP, ratio of net foreign investment to GDP, an index of the quality of money management, the top marginal income tax rate and an index of the fiscal burden.<sup>74</sup>

The model was implemented by assessing the impacts of the institutional variables after controlling the policy variables. Additionally, the predictive power of some of the institutional variables is assessed when interacted with the policy variables. Thus, labour market regulation is interacted with government effectiveness.

The main conclusion from the study is that the supposedly negative impact of strict regulations on informal economy is overstated. Instead, governance appears much more important in explaining the relative size of the informal economy. Regulations bite in a context of weak governance. Therefore, a good blend of regulations and governance, and/or policies and institutions is the key to promoting formality either concerning incomes or employment.

Khamis (2009) used Mexican data to delineate groups of labour market participants who are more likely to be in informal employment. The study uses two broad measures of informality, namely the legalistic definition and productivity definition. In the former, informal employment is defined as work arrangements that are not covered by social security protection and employment

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<sup>73</sup> For instance, while the entire sample is 111 countries, the estimation of the informal employment equation reduces the sample to 24 and this also considerably reduces the number of regressors.

<sup>74</sup> The model also included macroeconomic indicators and fixed factors (see Rei and Bhattacharya, 2008, for details).

contracts. The productivity definition is based on employment status: whether the individual is self-employed or is the employer (boss).

The study undertakes three types of analysis. The first is a descriptive analysis of social security coverage, contract coverage, self-employment in small firms and illegal migration. The second is a correlation analysis of the two main legalistic definitions of informality (social security and contracts) for both current and previous jobs. The third analysis involves the estimation of probit models to identify individual and household characteristics that drive informality.

The descriptive analysis compares the means for various characteristics of individuals who reported having or not having social security in their present jobs. This showed that younger, female, unmarried less educated and lower ability<sup>75</sup> individuals are more likely to be employed in the informal economy. These individuals also tend to have a previous history of informality on social security. The means comparison for individuals with and without contracts also showed that those without contracts – and working informally – are frequently younger, less educated and have a previous history of informality.<sup>76</sup>

In the second analysis, social security coverage and written contracts for 2003 and 2005 are correlated. The results showed significant positive correlation between the two measures.

The third analysis takes the form of probit regression model. Two regressions are estimated: one for social security and another for the contract of employment. In the first regression, the dependent variable (social security) takes the value 1 when the individual is registered for social security and 2 otherwise. In the second, the dependent variable is employment contract and takes the value 1 when the individual has written contract and 2 otherwise. Results for the social security equation showed that younger, unmarried and less educated individuals have a lesser propensity to be covered by social security. For the contract equation, age, secondary and tertiary education, significantly and positively, determine formality status for all and across gender.

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<sup>75</sup> This is measured by the score on Raven's test which is included in the Mexican dataset (MXFLS).

<sup>76</sup> This shows some level of hysteresis in the Mexican labour market; informality as defined in the legal sense persists over time (see Levy, 2008; World Bank 2007b) for possible explanations of such persistence).



Almeida and Carneiro (2008) studied the effects of increased enforcement of labour regulations in Brazil. Their study relied on several data sources. Among them are number and location of regional labour offices, number of inspected firms, number of fines issued in each city, and number of inspectors per state. The log number of inspections in each city (plus one) minus the log number of firms in the city (log inspections per firm in the city) is the measure of enforcement. The labour market outcomes of interest are the share of informal workers in the city, poverty, inequality and unemployment, and earnings and employment of formal, informal, and self-employed workers. The informal worker is defined as workers without a work permit<sup>77</sup> and the self-employed.

The main empirical strategy used in estimating the impact of the enforcement measure on the various outcomes is stated as follows:

$$Y_{ij} = \alpha + \beta E_{ij} + \delta X_{ij} + \eta_j + \mu_i$$

where  $Y_{ij}$  is the outcome of interest in city  $i$  and state  $j$ ,  $E_{ij}$  is the enforcement in city  $i$  and state  $j$ ,  $X_{ij}$  is a vector of city level controls,  $\eta_j$  is state fixed effects and  $\mu_i$  is the stochastic residual. Among the city level controls are city's GDP per capita, total number of firms, average firm size, share of services in GDP, and a host of city geographical features (geographical area, altitude, longitude and latitude). Other city controls are city transportation costs, total federal transfer to each city, city headcount poverty index and city inequality index. Also included are index of access to justice, index of city managerial capacity, and index of political concentration in the city.

In order to overcome potential estimation bias arising out of correlation between the enforcement measure ( $E_{ij}$ ) and the error term ( $u_{ij}$ )<sup>78</sup> several interactive variables are included in the regression. The interaction between distance and number of inspectors (per firm) in each state is used as an instrument for the degree of enforcement in each city. Additional controls included in the regression are income per capita, population size, average schooling, share of urban population, and index of institutional development in the city among others.

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<sup>77</sup> Brazilian law requires all workers to have a work permit in which their employment history is recorded and which also entitles them to several benefits.

<sup>78</sup> Two reasons are cited for this potential bias. First, degree of enforcement may depend on the level violations in a city. Second, cities with better-developed institutions could potentially have stricter enforcement.

Two estimates were made: least squares estimate and instrumental variable estimate. The instrumental variable estimate shows that a unit increase in the level of enforcement decreases by 15-percentage point the proportion of informal workers in the city. At the same time, stricter enforcement raises the level of unemployment.

In a study on ‘Informal employment in Latin America: Movements over business cycles and the effects of worker rights’, Galli and Kucera (2003) used simple correlations (univariate) and regression (multivariate) analysis to estimate the relationship between labour standards and formal and informal employment. The study covered 14 countries in Latin America over the period 1990 to 1995.

In recognition of the heterogeneity of employment forms, the study adopted five (5) definitions of formal and informal employment. Informal employment is used to describe employment in small firms,<sup>79</sup> self-employment and employment in domestic service. Formal employment is categorised into employment in large private firms and employment in the public sector. The employment data is measured in shares and refers to total (versus urban) non-agricultural employment. The study also decomposed labour standards into categories proposed by Portes (1994). These categories are ‘basic rights’, ‘survival rights’ and ‘civic rights’. The study focused on ‘civic rights’ with particular emphasis on the freedom of association and collective bargaining and civil liberties and ‘security rights’, which measures employment protection and job security.

The univariate analyses calculate employment shares in large firms, with civil liberties and political rights, and freedom of association and collective bargaining rights indices. The results indicate a positive and statistically significant correlation between ‘civic rights’ and formal employment, i.e., employment in large firms. Self-employment shares in small firms correlate negatively with the ‘civic rights’ indices. The correlation is statistically significant. Self-employment also correlates positively and significantly with employment protection and job security indices. The correlations also show statistically significant relationship between self-employment shares and GDP per capita, implying as expected that poor countries tend to have higher shares of self-employment in total employment.

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<sup>79</sup> Small firms are firms with less 5 or 10 workers, depending on country specific definition, while large firms are those with more than 5 or 10 workers.

The multivariate analysis employs econometric panel data to estimate the relationship between employment shares and labour standards. The analyses address the trend relationship between employment shares and liberties by transforming the data as the Hodrick-Prescott trend of the variables. This was to address the observed volatility of civil liberties indices across the region during the period and to take account of the fact that changes in civil liberties affect employment shares not directly but through other variables such as wages. The regressions were estimated with and without time dummies. Both models show a highly significant negative correlation between small firms and self-employment and civil liberties. For large firms, the coefficient on civil liberties index is positive and significant in both specifications. Stated differently, the results show that stronger civil liberties are associated with less informal employment and more formal employment. The analyses address the potential for reverse causality by instrumenting ‘political rights’ index for civil liberties’ index. The IV results do not substantially differ. The coefficient on the civil liberties index for employment in small firms remains negative but no longer significant.

Informality in all its dimensions abounds in Africa. However, few rigorous empirical studies have been conducted there to understand its dynamics (Fox and Oviedo, 2008). A major part of the problem has to do with unavailability of reliable data on Africa’s labour market. This is beginning to change as both national governments and international organisations have begun investing in data generation.<sup>80</sup> And this has naturally spurred interests among researchers interested in understanding the persistence of informality on the continent despite rising GDP growth. Few of these studies have directly tackled informality in the Africa labour market. Majority have looked at the generality of the labour market and reached conclusions that are important for understanding the dynamics of the informal economy.

Fox and Oviedo (2008) used manufacturing data at the firm level to study the impacts of labour market regulations – employment protection legislation – on job creation. Their data are derived from the World Bank’s Enterprise Survey conducted in Sub-Saharan Africa (SSA) from 2003 to 2007 for 20 countries. Most of these countries were at the time experiencing what is commonly referred to as broad-based growth and were, therefore, expected to be generating employment in the formal sector.

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<sup>80</sup> The World Bank’s Enterprise Surveys and national level Living Standards Surveys, and Labour Force Surveys are examples of renewed investments in data generation.

They estimate two separate models using a reduced form. In the first model, regulation is represented by legal origin.<sup>81</sup> In the second model, a country's score on the Doing Business (DB) ranking is used to represent overall regulation.

They estimate the following equation:

$$EG_i = \alpha_0 + \alpha_1 SIZE_i + \alpha_2 AGE_i + \alpha_3 LEGAL_i + \alpha_4 OTHER_i + \varepsilon_i$$

where SIZE is the initial size of the firm grouped into six employment categories (0-5, 6-10, 11-20, 21-50, 51-100 and over 100); AGE is one of the five age categories (0-5, 5-9, 10-19, 20-39, and 40 and older); LEGAL is the institutional variable interpreted in two ways: first as a dummy which equals one if the country has a civil law system and zero otherwise and second as the country's DB score; and OTHER represent other characteristics of the firms including exporter status, access to credit, technology use, capital stock, ownership status, and human capital.  $EG_i$  is the dependent variable defined either as average annual employment growth over the last three years or average annual employment growth from start-up to current size. Country and industry effects were included to minimize the incidence of omitted variable that could potentially produce bias estimates. Heteroskedasticity-robust standard errors were also computed. Each country was weighted by the size of its GDP (weighted least squares)

The results show that labour regulations do not significantly affect job creation and that other issues seem to matter more for job creation. This sharply contradicts the neoclassical narrative that labour regulations curtail job growth in the formal economy and forces jobseekers into the informal economy.

At the same time, other studies in the region based on the enterprise survey and using other methods show that regulations are not entirely cost free. Ingram, Ramachandran, and Desai (2007) 'test the hypothesis that firm decision-making regarding formality is based on a model of profit-maximization where the benefits and costs of locating in the formal versus informal sectors are compared'. Their study covered six African countries, namely, Kenya, Uganda, Tanzania, Zambia, South Africa, and Senegal. They formulated a model in which the decision to locate in either of the two sectors is based on a cost-benefit analysis assuming that both formality and informality has costs as well as benefits.

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<sup>81</sup> Nearly all countries inherited their legal systems from the European countries that once colonised them.

The model is stated as below:

$$\sum_{t=0}^T (\text{Sales}_{Ft} - \text{Cosst}_{Ft}) - \frac{\text{Registration}_F}{T} > \sum_{t=0}^T (\text{Sales}_{It} - \text{Costs}_{It})$$

where  $\text{Sales}_{Ft}$  is the estimated sales in the formal sector in time  $t$ ,  $\text{Cosst}_{Ft}$  is the estimated costs in the formal sector in time  $t$ ,  $\text{Registration}_F$  is the one-time cost of registration,  $\text{Sales}_{It}$  is sales in the informal sector in time  $t$ ,  $\text{Costs}_{It}$  is costs in the informal sector in time  $t$ , and  $T$  is number of years over which an entrepreneur is willing to wait to achieve a profit. Informal firms are defined as firms that are not registered with the central government and also have 10 or fewer employees. Firms that are registered but have 10 or fewer employees are designated as partially formal. All firms with more than 10 employees are classified as formal firms.

The presumption is that a firm will formalise if expected benefits of formalisation exceed the expected benefits of being informal. The inclusion of time horizon ( $T$ ) attempts to capture the risk profile of entrepreneurs such that risk-averse entrepreneurs would seek profit in a shorter time compared to risk-lovers. The investment climate is a key determinant of sales and costs estimates of entrepreneurs. The decision to formalise, therefore, depends crucially on entrepreneurs' perception of the investment climate.

The model is evaluated using firm-level data covering the 6 countries. Data for formal firms came from the World Bank Investment Climate instrument. For the informal sector, data were obtained from a survey instrument modelled after the Enterprise Survey instrument. Two separate analyses were undertaken using data obtained by the instruments. First, firms' perception of various investment climate variables was compared between formal and informal firms. The second approach took the form of econometric analysis. On the benefit side, perceptions are compared across access to finance, costs of finance, access to land and the availability of electricity, telecommunications and transport. In all of these areas, there is a significant association between formality and access to these variables. That is, informal firms tend to view access to infrastructure as more constraining than formal firms.

On the costs side, perceptions are compared across taxes, and regulations. On tax, all formal firms (except formal firms in Uganda) view the tax rate as a greater constraint than informal firms. In terms of regulations, again all formal firms (except formal firms in Kenya) consider labour regulations as severe constraint than do informal firms.

The econometric analysis is done at two levels. The first uses Chi-squared tests (univariate) for the perception of the severity of investment climate constraints across formal versus informal firms. The results showed all investment

constraints are significantly associated (positively or negatively) with the incidence of formality. In particular labour, regulations are perceived as a hindrance to formality.

The second econometric analysis takes the form of a probit model in which the dependent variable takes the value 1 if the firm is in the formal sector, 0 otherwise.

The model is specified as below.

$$Y_i^* = F(n, a, X1 \dots Xn, S1 \dots S4, C1 \dots C5,) + e$$

$Y_i^*$  = the probability that a firm will locate in the formal sector;

$Y_i$  = observed location (1 if formal sector, 0 otherwise)

$n$  = number of employees (log)

$a$  = age of the firm

$X1 \dots Xn$  = perception of constraint imposed by the investment climate (telephone, electricity, transport, access to land, rate of taxation, labour regulations, access to finance and corruption)

$S1 \dots S4$  = sector dummies

$C1 \dots C5$  country dummies

$e$  = error term

The regression analysis is done for Tanzania, Uganda, South Africa, and Kenya. The Y variables are sub-divided as follows: Y1 for formal firms only, Y2 partially formal firms and informal firms, and Y3 comprises partially formal firms and informal firms. In all three equations, infrastructure-related constraints are less likely to be correlated with formality. The severity of taxes is positively and significantly correlated with formality. The perception regarding labour regulations is positively associated with formality but is insignificant in a multivariate context.

An interesting study by Gajigo and Hallward-Driemeier (2012) looks at why firms that start as formal having registered with the appropriate state agency relapsed into informality after some time. The data comes from a survey of new firms from Cote d'Ivoire (23 percent), Kenya (20 percent), Nigeria (27 percent), and Senegal (30 percent). In all the study covered 1967 firms. The data cover firms that are 3 years older and younger in small size categories: micro, small, and medium enterprises. Formal forms defined as firms are registered with the local authorities (national or sub-national administrative authority). Informal firms have never registered or have allowed their registration to lapse to an extent that there are no records on them in the national register of companies or with the local authorities. Informal firms also include those that categorise themselves as unregistered or informal.

The study uses several summary statistics to highlight some interesting dynamics. For the sampled firms about 170 (9 percent) switched from informal to formal status. That's 23 percent firms that started as informal subsequently became formal. Also, about 3 percent of the sampled firms (or 5 percent of the formal firms at start-up) moved from formal into informal status.

To understand the reasons behind these dynamics the authors employed econometric framework. A probit regression model was estimated. The marginal effects were evaluated at the mean for continuous variables and discrete changes from 0 to 1 for dummy variables.

The model can be written as follows:

$$Y_i = X_i'\beta + W_i'\gamma + Z_i'\varphi + \varepsilon_i$$

where  $Y_i$  is the dependent variable, which is a dummy variable and set to 1 if a firm was formal at start-up but is currently informal and 0 if the firm started as formal and remained formal. The independent variables include firm owner characteristics ( $X$ ), enterprise variables ( $W$ ), policy variables and industry controls. The model also included time and direct monetary costs of informal payments (corruption) to capture the effects of regulatory burden and corruption.

The regression results show very important dynamics. First, enterprise age is negatively correlated with the likelihood that a firm will relapse into informality. Second, labour productivity is negatively correlated with the switch from formal to informal status. Third, the costs of informal payments to government officials correlate positively with the likelihood of a firm abandoning formality for informality. Finally, and more importantly, the time cost of regulations does not significantly affect decisions to switch from formal to informal status.

## **5.2 Empirical Strategy**

As outlined above and in the spirit of the neoclassical tradition most of the studies have focused on the legal status of enterprises and workers in defining informality, that is, whether or not an enterprise is registered and whether a worker is registered for social security or has a contract of employment. A few of the studies have defined informality from the perspective of firm size and productivity. Other studies have combined the legal definition with firm size and productivity. Most studies have looked at labour regulations as existed in the books, with only a few looking at the degree of enforcement.

The estimation strategies have been overwhelmingly tilted towards regression analysis. Given that informality is a latent variable, the most popular estimation strategy has been probit regression model. Most of the studies have been cross-country, which naturally allows for comparisons across countries. At the same,

cross-country studies tend to ignore country-specific dynamics that may drive informality. In terms of data, there are considerable variations. Most studies have relied on data sources that capture employer perceptions, which may not necessarily reflect reality.

In this thesis the main estimation strategy would be a probit logistic regression. In doing so, I am mindful of the statistical dictum that while regression analysis can uncover the existence or otherwise of correlations, such correlations do not necessarily imply causality. To address the issue of causality, the thesis makes use of a survey report on 'Understanding the Urban Informal Economy in Ghana' in which the specific question of why enterprises and workers operate informally was asked.

### *5.2.1 Model Specification*

The first part of the model focuses on informal workers. For the purpose of this thesis two approaches have been adopted in defining informal workers. First, informal workers are defined to include all persons/workers who according to the dataset (see below for a description of the data) indicated that they work in the informal sector. Across the three datasets, the average informal employment according to this definition is about 52 percent. In other words, more than half the people surveyed indicated they work in the informal economy.

There are two challenges with this definition. First, significant numbers of those who indicated that they work in the formal economy actually display other characteristics that clearly indicate that they are better classified as informal workers. For instance, in the 2005/06 data, about a quarter of those who said they work in the formal economy had no contract of employment and more than half (54 percent) were not contributing to social security. Second, it is most likely, that the survey respondents were not knowledgeable about the conceptual differences between informal and formal employment. Compared with other measures of informality, this definition underestimates the size of informal employment in Ghana. The definition is used because it is based on respondents' own assessment of where they think they belong. The definition is from the 'horse's own mouth'.

On the basis of the conceptual limitations identified above and for robustness check, the model also uses the social security definition. This definition classifies all workers who are not registered for or entitled to social security as informal workers. Workers without social security are deemed to be vulnerable to both life contingencies including occupational accidents and old age. This definition is in accord with how the ILO and many statistical agencies around the world define informality. For the three datasets used in the empirical analyses, workers without social security coverage constitute about 70 percent of the total Ghanaian workforce.



In a developing economy such as Ghana's, with rapid population growth and a jobless economic growth rate, workers face grim prospects of finding employment in the formal sector. Workers, therefore, do not have much of a choice between working in the formal or informal sectors. Self-employment and even wage employment in the informal sector is more of necessity and less of choice by workers.

At the same time, there are certain worker characteristics that determine whether a given worker chosen randomly from the working-age population would be working in the formal or informal sector. These factors include education (as a proxy for human capital endowment), age (as a proxy for general labour market experience), gender, and location, sector of employment and household characteristics among others. The informal economy is often seen as a refuge for people with little or no education. Given that formal sector jobs are often preferred but also increasingly becoming scarce, securing and maintaining a job in the sector has become fiercely competitive. Higher levels of education and skills are increasingly being sought from individuals desirous of working in the formal sector.

Again, the informal sector is over-represented by women compared to men. Different traditional and cultural roles that are assigned to men and women affect and determine their respective participation in the labour market (Baah, 2006a). Men are more likely than women to be employed in the formal sector. Household characteristics such as the education level and occupation of one's parents also determine whether an individual works in the formal or informal sector. The first part of the model examines the relative importance of these and other factors regarding the allocation of the Ghanaian workforce into the formal and informal sectors.

These worker-specific characteristics and how they affect the allocation of workers into either the formal or informal sectors is examined using binomial logistic (BNL) regression<sup>82</sup>. The binomial logistic model allows for a determination of the probability that an individual chosen at random from the working population will choose to work or be allocated to the formal or informal sector. For analytical purpose, the sample of working population is

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<sup>82</sup> The simple Ordinary Least Squares (OLS) regression will not be appropriate for a model of this nature given that the dependent variable involves discrete choices. A key assumption of OLS regression is that the parameters to be estimated are linear. But, as we would see, this does not hold when the dependent variable is discrete. Therefore, when simple OLS is used the parameter estimates would be biased and inconsistent.

divided into two distinct categories on the basis of a workers' primary work. The two categories are formal and informal workers. The model examines the probability that an individual chosen from the workforce would either be working in the formal or in the informal sector and this is conditioned on a set of individual, household and location characteristics.

### 5.2.2 Binomial Logistic Model

The Binomial logit (BNL) model has received considerable attention in applied econometrics for understanding or predicting choice or allocation of individuals into some mutually exclusive categories. The BNL is applied when individuals are confronted with discrete choices (McFadden, 1974). It is used to predict categorical assignment into or the probability of membership of a group conditional on a set of independent variables. Despite its restrictive assumptions, it has gained increasing popularity amongst researchers engaged in applied research. This is partly explained by the fact that among other choice-based models BNL is said to be the most pliable and simple. Also, its popularity has been enhanced by the proliferation of relatively simple estimation procedures including XLOGIT, NMLOGIT, and QUAIL.

To formally state the model, I assume a binary variable,  $Y$  with  $j= 1, 2, \dots, k$  categories. Assume further that  $Y_{ij} = 1$  if the  $i^{\text{th}}$  individual/worker in the sample of individuals of working-age chooses or falls into the  $j^{\text{th}}$  category and  $Y_{ij}=0$ , otherwise, where  $Y$  is the dependent variable, which can take on any of the  $k$  discrete categories or states. The probability that an individual selected from the sample will fall into the  $j^{\text{th}}$  category is given by the equation:

$$\text{prob}[Y_i = 1/X_i] = \frac{e^{X\beta}}{1+e^{X\beta}} \quad (1)$$

Equation 1 is a non-linear equation and for purposes of using regression estimation, it needs to be transformed into a linear equation. We do this in two steps: first equation 1 is re-arranged to give

$$e^{X\beta_j} = \frac{\text{prob}[Y_i=1|X_i]}{1-\text{prob}[Y_i=1|X_i]} \quad (2)$$

Second, we take the natural logarithm of both sides of equation (2), to obtain a linearised equation of the form:

$$X\beta_j = \ln \left( \frac{\text{prob}[Y_i=1|X_i]}{1-\text{prob}[Y_i=1|X_i]} \right) \quad (3)$$

Where  $\beta_j$  is the parameters of the  $j^{\text{th}}$  categories to be estimated from the model,  $X_i$  is the vector of independent variables in the regression for the  $i^{\text{th}}$  individual or worker. For the identification of the parameters, one of the  $j^{\text{th}}$  categories is designated as a baseline or reference cell. The log-odds of the remaining

categories are calculated relative to the baseline. The formal sector workforce is chosen as the baseline or reference category.

The estimated parameters are interpreted as the effects on the log-odds ratio relative to the formal sector workforce. That is, the odds that an individual or worker in the working population falls into category  $j$  as opposed to the baseline category. However, in this case the estimated parameters ( $\beta_j$ ) are not exactly the direct effect of  $X$  on  $Y$ . They merely indicate the extent of change in the log-odds or probabilities as a result of a unit change in the  $X$ s or the independent variables. For a direct effect of the independent variables ( $X$ s) on the dependent variable ( $Y$ ), equation (1) is transformed by taking the first order derivative to obtain the following equation:

$$\frac{d(\text{prob}[Y_i=1|X_i])}{d(X_i)} = \frac{\beta_j e^{X\beta_j}}{(1+e^{X\beta_j})^2} \quad (4)$$

A key underlying assumption of the binomial logistic model is the requirement that the odds of choosing or being allocated into a given category are independent of the choice set for all categories. In other words, the log-odds ratio associated with the  $X$  factors (independent variables) should not be affected by the inclusion or exclusion of any particular category. This property is known as the axiom of independence from irrelevant alternatives (IIA). It is the assumption of independence among the dependent variables, which in this case are the categories. In other words, the choice of or allocation into one category is not related to the choice or allocation into another category.

Many test procedures are available to verify the IIA assumption. These include the Hausman-McFadden test and the likelihood ratio test. The computational steps involved in verifying the assumptions are difficult especially when dealing with many categories and independent variables. At the same time, majority of the relevant models do not have this property (Wills, 1987). For these reasons, most previous studies that employed BNL estimation simply assumed independence from irrelevant alternatives (Wills, 1987). I follow these studies in assuming that our model passes the test of validity of independence of irrelevant alternatives.

I model participation in the labour market in a random assignment model in which individuals/workers are assigned to or allocated into the two distinct sectors of the Ghanaian labour market. The assignment or allocation of individuals or workers into any of the two categories is conditional on a set of characteristics that are either specific to the individual or the individual's household or location, that is, the probabilities of an individual being allocated into the formal sector, informal sector depend on these sets of factors. As stated already, these factors include education, age, location, household size, gender, marital status, and sector of employment. Estimation of BNL model will enable

us to delineate and test for the factors associated with persons of working age allocated to the various segments of the Ghanaian labour market.

It is expected that education will play a signalling role in the allocation of workers into the formal and informal sectors of the Ghanaian economy. The formal sector demands higher skills and competencies. Therefore, the relatively better educated are more likely than the less educated to be employed in the formal sector *ceteris paribus*. Also, most young people lacking relevant skills and labour market experience tend to use the informal sector as their point of entry into the labour market. Adults with better skills and appropriate experience have a better chance of being employed in the formal sector. Most formal activities are concentrated in urban Ghana particular in the Greater Accra Metropolitan Area (GAMA), comprising Accra (the capital city) and Tema (the port city). Compared to residents of other regions, Accra residents would most likely have access to formal jobs. Also, informality in Ghana as in many parts of Africa tends to be a rural phenomenon,<sup>83</sup> implying that people in rural areas are more likely than people in urban areas to be employed in the informal sector.

Given the many traditional and cultural constraints in the way of women, which has limited their human capital and burdened them with innumerable household duties, they are less likely to participate in the labour market. When they do participate they are more likely than men to be informally employed. Indeed, informality has been often described as having a woman's face.

The second part of the model addresses the issue of informal enterprises and labour regulations. As indicated earlier, in an economy facing acute shortage of what might be called good jobs, workers have very little choice in deciding to be formal or informal. Some workers in collusion with their employers frequently evade social security obligations. However, in practice the decision to evade social security rest with and is taken by the employer or the enterprise that 'coerce' or 'buys' the acquiescence of the worker. Enterprises, therefore, have a choice in the decision to operate or locate in the formal or informal sector of the economy. This is particularly so in situations where enforcement of regulations is weak and almost non-existent.

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<sup>83</sup> This is the case when the informal sector is defined broadly to include economic activities in the agriculture sector. When agriculture sector is excluded then informality becomes more of urban phenomenon than rural.

As mentioned earlier, neoclassical economists, in particular, the legalist tradition suggests that enterprises undertake implicit cost-benefit analysis based on which they decide to locate in either the formal or informal sectors. In other words, enterprises compare the costs of operating formally to its benefits. If the costs exceed the benefits, they operate informally. If the benefits exceed the costs, they move into the formal sector. The benefits of joining the formal sector include police and judicial protection against crime, conflict resolution, and contract enforcement. The benefits also include admission to formal credit institutions where credits could be obtained at cheaper rates, access to regular and relatively risk-free procurement and distribution channels, access to public infrastructure including public goods and opportunities to expand markets domestically and also internationally.

However, entering the formal economy also entails costs. The costs include registration costs, comprising direct monetary costs and lengthy, complicated, and expensive procedures some of which are deliberately imposed by people responsible for the registration process. There is also the cost associated with remaining formal including payment of taxes, complying with mandated labour benefits, and the need to observe costly environmental, and health, and other regulations.

The benefits of formality accrue to enterprises when the state is assumed to be working well: providing and maintaining public infrastructure, the police and judicial systems are functioning efficiently and in a corrupt-free manner. If these assumptions hold then staying formal does not entail procuring ‘public goods’ at higher costs and constantly paying bribes, which informal firms are compelled to do to hide their activities. In a context where the state does not function well: public goods are not provided nor maintained, the police and judicial systems are infested with corruption, the benefits of formality, or most of them do not accrue. In addition to the costs enumerated above, formal firms must also incur additional costs including payment of bribes and costs related to addressing the constant shortfalls in public infrastructure.

According to legalists, enterprises choose to be informal when in their implicit evaluation the costs of joining the formal sector or the country’s legal and regulatory system outweigh the benefits (de Soto, 1989; Loayza, Servén and Sugawara, 2011). Thus informality is calibrated as a choice variable by rational economic actors who find it in their interest to stay off the radar of burdensome regulations. I test this proposition that regulations, in particular, those related to labour are the prime reasons why enterprises locate in the informal sector.

### *5.2.3 The Econometric Framework*

The model examines the nature of the relationship between labour regulations and informality, that is, whether labour regulations affect in any way, the choice

or allocation of enterprises into either the formal or informal sectors. This is done by, constructing a logit model of the form:

$$\text{Prob}(Y_i = 1|X_i) = \frac{\exp(X_i\beta)}{1+\exp(X_i\beta)}$$

where  $Y_i$  is a dummy dependent variable taking the value 1 if the enterprise is informal and 0 otherwise,  $\beta$  is a vector of unknown parameters to be estimated and  $X_i$  is the independent variable in the regression. For purposes of identification of the parameters a Thiel-normalisation is imposed on the model by using the formal enterprise group as a baseline or reference group and thus setting it to zero.

Informal enterprises are not registered with any governmental agency either at the national or sub-national level. Those that are registered are formal. This two-way categorisation can be conceptually problematic. Registered enterprises may not necessarily be formal or at least wholly formal. Such enterprises could hide significant proportion of their activities from national authorities. Formal firms are expected to comply with internationally recognised labour standards particularly those that have been transposed into national laws. However, data reveals that this is not always the case. For instance, data shows that significant proportion of formal enterprises regarding registration do not comply with the requirement for them to issue formal employment contract to their staff neither do they register their employees with national social security funds for purposes of social security contributions.

The ideal way to define informality with regard to enterprises is to combine a number of characteristics or variables such as registration status and the social security status of employees. This combination, however, so significantly reduces our observation as to render analysis on it almost meaningless. I therefore, stick with this definition, which actually conforms to the standard ILO definition of informal enterprise.

Two sets of explanatory variables are included in the model. The first relates directly to the hypothesis that informality is the result of regulations. As discussed earlier, firms are hypothesised to avoid joining the formal sector because of the costs in particular labour costs associated with formality. The model isolates a number of labour regulations and assesses their impacts on the choice or allocation of firms into formal or informal sectors. The variables included are requirements for firms to pay social security; grant their female workers three months paid maternity leave; pay workers on public holidays; and

pay severance when they dismiss a worker. These regulatory variables are indexed to create a single variable called regulatory variable.<sup>84</sup>

The National Labour Act of 2003 mandates these regulations even though there are others that are negotiated between employers and unions (Baah, 2006a). The law provides for 12 weeks' paid maternity leave for pregnant female workers. The National Pension Act (Act 815, 2008) also provides that employees are registered for social security.

The expectation is that these requirements and costs would lead to greater informality. In other words, if the neo-classical view is upheld then firms will seek to avoid these regulations by failing to register their businesses given that unregistered businesses in Ghana hardly face any inspection and can avoid regulations at virtually no costs.

Following Loayza et al. (2011), the model explores the notion that informality is essentially a fundamental feature of under-development. That is, the model assumes that the costs-benefits analysis firms are assumed to make occur within and are affected by structural features of the economy, society, and of the enterprises. The model, therefore, incorporates socio-economic variables related in particular to education, gender, age, and location into the model. The model analyses several enterprise characteristics and how they affect allocation of enterprises into formal or informal status. Among this is the gender of the enterprise owner, education level of the owner, age of the enterprise, and where the enterprise is located – urban or rural – and in which of the ten (10) administrative regions. The data suggest that 70 percent of household enterprises are female-owned and adults, particularly people between the ages of 35 and 50 are most likely to own a household enterprise compared to young people below 25 years. In 2013, the majority (54 percent) of the household enterprises are in rural areas with only 46 percent in urban areas.

Female-owned and operated enterprises are expected to be more formal compared to male-owned ones on the assumption that women tend to be more risk-averse than men. Females tend to have less education compared to males. Since education has a positive influence on enterprise registration we expect

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<sup>84</sup> There are other regulations that could possibly affect enterprise decisions on formality and informality. These include the requirement for firms to grant workers paid sick leave/holiday, the imposition of maximum working hours of eight (8) and the requirement that firms allow their workers to form or join trade unions. In the legalist world, these regulations also have cost implications for enterprises. However, datasets do not allow assessment of their impacts in our econometric framework.

female-owned enterprises to be less formal. Thus, gender and enterprise status is indeterminate a priori. Better educated individuals or owners are likely to register their enterprises than the less educated enterprise owners and older enterprises are expected to be formal compared to younger ones.

Given that enforcement is strongest in urban Ghana, urban-based enterprises are more likely to register, hence, become formal compared to their rural counterparts. The expectation is that there will be regional differences in the registration status of enterprises with Accra-based enterprises more likely than those in other regions to be formal. Enforcement of laws on enterprise registration is strongest in Accra and other urban areas as compared to rural communities. Also included, as independent variable is the ownership status of the enterprise and the enterprise age. About 96 percent of all household enterprises involve sole proprietorship with a single owner. The expectation is that enterprises with shared ownership are more likely to be formal compared to those that are solely owned by an individual. Also, older enterprises are more likely to formalise their operations compared to younger ones and small enterprises employing five or fewer workers to be informal.

The two models (informal worker and informal enterprises) are evaluated using three different waves of the Ghana Living Standards Survey (GLSS). These are the fourth, fifth, and sixth rounds of GLSS conducted in 1998/1999, 2005/2006, and 2013 respectively. Using these three datasets provides a unique opportunity not only to analyse the levels and dynamics of the informality over the 1990s and the 2000s but equally importantly they allow analysis of trends in informality over this period. The three datasets allow for the identification of the factors that are specific to certain periods in explaining informality and those that are persistent over the period making it possible to make causal inferences. In the next section, the GLSS data is described in detail.

### **5.3 Description of the Data**

Until recently, rigorous and timely analysis of Ghana's labour market has been hampered by the lack of accurate and up-to-date data (Baah and Achakomah, 2007). This is beginning to change with the launch of the series of the Ghana Living Standards Survey in the later part of the 1980s. Since its inception, six rounds of the GLSS have so far been conducted in 1987/88, 1991/92, 1998/99, 2005/06 and 2012/13. The last three rounds constitute the main dataset to be used in the estimation of the econometric models specified above.

The GLSS provides unique datasets for analysis of this nature. They are conducted by the Ghana Statistical Service (GSS) with technical and financial assistance from the World Bank and other development partners (Baah, 2006a). These surveys are part of the broader Living Standard Measurement Surveys (LSMS) initiated and financed by the World Bank in the mid-1980s. The idea



behind the LSMS was to generate consistent and reliable data to enable the assessment of living conditions and to monitor progress and impacts of economic and social policies. The surveys usually cover several topics including demographic, economic, and social issues. These are grouped into modules. There are modules on household characteristics, consumption and income. There are also sector-specific modules including modules on education, health, labour markets, fertility, and anthropometrics.

As stated earlier, the quantitative analyses are based on three different rounds of the Ghana Living Standards Survey (GLSS). These are GLSS4 conducted in 1998/99, GLSS5 conducted in 2005/06 and GLSS6 conducted in 2012/13. The GLSS 4 covered a nationally representative sample of 5,998 households containing 25,855 household members. The GLSS5 covered 8,687 households containing more than 37,128 individual household members. The GLSS6 is the latest in the series and covered a nationally representative sample of 16,722 households containing 72,372 individuals.

All three waves of the GLSS used in the thesis has detailed information on demographics, health, education, employment housing agricultural activities, the operation of non-farm household enterprises, remittances, savings, credits, and assets. Both GLSS 5 and 6 incorporated additional information on tourism and migration.

In this thesis, several of the modules are of interest. These include the sections on demographic characteristics, household composition, education, employment and economic activity, and the special module on non-farm household enterprises. All the three datasets have detailed information on individuals including occupation, age, marital status, the level of education, gender, nationality, participation in the labour market, the sector of employment, and locality. The labour market modules also have detailed information on working conditions of the currently employed including detailed information on labour regulations. Among the regulatory variables captured in the data is the requirement for a written contract of employment, the right to form or join a union, leave provisions (annual, holiday and sick leave), social security/pensions, severance pay and medical care including maternity.

At the household level, there is detailed information on household size, individuals' status in the household, parental background, including education and occupation. At the enterprise level, there are data on individuals' sector of employment (industrial sector), enterprise size defined as the number of employees, the status of unionisation, and location of the enterprise (region, and/or urban or rural).

The non-farm household enterprise module is also of special interest and all three rounds of the GLSS have this module. Non-farm household enterprises are enterprises operated by households whose activities are not related to

agriculture (GSS, 2014). This module has detailed information on non-farm enterprises operated by households. There is detailed information on the number of households that operate these enterprises, enterprise ownership, characteristics of owners (gender, education and age), enterprise age, and size (number of employees). The section also has information on the registration status of the enterprise, its mode of funding and sector of operation. There is also information on the working conditions of employees of these household enterprises.

#### **5.4 Definition of Key Variables and Concepts**

This section defines and explains the various variables and key terminologies used in the thesis. The focus is on the variables that are utilised in the estimation.

##### **5.4.1 Informal Workers and Enterprises**

As mentioned earlier in Chapter 2, the Ghanaian labour market like most other labour markets in Sub-Saharan Africa is segmented into informal and formal sectors. Precise definition and distinction of the two broad sectors have always been a difficult exercise in practice among labour market researchers and experts. In other words, despite a long history of debate spanning more than four decades, what is formal and what is informal remains controversial even among experts in the field. Part of the challenge is that informality itself is difficult to observe in practice (Schneider and Enste, 2000).

In this thesis, informality is defined at two levels – informal workers and informal enterprises. Informal workers comprise all workers either in formal or informal establishments that are not registered for social security and do not contribute to any formal pension scheme. As we have mentioned earlier, in Ghana, the social security law (Act 815, 2008) requires employers not only to register their employees for purposes of social security contributions but also ensure that they deduct such contributions and remit them to the social security funds. Workers who are not registered for social security, therefore, are not in compliance with not only the social security law but also labour law. For robustness check, we also define informality or informal workers to include all workers who according to the dataset utilised in the econometric estimations actually indicated that they work in the informal economy.

Informal enterprises are defined as enterprises that are not registered with any state agencies. The Companies, 1963 (ACT 179) require all enterprises to be registered with the Registrar General's Department.<sup>85</sup> The data makes room for enterprises to do registration with other state agencies other than the Registrar-General's Department. These include the Department of Cooperatives and the District Assemblies.<sup>86</sup> In the model, all enterprises that are registered with any of these agencies are classified as formal and those that are not registered as informal.

#### *5.4.2 Labour Regulations*

The Ghanaian labour market is subject to several regulations. Both the Constitution and the Labour Act (Act 651, 2003) guarantees the right of workers to form or join trade unions for the protection of their economic and social interests. Workers are also guaranteed the right to bargain collectively. Besides, the Labour Act requires employers to provide several non-wage benefits to their employees. These include social security, paid annual leave and paid holiday, paid sick leave, paid maternity leave for female employees, and severance pay (Act 651, 2003).

In the data, workers were asked to indicate whether they were entitled to these benefits, that is, if their employers were complying with the regulations as provided in the Labour Act. As has already been noted, workers do not have much of a choice with respect to these regulations. Therefore, it is assumed that the choice or allocation of workers into the formal or informal economy will not be determined or influenced by these regulations. For enterprises, however, these regulations are often deemed as additional costs, which can be avoided if

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<sup>85</sup> Section 5 of the Companies Act specifies that 'No company, association or partnership consisting of more than 20 persons shall be formed for the purpose of carrying on any business that has for its object the acquisition of gain by the company, association or partnership, or by the individual members thereof, unless it is registered as a company under this Code or is formed in pursuance of some other enactment for the time being in force'.

<sup>86</sup> The 1992 Constitution defined the status of District Assemblies as 'the highest political authority in the district, [...] with deliberative, legislative and executive powers' [Article 241(3)]. The 216 Assemblies are categorised into three types, depending on the size of the district. Those in the major cities and towns are designated as 'Metropolitan Assemblies' (six in number) and 'Municipal Assemblies' (40 in number), where the districts have a population of over 250,000 or over 95,000 respectively. The 'District Assemblies' cater for areas that are sparsely populated areas.

one operates in the informal economy where enforcement is almost non-existent.

#### *5.4.3 Education*

Education is used as a proxy for human capital development or the skill level of workers. At the individual level, the GLSS questionnaire asked respondents to indicate their highest level of education attained.<sup>87</sup> There are eleven (11) possible responses including no formal education, primary, middle, junior secondary, senior secondary, vocational/technical/commercial, polytechnic and university among others. For the econometric analysis and for purposes of parsimony, four dummy variables are constructed for the education level of respondents. These dummies are ‘no education’, ‘basic education’, ‘medium education’ and ‘high education’. All individuals who had no formal education or only completed kindergarten were classified under ‘no education’. Individuals who have completed primary, middle school, and junior secondary are classified under ‘basic education’. The ‘medium education’ group is made up of all individuals who have completed secondary up to polytechnic education. Those who have a diploma, a bachelor, and postgraduate degrees are classified into the ‘high education’ group. In the enterprise model, the same categorisation with respect to the owner of the enterprise or at the least the person responsible for operating the enterprise is used.

#### *5.4.4 Region/Locality*

There are ten (10) administrative regions in Ghana. These are the Western, Central, Greater Accra, Volta, Eastern, Ashanti, Brong Ahafo, Northern, Upper East, and Upper West. The Greater Accra (where the capital city, Accra is located) is the most urbanised region in Ghana. According to the last population census conducted in 2010, Greater Accra had a population of 4,010,054 representing 16.3 percent of the national population. The Ashanti region is the next urbanised region with a total population of 4,780,380 or 19.4 percent of the total population. The Western region follows the Ashanti region regarding the level of urbanisation. The census report shows that Ghana has achieved rapid urbanisation over the last decade with a little over half (50.9 percent) of the population residing in urban areas. In 2000, the urban population was estimated at 43.7 percent.

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<sup>87</sup> See the GLSS Questionnaire for 1998/99, 2005/06 and 2012/13.

#### *5.4.5 Industrial Sectors and Occupations*

In the empirical analysis, all economic activities are grouped into nine main categories based on the International Standard of Industrial Classifications. The nine categories are Agriculture, Mining, Manufacturing, Construction, Finance, Utilities, Transport, and Community, Social and Personal Services. Occupations are also grouped into seven different categories. These are professional, technical and related occupations, administrative and managerial occupations, clerical and related occupations, sales and related occupations, services and related workers, agricultural, animal husbandry and forestry occupations, fisher folks and hunters and production and related occupations.

#### *5.4.6 Age or Labour Market Experience*

At the individual level, age is used as proxy for labour market experience in the empirical analyses. Young people with less experience in the labour market would have a different path in the labour market compared to adults. The datasets have information on labour market status of individuals who are seven years and older. Since our focus is on the working age population we concentrate on individuals between the ages of 15 and 64. All individuals in this age bracket are categorised as ‘youth’ (15-24), ‘young adults’ (25-35), ‘adults’ (36-50), and the ‘elderly’ (51-64).

#### *5.4.7 Enterprise Age*

This variable is used in the econometric model on non-farm household enterprises. There is some evidence, tenuous though, that enterprises of differing ages tend to behave differently (Fox and Sohnesen, 2012). The expectation is that younger enterprises would likely be informal compared to older ones. Enterprises were grouped into four (4) categories: ‘between zero and 2 years’; ‘between 3 and 5 years’; ‘between 6 and 9 years’ and ‘10 years and older’. In the actual estimation, two categories were used: ‘young enterprises’ defined as enterprises that are five years or younger concerning years of operations, and ‘older enterprises’ defined as enterprises that are over five years.

#### *5.4.8 Enterprise Size*

Enterprise size is defined by, the number of workers it employs. The hypothesis is that labour regulations would be more costly for smaller enterprises than larger ones. If this holds, then smaller enterprises are expected to react differently to regulations than larger ones. Two (2) different dummies for enterprise size were constructed. These are ‘small enterprises’ employing less than five workers and ‘large enterprises’ employing five workers or more.

#### **5.4.9 Other Variables**

The econometric models also incorporate several other variables that are thought to have significant consequences for labour market outcomes in Ghana. These include gender (male/female), marital status (single/married/divorced), locality (urban/rural) and institutional sector of employment (public/private sector). Males are more likely than females to be in the formal economy as workers. As enterprise owners (employers) the impact of gender is ambiguous a priori. Married individuals are likely to be older with more labour market experience and social capital, hence likely to be in the formal economy compared to the unmarried and the divorced. Public sector workers are expected to be formal compared to workers in the private sector.

#### **5.5 Political Economy Analyses**

Beyond quantitative analyses, the methodology also included analyses of the Ghanaian state and its capabilities regarding enforcement of the relevant laws and the social contract. The analyses encompass the recent political history, the economy, and society of Ghana. It also involves analysis of citizens' responses to changes in politics, economy, and society. Combined with the results of the quantitative analyses and the survey – 'Understanding the Urban Informal Economy in Ghana' – results mentioned earlier, a political economy framework for understanding the growing levels of informality in Ghana is put forward.

The survey by Anuwa-Armah (2015) sought to understand the urban informal economy in Ghana. It employed a mixed method comprising questionnaire survey, focused group discussions (FGDs) and interviews. Five thousand questionnaires were administered to employers (1,500 questionnaire) and workers (3,500 questionnaires). The questionnaires were randomly administered in 21 urban towns across the 10 regions of the country. In addition, there were 28 focus group discussions in which 140 people participated. The FGDs took place in Tamale, Kumasi, and Tema. The methodology also included interviews with 51 people across the country.

## **Chapter 6**

### **Econometric Analysis of Determinants of Informality**

#### **6.0 Introduction**

This chapter is devoted to presentation and analysis of the econometric estimations. The chapter is divided into two parts. The first part focuses on the informal worker model. Three different models are estimated using two separate definitions of informal worker and based on the 1998/1999, 2005/2006, and 2012/2013 waves of the Ghana Living Standards Survey. The first definition focuses on workers that are not registered for social security. In the second definition, the focus is on workers who self-classified themselves as informal workers in the household survey.

The analysis in this section is restricted to workers in paid employment who have a clearly discernible employer-employee relationship. These workers are required by law to be registered for and contribute to social security. As shown in Chapter 4 of this thesis, workers in self-employment and also in family-owned businesses are not required by law to contribute to social security. Even though the social security law makes provision for their participation, the mechanism for doing so is either unclear or unsuitable for their peculiar circumstances including the fact that most of them earn low and irregular incomes and most have too little education to be able to join and participate in social security (see Chapter 4).

The second part of the chapter is devoted to analyses of informal enterprises defined as enterprises that are not registered with any state agencies either at the national or sub-national level.

#### **6.1 Descriptive Statistics**

This subsection provides information on the variables used in the regression analyses. The statistics cover paid employees in the Ghanaian workforce. Unpaid employees are left out for the reasons given above.

##### **6.1.1 Paid Employment**

As indicated in Chapter 4, paid employees with the employer-employee relationship are required by Act 766, the National Pensions Law to be registered for social security. Across the three datasets, paid employment constitutes a small proportion of the Ghanaian workforce. In 1999, only about 14 percent of the workforce was in paid employment. By 2013, the proportion of paid employees increased to about 17 percent, an increase of 3 percentage points. Thus, over 80 percent of the workforce is either in self-employment or work as

contributing family workers. As we will see later in this chapter, having a paid job is different from working in the formal sector. A significant majority of the workforce in paid jobs has employment characteristics that clearly put them in the informal sector. For the purpose of this thesis, the most crucial characteristic is that most paid employees are not registered for social security.

**Table 21: Employment Status (1999-2013) (in Percentage)**

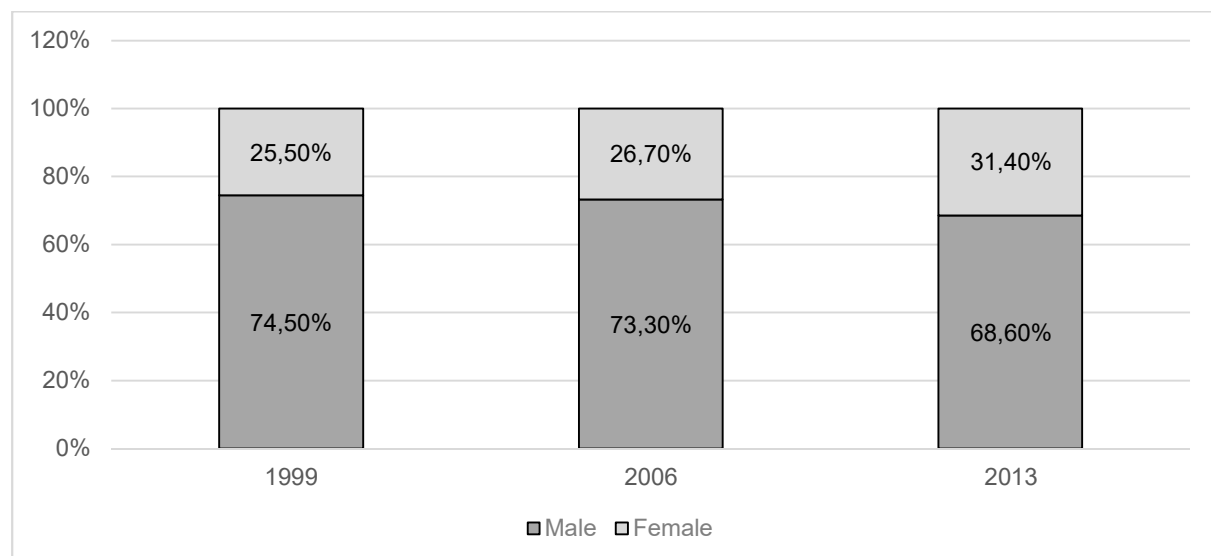
<b>Employment status</b>	<b>1999</b>	<b>2006</b>	<b>2013</b>
Paid Employment	13.67	16.52	16.80
Other	86.33	83.48	83.20
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

*Source: Author's calculations from GLSS 4, 5 & 6.*

### 6.1.2 Sex of Paid Employees

The sex distribution of the workforce in paid employment is skewed in favour of males. In both 1999 and 2006, nearly three-quarters of the people in paid employment were males with females making up only one-quarter of that segment of the workforce. By 2013, the proportion of females in paid employment increased to nearly one-third of the total paid employment. Women are gradually leaving unpaid work in the household for paid jobs in the labour market. This has been made possible principally because of the increasing attention being paid to female education and the fading influence of traditional norms that consign women to unpaid jobs in the household.

**Figure 20: Sex Composition of Workforce in Paid Employment (1999-2013)**



*Source: Author's calculations from GLSS 4, 5 and 6.*



### 6.1.3 Regional Distribution

As expected, the majority of the workforce that is in paid employment is found in the Greater Accra, Ashanti, and Western regions, the three most urbanised regions in Ghana. In 1999, about 60 percent of paid employees were located in these regions. Nearly one-third (30 percent) was found in the Greater Accra region. In 2013, the share of the three regions had increased to more than two-thirds (67 percent) of the total paid employees in the country. Accra's share increased from 27 percent to 36 percent while that of Ashanti increased slightly from 20 percent to 21 percent. The share of the Western region, however, declined from 15 percent in 1999 to about 10 percent in 2013.

**Table 22: Regional Distribution of Workforce in Paid Employment (1999-2013) (in Percentage)**

Region	1999	2006	2013
Western	15.03	10.90	9.87
Central	6.40	8.79	7.48
Greater Accra	27.08	34.60	36.21
Volta	8.29	4.29	4.60
Eastern	10.47	12.60	8.71
Ashanti	19.76	16.36	20.75
Brong Ahafo	6.90	6.89	6.57
Northern	3.16	4.11	2.94
Upper East	0.96	0.76	1.75
Upper West	1.94	0.81	1.13
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: GLSS 4, 5 & 6.

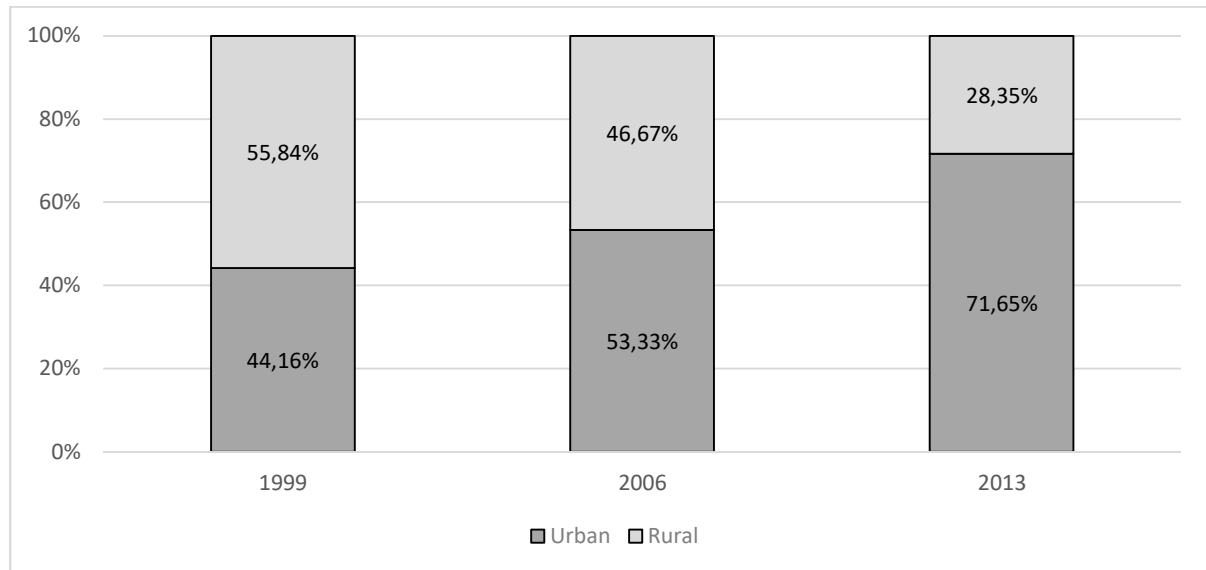
Note: The figures may not add up to 100 percent due to the rounding up to the nearest decimals.

Despite the increasing emphasis on decentralisation, the data appear to show that the other regions are losing out in terms of employment. The pattern of increasing concentration of paid employment in the three regions reflects the general distribution of foreign direct investment in Ghana. The available evidence is that nearly 80 percent of all foreign investments to Ghana are made in the Greater Accra, Ashanti, and Western Regions.

The data also show that paid employment has shifted from rural to urban Ghana. This reflects the shifts of the population from rural to urban areas and the increasing concentration of investments in urban areas. In 1999, more than half (56 percent) of people in paid employment were found in rural parts of the country. In 2013, just a little over one-quarter of the paid employees were located in the rural parts of the country. The slump in rural paid employment

could also be explained by the declining role of the state in employment. In most rural communities of Ghana, the public sector is often the only source of paid jobs. It is most likely that large-scale redundancies in the public in the 1980s and 90s and the subsequent freeze of public sector employment had a disproportionate effect on rural employment compared to urban employment. The sharp fall in paid employment in the agricultural sector (see Table 6.23), which is often rural-based, affirms this.

**Figure 19: Paid Employment by Locality (1999-2013) (in Percentage)**



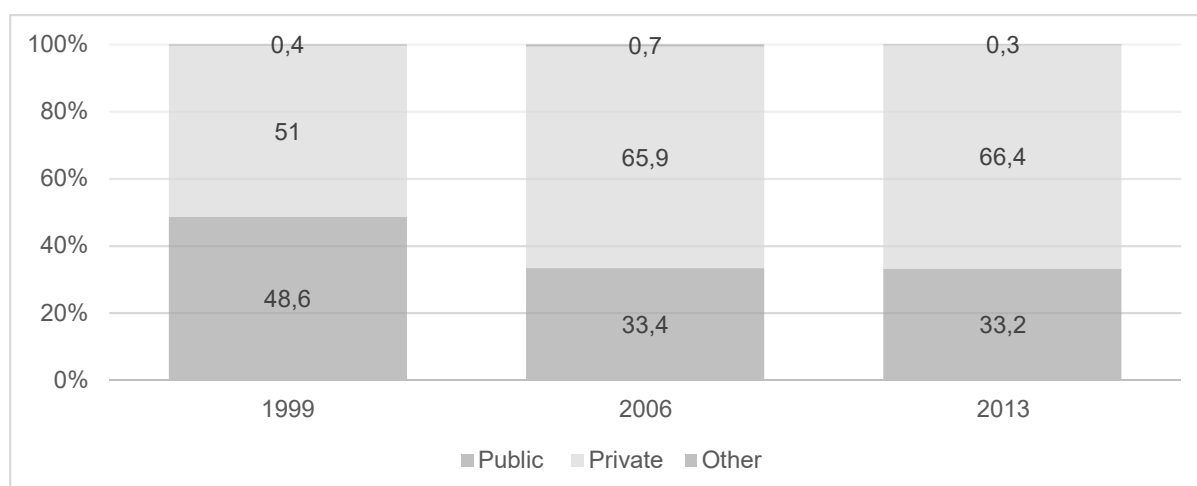
Source: GLSS 4, 5, and 6 data.

#### 6.1.4 Institutional Sector of Employment

The private sector employs majority of the workforce in paid employment. Reflecting on the reduced role of the public sector in direct economic activities, the dominance of the private sector in terms of its share of paid employment has increased over the period of analyses. In 1999, about 51 percent people in paid jobs were employed in the private sector. By 2013, this proportion has increased to two-thirds with just about one-third of paid employees employed by the public sector.

The data show that a greater a proportion of females in paid employment is employed by the public sector. In 2013, about 41 percent of female employees were working in the public sector compared to 30 percent of male employees. In 1999, more than half (54 percent) of the females in paid employment were working in the public sector compared to 47 percent of males.

**Figure 202: Institutional Sector of Employment (1999-2013) (in Percentage)**



*Source: Author's calculation from GLSS 4, 5 and 6 data.*

*Note: The figures may not add up to 100 percent due to the rounding up to the nearest decimals.*

### **6.1.5 Industrial Sector of Employment**

The bulk of the workforce in paid employment is employed in community, social, and personal services sector. Its share has increased slightly from 47 percent in 1999 to 48 percent in 2013. In 1999, the agricultural sector was the second largest employer of paid workers employing nearly 11 percent of the workforce in paid jobs. By 2013, agriculture's share of paid employees has more than halved to 4 percent. The manufacturing sector, which employed about 11 percent of the workforce in paid employment in 1999, also lost ground over the period of analysis. In 2013, manufacturing employed 8 percent of people in paid jobs. For the period of analyses, the sectors that increased their share of paid jobs were mining, utilities, and construction, trade, transport, and community, social and personal services.

**Table 23: Industrial Distribution of Paid Employees (1999-2013) (in Percentage)**

<b>Industrial Sector</b>	<b>1999</b>	<b>2006</b>	<b>2013</b>
Agriculture	11.0	9.86	4.23
Mining	3.77	3.02	4.70
Manufacturing	10.85	12.09	8.18
Utilities	0.98	1.27	1.70
Construction	4.52	5.04	6.65
Trade	7.39	14.29	11.38
Transport	10.70	12.40	12.12
Finance	4.98	1.71	3.06
Community, Social and Personal Service	45.67	40.32	47.97
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

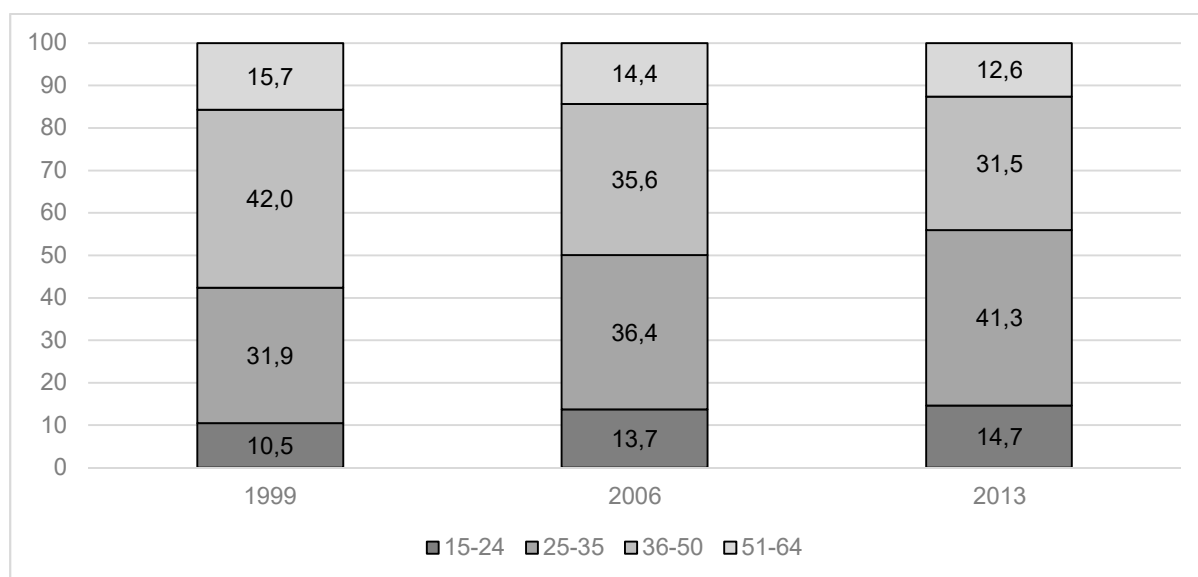
*Source: Author's calculation from GLSS 4, 5, and 6 data.*

*Note: The figures may not add up to 100 percent due to the rounding up to the nearest decimals.*

#### **6.1.6 Age Distribution of Paid Employees**

In the regression analyses, age is used as a proxy for labour market experience. The data show that the bulk of the Ghanaian workforce that is in paid employment is between the ages 25 and 50 years. In 1999, nearly three-quarters (74 percent) of the workers in paid employment were between ages 25 and 50. The share of this age cohort remained almost the same in 2013 (73 percent). The Youth (15-24 years) are the least represented in paid employment. This is to be expected given that young people often lack the relevant experience to gain employment in the highly competitive paid employment sector. However, the data also show a gradual increase in the share of youth in paid employment squeezing the elderly (51-64-year-olds).

**Figure 213: Age Distribution of Workers in Paid Employment (1999-2013) (in Percentage)**



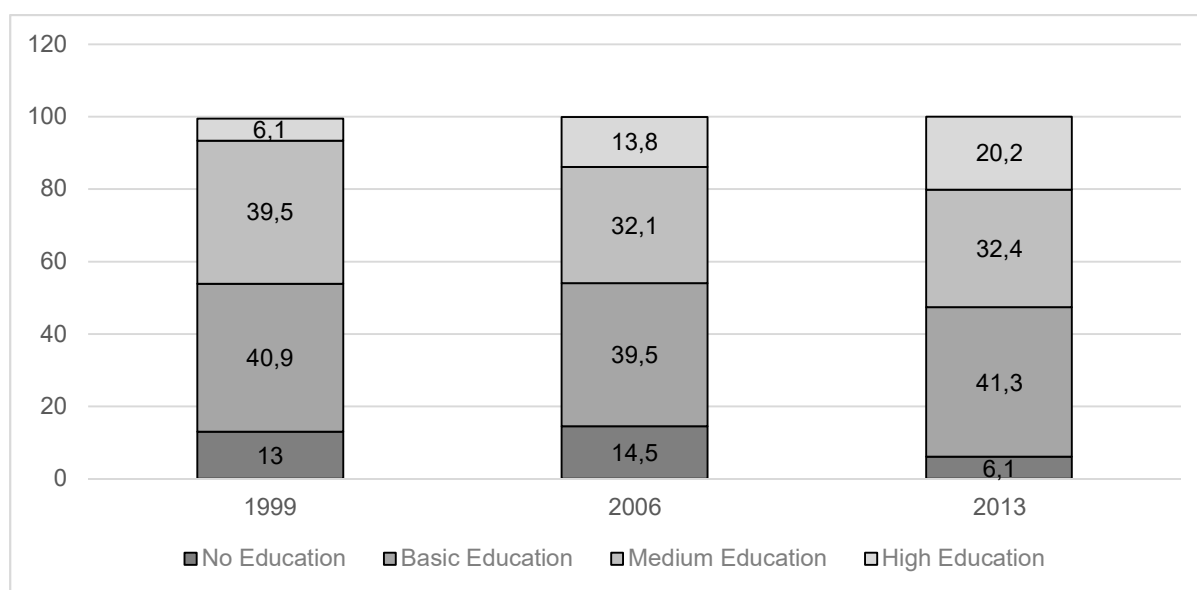
Source: Author's calculation from GLSS 4, 5, and 6 data.

### 6.1.7 Educational Status

As expected and compared to the overall workforce, educational attainment of workers in paid employment is relatively better. In 1999, about 13 percent workers in paid employment had never been to school compared to about one-third of the adult population. By 2013, the proportion of people in paid employment who had never been to school had declined slightly to 11 percent compared to about one-quarter of the adult population in that year. Overall, the majority (about 41 percent) people in paid employment have only attained basic education. In 1999, less than one-tenth (6 percent) workers in paid employment had higher education. This increased significantly to one-fifth in 2013.

As expected, educational attainment is lowest among the youth when compared with the adult population. In 1999, more than one-tenth (13 percent) young people between the ages 15 and 24 had no formal education compared to only 6 percent of the population between the ages 51 and 64. In 2013, the proportion of never been to school youth was 10 percent compared to 4 percent of workers between 51 and 64 years. The relatively low educational attainment among young people coupled with their lack of labour market experience partly explains why they are under-represented in paid employment.

**Figure 24: Educational Status of Paid Employees (1999-2013) (in Percentage)**



Source: GLSS 4, 5, and 6 data.

Further analyses reveal that educational status of males and females in paid jobs do not show significant difference. The data also show that females have made remarkable progress in the area of education. Between 1999 and 2013, the proportion of males and females with no formal schooling more than halved for both sexes. Also, between the two periods, the proportion of females in paid employment having higher education increased by more than six fold compared to about a three-fold increase for males.

**Table 24: Educational Status by Sex (1999-2013) (in Percentage)**

Educational Status	1999		2006		2013	
	Males	Females	Males	Females	Males	Females
No Education	12.14	15.18	14.20	13.71	5.90	6.67
Basic Education	41.94	37.95	42.29	31.63	44.38	34.23
Medium Education	38.30	43.23	28.98	41.13	29.79	38.42
High Education	1.07	3.30	13.76	12.43	19.94	20.69
Other	0.55	0.33	0.77	1.10	0.00	0.00
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Author's calculation from GLSS 4, 5, and 6 data.

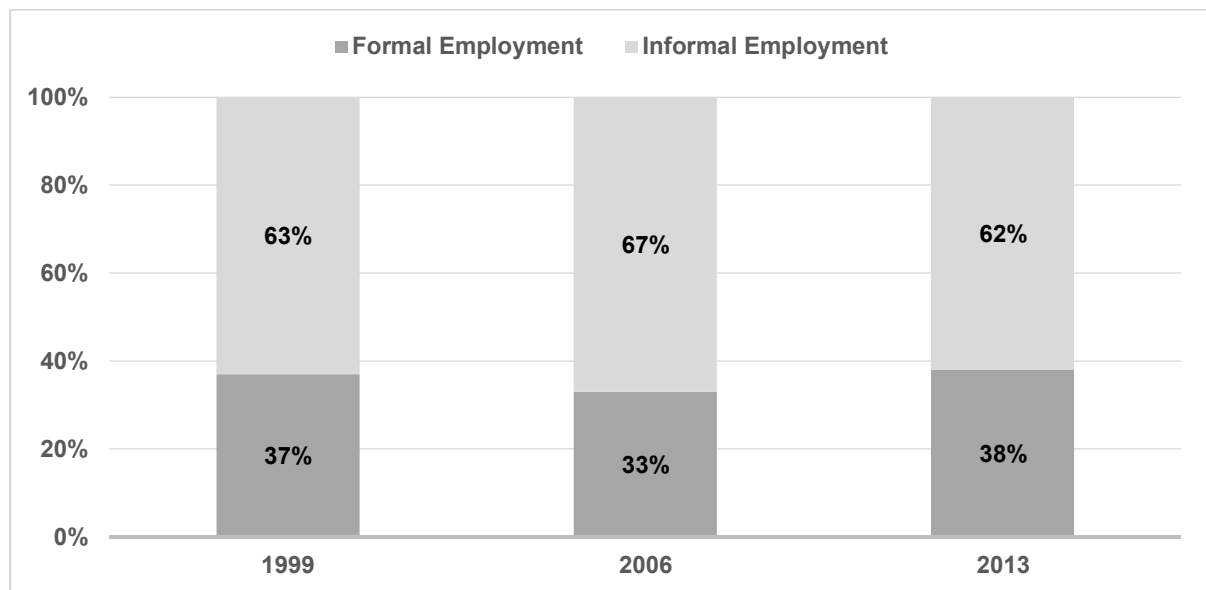
Note: The figures may not add up to 100 percent due to the rounding up to the nearest decimals.

### 6.1.8 Formal and Informal Employment

As expected and as indicated throughout this thesis, informal employment is the dominant form of employment in Ghana. For the segment of the workforce that

holds paid jobs, the level of informal employment has remained fairly constant since 1999. In that year (1999), 63 percent of the workforce in paid jobs was informally employed having not been registered for social security and therefore, not contributing to pensions. The proportion of paid employees informally employed declined only slightly to 62 percent in 2013. Thus, despite consistent economic growth recorded over the period of our analysis and contrary to the promise of the growth proponents, nearly two-thirds of the Ghanaian workforce that are fortunate enough to have paid employment is informally employed.

**Figure 225: Informal and Informal Employment (1999) (in Percentage)**



*Source: Author's calculation from GLSS 4, 5, and 6.*

Contrary to expectations, among the workforce in paid employment, informality is slightly higher for males compared to females. In 2006, more than two-thirds (67 percent) of males in paid jobs were informally employed compared to 66 percent females. The proportion of males in paid employment declined to 63 percent in 2013 while that of females decreased to 60 percent. Thus, for paid jobs informality does not reflect the face of a woman. The data also show that informality is predominant in rural areas compared to urban Ghana. In 1999, about 59 percent of rural workers in paid jobs were informally employed compared to 61 percent of urban workers. However, by 2013 the proportion of rural workers (66 percent) that is informally employed had surpassed that of urban workers (60 percent). As mentioned earlier, this could be explained by the declining role of the state in employment and the sharp decline in paid employment in agriculture, which is often rural-based.

**Table 25: Informality by Locality, Levels and Shares (1999-2013) (in Percentage)**

Locality	1999		2006		2013	
	Level	Share	Level	Share	Level	Share
Urban	61.2	59.3	63.9	70.7	60.2	69.7
Rural	58.5	40.7	67.4	29.3	66.4	30.3
<b>Total</b>		<b>100.0</b>		<b>100.0</b>		<b>100.0</b>

*Source: Author's calculation from GLSS 4, 5, and 6.*

For the totality of the informal workforce, the majority is in urban areas. In Table 25, the data actually show that urban Ghana has increased its share of workers that are informally employed. In 1999, 59 percent of all those that were informally employed were in urban areas of the country. By 2013, the proportion of the informally employed in urban areas had increased to 70 percent (see Table 25). Thus, informality in the manner defined in this thesis is more of an urban phenomenon. The increased informality in urban areas is explained by the growing role of trade and transport, which are often urban-based and informal in nature. The general shift in the population from rural to urban and the scarcity of good jobs also explain the rising levels of informality in urban areas.

**Table 26: Informality by Region (1999-2013) (in Percentage)**

Region	1999		2006		2013	
	Formal	Informal	Formal	Informal	Formal	Informal
Western	34.8	65.2	21.65	78.35	37.01	62.99
Central	30.4	69.6	20.67	79.33	29.96	70.04
Greater Accra	39.1	60.9	37.63	62.37	37.47	62.53
Volta	56.4	43.6	29.73	70.27	39.43	60.57
Eastern	42.2	57.8	35.61	64.39	35.07	64.93
Ashanti	36.8	63.2	29.38	70.62	35.90	64.10
Brong Ahafo	31.5	68.5	37.80	62.2	38.86	61.14
Northern	34.5	65.5	44.55	55.45	47.64	52.36
Upper East	100.00	0.00	37.14	62.86	47.95	52.05
Upper West	68.18	31.8	58.06	41.94	50.00	50.00

*Source: Author's calculation from GLSS 4, 5, and 6.*

In terms of regions, while Greater Accra, Ashanti, and Western regions have respectively the highest proportion of paid employment these regions do not



necessarily have the highest proportion of formal jobs. Informality in Accra increased from 61 percent in 1999 to 63 percent in 2013. In Ashanti, informality also increased by one percentage point between 1999 and 2013 while it reduced from 65 percent to 63 percent in the Western region. By the definition used, and for the most recent data (2013) informality is lowest in Upper West (50 percent) and highest in the central region (70 percent). The three northern regions, the poorest and the least urbanised surprisingly tend to have much lower informality compared to the rest of the country. This may be a reflection of the very low response rate in the three regions on the question of social security compared to the other regions.

As expected, the data reveal that informality decreases with age making it more predominant among young people. The most current estimates – based on the 2013 data – show that informality among the youth (15-24 years) is 87 percent compared to 50 percent of people between the ages of 51 and 64. Thus, young people with limited labour market experience and also relatively low education are churned out of formal jobs. They are compelled to use informal jobs as their entry points into the labour market. Young people are also vulnerable making it difficult for them to demand their labour rights including their right to social security as provided by law.

**Table 27: Informality by Age (1999-2013) (in Percentage)**

Age	1999			2006			2013		
	Formal (F)	Informal (I)	Total (T)	F	I	T	F	I	T
15-24	3.9	96.1	100	9.9	90.1	100	12.6	87.4	100
25-35	31.4	68.6	100	27.6	72.4	100	36.4	63.6	100
36-50	45.0	55.0	100	42.1	57.9	100	44.8	55.2	100
51-64	49.0	51.0	100	48.3	51.7	100	50.1	50.0	100

*Source: Author's calculation from GLSS 4, 5, and 6.*

Further analyses of the data show that informality declines with the level of education. The better educated tend to have greater access to formal jobs compared to those with poor education. Over the period of analyses, informality among people with no education increased from about 88 percent to 90 percent, an increase of two percentage points. Informality among workers with higher education declined from 45 percent in 1999 to 23 percent in 2013. Thus, the level of informality among workers with no formal education is about four times the level among workers with higher education. The data also show that between 1999 and 2013, informality increased for workers at all levels of education except for those with higher education.

Regarding institutional sectors (i.e., public and private sectors), the data show that informality is expectedly higher in the private sector than the public sector.

In 1999, nearly four out of every 10 workers employed by the public sector was informally employed (i.e., not registered for social security). The corresponding figure for the private sector was 86 percent. By 2013, the level of informality in the public sector had decreased considerably to 26 percent while informality in the private sector also declined to about 80 percent. What is most striking is that the government that passed the social security law and is expected to uphold the rights of Ghanaians including workers could blatantly deny about a quarter of its workforce their right to social security.

**Table 28: Informality by Education Level (1999-2013) (in Percentage)**

Education	1999			2006			2013		
	Formal (F)	Informal (I)	Total (T)	F	I	T	F	I	T
No education	12.1	87.9	100	13.4	86.5	100	9.7	90.3	100
Basic Education	33.5	66.5	100	25.1	75.9	100	21.0	79.0	100
Medium Education	49.5	50.5	100	48.4	51.6	100	46.7	53.3	100
Higher Education	55.4	44.6	100	64.5	35.5	100	77.1	22.9	100

*Source: Author's calculation from GLSS 4, 5, and 6.*

**Table 29: Informality by Institutional Sector (1999-2013) (in Percentage)**

Institutional Sector	1999			2006			2013	
	Formal (F)	Informal (I)	Total (T)	F	I	T	F	I
Public	61.1	38.9	100	62.6	37.4	100	73.5	26.5
Private	13.7	86.3	100	18.6	81.4	100	20.4	79.6

*Source: Author's calculation from GLSS 4, 5, and 6.*

The data indicate that informal employment is most pronounced in the trade sector where in 2013, 90 percent of workers were not registered for social security. This is followed by transport (86 percent), construction (84 percent) and mining (78 percent). For trade transport and mining and utilities, the level of informal employment has actually increased during the period covered by our analyses. The sectors with the least level of informality were finance (40 percent) and community, personal and social services (43 percent). In terms of shares, more than three-quarters (76 percent) of the informal sector workforce were employed in community, social and personal services (33 percent), transport (17 percent), trade (16 percent) and manufacturing (10 percent). Thus, while the community, social and personal services sector is among the sectors with the least level of informality, it employs the highest proportion of the

informally employed. Agriculture's share of the informally employed halved between 1999 (12 percent) and 2013 (6 percent). This might reflect a large drop in agriculture's share of the workforce in paid employment. On the contrary, the shares of mining, utilities, construction, trade and transport increased between 1999 and 2013.

**Table 30: Informality by Industrial Sector (1999-2013) (in Percentage)**

Sector	1999	2006	2013
Agriculture	79.8	79.3	63.8
Mining	74.0	59.4	77.5
Manufacturing	73.6	67.9	72.2
Utilities	53.8	44.9	55.8
Construction	91.7	85.9	84.2
Trade	84.6	87.3	88.9
Transport	77.5	86.9	86.1
Finance	49.2	34.2	39.5
Community, Personal and Social Services	47.8	49.8	43.1

*Source: Author's calculation from GLSS 4, 5, and 6.*

**Table 31: Distribution of the Informal Employment by Industry (1999-2013) (in Percentage)**

Sector	1999	2006	2013
Agriculture	12.1	11.6	5.5
Mining	4.5	2.7	5.9
Manufacturing	13.0	12.3	9.6
Utilities	0.9	0.9	1.5
Construction	6.7	6.5	9.1
Trade	9.4	18.7	16.3
Transport	13.5	16.2	16.9
Finance	3.9	0.9	1.9
Community, Personal and Social Services	35.5	30.2	33.4
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

*Source: Author's calculation from GLSS 4, 5, and 6.*

## **6.2 Empirical Results of Binomial Logistic Regression – Informal Worker**

In the methodology chapter, it was indicated that given the scarcity of what might be called good jobs in Ghana, workers might not have a choice in deciding between working in the formal or informal economy. Therefore, working in the formal or informal economy is determined by attributes that could be specific to a given worker. The model, therefore, looks at determinants

of participation in the formal or informal employment using a binomial logistic regression based on the 1999, 2006, and 2013 household survey data.

The dependent variable is a discrete one, which takes the value one (1) if the worker has informal employment and zero (0) if the worker has formal employment. The control or independent variables include age as a proxy for labour market experience, education as a proxy for the level of human capital, gender, the industrial sector of employment, and institutional sector of employment. Others are location, which includes the region in which a worker works, whether the worker is found in the urban or rural parts of the country, and the marital status of the worker.

The regression results (see Tables 13 and 14) show that labour market experience (represented by age) and the level of human capital (represented by education) are the key determinants of employment in the informal economy. The age and education dummies are well determined in all the three empirical estimates. It shows that young people between the ages of 15 and 24 are more likely than adults between the ages 25 and 64 to be employed in the informal economy. In all the regressions, employment in the informal economy decreases with age. For instance, in 2013, people between 25 and 35 years were about 20 percent less likely to work in the informal economy; those between 51 and 64 were about 40 percent less likely to work in the informal economy.

In 1999, people between the ages of 25 and 35 years were 23 percent less likely to be employed informally while those between ages of 51 and 64 were 27 percent less likely to be informally employed. These estimates show that young people probably use informal employment as their entry points into the labour market. Once there, a few transit to formal employment when they have acquired enough experience. However, the vast majority of them remain in informal employment throughout their working lives.

The educational dummies are also well determined in all three regressions. As expected, workers with some level of education (except those with basic education in 1999) are less likely to work in the informal economy compared to their counterparts with no education. As is the case with age, the likelihood of being employed in the informal economy decreases as one's level of education increases. In 1999, people with basic education had an equal chance of working informally or being employed in the informal economy as those with no formal education. In that same year, people with medium education (secondary and post-secondary) were about 16 percent less likely to work informally compared to their counterparts with no formal education while those with higher education were 14 percent less likely to be informally employed.

In the 2006 regression, people with higher education (24 percent) were about three times less likely to be informally employed compared to people with only basic education (8 percent). However, estimates also show a strengthening of

the signalling effect of education over the years. For instance, in the 2013 regression, the likelihood that a person with basic education would work informally was 16 percent less compared to the situation in 1999 when those with basic education were not significantly different (in terms of their employment status) from those with no formal schooling. For those with higher education, the likelihood of working in the informal economy was 53 percent less compared to 14 percent in 1999. Thus, education or lack of it comes out as a strong determinant of employment in informal economy.

The regional effects are relatively better determined in 2006 and 2013 regressions compared to the one in 1999. In 1999, five of the regional dummies (Western, Central, Eastern, Brong Ahafo, and Northern) had the expected positive sign. Volta and Ashanti had negative signs. However, all the regional dummies were not significant indicating that workers in all the other regions were not different from their counterparts in Accra concerning the likelihood of being employed informally. In 2006, workers in Western (13 percent), Central (22 percent), Volta (9 percent), and Brong Ahafo (0.06 percent) regions were more likely to be informally employed compared to their counterparts in the Greater Accra region. Workers in all other regions were not significantly different from those in Accra. In 2013, workers in all the regions except Western and Ashanti were more likely than workers in Accra to be informally employed. Interestingly, Western and Ashanti regions are the most urbanised regions with the larger concentration of formal economic activities including government agencies in Ghana after the Greater Accra region.

In terms of the industrial sectors, the 2013 regression is better determined compared to 2006 and 1999. In 2013, workers employed in manufacturing, utility, finance and community, social and personal services sectors were less likely to be informally employed compared to their counterparts in agriculture. The effects are strongest in the finance sector where the likelihood of informal employment is reduced by about 20 percent. On the contrary, people working in construction (10 percent), trade (17 percent), and transport (14 percent) are more likely than their counterparts in agriculture to be employed informally. These are the sectors that have gained most in terms of their share not only of the workforce in paid employment but also in terms of total employment. These sectors have paradoxically declined in terms of their share of total output (GDP) even as they have increased their share of total employment. Additionally, these sectors have traditionally been prone to informality with very little application of labour standards including standards that have been codified into national laws.

It's worth noting that while mining was less likely to be informal in 2006, this likelihood had all but disappeared in 2013. This might be explained by the phenomenal expansion of informal artisanal mining including the huge influx of

Chinese nationals in the sector and the closure of the Obuasi mine (the largest mine in the country) leading to the loss of formal employment in the sector.

For the institutional sector, the regressions are well determined for all three regressions. As expected, people working in the public sector are less likely than those in the private sector to be employed informally. In 1999, the formal employment premium associated with the public sector was 39 percent implying that workers in the public sector were about 39 percent less likely to work informally compared to their counterparts in the private sector. This premium declined to 25 percent in 2006 before rising again to about 38 percent in 2013. As indicated earlier, there is nothing surprising about the public sector being more formal than the private sector. What is surprising is that anybody would be informally employed by the state, which legislated the national pension's law and sought to prosecute private individuals and enterprises that failed to apply the law.

The gender effect is weakening. In 1999, males were about 6 percent less likely to be employed informally compared to females. In 2006, the male advantage disappeared before it re-emerged in 2013 but with a weaker marginal effect. This was to be expected given that more females are getting educated and societal stereotypes about the sexes are getting weaker, and this is most welcome.

The effects of marriage on one's chance of being employed formally or informally are also eroding. In 1999, married people had about 16 percent less chance of working informally compared to people who had never married. The divorced were about 13 percent less likely to be informally employed in their jobs. In 2006, marital status had no impacts on whether a worker is employed formally or informally. In 2013, the marriage effect reappeared at a lower coefficient (4 percent) and a reduced level of significance (95 percent confidence level). Most significantly, in 2013, the divorced were more likely than the unmarried to be employed informally.

**Table 32: Binomial Logistic Regression Estimates for Informal Employment (1999-2013)**

Variables	Coefficients			Marginal Effects		
	1999	2006	2013	1999	2006	2013
<b>Age</b>						
Age15_24	<b>f</b>	<b>f</b>	<b>F</b>	<b>f</b>	<b>F</b>	<b>f</b>
Age25_35	-1.1620** (0.5143)	-0.8812*** (0.2370)	-0.9107*** (0.1442)	-0.2387	-0.1723	-0.1965
Age36_50	-1.2530** (0.5272)	-1.4427*** (0.2552)	-1.5397*** (0.1606)	-0.2574	-0.2821	-0.3321
Age51_64	-1.3578** (0.5465)	-1.3851*** (0.2756)	-1.8761*** (0.1769)	-0.2790	-0.2708	-0.4047
<b>Education</b>						
No Education	<b>F</b>	<b>f</b>	<b>F</b>	<b>f</b>	<b>F</b>	<b>f</b>
Basic Education	-0.3334 (0.2397)	-0.4346** (0.1715)	-0.7235*** (0.1549)	-0.0685	-0.0850	-0.1561
Medium Education	-0.7584*** (0.2447)	-0.9502*** (0.1786)	-1.7012*** (0.1583)	-0.1558	-0.1858	-0.3670
High Education	-0.7015** (0.3494)	-1.2278*** (0.2096)	-2.4651*** (0.1725)	-0.1441	-0.2401	-0.5318
<b>Industry</b>						
Agriculture	<b>f</b>	<b>f</b>	<b>f</b>	<b>f</b>	<b>F</b>	<b>f</b>
Mining	0.5953 (0.4910)	-0.7744** (0.3415)	-0.3737 (0.2713)	0.1223	-0.1514	-0.0806
Manufacturing	-0.6401* (0.3669)	-0.2808 (0.2460)	-0.6714*** (0.2421)	-0.1315	-0.0549	-0.1448
Utilities	-0.2588 (0.7536)	-0.4313 (0.4670)	-0.6221* (0.3367)	-0.0532	-0.0843	-0.1342
Construction	0.8948 (0.5784)	0.8051** (0.3502)	0.4958* (0.2677)	0.1839	0.1574	0.1069
Trade	-0.0146 (0.4434)	0.6143** (0.2685)	0.7872*** (0.2571)	-0.0030	0.1201	0.1698
Transport	0.3023 (0.3647)	0.8327*** (0.2738)	0.6516*** (0.2484)	0.0621	0.1628	0.1406
Finance	-1.2855*** (0.4140)	-0.7705* (0.4369)	-0.9403*** (0.2912)	-0.2641	-0.1506	-0.2028
Community, social and personal services	-0.3776 (0.2992)	0.0859 (0.2214)	-0.4153* (0.2199)	-0.0776	0.0168	-0.0896
<b>Region</b>						
Greater Accra	<b>f</b>	<b>f</b>	<b>f</b>	<b>f</b>	<b>F</b>	<b>f</b>
Western	0.2769	0.6728***	0.1257	0.0569	0.1315	0.0271

	(0.2323)	(0.2138)	(0.1309)			
Central	0.3117 (0.3328)	1.1606*** (0.2383)	0.8162*** (0.1588)	0.0640	0.2269	0.1761
Volta	-0.2171 (0.2726)	0.4720* (0.2704)	0.8056*** (0.1772)	-0.0446	0.0923	0.1738
Eastern	0.2750 (0.2478)	0.2702 (0.2066)	0.3313** (0.1506)	0.05649	0.0528	0.0715
Ashanti	-0.1036 (0.2426)	0.1740 (0.1623)	0.0903 (0.1252)	-0.02129	0.0340	0.0195
Brong Ahafo	0.4962 (0.3576)	0.0031* (0.2230)	0.4049*** (0.1580)	0.1019	0.0006	0.0873
Northern	0.1237 (0.3317)	-0.1838 (0.2066)	0.4535*** (0.1371)	0.0254	-0.0359	0.0978
<b>Marital Status</b>						
Never Married	<b>F</b>	<b>f</b>	<b>F</b>	<b>f</b>	<b>F</b>	<b>f</b>
Married	-0.7973*** (0.2816)	-0.0447 (0.1499)	-0.1994** (0.0976)	-0.1638	-0.0087	-0.0430
Divorced	-0.6727* (0.3759)	0.0654 (0.2491)	0.4644*** (0.1835)	-0.1382	0.0127	0.1002
<b>Sex</b>						
Female	<b>F</b>	<b>f</b>	<b>F</b>	<b>f</b>	<b>F</b>	<b>f</b>
Male	-0.2961* (0.1788)	-0.0338 (0.1337)	-0.1589* (0.0868)	-0.0608	-0.0066	-0.0343
<b>Locality</b>						
Rural	<b>F</b>	<b>f</b>	<b>F</b>	<b>f</b>	<b>F</b>	<b>f</b>
Urban	-0.0540 (0.1474)	0.1685 (0.1236)	-0.1078 (0.0921)	-0.0111	0.0329	-0.0232
<b>Institutional sector</b>						
Private	<b>F</b>	<b>f</b>	<b>F</b>	<b>f</b>	<b>F</b>	<b>f</b>
Public	-1.8940*** (0.1923)	-1.3141*** (0.1393)	-1.7649*** (0.0935)	-0.3892	-0.2569	-0.3807
<b>Firm size</b>						
Firm 0-5	<b>F</b>	<b>f</b>	<b>F</b>	<b>f</b>	<b>F</b>	<b>f</b>
Firm 6-20	-0.4261** (0.2003)	-0.7794*** (0.1348)	-0.1713* (0.0847)	-0.0876	-0.1524	-0.0369
Firm 21-100	-0.8034*** (0.2333)	-0.5304*** (0.1736)	-0.5361*** (0.1352)	-0.1651	-0.1037	-0.1156
Firm over 100	-1.2362*** (0.2526)	-1.1801*** (0.1779)	-0.7866*** (0.2702)	-0.2540	-0.2307	-0.1697
<b>LR chi2(27)</b>	<b>465.71</b>	<b>745.60</b>	<b>2366.39</b>			



<b>Prob &gt; chi2</b>	<b>0.0000</b>	<b>0.0000</b>	<b>0.0000</b>
<b>Pseudo R-squared</b>	<b>0.2718</b>	<b>0.2564</b>	<b>0.3491</b>
<b>Log likelihood</b>	<b>-623.9157</b>	<b>-1081.1746</b>	<b>-2206.4318</b>
<b>Number of observations</b>	<b>1292</b>	<b>2285</b>	<b>5103</b>

*Source: Author's calculation from Ghana Living Standard Survey IV, V, & VI (1999, 2006 and 2013).*

*Notes:*

*1. \*\*\*, \*\*, and \* denote significance at 1%, 5%, and 10% levels, respectively.*

*2. Figures in parenthesis are standard errors.*

For robustness check, the definition of informality was changed. Informality is now defined to include all workers who according to the survey data indicated that they were working in the informal sector (economy). The 2006 and 2013 datasets asked respondents to indicate, 'whom they worked for'. The coded responses included the informal sector. The result of the empirical estimates based on this definition is presented in Table 6.14.

The results show that age and education remain the most important factors determining whether a worker is employed formally or informally in the Ghanaian labour market. The age dummies are all significant at 1 percent level, indicating that people above 24 years (non-youth) are less likely than the youth (15-24 years) to work in the informal economy. This is true for both 2006 and 2013 regressions. The situation obtains as well for the education dummies. Workers with some level of education are less likely to work informally compared to their counterparts with no education.

The regional effects change dramatically in this new definition, particularly in the 2013 regression. All the coefficients for the regional dummies turned negative for the 2013 regression indicating superficially that workers in all regions are less likely to work informally compared to those in Accra. However, the regional effects are only significant for Western, Volta, Eastern, and Upper West. In the 2006 regression, workers in the Western, Eastern, Brong Ahafo, Northern, Upper East, and Upper West are less likely to work in the informal sector compared to workers in Accra.

For the industrial sector of employment, the effects are well determined in the 2013 regression. Workers in the mining, manufacturing, construction, trade and transport are more likely to work in the informal sector compared to their counterparts in agriculture. Workers in the utilities sector are the only ones who are less likely to work in the informal sector compared to workers in the agricultural sector. In the 2006 regression, workers in manufacturing, construction, trade and transport were more likely to work in the informal

economy compare to those in agriculture while those in utility and community, personal, and social services were less likely to do so. In both regressions, there appear to be no difference between workers in the finance and agriculture in terms of whether they work in the formal or informal sectors. In the previous definition (see Table 32), it was clear that workers in the finance sector were less likely to be employed in the informal sector compared to workers in agriculture. The shifts in the coefficients could reflect workers' experiences and self-assessment of their working conditions based on which they categorised themselves into the informal sector.

The effect of marital status was non-existent in the 2006 regression. In 2013, workers who were married were less likely than their counterparts who never married to work in the informal sector. In both regressions, the male dummy had the expected sign but was not significant indicating, as in the previous regressions based on the social security definition that the male advantage has been wiped out. In terms of locality, the 2013 regression shows that workers in urban areas of the country were more likely to report informality than workers in rural areas.

**Table 33: Binomial Logistic Regression Estimates for Informal Employment (2006-2013)**

Variables	Coefficients		Marginal Effects	
	2006	2013	2006	2013
<b>Age</b>				
Age15_24	<b>f</b>	<b>f</b>	<b>f</b>	<b>f</b>
Age25_35	-0.5171*** (0.1949)	-0.4412*** (0.1110)	-0.1392	-0.1020
Age36_50	-0.8153*** .2232489	-1.0399*** (0.1272)	-0.2496	-0.2405
Age51_64	-1.3420** .2832419	-1.3311*** (0.1521)	-0.4084	-0.3078
<b>Education</b>				
No Education	<b>f</b>	<b>f</b>	<b>f</b>	<b>f</b>
Basic Education	-0.7481*** (0.1453)	-0.2988*** (0.1097)	-0.1687	-0.0691
Medium Education	-1.6690*** (0.1671)	-1.4167*** (0.1197)	-0.3764	-0.3276
High Education	-2.7977*** (0.2792)	-2.4753*** (0.1625)	-0.6310	-0.5724
<b>Industry</b>				
Agriculture	<b>f</b>	<b>f</b>	<b>f</b>	<b>f</b>

Mining	-0.4184 (0.3277)	1.4681*** (0.2137)	-0.0944	0.3395
Manufacturing	0.4262* (0.2100)	1.0473*** (0.1901)	0.0961	0.2422
Utilities	-1.0420* (0.5908)	-0.5724* (0.3185)	-0.2350	-0.1324
Construction	1.3547*** (0.2797)	1.8047*** (0.3185)	0.3055	0.4173
Trade	1.6519*** (0.2190)	1.5076*** (0.1885)	0.3725	0.3486
Transport	1.5592*** (0.2180)	1.8710*** (0.1861)	0.3517	0.4327
Finance	-0.2817 (0.4823)	-0.2734 (0.2884)	-0.0635	-0.0632
Community, social, and personal services	-0.9057*** (0.1966)	-0.2426 (0.1714)	-0.2043	-0.0561
<b>Region</b>				
Greater Accra	<b>f</b>	<b>f</b>	<b>f</b>	<b>f</b>
Western	-0.6254*** (0.2003)	-0.5744*** (0.1231)	-0.1411	-0.1328
Central	0.0147 (0.2206)	-0.1569 (0.1359)	0.0033	-0.0362
Volta	-0.1177 (0.2723)	-0.4737*** (0.1661)	-0.0265	-0.1095
Eastern	-0.9732*** (0.2157)	-0.5767*** (0.1359)	-0.2195	-0.1333
Ashanti	0.1025 (0.1606)	-0.1166 (0.1144)	0.0231	-0.0270
Brong Ahafo	-0.9306*** (0.2410)	-0.2322 (0.1429)	-0.2099	-0.0537
Northern	-0.8661*** (0.3106)	-0.4776* (0.1997)	-0.1935	-0.1104
Upper East	-1.9021*** (0.6336)	-0.2649 (0.1880)	-0.4290	-0.0613
Upper West	-0.7715** (0.3810)	-1.0587*** (0.2141)	-0.1740	-0.2448
<b>Marital Status</b>				
Never Married	<b>f</b>	<b>f</b>	<b>f</b>	<b>f</b>
Married	-0.0683 (0.1463)	-0.1651* (0.0902)	-0.0154	-0.0382

Divorced	0.2549 (0.2464)	-0.2109 (0.1606)	0.0575	0.0488
<b>Sex</b>				
Female	<b>f</b>	<b>f</b>	<b>f</b>	<b>f</b>
Male	-0.0887 (0.1388)	-0.1357 (0.0836)	-0.0200	-0.0314
<b>Locality</b>				
Rural	<b>f</b>	<b>f</b>	<b>f</b>	<b>f</b>
Urban	0.0462 (0.1289)	0.2499*** (0.0857)	0.0104	0.0578
<b>Institutional sector</b>				
Private	<b>f</b>	<b>f</b>	<b>f</b>	<b>f</b>
Public	-	-	-	-
<b>LR chi2(27)</b>	<b>433.66</b>	<b>2017.01</b>		
<b>Prob &gt; chi2</b>	<b>0.0000</b>	<b>0.0000</b>		
<b>Pseudo R-squared</b>	<b>0.2134</b>	<b>0.2903</b>		
<b>Log likelihood</b>	<b>799.41785</b>	<b>2465.4959</b>		
<b>Number of observations</b>	<b>1,523</b>	<b>5124</b>		

*Source: Author's calculation from Ghana Living Standard Survey IV, V, and VI (1999, 2006, and 2013).*

*Notes:*

1. \*\*\*, \*\*, and \* denote significance at 1%, 5 %, and 10% levels, respectively.
2. Figures in parenthesis are standard errors.

### **6.3 Informal Enterprise**

In this section, the summary statistics for non-farm household enterprises is presented. The data show that while many Ghanaian households are operating an enterprise, the proportion of households doing so is actually declining. Many of the non-farm household enterprises are found in urban areas and most are into trading. Across the three datasets about two-thirds of household enterprises do not employ anyone apart of the owner or operator and nearly 90 percent of them operate without any form of official registration.

#### **6.3.1 Non-Farm Household Enterprises**

The data show that significant proportion of Ghanaian households operate one form of non-farm enterprise or the other, although, the proportion of households operating an enterprise is on a downward trend. In 1999, nearly half (49 percent) of all households were operating at least one non-farm enterprise. By 2013, the proportion of households operating an enterprise had declined to 44.3

percent. A higher proportion of urban households operate non-farm enterprise compared to rural households. In 1999, 58 percent of urban households were operating at least one enterprise compared to 44.7 percent of the rural households. In 2013, a little over half (50.4 percent) of the urban households operate at least one enterprise compared to a little over one-third (36.8 percent) of the rural households. Rural households are mostly engaged in agricultural activities, which is the dominant form of economic activities in such areas. This explains why non-farm enterprises are concentrated in urban areas.

**Table 34: Households Operating Non-Farm Enterprise (1999-2013) (in Percentage)**

Year	All	Urban	Rural
1999	49.0	58.1	44.7
2006	46.4	52.3	41.9
2013	44.3	50.4	36.8

*Source: GSS, 2000, 2008, 2014.*

### 6.3.2 Sex and Non-Farm Enterprises

Females tend to play a major role in the operation of non-farm household enterprises. This is true in both urban and rural areas of the country. In 1999, about two-thirds of all household enterprises were operated by women. This proportion increased to 70.6 percent in 2013. This may not necessarily imply ownership of household enterprises by women. Women may merely be responsible for operating the enterprise on behalf of the family. Given that most men have wage employment or are engaged in agricultural employment, women are frequently made to operate such enterprises in addition to their childcare activities. At the same time, analyses of the distribution of incomes from household enterprises show that greater proportion accrues to persons who are responsible for the enterprise. In 2013, more than 97 percent of incomes went to persons responsible for the enterprise (author's calculation based on GLSS 6 data).

**Table 35: Responsibility/Ownership for Household Enterprise by Sex (1999-2013) (in Percentage)**

Sex	1999			2006			2013		
	All	Urban	Rural	All	Urban	Rural	All	Urban	Rural
Male	33.7	32.3	36.9	28.0	31.5	24.7	29.4	28.6	30.9
Female	66.3	67.7	63.1	72.0	68.5	75.3	70.6	71.4	69.1
Total	100	100	100	100	100	100	100	100	100

*Source: GSS, 2000, 2008, 2014.*

### 6.3.3 Age and Household Enterprise Ownership

As expected, young people rarely own or operate non-farm household enterprises. Across the three datasets, young people below 25 years owned less than one-tenth of household enterprises. The majority of household enterprise owners are between the ages of 25 and 50 years. The low proportion of young people in the household enterprise sector could be explained by the difficulty of obtaining the necessary start-up capital for such a venture.

**Table 36: Household Enterprise Ownership by Age (1999-2013) (in Percentage)**

<b>Age</b>	<b>1999</b>	<b>2006</b>	<b>2013</b>
15-24	8.7	9.0	7.6
25-35	37.7	35.1	32.5
36-50	36.8	39.2	39.5
Over50	17.0	16.7	20.4

*Source: Computed from GLSS 4, 5 and 6 data.*

### 6.3.4 Education and Household Enterprise Ownership

People with limited levels of education are most likely to own or operate household enterprises. In 1999, 96.5 percent household enterprises were owned or operated by people with either no formal education (53.6 percent) or with basic education (42.9 percent). In 2006, about two-fifth (41 percent) of the household enterprises were owned or operated by people with no formal schooling. In that same year, the proportion of household enterprises operated by people with only basic education increased to almost two-thirds (64.1 percent) of the total. People with secondary and tertiary education are least likely to own or operate household enterprises. Even so, the data show a slow increase in ownership of household enterprises by people with secondary and tertiary education.

**Table 37: Ownership of Household Enterprises by Education Level (1999-2013)**

<b>Education</b>	<b>1999</b>	<b>2006</b>	<b>2013</b>
No Education	53.6	41.0	18.9
Basic Education	42.9	46.0	64.1
Secondary Education	1.3	11.5	13.7
Tertiary Education	2.3	1.5	3.4
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

*Source: Computed from GLSS 4, 5 and 6 data.*

### 6.3.5 Regional Distribution of Household Enterprise

The Ashanti region has the greater share of household enterprises for all the three datasets included in this thesis. In 1999, the region accounted for 17.5 percent of all household enterprises followed by the Central (16.7 percent), Eastern (16.1 percent) and Volta (15.6 percent) regions. In 2006, the share of Ashanti region increased to 18 percent before declining to 13.7 percent in 2013. The share of Greater Accra has remained fairly constant at about 11 percent over the period of analyses, while that of Western increased from 9.9 percent to 11.7 percent.

Household enterprises are quite rare in the northern parts of the country. Farming remains the dominant form of economic activity in those areas. In 1999, the three northern regions collectively accounted for less than one-tenth (7.8 percent) of all household enterprises. However, the three regions have also increased their share significantly over the period. In 2013, the collective share of the three regions went up to nearly one-fifth of the total.

**Table 38: Household Enterprises by Region (1999-2013) (in Percentage)**

<b>Region</b>	<b>1999</b>	<b>2006</b>	<b>2013</b>
Western	9.9	8.5	11.7
Central	16.7	7.4	7.1
Greater Accra	10.7	13.2	11.0
Volta	15.6	8.9	12.3
Eastern	16.1	11.5	12.1
Ashanti	17.5	18.0	13.7
Brong Ahafo	5.7	7.4	7.9
Northern	3.8	10.5	9.4
Upper East	2.7	7.2	5.8
Upper West	1.3	7.3	9.1
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

*Source: Computed from GLSS 4, 5 and 6 data.*

### 6.3.6 Sector of Activity

Industrial classification of household enterprises shows that the majority was engaged in the trade sector followed by manufacturing. In 1999, more than half (56.6 percent) of all household enterprises were trading while a little less than one-quarter (23.9 percent) was in the manufacturing sector. The combined share of trade and manufacturing was 80.5 percent in 1999; it decreased to about three-quarters (74.1 percent) in 2013. While the share of the trade sector has decreased over the period, it remains almost half (48.9 percent) of the total in 2013.

The share of transport and communications more than doubled between 1999 (1.4 percent) and 2013 (3 percent). This reflects the general boom in the communications subsector. Mining also increased its share from 0.2 percent in 1999 to 0.7 percent in 2013, reflecting the large increase in informal artisanal mining activities over the period.

**Table 39: Household Enterprises by Industrial Sector (1999-2013) (in Percentage)**

<b>Sector</b>	<b>1999</b>	<b>2006</b>	<b>2013</b>
Mining	0.2	0.5	0.7
Manufacturing	23.9	37.0	25.2
Trade	56.6	50.3	48.9
Transport/communications	1.4	1.9	3.0
Utilities	0.4	0.4	0.1
Construction	2.6	2.4	3.3
Finance	0.2	0.2	0.1
Community, personal and social services	9.2	6.1	16.5
Other	5.6	1.2	2.3
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

*Source: Computed from GLSS, 4, 5 and 6 data.*

*Note: The figures may not add up to 100 percent due to the rounding up to the nearest decimals.*

### 6.3.7 Enterprise Age

The data show that majority of household enterprises have operated for less than 10 years. In 1999, more than two-thirds (69.1 percent) of the enterprises have been in existence for less than a decade. In 2013, 58.2 percent of all household enterprises had operated for less than 10 years. In the same year, about two-fifths of the household enterprises were 10 years or older. Thus, the majority of household enterprises are young enterprises. Given the long history of entrepreneurship in Ghana, the relatively young nature of household enterprises could be explained by a higher level of attrition among such enterprises.



**Table 40: Household Enterprises by Years of Operation (1999-2013) (in Percentage)**

<b>Enterprise Age</b>	<b>1999</b>	<b>2006</b>	<b>2013</b>
0-2 years	27.8	13.3	12.4
3-5 years	26.6	29.3	29.1
6-9 years	14.8	16.7	16.7
10 years and older	30.9	40.7	41.8
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

*Source: Computed from GLSS 4, 5, and 6 data.*

*Note: The figures may not add up to 100 percent due to the rounding up to the nearest decimals.*

### 6.3.8 Size of Household Enterprises

In this thesis the size of an enterprise is measured as the number of workers the enterprise employs. The data show that most household enterprises are quite small. The majority of them do not employ anyone except the person responsible for it who may also double as the owner. In 1999, more than three-quarters of the enterprises did not employ anyone apart from the owner. By 2013, the proportion of enterprises that did not employ anyone had fallen to less than two-thirds (63.5 percent).

**Table 41: Employment in Household Enterprises (1999-2013) (in Percentage)**

<b>Enterprise Size</b>	<b>1999</b>	<b>2006</b>	<b>2013</b>
No Employees	75.9	66.9	63.5
1-5 Employees	22.4	31.4	34.8
Over 5 Employees	1.7	1.7	1.7
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

*Source: Computed from GLSS 4, 5 and 6 data.*

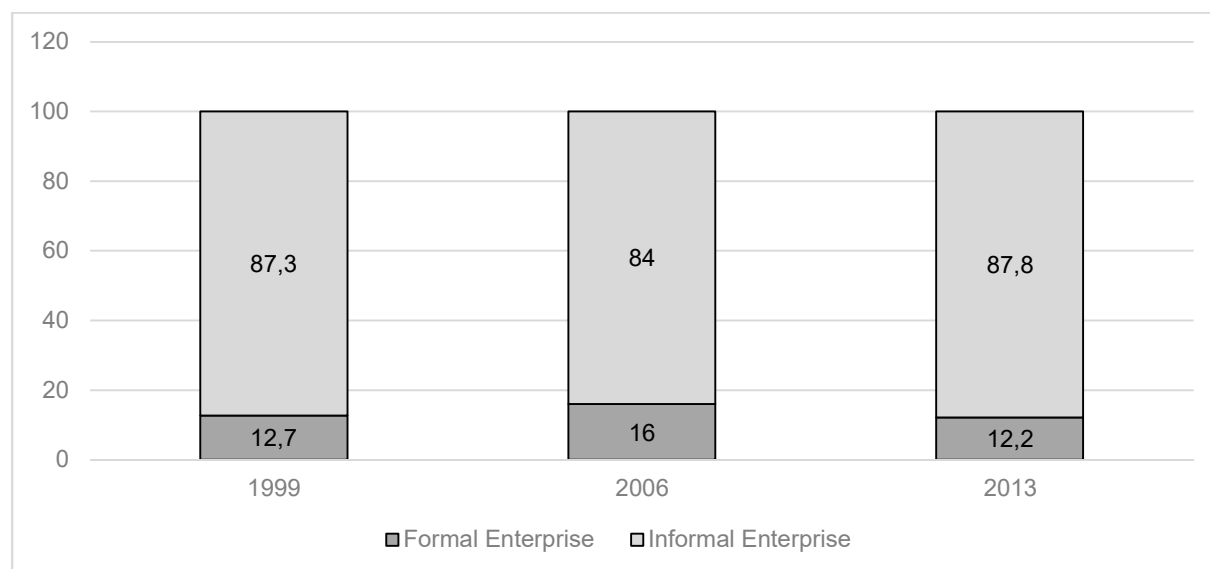
The proportion of enterprises employing between one and five employees had increased from a little over one-fifth (22.4 percent) to more than one-third (34.8 percent). Interestingly, there seems to be a cap on the proportion of enterprises employing more than five workers. Across the three datasets, no more than 1.7 percent of enterprises had more than five workers. Importantly, the majority of persons employed by household enterprises are contributing family workers. In 2013, some 53 percent of all the workers employed in household enterprises were family members.

### 6.3.9 Formal and Informal Enterprises

Consistent with the trend described throughout this thesis, the vast majority of household enterprises remain informal. In other words, these enterprises are not registered with any state agency as required by law. The level of informality has

remained fairly unchanged between 1999 and 2013. In 1999, approximately 13 percent of the household enterprises were registered with various government agencies, implying that 87 percent of all household enterprises in that year were informal in nature. In 2006, the proportion of household enterprises that were informal decreased to 84 percent. By 2013, the level of informality as regards enterprises had increased further to approximately 88 percent, same as the level of informality among workers.

**Figure 236: Formal and Informal Enterprises (1999-2013) (in Percentage)**



*Source: Computed from GLSS 4, 5 and 6 data.*

The estimate of the size of informal enterprises is consistent with those of previous studies (Debrah 2007; Haan 2006; ISSER 2007; Adom and Colin, 2012). In its 2007 study, the ILO estimated that about 95 percent enterprises were operating informally. Thus, the trend towards informality either in respect of workers or enterprises is hard to miss.

Male-owned household enterprises are less likely to be informal compared to enterprises owned or operated by females. In 1999, about two-thirds (76.9 percent) of all household enterprises owned or operated by men were informal; more than nine out of 10 (92.3 percent) of those owned or operated by women were informal. In 2013, the level of informality among male-owned or operated household enterprises had increased to 81 percent while that of female-owned or operated ones had decreased slightly to about 91 percent.

As expected, the level of informality among household enterprises in urban areas had decreased over the period of analyses compared to rural areas. In 1999, the proportion of informal enterprises in rural areas was 86.8 percent of the total compared to 88.2 percent in urban areas. In 2006, informal household enterprises as a proportion of the total decreased to about two-thirds (76.4

percent) in urban areas (see Table 42). In rural areas, the proportion increased to 90.7 percent. However, in 2013 both urban and rural areas relapsed further into informality as the proportion of informal enterprises in both locations increased to 84.3 percent and 91.7 percent, respectively. Also, the share of urban areas in the totality of informal enterprises has risen from one-third (33.4 percent) in 1999 to a little over half (50.5 percent) in 2013 (see Table 42).

At the regional level (see Table 43), the level of informality does not differ much from one region to the other particularly among the southern regions. The Greater Accra region has the lowest proportion of informal enterprises in both 2006 (66.5 percent) and 2013 (82.6 percent). In 1999, the Volta (80.8 percent) region had the lowest proportion of informal enterprises. Four regions – Western, Volta, Northern and Upper West – experienced increases in the levels of informality between 1999 and 2013. Another four regions – Central, Greater Accra, Brong Ahafo and Upper East – had declines in the levels of informality. Interestingly, the proportion of informal household enterprises in the Ashanti region remained the same over the period.

**Table 42: Informal Enterprises by Locality: Levels and Shares (1999-2013) - Percent**

Locality	1999		2006		2013	
	Level	Share	Level	Share	Level	Share
Urban	88.2	36.5	76.4	42.3	84.3	50.5
Rural	86.8	63.5	90.7	57.7	91.7	49.5
<b>Total</b>		<b>100.0</b>		<b>100.0</b>		<b>100.0</b>

*Source: Author's calculation from GLSS 4, 5 and 6.*

**Table 43: Informality by Region (1999-2013) - Percent**

Region	1999	2006	2013
Western	84.0	82.6	88.0
Central	87.8	72.9	85.2
Greater Accra	88.5	66.5	82.6
Volta	80.8	90.7	88.0
Eastern	91.6	91.2	86.0
Ashanti	84.6	82.8	84.6
Brong Ahafo	92.7	71.1	84.1
Northern	94.5	96.8	96.8
Upper East	96.7	94.8	87.3
Upper West	90.5	96.5	94.8

*Source: Author's calculation from GLSS 4, 5 and 6.*

As in the case of the informal worker, the level of informality among household enterprises appears to decrease with the age of the owner or the person responsible for the enterprise. In 1999, about 97 percent of household enterprises owned by young people between the ages 15 and 24 were informal, compared to 85 percent of enterprises owned by individuals over 50. In 2013, 95 percent of household enterprises owned or operated by young people were informal. The level of informality declined to about 89 percent for people between the ages of 25 and 35 and further down to about 86 percent for those between the ages of 36 and 50 years. Thus, while young people are least likely to own a household enterprise when they do, such enterprises are more likely to be informal (see Table 44).

**Table 44: Informality by Age (1999-2013) (in Percentage)**

Age	1999	2006	2013
15-24 years	96.9	87.9	94.5
25-35 years	87.4	84.3	88.7
36-50 years	86.1	84.2	85.9
51 years and older	84.6	81.1	87.5

*Source: Author's calculation from GLSS 4, 5, and 6.*

The data further reveal that young enterprises defined as enterprises that are two years or younger are more likely to be informal. As shown in Table 45, in 2013, 90.5 percent of all household enterprises between the ages 0 and 2 were informal. For household enterprises between the ages of 3 and 5, the level of informality decreased to 87.6 percent. For enterprises between six and nine years, informality is estimated at 85.4 percent. However, for older household enterprises that are ten years and older the level of informality increased to 86.2 percent, implying that beyond a certain age, household enterprises appear to relapse into informality. The trend is true also for the 1999 data. Only in 2006 that informality among household enterprises decreases throughout as enterprises mature.

Regarding the industrial sectors, the most recent data for 2013 show that informality is not confined to any particular industrial sector; it is a widespread phenomenon across the sectors. Even so, in 2013 construction (93.2 percent) remained the sector with the highest proportion of informal non-farm household enterprises followed by mining (91.5 percent) and utilities (90 percent). The level of informality in the utility sector has risen by about 15 percentage points and that of mining by about 10 percentage points. The sector with the least proportion of informal household enterprises is the transport sector. However, consistent with the general trend it is also experiencing rising levels of informality. In 1999, only 50 percent of all household enterprises in the transport sector were informal. This increased to about 64 percent in 2013. In

2013 about 86 percent of all workers working in the transport sector had informal jobs. This is a classic demonstration of informality in so-called formal enterprises.

**Table 45: Informality by Industrial Sector (1999-2013) (in Percentage)**

<b>Sector</b>	<b>1999</b>	<b>2006</b>	<b>2013</b>
Mining	83.3	95.7	91.5
Manufacturing	86.3	88.3	89.4
Utilities	75.0	94.1	90.0
Construction	91.0	88.8	93.2
Trade	91.4	83.4	88.9
Transport	50.0	56.5	63.9
Finance	60.0	75.0	55.6
Community, Personal and Social Services	77.7	70.9	84.3

*Source: Author's calculation from GLSS 4, 5 and 6.*

Consistent with the data on informal workers, informality among household enterprises decreases with the education level of the owner or the person operating the enterprise. Household enterprises owned or operated by people with no formal education are most likely to be informal, and the level of informality declines as the education level of the owner improves. In 2013, more than nine out of 10 household enterprises owned by people with no formal education were operating without any form of registration from any government agency. This proportion decreases to 86 percent for enterprises owned by people with basic education. It comes down further to 78 percent and 62 percent for people with medium and higher education, respectively.

**Table 46: Informality by Education Level (1999-2013) (in Percentage)**

<b>Education Status</b>	<b>1999</b>	<b>2006</b>	<b>2013</b>
No education	92.2	85.8	91.7
Basic Education	82.4	76.7	86.0
Medium Education	73.8	72.2	78.2
Higher Education	70.8	49.0	61.6

*Source: Author's calculation from GLSS 4, 5, and 6.*

#### **6.4 Empirical Results of Binomial Logistic Regression – Informal Enterprise**

Informal enterprises, unlike informal workers, have a choice to locate or operate in the formal or informal economy. In the neoclassical framework, the choice is based on cost-benefits analyses in which enterprises compare the costs of

operating in the formal economy with its benefits. If the costs exceed the benefits they operate in the informal economy otherwise they move into the formal economy. The costs of operating in the formal economy come in the form of regulations. In this thesis, the focus is on labour regulations. Labour regulations have often been cited as some of the most important regulations that compel enterprises to operate in the informal economy. This section presents results of a binomial logistic regression model in which labour regulations are hypothesised as determining participation in the informal economy. The model is based on GLSS (2006 and 2013).

As in the case of the informal worker model, the dependent variable – enterprise status – is a discrete variable, which takes on value one (1) if the enterprise is informal and zero (0) if the enterprise is formal. The independent variables include four sets of labour regulatory variables. These are social security cost, severance cost, maternity cost, and cost of paid holiday to the employer. These are indexed to create a single variable called regulatory cost. The model also controls age, education and gender of the enterprise owner/person responsible, and whether enterprise employs anyone other than the owner, as a proxy for enterprise size, enterprise age, location of the enterprise (comprising the region in which the enterprise is located and whether the enterprise is found in urban or rural parts of the country) and the industrial sector in which the enterprise operates.

The regression results presented in Table 47 show that the labour regulatory variable – an index of the costs of social security, paid maternity leave, paid holiday and severance – had a very tenuous effect on the allocation of enterprises into either the formal or informal sector. In both regressions, the coefficients were positive suggesting that as costs of providing these benefits rise enterprises were more likely to enter into informality or remain so. Even so, the index of regulation cost is only significant in the 2006 regression with a marginal effect of about 9 percent. In the 2013 regression, the regulation variable is not significant implying that the costs to the enterprise of providing mandated benefits had no impact on whether the enterprise is formal or informal. The regressions also show that the level of monthly wages was not related to whether an enterprise operates in the formal or informal segment of the economy.

Regarding the other control variables, both regressions show that the education status of an enterprise owner is a significant influence on whether the enterprise operates in the formal or informal economy. In both regressions, the education dummies are significant at 1 percent level indicating that enterprise owners with some level of education are more likely to register their enterprises with the relevant state institutions compared to those with no formal education. As expected, the marginal effects are highest for enterprise owners with tertiary

education than those with secondary and basic education. In the 2013 regression, enterprises for which the owner or the person responsible had tertiary level education were about 14 percent more likely to be formal. For enterprise owners with basic education, the marginal effect was 4 percent, more than three times less than the marginal effects for their counterparts with tertiary education.

The age (of the enterprise owner) dummies are better determined in the 2013 regression compared to that of 2006. However, in both regressions, age dummies for enterprise owners who are above 25 years (adults) have negative coefficients indicating that adults are more likely to register their enterprises compared to their counterparts between the ages of 15 and 24 (youth). In 2006, the age dummy was only significant for people above 50 years. In 2013, all the age dummies were significant at one percent level, and the marginal effect was slightly higher for people above 36 years.

In terms of industrial classification of the enterprises, regressions show that compared to enterprises in the retail and wholesale trade, enterprises in the community, social and personal services, and transport are less likely to be informal. In 2006, enterprises in the transport sector were significantly no different from those in the trade sector concerning their status as either formal or informal enterprises even though the transport dummy had the expected negative sign. This is quite surprising given that enforcement of transport regulations are among the most stringent in Ghana. In 2013, the transport dummy had the expected negative sign and was also significant at 1 percent level. In both 2006 and 2013 regressions, enterprises in the community, social, and personal services sector were less likely to be informal compared to enterprises in the trade sector. Enterprises in the construction sector are consistently more likely to be informal compared to those in the trade sector. In both regressions, the construction dummy was significant at the one percent level with relatively higher marginal effects. The dummies for mining and utilities also appear positive in the regressions but are only significant in the 2006 regressions with respective marginal effects of 29 percent and 21.5 percent.

The regional effects show one clear pattern – that enterprises in the northern part of the country (comprising the Northern, Upper East, and Upper West regions) are more likely than enterprises in the Greater Accra region to be informal. In both 2006 and 2013 regressions, the northern dummy is significant at one percent with marginal effects of 11.7 percent and 6.2 percent respectively. The most striking aspect of the regional dummy is that the Central and Brong Ahafo regional dummies had negative coefficients in both 2006 and 2013 regressions suggesting that enterprises in the two regions were less likely than those in Greater Accra to be informal. However, the coefficients are only

significant for the 2006 regression. In 2013, enterprises in both regions were not significantly different from those in Greater Accra regarding their status as formal or informal.

**Table 47: Binomial Logistic Regression Estimates for Informal Enterprise (1999-2013)**

Variables	Coefficient		Marginal Effects	
	2006	2013	2006	2013
<b>Age</b>				
Age15-24	<b>F</b>	<b>F</b>	<b>F</b>	<b>F</b>
Age25-35	-0.1984 (0.1780)	-0.6212*** (0.1935)	-0.0184	-0.0532
Age36-50	-0.1582 (0.1831)	-0.8708*** (0.1929)	-0.0147	-0.0748
Age-over50	-0.4202* (0.1989)	-0.8128*** (0.2043)	-0.0390	-0.0698
<b>Education</b>				
No Education	<b>F</b>	<b>F</b>	<b>F</b>	<b>F</b>
Basic Education	-0.5606*** (0.1004)	-0.5601*** (0.0947)	-0.0520	-0.0481
Medium Education	-0.5653*** (0.1596)	-1.003*** (0.1251)	-0.0524	-0.0862
High Education	-1.3332*** (0.3434)	-1.6732*** (0.1801)	-0.1237	-0.1437
<b>Industry</b>				
Trade	<b>F</b>	<b>F</b>	<b>F</b>	<b>F</b>
Mining	3.1320*** (1.1304)	0.5761 (0.5538)	0.2905	0.0487
Manufacturing	0.3871*** (0.1052)	-0.0602 (0.0945)	0.0359	-0.0052
Utilities	2.3276* (1.3859)	0.8587 (1.11233)	0.2159	0.0737
Construction	1.9142*** (0.3426)	1.2873*** (0.2613)	0.1775	0.1105
Transport	-0.2320 (0.2558)	-1.0703*** (0.1608)	-0.0215	-0.0919
Finance	0.3064 (0.9244)	-1.4505* (0.7840)	0.0284	-0.1245
Community, social and personal services	-0.4859*** (0.1620)	-0.4196*** (0.0959)	-0.0451	-0.0360



<b>Region</b>	<b>F</b>	<b>F</b>	<b>F</b>	<b>F</b>
Greater Accra				
Western	0.1797 (0.1690)	0.3322* (0.1470)	0.0167	0.0285
Central	-1.1416*** (0.1597)	-0.1337 (0.1636)	-0.1059	-0.0115
Volta	0.3081 (0.2009)	0.0579 (0.1451)	0.0286	0.0050
Eastern	0.3373* (0.1798)	0.2244 (0.1400)	0.0313	0.0193
Ashanti	0.1866 (0.1320)	0.1345 (0.1320)	0.0173	0.0115
Brong Ahafo	-1.1534*** (0.1555)	-0.0145 (0.1548)	-0.1070	-0.0012
North	1.2674*** (0.2728)	0.7175*** (0.1490)	0.1176	0.0616
Young enterprises	0.3997*** (0.0953)	0.2183*** (0.0780)	0.0371	0.0187
Small enterprises	0.6175*** (0.0972)	0.7006*** (0.0748)	0.0573	0.0602
Sole proprietorship	2.3800*** (0.1499)	0.3068* (0.1808)	0.2207	0.0263
Male	-0.6670*** (0.1018)	-0.4628*** (0.0817)	-0.0619	-0.0397
Urban	-0.6386*** (0.0985)	-0.4166*** (0.0823)	-0.0592	0.0358
<b>Labour Regulations</b>				
Regulation cost (index)	0.9956* (0.5903)	0.1140 (0.2970)	0.0923	0.0100
Monthly wage (log)	-0.0969* (0.0401)	0.0005 (0.0556)	0.0090	0.0000
<b>LR chi2(27)</b>	<b>1014.57</b>	<b>664.37</b>		
<b>Prob &gt; chi2</b>	<b>0.0000</b>	<b>0.0000</b>		
<b>Pseudo R-squared</b>	<b>0.2299</b>	<b>0.1123</b>		
<b>Log likelihood</b>	<b>-1698.912</b>	<b>-2624.6166</b>		
<b>Number of observations</b>	<b>5026</b>	<b>7936</b>		

Source: Author's calculation from Ghana Living Standard Survey IV, V & VI (1999, 2006 & 2013).

Notes:

1. \*\*\*, \*\*, and \* denote significance at 1%, 5%, and 10% levels respectively.
2. Figures in parenthesis are standard errors.

While the majority of household enterprises are owned and operated by women, the empirical estimates indicate that male owned or operated enterprises are less likely to be informal compared to those owned or operated by females. In 2006, enterprises operated by men were 7 percent less likely to be informal. In 2013, the marginal effect decreased slightly to 6 percent.

The empirical estimates further show that young enterprises defined, as enterprises that have been in operation for five years or less, are more likely to be informal compared to enterprises that are above five years. This suggests that household enterprises begin operations and take a bit of time before they attempt to formalise their activities. This is buttressed by the fact that the dummy for enterprise size show smaller enterprises (employing less than 5 workers) are more likely to be informal compared to larger enterprises (employing more than 5 workers). Intuitively, smaller enterprises are more likely to be young and vice versa. Also, enterprises that are owned and operated by a single household and in which all incomes accrue to that household is less likely to be formal or more likely to be informal.

Finally, the urban dummy had negative coefficients and is significant at the 1 percent level in both regressions. This implies that enterprises located in urban areas are less likely to be informal compared to those that are found in rural parts of the country. A number of factors could explain this result. First, most state agencies that have something to do with the registration of enterprises are found mostly in urban areas, giving enterprises in those areas relatively less costly access to these institutions. Second, and related to the above, enforcement of business regulations are more likely to be stronger in urban areas compared to rural areas. Finally, as the summary statistics show, education levels are much higher in urban areas compared to rural areas, and education enters the model as a significant determinant of formality.

## **Chapter 7**

### **A Framework for Understanding Informality**

#### ***7.0 Introduction***

On the basis of the empirical results obtained in Chapter 6 and the literature review undertaken in Chapter 2 and the first part of Chapter 4, this chapter puts forward an analytical framework for understanding informality and its persistence. The chapter begins with some general comments on labour regulations and its impacts on informality. It then proceeds to develop a political economy framework for understanding the persistence of informality in the Ghanaian context. The framework borrows heavily from the exit (Hirschman, 1970) and exclusion (Maloney et al., 2007) schools of thought on informality but also advances the argument that informality is a fundamental feature of underdevelopment. The informal economy explanations proffered in this chapter are set in the framework of political economy. It is based on the analyses of the Ghanaian state and society presented in Chapter 3.

#### ***7.1 Regulations and Informality***

Markets are hardly efficient despite assumptions to the contrary. As indicated in Chapter 2, market inefficiency is strongest in the labour market characterised by asymmetric information, uneven market power (between employers and workers), discrimination and inadequate insurance against risks (Betcherman, 2012). Market efficiency cannot be achieved by leaving markets entirely to their own devices. Regulations including labour regulations arise because of market failures and society's desire to protect economic agents in weaker positions and to redistribute incomes in a manner that preserve both economic and social stability. For instance, market participants have no intrinsic motivation to share the gains from rising productivity equally. As the experience of recent decades has shown, wages have consistently lagged behind productivity growth (Hoffer, 2010). This leads to in-work poverty and widens earnings inequality (OECD, 2009), sometimes to levels that threaten long-term growth, social cohesion and political stability.

However, the story of labour regulations has been one of recurring controversy. Regulations will continue to be part of efforts to overcome market failures. The need for regulations appears uncontested. What is lacking is a consensus on the optimal level of regulations. In 2005, Olivier Blanchard wrote:

“There is fairly wide agreement among economists on what constitutes optimal or, at least, good product market and financial market institutions. There is much less agreement on what constitutes optimal or, at least, good labour market institutions” (Blanchard, 2005).

The literature reviewed in this thesis has shown that while labour regulations could play an important role in ameliorating failures inherent in the labour market, such regulations are not without costs. Regulations could imply some efficiency losses (at both theoretical and empirical levels) even if we take the view that the cost of unregulated markets could be far more than is economically and socially acceptable.

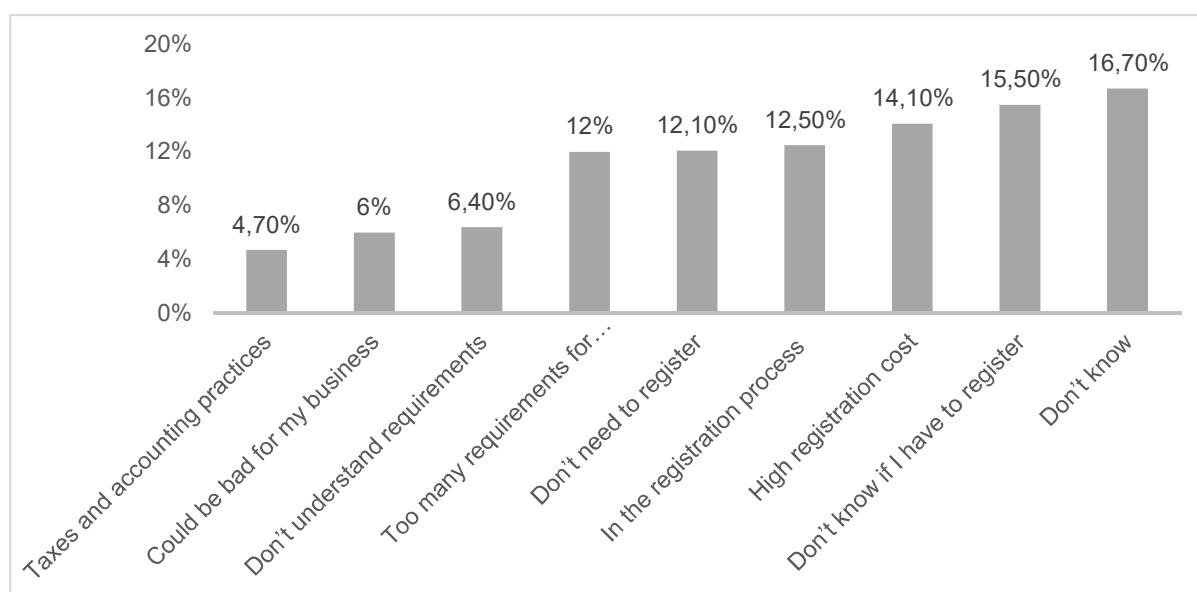
The empirical estimates in Chapter 6 show that labour regulations have very weak effects on the allocation of enterprises into the informal economy. Given that in both regressions, the regulations index appear positive and even significant in the 2006 regulations cannot be completely ignored in discussions of informality. Given the weight of the other control variables such as education, age (of the owner and the enterprise itself) and enterprise size, labour regulations cannot be the dominant explanation for the persistence of informal enterprises in the Ghanaian economy. The informal worker models also suggest that education, age and enterprise size among other factors provide a significant explanation for informality.

The models estimated in this thesis omitted two important variables for lack of data. These are taxes and enforcement of regulations. A recent study that explored reasons for non-registration of enterprises in Ghana indicates that tax obligations are not major considerations in decisions to register or not to register a business (Anuwa-Amarh, 2015). On enforcement, it is almost self-evident that Ghana does not have the right mix of resources and incentives for enforcement. The institutions that are mandated to enforce labour regulations are among the least funded in Ghana (Otoo and Asafu-Adjaye, 2015). This leaves businesses the option of when and how to comply in several areas of business and labour regulations.

## ***7.2 Explaining Informality in the Ghanaian Context***

In a recent survey by Anuwa-Armarh (2015), about one-sixth (16.7 percent) of the enterprise owners interviewed indicated that they could not tell why they have not registered their businesses. A similar proportion (15.5 percent) did not know they have to register their businesses, about one-eighth (12.1 percent) indicated that they ‘do not need to register their businesses’ and 6.4 percent of respondents did not understand the registration requirements. Some 12 percent of respondents complained about ‘too many requirements to complete registration’ while 14 percent were scared by the registration costs.

**Figure 247: Reasons for Non-registration of Business**



Source: Anuwa-Amarh, 2015.

Thus, a little over half of the enterprises surveyed either have not just registered or had difficulty engaging with the registration process, a difficulty that does not relate to registration costs. In the same survey, focus group discussions in Tamale, Kumasi, and Tema, gave rise to other reasons for non-registration of enterprises. This included the notion that enterprises were too small to warrant registration; that there was little or no potential for growth; hence, not likely to benefit from registration (in the empirical estimates in Chapter 6 small enterprises were less likely to register their businesses compared to larger ones). Other reasons included the fact that non-registration has not occasioned any losses and finally that non-registration has so far been cost-effective. These reasons are consistent with the findings in Chapter 6 of this thesis and also with the broader literature on informality. Maloney et al. (2007) posit informality as a small firm phenomenon arguing that formality increases with firm size and productivity. In Mexico, about three-quarters of the micro-firms that operate without registration are of the view that they are too small to benefit from doing so.

These reasons combined with the results of the empirical estimates in Chapter 6, which show the importance of education (human capital), age (labour market and business experience) and enterprise size in determining status (formal or informal), for both workers and enterprises provide essential elements for the development of analytical framework for understanding informality in Ghana. The literature is clear that while informality has spread to develop countries as it manifests in different guises, it remains essentially a phenomenon for a developing country. That is, countries at lower levels of development, regardless of the criterion, tend to have higher levels of informality (Schneider, 2002).

On this basis, informality in Ghana is postulated as a fundamental feature of underdevelopment<sup>88</sup> with multiple dimensions and causes. There are economic, social and political dimensions of the persistence and growth of informality in Ghana. There are several factors at play at the level of economics. The central message is that jobs are not there in formal economy in the first place and this is primarily because of inappropriate economic policies implemented in the last three decades. First is the failure of economic growth to translate into development as was promised by structural adjustment. The structural adjustment programme made economic growth measured by Gross Domestic Product (GDP) a topmost priority of economic policy. It assumed that GDP growth was sufficient in producing employment in the formal sector. It further assumed that no matter the sources of economic growth and how it was generated good jobs would follow growth.

In Ghana as in most other countries in Sub-Saharan Africa, economic growth has been fuelled by natural resources (see Chapter 3). The massive use of technology has meant that firms in the natural resource sector have little need for labour. At the same time, natural resources have been exported in their raw state skipping the crucial stage of processing or value addition and the employment that goes with it. The foreign firms that dominate the natural resource sector have little incentives to plough back their profit into the domestic economy. The result has been that the sectors that are fuelling growth have become detached from the rest of the economy. They are also not the sectors that are creating employment.

Second, domestic production has been severely constrained by many internal and external factors, some of which can be linked directly to structural adjustment policies. At average lending rates of more than 30 percent coupled with constraints imposed by weak infrastructure including erratic power supply, domestic production has proven costly and uncompetitive. Added to these is the unbridled liberalisation of imports that has exposed domestic enterprises to costly and unsustainable competition, making it difficult for them to thrive even in the domestic market. The few enterprises that have survived have resorted to offering atypical forms of employment that bore the features of informality. This has been made possible by the continued weakness of the state to enforce laws on employment, an issue I will explore in detail under the political dimension of informality.

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<sup>88</sup> See Loayza, Servén, and Sugawara, 2011.

A third factor relates to the mass redundancies that took place in the public sector either through the direct elimination of civil service jobs or the privatisation of state-owned enterprises (Panford, 2001). The expectation was that those who lost their jobs in the public sector would gain employment in the formal private sector. This failed to materialise for all the reasons enumerated above. Most tellingly, the public sector as an important source of employment for people who enter the labour market was foreclosed as the country implemented employment freeze in the sector.<sup>89</sup>

The result is that the large army of people who lost their employment in the public sector and the new entrants into the labour market were compelled by necessity to seek employment in the informal economy (Otoo and Asafu-Adjaye, 2015). The situation is compounded by the mass exodus of agricultural workers into urban areas in search of non-existing white colour jobs. The agricultural sector has declined in importance; its contribution to GDP has decreased from 55 percent in 1980 to 19 percent in 2015. The overnight removal of subsidies and other government support to agriculture in the 1980s and 90s as part of the structural adjustment programme partly explains the poor performance of the sector (Otoo, unpublished). The under-performance of the agricultural sector has driven many people out of the sector as both productivity and incomes in the sector fell (see Chapter 3). As mentioned in Chapter 3, agricultural employment has dropped from 61 percent of the Economically Active Population (EAP) in 1984 (see the 1984 Population and Housing Census) to 45 percent in 2013 (GSS, 2014). The vast majority of those who left agricultural employment found their way into the urban informal sector (see Otoo, unpublished).

At the social level, there are two major factors for consideration. First is the rate of growth of the population and the labour force. As indicated in Chapter 3, at an annual growth rate of 2.5 percent, Ghana's population is doubling every 28 years. For the period 1999 to 2013, the labour force increased by about 62 percent, an annual rate of growth of 4 percent (Otoo and Asafu-Adjaye, 2015). Thus, the rate of growth of the population and the labour force has been too rapid compared to the rate of formal employment creation, forcing many people into the informal economy.

Second, mass illiteracy combined with low skills even among the educated forms part of the web of factors leading to persistence and expansion of the

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<sup>89</sup> See the current extended credit facility arrangement between Ghana and the IMF.

informal economy. The three datasets used in this thesis show that significant proportion of Ghanaians of working age is without formal education. For the most recent year (2013) for which data is available, one-quarter of the adult population had no formal education and about 58 percent only had primary education. Only about a quarter of the adult population had secondary education or higher. Such low levels of education constrain the creation of formal jobs. Even if formal jobs were available very few could take advantage. Unsurprisingly employers continue to cite low skills as a major constraint to doing business in Ghana (World Bank, 2007). In previous studies, informal economy operators have admitted to their low levels of education, which continue to consign them to informal employment (see Adom and Colin, 2012).

The economic and social factors interact with and are sustained by a political process characterised by a weak state, which is captured by elites and pervasive apathy by the citizenry. Together, they constitute political economy equilibrium, which provides a framework for understanding the persistence of informality in the Ghanaian economy. The equilibrium features a weak and failing state, which continues to implement inappropriate economic and social policies and generating outcomes that sustain the equilibrium. The workings of the political economy equilibrium and how it sustains informality is explained below.

Even for a market economy such as Ghana's, the state has an important role to play. Among these is the provision of a framework for the conduct of law and order, maintenance of law and order and the provision of public goods such as roads, defence and security (Pierson, 2004). These are supposed to help address coordination failures while preventing social 'bads' such as pollution. The state is expected to establish courts, property rights, risks pooling mechanisms and set rules to govern the activities of economic actors and the operations of the economy in general. It sets the framework for ownership, the making and execution of contracts, exchange and tort (Pierson, 2004). The rules include balancing the power relations among economic factors including the relations between labour and capital (or employers and employees). All of these are part of what a state does or is supposed to do to address market failures and even serve as a market when private initiatives fail to do so. Moreover, the state is vested with enough powers to monitor, enforce and coerce economic actors to comply.

Despite the resurgence of neoliberalism with its abiding faith in markets and foreboding calls for deregulation, regulations have proliferated even in the advanced market economies (Pierson, 2004; Pillay, 2007). As states divested themselves of direct economic production, and service provisioning, and as powerful private sector entities took over, the need for mediation between these powerful corporations and consumers/public has taken on a renewed sense of urgency. The state is called upon to regulate the activities of economic agents in



a wide range of areas from food safety to environment and health and safety at the workplace. This has become necessary because the profit motive that lay behind the clamour for privatisation has shown little concern for public safety and welfare. The less the state does things for itself, the more it has to regulate. The consequence is that states are increasingly regulating or re-regulating.

When economic agents undertake economic activities informally, they basically are refusing to comply with the rules set by the state. The question that arises is, why is such non-compliance so widespread and almost endless and why does the state permit it. In other words, what explains the resilience of informality? There are two complimentary answers to the question. First, the enterprises and individuals working in the informal economy are deliberately excluded from critical state benefits by the state itself. In this sense, the state is postulated to deviate from the ideal state described above.

The state is captured by special interests in business but also sometimes in labour (see de Ferranti et al. 2004; Perry et al. 2006).<sup>90</sup> Working in alliance with the political elites and civil servants in the state bureaucracy, they organise the state in a manner that excludes the great mass of the people from benefits provided by the state. The exclusion occurs both de-jure and de facto. In Chapter 4, we saw how the labour law explicitly excluded workers working in family enterprises from aspects of the law relating to working hours. In the same chapter, we also saw how despite making provision for the participation of the self-employed in the national social security scheme, the law and the institutions it established failed to provide the mechanism to facilitate their inclusion, given their education levels and job characteristics. This dysfunctionality (exclusion) is sustained by an underlying political economy equilibrium in which the beneficiaries of the status quo (the elites) are too powerful to fend off change. The excluded are too poor, fragmented and weak to mount any meaningful challenge to the equilibrium. Therefore, the system keeps reproducing itself.

The second response to the central question of why informality thrives is that faced with the equilibrium (described above), many enterprises and individuals are forced by necessity to exit from the state and the formal rules and institutions (see Hirschman, 1970). They regard the rules as rigged against their interests. Therefore, they exit either completely or partially (having chosen their

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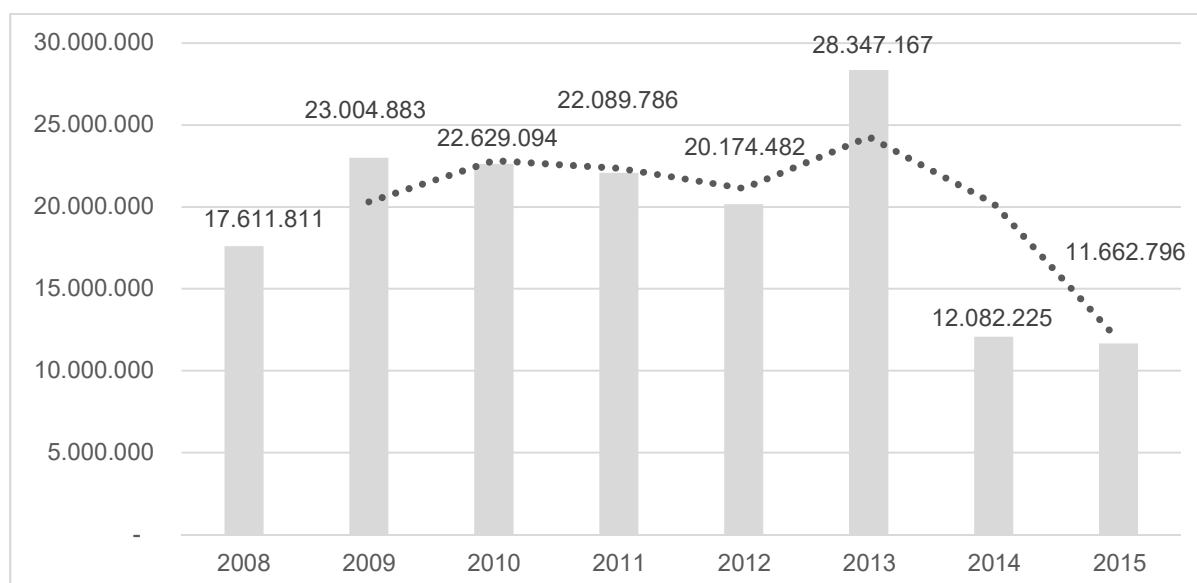
<sup>90</sup> In Marxist terms, the state is captured by the economically powerful class who determine what the state does or does not.

optimal level of engagement with the state and its institutions). This is the situation one encounters in Ghana and in many other countries in Africa where enterprises or individuals operate a business without formally registering with the state. Those that register keep a large portion of their operations away from the view of state authorities. This non-compliance is made possible (if not aided) by a state, which is either disinterested or is simply incapable of enforcing its laws and sometimes breaks its laws.

The equilibrium is further characterised by a precipitous decline in state capacity. The exit of individuals and firms from formal economy implies a loss of revenue for the state. This, combined with economic policies that leave important sectors such as the natural resource sector in the hands of foreigners, leads to a constant imbalance between revenues and expenditure. The result is that the state continues to underinvest in social infrastructure including education, health and the institutions for national governance (the police, courts and labour market institutions). The situation is made worse by the rapidly growing population, which undermines both access to and quality of economic and social infrastructure. However, the weakness of the state is of vital importance for the maintenance of the equilibrium for it allows the elites to appropriate state powers and resources for their personal use and comfort. This is reflected in the levels of corruption that pervade national life. The limited strength of the state is reserved for warding off a challenge to the system and for showing the few who refuse to accept the equilibrium ‘where power lies’.

In many areas of national life, the state has become weak and incapable of undertaking the simple tasks of governing including enforcing the simplest of state laws. A ‘big man’s’ culture ensued where people in authority so easily undermined institutional norms and procedures for their own benefits and those of their friends and family (see Chapter 3). In the specific case of labour market institutions, the labour ministry and its adjunct institutions have suffered the severest budget cuts making them incapable of enforcing labour legislations. As shown in Figure 28, between 2008 and 2015, budgetary allocations to the Ministry of Employment and Labour Relations in dollar terms declined by about one-third (Budget Statement, 2008-16).

**Figure 258: Budgetary Allocations to the Ministry of Employment in Dollars (2008-2015)**



*Source: Compiled by author from National Budget and Economic Statements*

*Note: See Table 16 for Exchange Rate Information*

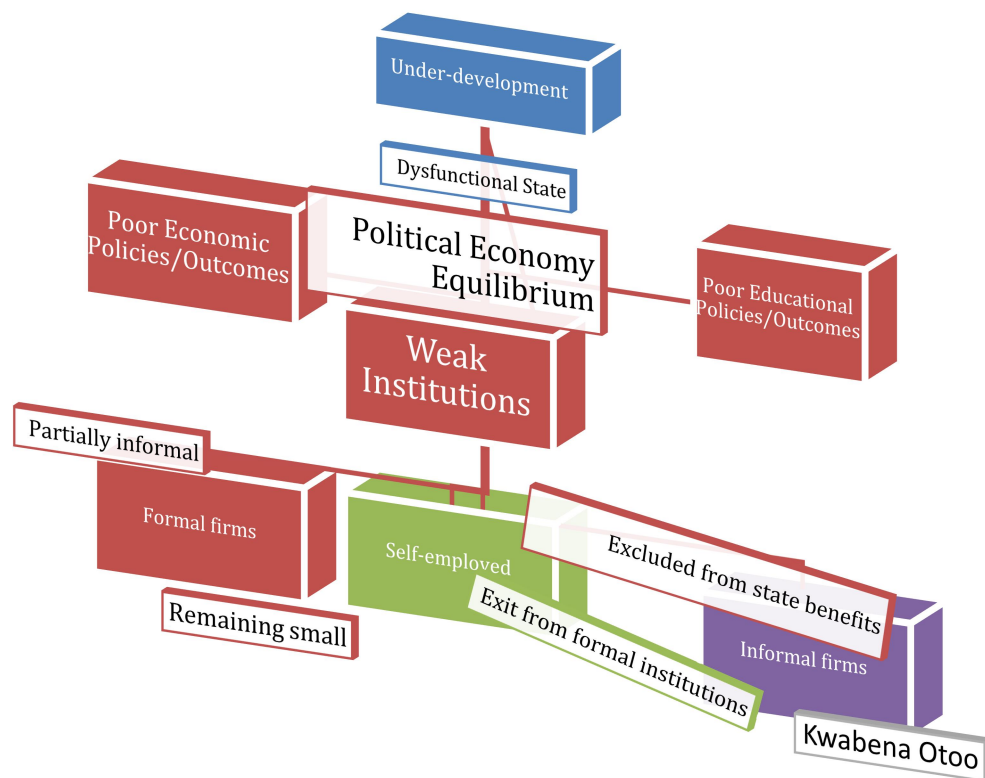
As has been indicated, the equilibrium produces and/or permits a culture of non-compliance reinforced by the generalised perception that the state is run for the benefits of the few. Compliance is actually the exception rather than the rule given that non-compliance is almost risk-free. Other sub-cultures develop along several dimensions. For purposes of this thesis and the framework, I single out two of these sub-cultures. The first involve the differential implementation of legitimate laws where there are localised interpretations and hence implementation of the laws. This allows officials at all levels to extract their share of the ‘national cake’. But it increases transaction costs for individuals and firms. The laws themselves may not be that costly, but the way officials choose to implement them can impose significant costs, limit enterprise expansion and incentivise them to avoid the regulations. In a study of the informal economy in Koforidua, Adom, and Colin (2012) found that about one-third of people operating enterprises in the informal economy were doing so because of ‘difficulties involved in registering their enterprises and working in the formal economy. The difficulties include the bribes that needed to be paid to government officials and the difficulties involved in registering enterprises’. This sub-culture makes compliance much difficult and costly for citizens who want to do the right thing and pushes people into non-compliance also because that route is almost costless given the weak (or non-existence) enforcement.

The second sub-culture of interest to the framework relate to the long, complex and costly process of going through the justice system. The justice system is so infested with bureaucracy and corruption as to impair the administration of justice (GII, 2007). In Ghana, the wheels of justice do not grind slowly; it is

made to slog at snail pace deliberately. This in itself reflects generalised under-investments in infrastructure including judicial services. The result is that contract making and execution is not only risky but costly as well. The courts cannot be expected to thrash out dispute impartially as justice frequently goes to the highest bidder. Individuals and firms conducting businesses with limited resources that stymied their growth and who presumably could benefit from pooling resources are prevented from doing so because they have very little faith, which in the event of disagreements the justice system would impartially resolve their differences.

The question that remains to be answered is, whether or not the systems of exclusion and exit are purposefully organised. The simple answer I proffer is yes and no! In some instances, there are explicit exclusions based on law and also practice. An example is the social security law. The 1946 pensions ordinance limited the cash payment it provided to spouses and children of senior African civil servants. This in itself was exclusionary given that the scheme was a non-contributory one.

**Figure 269: Framework for Understanding Informality**



Source: Author's.

Over the years, the reform of social security laws has attempted to incorporate a large segment of the Ghanaian society or workforce. As has been noted elsewhere in this thesis, the current pensions law (Act 788, 2008) sets up a three-tier system with the third tier devoted to the needs of workers in the

informal economy. A system of voluntary contributions for workers earning very low and irregular incomes has the potential to turn the legal inclusion into practical exclusion. Additionally, for many workers in the informal economy with little or no knowledge of the English language, their participation in the pensions system is effectively hampered. Many are not even aware of the existence of a scheme to which they can contribute. Moreover, as noted in Chapter 4, the state continues to explore ways of taxing them without a corresponding attempt to facilitate their inclusion in state benefits when, in fact, inclusion in the social security schemes, for instance, could be used as the carrot to induce formalisation.

There are other areas of legal hence, purposeful exclusions such as the granting of waivers from the payment of taxes particularly import taxes where the elites tend to be the beneficiaries. However, for the vast majority of exclusionary practices, they are illegal. While they appear to be organised on purpose, they have originated from a series of seemingly inconsequential actions by ordinary citizens in public service over a long period. These actions are motivated in part by cultural dominance of bureaucratic and professional norms. Family, ethnic, and personal ties hold sway over administrative procedures. People got employed because they knew a certain 'big man' in the public service. Those with the appropriate qualifications and skills were denied and excluded. People got their drivers' licenses without undertaking the mandatory driving test because they have personal ties with people at the state agency that issues drivers' license. Those with no ties to the people at the top got their license applications delayed so that the well-connected can have theirs in time. Importers connected with port and customs officials got their import duties slashed for them and their goods cleared from the port with dispatch. The consequence is revenue losses to the state and the delay of goods clearance by all unconnected others.

This mode of public service delivery based on family, personal, and ethnic ties can be seen in all aspects of public service including in the delivery of medical services. Over a long period, bureaucratic and administrative procedures have become undermined as the demand for undeserved favours increased. People in higher authority are expected by their personal associates, family and church members, village and clan kinfolks, to circumvent the official rules in their favour. They give in to their demands primarily because the system is permissive and everyone is doing it anyway.

As the system of favours and benefaction became entrenched, public officials saw in it an opportunity for extortion to supplement their (meagre) official incomes. The unconnected became willing and/or were subtly coerced to pay more than is officially demanded to get public service. Those that are unable or unwilling to pay exit the system; they only pay when it becomes necessary to

access public service particularly in the areas of education and health. A few have made a conscious decision to exit the systems and sub-systems of officialdom, but the majority face exclusion for which they have accepted grudgingly. Those who have exited on purpose are occasionally forced to enter the system, and they do so by openly paying bribes to get what they want as quickly as possible.

These, in part, reflect the under-development of the state and its institutions. In several parts of the country, state authority is virtually absent. Political development in the last two decades of constitutional rule appears to have further weakened the state and its institutions. The large army of people facing exclusion from state benefits ordinarily constitutes a powerful political force for progressive change, but they constantly misuse their political power. They vote in ways and for policies and programmes that directly go against their interests. Many live a meagre existence, and they have done so throughout their lives. With very limited horizon, and imbued with a sense of long-run fatalism, they reject any idea that a better life is possible in their lifetime.

This is made all the more difficult by the nature of the ethnic configuration, which in itself places a considerable limitation on state authority (see Lane and Ersson, 1994; Diamond, 1988). Virtually, every Ghanaian has a political opinion. For the most part, such opinions are expressed and exercised along ethnic lines. A sizable proportion of the population seems to care more about the group in power and less about what happens to their life chances and that of their children. With this, the political economy equilibrium offers little incentives for the ruling elites to work in the interests of the masses.

State weakness has also been the results of the current phase of globalisation where supranational authorities such as the United Nations (UN) and World Trade Organisation (WTO) combined with the power of international finance represented by the International Monetary Fund (IMF) and the World Bank have severely limited national authorities. Independent national economic policy making has become impossible for countries such as Ghana. Thus, the pursuit of inappropriate economic and social policies has persisted despite the fact that those policies are not serving the development needs of the country.

## Chapter 8

### Conclusion

This thesis has explored the phenomenon of informality and the role of regulations in generating and sustaining it. The central focus of the enquiry has been to test the neoliberal dictum that the informal economy is the result of excessive regulation of the labour market. In pursuing this, the thesis also explored several aspects of the informal economy phenomenon. The focus has been on the Ghanaian labour market and labour regulations. Informal employment dominates the Ghanaian labour market. Nearly 90 percent of the workforce is informally employed. A similar proportion of household enterprises is unregistered and therefore operates informally. What is more, nearly, all new jobs are being created in the informal economy. This is in spite of the fact that the Ghanaian economy has in the last three decades registered consistent economic growth as measured by growth of Gross Domestic Product (GDP).

As indicated in chapters 1 and 2, informality either of employment or enterprises was long regarded as a temporary phenomenon, which would be addressed as countries achieve economic growth and development. This view was implicit in the structural adjustment programme and successor policies, which Ghana has been implementing since the mid-1980s. Structural adjustment was premised on the notion that once economic growth was achieved, more of the workforce will be drawn into the formal economy, which will automatically reduce the importance of the informal economy in total employment. This optimism has turned into a nightmare for the growth proponents. Rather than reducing in size, the informal economy has not only thrived, but it has also expanded even as the economy continues to register impressive and consistent growth.

Influential voices within the international development policy establishment, notably the World Bank and also the International Monetary Fund (IMF), have blamed the failure of structural adjustment and indeed economic growth to generate sufficient employment in the formal economy on the excessive regulation of the labour market. The Ghanaian labour market is allegedly saddled with burdensome regulations that constrain job creation in the formal economy and pushes job seekers into the informal economy. This diagnosis led to far-reaching deregulation of the Ghanaian labour including the adoption of very liberal Labour Act in 2003. Deregulation of the labour market entailed substantial dismantling of laws that offer protection to workers both when they are employed and when they are dismissed. It is clear from the analyses in Chapter 3 and indeed throughout the entire thesis that the deregulatory agenda has failed to produce the desired results. The Ghanaian labour market continues

to be mired in informality. The analyses in Chapter 2 also show that empirical studies elsewhere, about the labour market impact of regulations have tended to produce tenuous but also inconclusive results. This notwithstanding, the idea that the Ghanaian labour market is straddled by over-regulation and that these regulations force both workers and enterprises into the informal economy remain undiminished. The International Financial Institutions continue to cajole the country to liberalise its labour market further.

This thesis, therefore, investigated the role of labour market regulations in the large and growing informal economy of the Ghanaian labour market. The analyses are done using the last three rounds of the GLSS conducted in 1999, 2006 and 2013. The descriptive analyses of the datasets throughout this thesis, in particular in chapters 3 and 4 showed the dominance of informality in the Ghanaian labour market, negating the view that the informal economy was transitory. Given that the neoliberal onslaught has indicted labour regulations for the failure of market-based reforms to create employment in the formal economy, Chapter 4 undertook a review of the industrial relations landscape. The review showed that Ghana has a long history of industrial relations with a corpus of laws with potentially adverse implications for employment creation. It also showed that most of these laws/regulations are not enforced, partly because the labour market institutions are poorly funded.

The chapter also reviewed definitional and conceptual issues regarding informality and provided a justification for the definition adopted in this thesis. Two definitions of informal workers were adopted. In the first instance, informal workers were defined as workers who are by law required to register for and contribute to social security but who were not so registered. In the second instance, informal workers were defined as workers who describe themselves as working in the informal economy. Informal enterprises were defined as enterprises, which are not registered with any state authority.

The empirical analyses of the data and the results are presented in Chapter 6. The analyses were done using binomial logistic model. Given that informal workers do not have much choice deciding on which sectors to work (see Chapter 4), the informal worker model sought to identify the factors that influence the allocation of workers into either the formal or informal sectors of the economy. The econometric analyses showed that human capital (represented by the level of education), labour market experience (represented by the age of the worker), and enterprise size are the key factors that determine participation in the formal or informal labour market. For all three regressions, the results showed that workers with some level of education are less likely to be employed in the informal economy compared to their counterparts with no education. That is, the probability of being employed in the informal economy declines as the level of education increases. The results also point to a



strengthening of the signalling effects of education over the period of the analyses. That is, in the last few years, education has been playing a much stronger role in the allocation of workers between the formal and informal sectors of the Ghanaian economy.

In terms of age and labour market experience, the results of the econometric analyses showed that young people with shorter experience in the labour market are at greater risk of being employed informally. The econometric analyses also showed that workers employed in larger establishments with a workforce of more than five workers are less likely to be informal workers. Other important variables that segment workers into either formal or informal economy are gender, region/location and industrial sector of employment. The literature is clear that females tend to dominate the informal economy. This is confirmed by the econometric analysis undertaken in this thesis. However, the econometric analyses also show that the male advantage is decreasing, an indication that the massive investments in women's education could be paying off.

For the informal enterprise model, the econometric analyses showed missed results. The coefficients of the labour regulatory variable were positive in the two regressions, indicating that the cost of complying with these regulations could push enterprises into informality. However, the regulation variable was only significant in the 2006 regression. The regressions also showed that the level of wages was not related to whether an enterprise operates in the formal or informal economy.

The econometric analyses also showed that the status of enterprises (formal or informal) is determined by many factors including education level of the enterprise owner, the age of enterprise owner, and location of the enterprise, gender of the enterprise owner and enterprise age and size. Enterprises owned or operated by people with some level of education are more likely to be formal compared to enterprises whose owners/operators have no formal education. The educational effect is unmistakable here as it was in the informal worker model. The age effect is also present. Enterprise owners, 25 years and older, are more likely to register their enterprises, hence, they operate in the formal economy compared to owners/operators below 25 years. Urban-based enterprises showed an inclination for formality compared to rural ones. This is buttressed by the fact that enterprises in the Northern part of the country (mostly rural communities) were more likely to be informal than those in the South. Young enterprises are more likely to be informal compared to older ones. Since young enterprises are mostly small in size, the results also show that small enterprises are likely to be informal.

The dominance of informality in the Ghanaian labour market is better explained by the fact that nearly one-quarter of Ghanaians aged 15 years and older have never had formal education and that only one-fifth had attained secondary

education or higher (see Chapter 3). Further explanation can be found in the exceptionally large army of young people with low education and skills dominating the Ghanaian labour market. At the enterprise level, informality is explained by, the large number of small-scale enterprises unable or unwilling to expand their businesses and the fact that the bulk of these enterprises are young having operated for less than five years. It suggests a high rate of attrition among household enterprises. These enterprises have little or no incentives to expand and formalise their operations, and they are at liberty to choose formality or informality with practically no consequence. Finally, the results that informality of enterprises is most pronounced in the rural areas points to the role enforcement or lack of enforcement in generating informality, an issue that requires further investigations.

The empirical estimates throw up some questions: why is educational attainment so low in Ghana? Why do so many household enterprises remain small and what explains the high attrition rate among household enterprises? These questions are explored in Chapter 7 of the thesis, in which a framework for understanding informality in the Ghanaian context is put forward.

That framework is based on the view that informality is a failure of development with economic, social, and political dimensions. A combination of adverse economic, social and political factors, produce a political economy equilibrium in which non-compliance is the norm. In economic terms, the key message is that the Ghanaian economy has failed to create enough employment (jobs) in the formal economy despite many years of economic growth. This results from inappropriate economic policies including heavy reliance on the extractive sector for growth and the fact that domestic production has become severely constrained by both internal and external factors. At the social level two main factors are isolated. First is the rapid growth of the national population, which far exceeds the capacity of the economy regarding job creation. The second relate to the low literacy rate combined with low skills even among the educated.

The interaction of the economic and social factors produces a powerful battery that fuels informality. The economic and social factors are sustained in a political process characterised by elites capture and pervasive apathy by the citizenry. The political process features a weak state that continues to implement inappropriate economic and social policies generating sub-optimal outcomes that sustain the equilibrium. The elites organise the state for their exclusive benefits. The majority of citizens and the businesses they undertake are either excluded from state benefit, or they voluntarily exit from formal rules and institutions. The equilibrium persists because the beneficiaries (elites) are too rich and powerful to defend the status quo and the excluded are too poor to

mount any credible challenge to the system. The persistence of the equilibrium is tied to the persistence of informality.

These findings have some policy implications for the Ghanaian labour market and also for further research in this area. First, the results underscore the view that informality either of employment or enterprises is a phenomenon with multiple causes. The design of labour regulations including their mandate levels cannot be ignored entirely in discussions about informality because they could imply some efficiency losses. Indeed, the positive coefficients of the regulations index provide an indication that labour regulations are not entirely cost-free. However, the notion that informality is caused solely by over-regulation of the labour market is overstated. The empirical estimates conducted in this thesis do not support the neoliberal position that informality is the result of excessive regulations of the labour market.

Second is the role of formal education in the Ghanaian labour market. The empirical results are clear that formal education could play a role in reducing informality in the Ghanaian labour market. Further, investments in improving access and quality of education could be beneficial in addressing high levels of informality. A third issue that requires the attention of policymakers is enterprise size. The empirical results show that larger enterprises are more likely to be formal, and so are the workers they employ. The fact that significant proportion of Ghanaian enterprises operates on a small-scale explains the high levels of informality. It is important that policymakers identify and address the factors that limit enterprise growth in Ghana as part of the efforts to lowering informality. This brings us to the issue of governance and its impact on informality. There are clear economic, social and political failures that need to be addressed if informality was to be reduced.

The findings in this thesis also point to several areas for further research. First is the issue of enforcement of labour regulations. The weaker impact of the labour regulatory index on the levels of informality could be the result of the weaker or even non-enforcement of labour regulations in the country. Would stronger enforcement reduce informality or increase it? Will it generate other labour market distortions such as unemployment? Further, empirical work is needed to answer these questions. The second area of interest is enterprise growth. Further empirical analysis is needed to ascertain why so many Ghanaian enterprises remain small and appear to suffer from high rate of attrition. If as the empirical estimates show small enterprises are mostly informal (and offering informal employment as well), then it becomes necessary to investigate the reasons why so many Ghanaian enterprises remain small. Is it a deliberate attempt to limit interactions with the state and its agencies or they are simply hampered by national policies from growth? The final area of further research interest is the governance framework. Further work is needed to explore the full range of

exclusionary policies and programmes that keep so many citizens outside the loop of state benefits and the exit or coping mechanisms available to citizens and their enterprises.

## Appendix

**Table 1A.1: International Standard Industrial Classification of all Economic Activities**

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<b>1 AGRICULTURE, HUNTING, FORESTRY AND FISHING</b>	
111	Agricultural and livestock production
112	Agricultural services
113	Hunting, trapping and game
121	Forestry
122	Logging
130	Fishing
<b>2 MINING AND QUARRYING</b>	
210	Coal
220	Crude oil and natural gas production
230	Metal ore mining
290	Other mining
<b>3 MANUFACTURING</b>	
311	Food manufacturing
313	Beverage industries
314	Tobacco manufacturing
321	Manufacture of Textiles
322	Manufacture of wearing apparel, except footwear
323	Manufacture of leather and products of leather, except footwear and wearing apparel
324	Manufacture of footwear, except vulcanised or mould rubber or plastic footwear
331	Manufacture of wood and cork products except furniture
332	Manufacture of furniture and fixtures except primarily metal
341	Manufacture of paper and paper products
342	Printing, publishing and allied industries
351	Manufacture of basic industrial chemicals, including fertilizer
352	Manufacture of other chemical products
353	Petroleum refineries
354	Manufacture of miscellaneous products of petroleum and coal
355	Manufacture of rubber products
356	Manufacture plastic products not elsewhere classified
361	Manufacture of pottery, china and earthenware
362	Manufacture of glass and glass products
369	Manufacture of other non-metallic mineral products
371	Iron and steel basic industries
372	Non-ferrous metal basic industries
381	Manufacture of fabricated metal products, except machinery and equipment

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382	Manufacture of machinery except electrical
383	Manufacture of electrical machinery apparatus, appliances and supplies
384	Manufacture of transport equipment
385	Manufacture of professional and scientific equipment measuring and controlling instruments not elsewhere classified and of photographic and optical goods
390	Other manufacturing industries
<b>4 ELECTRICITY, GAS AND WATER</b>	
410	Electricity, gas and steam
420	Water works and supply
<b>5 CONSTRUCTION</b>	
500	Construction
<b>6 WHOLESALE AND RETAIL TRADE AND RESTAURANTS AND HOT</b>	
610	Wholesale trade
620	Retail trade
631	Restaurants, cafes and other eating and drinking places
632	Hotels, rooming houses, camps and other lodging places
<b>7 TRANSPORT, STORAGE AND COMMUNICATION</b>	
711	Land transport
712	Water transport
713	Air transport
719	Services allied to transport
720	Communications
<b>8 FINANCING, INSURANCE, REAL ESTATE AND BUSINESS SERVICES</b>	
810	Financial institutions
820	Insurance
831	Real estate
832	Business services except machinery rental and leasing
833	Machinery rental and leasing
<b>9 COMMUNITY, SOCIAL AND PERSONAL SERVICES</b>	
910	Public administration and defence
920	Sanitary and similar service
931	Education services
932	Research and scientific institutions
933	Medical, dental, other health and veterinary services
934	Welfare institutions
935	Business, professional and labour associations
939	Other social and related community services
941	Motion picture and other entertainment services
942	Libraries, museums, botanical and zoological gardens, and cultural services not elsewhere classified

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949	Amusement and recreational services not elsewhere classified
951	Repair services not elsewhere classified
952	Laundries, laundry services, and cleaning and dyeing plants
953	Domestic services
959	Miscellaneous personal services
960	International and other extra-territorial bodies

### Notes to International Standard Industrial Classification of all Economic Activities

311 Food Manufacturing
Include preparing, preserving and canning of meat, fish and crustacean; manufacture of dairy products, manufacture of vegetable and animal oil fats; grain and mill products; manufacture of bakery products; manufacture of chocolate and sugar confectionery; and lastly local food preparation
620 Retail Trade
Retail/Sale of petrol and related petroleum products; sale of kerosene; sale of cloth; petty trading; selling of newspapers; foodstuff selling; fruit; fish and meat selling; coal pot etc.
621 Restaurants, Cafes and Other Eating and Drinking Places
Canteens, cafes, restaurants

**Table 1A.2: Occupation by International Standard Classifications**

<b>1 PROFESSIONAL, TECHNICAL AND RELATED WORKERS</b>	
01	Physical Scientists and Related Technicians
02/03	Architects, Engineers and Related Technicians
04	Aircraft and Ship Officers
05	Life Scientists and Related Technicians
06	Medical, Dental, Veterinary and Related Workers
07	Professional Nurses
08	Statisticians, Mathematicians, Systems Analysts and Related Technicians
09	Economists
11	Accountants
12	Jurists (e.g. Lawyers, Judges)
13	Teachers
14	Workers in Religion
15	Authors, Journalists and Related Writers
16	Sculptors, Painters, Photographers and Related Creative Artists
17	Composers and Performing Artists
18	Athletes, Sportsmen and Related Workers
19	Professional, Technical and Related Workers not elsewhere classified
<b>2 ADMINISTRATIVE AND MANAGERIAL WORKERS</b>	
2.0	Legislative Officials and Government Administrators

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2.1	Managers (excluding Farm Managers)
<b>3 CLERICAL AND RELATED WORKERS</b>	
3.0	Clerical and Related Workers
3.1	Government Executive Officials
3.2	Stenographers, Typists and Card/Tape-Punch Machine Operators
3.3	Book-keepers, Cashiers and Related Workers
3.4	Computing Machine Operators
3.5	Transport and Communications Supervisors
3.6	Transport Conductors
3.7	Mail Distribution Clerks
3.8	Telephone and Telegraph Operators
3.9	Clerical and Related Workers not elsewhere mentioned
<b>4 SALES AND RELATED WORKERS</b>	
4.0	Managers (Wholesale and Retail Trade)
4.1	Working Proprietors (Wholesale and Retail Trade)
4.2	Sales Supervisors and Buyers
4.3	Technical Salesmen, Commercial Travellers and Manufacturers' Agents
4.4	Insurance, Real Estates Securities and Business Services, Salesmen and Auctioneers
4.5	Sales, Shop Assistants and Related Workers
4.9	Sales Workers not elsewhere classified
<b>5 SERVICES AND RELATED WORKERS</b>	
5.0	Managers (Catering and Lodging Services)
5.1	Working Proprietors (Catering and Lodging Services)
5.2	Housekeeping and Related Service Supervisors
5.3	Cooks, Waiters, Bartenders and Related Workers
5.4	Maids and Related Housekeeping Service Workers not elsewhere classified
5.5	Building Caretakers, Charworkers, Cleaners and Related Workers
5.6	Launderers, Dry-Cleaners and Pressers
5.7	Hairdressers, Barbers, Beauticians and Related Workers
5.8	Protective Service Workers
5.9	Service Workers not elsewhere classified
<b>6 AGRICULTURAL, ANIMAL HUSBANDRY AND FORESTRY WORKERS, FISHERMEN AND HUNTERS</b>	
6.0	Farm Managers and Supervisors
6.1	Farmers
6.2	Agricultural and Animal Husbandry Workers
6.3	Forestry Workers
6.4	Fishermen, Hunters and Related Workers
<b>7, 8 &amp; 9 PRODUCTION AND RELATED WORKERS</b>	
7.0	Production Supervisors and General Foremen

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7.1	Miners, Quarrymen, Well Drillers and Related Workers
7.2	Metal Processors
7.3	Wood Preparation Workers and Paper Makers
7.4	Chemical Processors and Related Workers
7.5	Spinners, Weavers, Knitters, Dyers and Related Workers
7.6	Tanners, Fishmongers and Pelt Dressers
7.7	Food and Beverage Processors
7.8	Tobacco Preparers and Tobacco Product Makers
7.9	Tailors, Dressmakers, Sewers, Upholsterers, and Related Workers
8.0	Shoemakers and Leather Goods Makers
8.1	Cabinetmakers and Related Wood Workers
8.2	Stone Carvers and Stone Cutters
8.3	Blacksmith, Tool-makers, and Machine Tool Operators
8.4	Machinery, Fitters, Machine Assemblers and Precision Instrument Makers(Except Electrical)
8.5	Electrical Fitters and Related Electrical And Electronic Workers
8.6	Broadcasting station and Sound-Equipment Operators and Cinema Projectionists
8.7	Plumbers, Welders, Sheet-Metal and Structural Metal Preparers and Erectors
8.8	Jewellery and Precious Metal Workers
8.9	Glass Formers, Potters and Related Workers
9.0	Rubber and Plastic Product Makers
9.1	Paper and Paperboard Product Makers
9.2	Printers and Related Workers
9.3	Painters
9.4	Production and Related Workers not elsewhere classified
9.5	Bricklayers, Carpenters and other Construction Workers
9.6	Stationery Engine and Related Equipment Workers
9.7	Material Handling and Related Equipment Operators, Dockers and Freight Handlers
9.8	Transport Equipment Operators
9.9	Labourers not elsewhere classified

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### Notes

#### **Clerical and Related Workers Not Elsewhere Classified**

Workers in this minor group perform various clerical and related duties not elsewhere classified. Included are those who record the receipt, storage, weighing and issuing of finished goods or materials; dispatch, receive, store, issue and weight processes; calculate quantities needed and draw up correspondence; provide information and services to visitors in agencies; code and compile statistical data; operate office machines for reproducing copies of documents; operate addressing machinery; carry out other recording correspondence and filing tasks.

**4.9 Sales Workers Not Elsewhere Classified**

Workers in this group perform various selling tasks not elsewhere classified. Their functions include; lending money to customers on pledge or bonds; selling refreshments and confectionery at places of entertainment; performing various other selling tasks.

**Fishermen, Hunters and Related Workers Not Elsewhere Classified**

Workers in this unit group perform a variety of fishing hunting and related tasks not classified elsewhere. Their functions include; breeding and raising fish; cultivating oysters, trapping and hunting wild animals; performing related tasks.

**7.7 Food and Beverage Processors**

Workers in this category prepare food products and beverages of all kinds for human and animal consumption. The under-listed unit groups fall into this category. Grain Millers and related workers; sugar processes and refiners; butchers and meat preparers; food preservers, dairy product processors; bakers; pastry cook and confectionary makers; tea, coffee and cocoa preparers; brewers, and wine and beverage makers.

**Food and Beverage Processors Not Elsewhere Classified**

*This unit group perform tasks not classified elsewhere in the preparation and processing of food products for human and animal consumption; example, extracting oil from oil-bearing seeds, nuts and fruits.*

**Production and Related Workers not Elsewhere Classified**

Workers in this minor group include craftsmen and specialised workers performing functions requiring application of particular techniques, use of particular tools or machines, abilities and experiences in working particular materials in order to make such articles as musical instruments; baskets and brushes; artificial stone and other non-metallic mineral products; dolls, rubber stamps etc. The group also includes those who prepare and stuff skins of animals and birds to give them life-like forms.

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# Informality and Labour Regulations in Ghana

Labor and Globalization | Volume 16

Kwabena Nyarko Otoo

The book makes a major contribution to the controversy about the factors driving the persistence and expansion of the informal economy. Unlike most others studies which either take a structuralist or an actor's choice approach to the topic, this study combines a careful assessment of the economic, social and political circumstances promoting informality with a meticulously carried out econometric analysis of the dominant characteristics of workers as well as enterprises in the informal economy in comparison to those in the formal economy. Its finding is that contrary to the neoliberal view, overregulation is not the primary driver of informality. Rather economic underdevelopment, which in turn is a result of the interplay of neoliberal policies and insufficient state capacity, is the main cause of informality.

Key words: Labour markets, informality, labour regulation, development, Ghana

*Kwabena Nyarko Otoo* is the Director of the Labour Research and Policy Institute of the Trades Union Congress (TUC), Ghana. He has worked with the TUC for the past 14 years.

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