

LITERATURE REVIEW

THE INFORMAL ECONOMY IN LUANDA

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What is the informal economy?

A typical African urban economy contains the following components (Lopes, 2001):-

An official public economy (public-sector companies and public administration)

An official private economy

An unofficial economy with the following components

- an informal economy
- an undeclared economy
- an illegal economy
- internal household economies.

The official economy (both public and private) pays tax, obeys the current legislation and is included in official statistics about the economy. It can include large, medium and small firms. In Angola, the private sector at present is made up of a modern, sophisticated sector that has substantial foreign capital (mainly oil the oil sector), which coexists with home-grown firms. These two sub-sectors operate in distinctly different ways. Home-grown firms focus on trade or simple processing, and aim for rapid-turnover.

The undeclared economy is outside the administrative control of the State in one or more ways. It either does not pay tax or is not following some aspect of labour or trading legislation or is not included in official statistics. It can include large, medium and small firms. Often it is trying to overcome the difficult business environment and work around many different set of rules and regulations. The World Bank's Business Climate Study of 2007 found that about 20% of Angola's firms were not formalised (personal communication of preliminary results)¹. This would seem to indicate that the majority of visible firms operating from premises consider themselves to be formalised.

The AEP report (AEP, 2006) defines various forms of Angolan enterprises. The first is micro-enterprises, which corresponds to the informal, survivalist sector by our present definition. The second is "Micro and small business owners" who are more entrepreneurial than micro-enterprises, have been in the business for some time, have made small investments and employ a small number of people paid from a meagre yet relatively stable turnover. They can be both formal and informal, and owners are not among the poorest. The third are medium and large enterprises. These are established companies, with a higher investment capital that are managed by professionals and employing a considerable number of people. Owners move among the higher circles of society (AEP, 2006). The AEP report suggests that entrepreneurial individuals are more likely to be found among these two groups. However Grassi in her study of women entrepreneurs concludes that many in these groups are speculative entrepreneurs and that they are not innovative or creative (Grassi, 1998). They manage to make small profits from import - export trade and depend on their connections rather than developing new markets and products.

The illegal economy involves activities that are illegal, such as drugs, arms, or smuggling. By its nature it is difficult to estimate the extent of this sector of the economy.

¹ The Survey interviewed companies that had business premises, so the 20% of firms not formalised probably corresponds to the "undeclared economy" by the present definition.

The urban informal economy is understood normally as economic activities that are socially accepted and are generally for the survival of families though they are fully or partly outside the control of public administration in terms of taxes, legislation and statistics. The urban informal economy usually includes

- Transport (motorised and non-motorised)
- Trading (wholesale and retail)
- Financial services (credit, money-changing)
- Small-scale production
- Services of maintenance and repair
- Personal services
- Collective services (such as health, energy, education, water)

A commonly cited disadvantage of the informalisation of the economy is that tax revenue is reduced because informal enterprises escape paying tax: this was mentioned frequently in press cuttings from Angola. However a common Government response throughout the world to the development of an informal economy (discouragement of the visible part of the informal economy on the streets) may not actually address this problem. Tax revenues will not be increased by acting against informal individual survival strategies and by formalising such informal survival strategies. Collecting small amounts of tax from these survivalist businesses will be difficult.²

History of the informal economy of Luanda

Although Lopes states that the informal economy developed in Luanda in the late 1970s (Lopes, 2002), most authors date the beginnings of the informal economic sector in Angola as during the early 1980s. The second wave of returnees from the Congo/Zaire appears to have played an important role in developing informal economic activities, though there is also reported to have been involvement of former soldiers of the MPLA who had been based in the Congos pre-1975 and who began trading with the north of Angola and the Congos when they were repatriated to Luanda (FAS, 2004).

It was *regressados* who were responsible for the building of the informal economy within the centralised economy that the MPLA wanted to implement. Based on a long history of trading and practiced in the complex economy of Congo/Zaire during their time in exile, and with an efficient retail network there, the *regressados* provoked a certain shock in Luanda that at the time, the late 1970s and early 1980s, had not experienced the apparently disorderly street trading and where there was little experience of creating long-distance trading networks. With the transition to the market economy and the economic crisis, a large part of the population was pushed into the informal economy and the stigma of the *regressados* as illegal traders diminished.

There were various waves of *regressados* who returned to Luanda. The first, in the 1970s, mainly occupied positions in the state administration and went to live in the blocks of flats left by the Portuguese. The second waves were in the 1980s and were larger, and it was these groups who were responsible for creating the large scale parallel market. The *bairros* of *regressados* appeared in the 1980s and were much different from the previous musseques.

Regressados was the name given to Angolans of Bakongo origin who had emigrated to Congo/Zaire during the independence war (mainly in 1961) and who returned to Angola after

² One of the themes in press cuttings is that informal traders are in fact paying money in various taxes that stays with market administrators or inspectors and does not become part of tax revenue.

independence. Bakongo, particularly those from Maquela do Zombo in the north of Uije, had a trading culture going back centuries, and this had developed also in exile in Kinshasa. Many had experience of working with trading networks across various countries and linked to Europe. Markets had a special place in Bakongo culture.

Source: Pereira (2004)

Morice (1985) provides a description of the development of the informal economy at the time. The informal economy at the time had two components: one was the visible one of individuals creating their own *esquemas* to survive and manifested in the growth of markets such as Roque Santeiro and on the streets of Luanda and other towns, while the other was the less visible informalisation of the formal economy as nominally formal enterprises deviated further from the rules in order to continue in operation.

Important factors that led to the appearance of the informal economy were

- The growth of the population of the cities
- The crisis of the rural economy
- Growing level of imports
- Unrealistic exchange rate and other manifestation of a dysfunctional formal economic system
- Breakdown of the formal supply systems
- Breakdown of national industrial production
- Payment of salaries in kind (for example companies paying workers in kind and the workers then selling on these products).

The same exchange rate of the Kwanza with the US Dollar applied from 1975 until 1989, by which time its value was completely unrealistic and much trade was carried out through barter or using certain goods (such as crates of beer) as a pseudo-currency.

The informal economy continued to grow throughout the late 1980s and the 1990s. Petroleum came to dominate the economy: petroleum is found along the coast and in deep-sea waters, so there was little economic incentive to invest in the interior with its devastated infrastructure. Declining oil prices in the mid-1980s led to macro-economic imbalances, and this in turn led to various attempts at economic reform. Reform was pursued inconsistently, from 1987 onwards, with many reversals of policy. The currency was changed in 1989 to the New Kwanza (at a rate of 1 to 1,000) and bank accounts partially frozen: this led to a crisis of trust in the banking system. After the failure of the elections in 1992, and the resumption of war, rapid inflation and devaluation began, reaching 84% per month in May 1996. The currency was changed in mid-1995 to the Re-adjusted Kwanza (worth one-thousandth of the New Kwanza) and then again in December 1999 back to the Kwanza (with the Kwanza now worth one-millionth of the Re-adjusted Kwanza). Inflation continued until 2002, though not at the same rate as in the 1990s.

The various attempts at economic reform reduced the amount of formal sector employment, but did not make the changes to the economy that would produce

employment-creating growth³. Hyper-inflation during most of the 1990s reduced earnings in most formal employment. The continuing, and intensified, war after the election of 1992 brought more people to the major cities. Popular explanations of the growth of the informal economy (in, for example, the local press) say that the resumption of war in late 1992 led to a major growth in the number of people involved in petty trading to survive.

There are, however, no reliable surveys of the informal economy from the 1980s or early 1990s. It is only in the mid to late 1990s that attempts were made to systematically describe parts of the informal economy. Adauta (1998) is the first study of the informal economy in Luanda: the data from this study are quoted in most of the subsequent papers about the Angolan informal economy especially his conclusion that 42% of families in Luanda depended solely on the informal sector for their survival, and that the informal economy was expanding rapidly in the mid-1990s.

Adauta's analysis indicated that in the mid-1990s 50% of households wholly dependent on the informal economy had moved into this sector in the previous 5 years (an indicator of the rate of growth of this sector at that time). The supply of employment fell by more than a half in the period 1991 – 1995. People were leaving the formal sector (private and public) for the informal sector because of low salaries (and in some cases closure of firms and services) (Adauta, 1998).

Lopes (Lopes, 2002) concludes that in Luanda (and in Maputo, both cities being contexts of generalised poverty) programmes of economic liberalisation based on a sharp reduction in the capacity of the State for socio-economic intervention does not lead to development nor promote the improvement in the conditions of life of the population. On the contrary he concludes that there are perverse effects, such as the rapid growth of the informal economy where the majority of the population obtain their resources to survive. In contexts of rapid urbanisation, the growth of the tertiary informal sector limits the creation of the macro-economic environment that economic liberalisation policies aim to create. Angola did not implement any programmes formally endorsed by the IMF or World Bank, but did adopt some of the same measures: devaluation, reduction of personnel in the public sector, liberalisation of economic activities and ending of price subsidies.

So although the informal sector had its beginnings in Luanda in the years immediately after independence when the State was unable to manage the economy through centralised administrative management, the ending of the mechanisms of centralised control in 1989 had little effect because, by then, informalisation had restructured the economy. Informal economic actors had become part of the system for supply of basic services such as water and energy. Powerful actors had entered the economic system as suppliers of the informal, survivalist sector. In successive demobilisation exercises, former soldiers were encouraged to join the informal economy. So although the initial conditions for the development of an informal economy had disappeared, the informal economy had become an important part of the economy and so persisted (Lopes, 2002).

³ Mabor (tyres), Textang (cloth) and Manauto (repair of Renault vehicles) closed down and created a high level of unemployment in the area of Cazenga (FAS, 2004). Centralised planning of the economy was abandoned but a framework was not put in place to create the conditions for economic growth under a free market system.

Forces of change on the informal economy since 2002

A peace agreement was signed in April 2002 between the Government of Angola and UNITA, which led to the ending of security problems in Angola (except in the Province of Cabinda) for the first time since 1975. This has led to easier movement of people and goods throughout the country. Press cuttings provide some information about the short-term effects such as temporary shortages of goods in certain markets as traders concentrated on other markets, or reductions in prices in more remote areas as goods could be moved in by land rather than by air. In Huambo increases in competition levels have been reported in the three years after peace was achieved.

However there is as yet little information about the longer-term effects. It would be expected that easier movement of people and goods throughout the country should stimulate local production of products, and thus increase local employment and reduce the dependence on imports: this would be expected to increase the amount of value-added employment (and perhaps increase the size of the formal sector) and change the nature of trading. However no information is available about whether this is really happening, and to what extent. It may be that other factors would have to change before this happened: possibly transport infrastructure would have to be rebuilt⁴ and specific efforts made to overcome the habit of dependency on imports. It may also be that there is not a dynamic entrepreneurial class in Angola that is prepared to take these emerging opportunities⁵. Furthermore transport cost might increase significantly when subsidies on fuel are lifted, and this may inhibit the development of an internal market.

Since 2002 the currency has been stable at about 80 Kwanzas to the Dollar. Furthermore there has been a rapid growth of the economy driven by high oil prices and rapidly growing production. However it is still unclear how this will spill-over into the rest of the economy. At present this form of economic growth appears to be increasing the gap between the oil economy (and the associated boom in infrastructure construction through oil-backed loans) and the continuing informal, survivalist economy. There is not yet any evidence of economic growth increasing the number of jobs in the formal economy to an extent that would have an impact on the numbers entering the informal economy.

There are Government efforts to restructure the commercial system. Press cuttings from August 2006 mention a “*Programa de Reestruturação do Sistema de Logística e de Distribuição de Produtos Essenciais à População – Novo Rede Comercial*”⁶. In the press there has been little information about what this would entail, though it was explicitly stated that one of the objectives was the gradual transformation of informal commerce into formal commerce. Potentially this Programme could have a significant effect on the informal sector, though its exact effects would depend on what instruments are to be used and how they are implemented.

Specific elements of Government efforts to restructure the commercial system through closure, rebuilding and opening of markets, changing the geographical location of

⁴ Roads and railways remained in a poor state for the first four years of peace. There would appear to be now some significant improvements, which may create a unified national market in Angola.

⁵ One of the themes in the Press Cuttings was a concern about the presence of non-Angolans in the Angolan economy. They would appear to be quicker to exploit new opportunities.

⁶ Programme for restructuring the system of logistics and distribution of essential products to the population: new commercial network.

markets and the number of people who are able to trade in markets have been mentioned in the press. A large proportion of the Press Cuttings are about the closure and rebuilding of markets. The availability of loans from China, and the willingness of Chinese construction companies to carry out work quickly, has led to the closure of some markets for rebuilding on the same site, or the removal of markets to other sites. This is already happening⁷ in Luanda and some other towns, according to press reports. The strategy would appear to be to move large wholesale markets to the edges of Luanda (in locations where they do not affect the flow of traffic and cause hygiene problems), to rebuild some urban markets (with better sanitation facilities and cold stores) and to close down wholesale warehouses that operate near to the centre of Luanda. It also appears to be the intention to make selling on the streets more difficult. Press cuttings suggest that this will lead to fewer trading opportunities for informal traders (there will be fewer places in markets than at present and less trading on the street) though in December 2006 the Provincial Government said that further markets would be built because the markets being built at present did not have enough places. These changes could potentially have a significant impact on the informal sector through restricting trading opportunities and changing the geography of the distribution system within the city of Luanda, though press cuttings do not give enough information to assess this. The effects of changes may be perverse, as Government is only able to implement a few policies at one time (possibly leading to the restriction of the informal economy before growth in the formal economy comes about). As yet there is insufficient data to track the impact of changes since 2002.

ANGOP and Voice of America, February 2004, both discussed the enforced closure of Rocha Pinto and Estalagem markets and their replacement with markets that are smaller, further from the city centre and further away from main roads. Both mentioned the fact that the old markets caused congestion on main roads, but that existing traders and clients would have to travel further.

ANGOP, March 2004, reported a press conference by the coordinator of the Commission for Administrative Management of Luanda, Higino Carneiro about the construction of twelve new markets for Luanda and the need to reduce trading in the streets. The fact that this occurred only two months after the creation of this Commission suggests that this subject was a priority for the Commission.

In May 2004 the Apostolado reported that Kinaxixi Markets was being closed in order to be transformed into a shopping centre. Only 200 people trading there would be offered places in other markets: the many more trading there who were not officially recognised would not be offered places elsewhere. Over subsequent months there were reports in various newspapers about the lack of progress in rebuilding Kinaxixi market.

⁷ Press cuttings mention this from 2004 onwards, but it would appear that it is in 2006 that rebuilding actually got underway.

Constraints facing emerging enterprises

Improved security and economic stability should lead to a growth in the formal economy and a gradual shrinking of the informal economy as formal employment is created and absorbs labour at present in the informal economy. However it is clear that the informal economy is now deeply entrenched. There are additional factors that inhibit the development of the formal economy. For example the business environment continues to be difficult. Enforcement of contracts is extremely difficult and costly, and can take around 1000 days from filing a complaint to restitution. It is almost impossible to enforce loan repayment and generally not cost-efficient for small loans, as the cost of the legal process will mostly far exceed the actual loan (BNA, 2006). It is difficult to use houses or land as security for loans as most people do not have papers showing their ownership, even in central city areas, due to the inefficient working of the land registry (Vletter, 2002). The capacity of Government to implement reforms is limited. Levels of literacy and technical training are low and the high participation rates of young people in the informal economy have negative implications for skills and innovation in the future.

Enterprises face various constraints, among which lack of capital, and lack of access to capital, outdated technologies, obsolete infrastructures and an unfavourable macro environment. In general, there seems to be a rather limited market and many entrepreneurs find it difficult to compete. Several entrepreneurs indicated that they had difficulty analysing their operations in terms of financial results and expressed a need to understand their business better (AEP, 2006).

The market for Business Development Services (BDS) is still underdeveloped. Providers have to make the clients aware of the advantages of BDS. Another major constraint that the providers face is that most of their clients are operating with few reserves: BDS providers must focus on the direct benefits of their services for each client, convincing clients that their investment pays off (AEP, 2006).

Thus it is unlikely that in the short-term there will be a shrinking of the informal economy. The informal economy would appear to be deeply entrenched. Most informal entrepreneurs say that they would abandon their activities and seek formal employment or change their business activities instead of developing their existing businesses should the opportunity arise. This means that the informal sector may be a temporary or transitional phenomenon rather than a stable segment of the current Angolan economy. However, despite the recent rapid growth of the Angolan economy, it cannot be expected that this instability will be removed in the short to medium term, and most probably the survivalist type of entrepreneurial activities will be there to stay for a while.

The main problems mentioned by the informal, survivalist sector suggest that many, if not most, operate in a highly competitive environment with little growth potential. They state that there is a lack of clients, low profits and low sales. Most micro-enterprises face an environment with numerous vendors in the few markets they are engaged in and relatively slow growth in demand and these are seen as the primary impediments to the success of their businesses, although some also note that stifling regulations handicap their efforts. Easing these regulations would not necessarily make their businesses more profitable but would remove stressful daily hassles for entrepreneurs who are already struggling for survival.

Characteristics of the informal economy of Luanda

In Angola, micro enterprises are a survivalist sector with low skills diversification, high competition, low margins, and limited (if any) linkages to the formal sector (Adauta, 1998). This is the group that is categorised as *survivors* in the AEP report (AEP, 2006). They have been forced to operate as micro enterprises. They are self-employed, have no permanent staff, limited turnover and hardly any means to invest in their business. They are self-employed but are not necessarily entrepreneurs. Most of them operate in the informal sector and are among the poorest. Marzia Grassi (Grassi, 1998) has a similar analysis when referring to women in the informal sector.

Most of these “entrepreneurs” are not entrepreneurs by choice but by circumstances. They were unemployed and with few alternatives, so have developed income-generating activities, which in some cases have grown to small enterprises. They operate in limited markets and find it difficult to compete. They lack ‘innovative thinking’ and this inhibits their growth potential (AEP, 2006). The importance of this group for policy is their numbers and the fact that the survival of large numbers of people depend on them. The growth of the informal sector has been horizontal and not vertical, with limited innovation, economies of scale, specialisation and value-added but continually growing competition. Horizontal growth has meant a vast increase in the number of one and two person enterprises: 81% of businesses employ 1 or 2 people (Adauta, 1998). The micro-enterprises are competing with one another. The lack of capital and the lack of places to store goods mean that there are few economies of scale, and much time is dedicated to travelling to buy relatively small quantities of goods (Pereira, 2004).

A class of entrepreneurs has not developed: those who did emerge were more focused on rapid returns and speculation than on production and value-added, or were very small-scale. This went hand-in-hand with reduced levels of qualifications and skills of the labour-force, reductions in the performance of important infrastructure such as water, transport and energy supply, plus a lack of well-defined property rights. This kind of horizontal growth is unlikely to lead to reductions in poverty levels and get beyond mere subsistence. Urbanisation is not leading to the economies of scale that it is expected to lead to (Lopes, 2002).

In the mid-1990s, 42% of families had a head of household who was fully occupied in the informal economy, and another 12% had a head of household employed in the formal economy but also has family income from informal activities. The other 46% of families had income only from formal employment. There was no significant difference in family size and composition between these groups. The index of dependency was similar (and high for all categories) and migration history was also similar. The family in the informal sector was not more likely to be a migrant family: those who had lived for long periods in the city were just as likely to have informal employment (Adauta, 1998).

The average age of business in the mid-1990s was 3.8 years, implying a rapid creation of micro-enterprises at the time. The informal sector was the main generator of employment (in the mid-1990s) in Luanda. The older businesses were in textiles, furniture, carpentry, repair and civil construction. Trade, transport, fishing and production of alcoholic drinks were more recent. There had been little recent investment in textiles, furniture, carpentry, repair and civil construction because of the competition from imports and because few people had the capital necessary for investment, loss of skills for these

activities (trade requires less initial capital and risk and knowledge). The concentration in trade and services was increasing (Adauta, 1998).

The economically active population of Luanda showed a high level of illiteracy (18%), particularly in the informal sector, and this was (and is) a brake on productivity and technological advancements. The average length of schooling was 5 years in the formal sector and 4 years in the informal sector. One in 5 of those under 14 have never attended school. Only 2.6 per cent of all those in employment can be characterised as technical elites. There were high levels of activity in the 10-19 age group: this is of concern because it depresses productivity in the long-term and depresses average salaries today. The high level of activity of 10 – 19 year olds is a reflection of family survival strategies, putting all hands to work in a search for income (Adauta, 1998).

Only 1.4% of those in employment had more than one occupation, though this was highest among liberal and professional services that have been liberalised. This was surprising because at the time it was thought that people had multiple occupations (Adauta, 1998).

In the mid-1990s there were no significant differences of family characteristics between those in the formal economy and those in the informal economy. They were similar in terms of size of family, number of dependents and time of residence in Luanda. It was not a certain type of family that went into the informal economy: it was not just new arrivals from the provinces, for example (Adauta, 1998).

Thus poverty in Luanda (and in Angola in general) is not caused by unemployment. It is caused by the very low remuneration of obtained from the jobs that people have created for themselves in order to survive. These jobs add little value and involve intense competition for a limited market (Assunção, 2006)⁸. As a result, 72% of Angolans are considered to be living below a poverty level of 1 dollar per person per day (70% in Luanda) (Assunção, 2006)⁹.

⁸ "With labour being poor people's greatest asset, a frequent response by poor people to declining income is to mobilise additional labour, principally women's labour but, in the poorest households, even children's labour." This means entering "competitive dead-end occupations with low pay and long hours. From C Moser and J Holland "Household responses to poverty and vulnerability. Vol 4. Confronting crisis in Chawana, Lusaka, Zambia (Washington DC) Urban management programme. World Bank: quoted in Poverty Alleviation Policy in Angola: pursuing equity and efficiency, UNDP, 2000 (Chapter 3 Urban areas: informal sector work)

⁹ These figures refer to a Household Income and Expenditure Survey carried out in certain areas of 7 provinces in 2000 and 2001.

Markets and other sites

There are various types of market in Luanda. Markets such as Imbondeiro, in Palanca, serve mainly the needs of the bairro. They sell mainly foodstuffs (flour, vegetables, oil, dry fish, fresh fish, meat, peanuts, pepper and tinned milk), charcoal, soap and cleaning products. There are a few clothes for sale plus a few CDs and videos. There is more trade in the markets in the afternoons and just before dark, when women buy ingredients for that evening's meal. There are also smaller groups of traders within the bairro who sell similar products but in very small quantities (a small bag of vegetable oil, a half tin of tomato paste, three segments of garlic) that are suitable for making one meal (Pereira, 2004). People who sell at the door of their house also sell goods in very small quantities, as well as beer and soft-drinks and home-made products such as cakes and ices (that depend on the working of a freezer or refrigerator) (Pereira, 2004).

Markets such as Roque Santeiro and Kwanzas sells goods in larger quantities and act as a wholesale market for markets such as Imbondeiro. They also sell goods such as electrical equipment and other more valuable goods (Pereira, 2004). Kwanzas Market serves as a departure and arrival point for transport from northern Angola and the RDC, and there are a large number of transport and associated services clustered around it (FAS, 2004). The market of Rocha Pinto also serves as a departure and arrival point for transport from the south (Lopes, 2002).

The area of Hoji-ya-Henda contains large numbers of abandoned factories that are being used as warehouses. It is reported that the warehouses began to be rented by people from other countries (such as Mali and the RDC) in about 1992 who used them for receiving and distributing imports. A large number of informal activities cluster around the warehouses as part of the distribution system to other markets (FAS, 2004).

This geographical organisation of markets may have changed throughout the years. Possibly more wholesale trade takes place in warehouses rather than in Roque Santeiro, though there is little information available about the supply chains and the relationship between the various markets.

In the bairros studied by Lopes there was little hawking. Most activity was retail (except to some extent in Rocha Pinto where there is some wholesaling in Rocha Parque where lorries arrive from the south). Trading is in consumer goods but with little adding of value. There is also some carpentry and block-making, as well as renting out of rooms. Most activities take place at a micro-scale and involve selling to other residents of the bairro. The formal sector is very small, especially in the more peripheral bairros (Lopes, 2002).

Buying and selling takes place in markets, in the street (*zunga*) and at the door of the home. Those who are selling in the street appear to have the lowest level of education and of capital, and so to generate the least income. Those involved are usually young men or women, and their situation is the most precarious (Ducados, 1998), (Adauta, 1998) (FAS, 2004). The informal economy has also generated a large number of other "professions" such as *roboteiros*, *carregadores*, *controladores*, *cobradores*, and *lotadores* who mainly work in large markets or transport departure points (FAS, 2004) (Lopes, 2002).

Possible assistance to the informal economy

More than half of entrepreneurs feel that increased access to credit would help to improve their businesses, followed by about a third who thought that vocational training would be useful and less than a fifth who indicated business training would improve their performance. For the ones who cited credit, a preferred loan amount was up to Kz45,000 in Luanda and slightly lower in Huambo with the majority indicating less than Kz30,000. The preferred term ranged from four to 12 months. However it should be noted that these perceived credit needs are almost always overestimated by clients who do not take the absorption capacity of their businesses the squeeze in profits and high competition into account. This may lead to overestimating the importance of credit and push people into debt (DW, 2006).

There are no quick fixes to help the informal sector become more meaningful. There are no alternatives. The continuous surge of new entrants into the sector over the past years has not helped it to become an alternative to formal sector employment, but instead has simply increased competition (DW, 2006). Typical support programmes like business development services, access to financial services, vocational training etc. would help to facilitate the sector's development. However, these are normally very limited in terms of numbers reached.

The size of the informal economy of Luanda

In the mid-1990s in Luanda

42% of families were completely dependent on the informal economy
12% of families were partially dependent on the informal economy
46% of families were dependent on the formal economy (Adauta, 1998)

Fifty-six per cent of the population over 10 were working in the informal sector. 54% of the aggregate of family incomes came from the informal sector (Adauta, 1998).

In 1999, informal trading activities were the principal occupation of 58% to 69 % of working members of families in the bairros in Luanda studied by Lopes (Rocha Pinto, Cazenga 11 de Novembro, Boa Esperança) (Lopes, 2002).

A report by UNDP (UNDP, 2000), using data from the mid-1990s, said that about 37% of people who were working worked in the informal sector. There is little difference between income groups (better-off, poor, very poor) in the proportion who were relying on informal employment (Table 3.1). In Luanda, 41% had informal employment, 26% were students or apprentices or not working, and 33% had formal sector. In Angola as a whole (in 5 cities where the survey took place), 47% of women were in the informal sector, as against 27% of men. Of households, 72% had at least one member in the informal sector. In Luanda this was 78%, in the other 4 cities of the survey it was considerably less. Of people who were in the informal sector, 74% were in trade.

Forty-two per cent of all people aged 15 or over were in trade (formal or informal) (suggesting that there were an artificially large number of people working in trade). Thirty-five per cent of all people 15 or over were in informal trade (19% for men and 65% for women). Fifteen per cent of women who were very well-educated were in informal trade, 50% of highly educated, 78% of poorly educated, 85% of women without formal education (UNDP, 2000).

By 2000/2001, 57% of the poor and 41% of the non-poor in Luanda were self-employed (Assunção, 2006).

The data for Angola (much of it from the 1990s) shows how large a proportion of people in Angola, and especially Luanda, are dependent on the informal economy, especially informal trade. However it should be noted that the level of informal employment in other African countries is also high. Informal employment accounts for 78% of non-agricultural employment in sub-Saharan Africa (excluding South Africa). In all Africa, informal self-employment is much more important than informal wage-labour (ILO, 2002).

Gender and the informal economy

Generally in Africa, women are more numerous than men in the informal economy. In sub-Saharan Africa, 84% of women non-agricultural workers are in informal employment while 63% of male non-agricultural workers are in informal employment (ILO, 2002). This is true in Angola, and in Luanda. The formal economy is predominantly made up of men (67%) while the informal economy is predominantly made up of women (63%). Eleven per cent of families dependent on the informal economy are headed by single women, twice the percentage in the formal economy (Adauta, 1998). However there are now more men in the informal economy in Luanda than in many African cities, probably because in Angola there is even less formal employment than in other African cities.

The activities of women in the informal economy in most countries of the world are often in specific sub-sectors such as food-preparation and street-trading and are usually small enterprises. Men who are informal sector traders usually possess larger operations and more likely to trade in non-food goods. Men are usually found in a range of sub-sectors of trade while women are usually clustered in trade in food products and are rarely found in the transport sector. Women are generally concentrated in sub-sectors that require less capital and training. Women begin to develop their trading by selling at their door and gradually building up capital. Alternatively they may be lent money by other family members (Pereira, 2004). However a minority of women who do have access to capital (for example from their families) do manage to set up large trading businesses (Ducados, 1998).

This appears to be also the case in Luanda where women dominate in informal retail trade, except in more valuable domestic goods, clothing and medicines (Lopes, 2002)

Of women heads of household (in the informal and the formal economies), 66% are in commerce. Of men heads of household (in the informal and the formal economies), 11% are in transport, 9% in construction, 19% are in other industries and 8% in the civil service. Men heads of household have higher levels of education and more access to capital, so more access to activities that generate more income. Average monthly incomes for households run by women are 20% less than those run by men. But households headed by women in the informal sector have higher income than those headed by men in the formal sector and by women in the formal sector (as at that time, even highly qualified people in the formal sector were very low paid) (Adauta, 1998).

Poverty and the informal economy

In the mid-1990s the poorest families were those who were partially dependent on the informal economy and partly dependent on the formal economy. At that time the best strategy was to leave completely the formal economy. At that time, there were no significant differences in food consumption patterns between families in the formal and informal economies. In both cases food consumption was 75% of the recommended level of calories. However families dependent on the informal sector had poorer housing. Families in the formal economy had better housing, purchased at the time that they had better incomes, even though their incomes were now probably too low to maintain those houses (Adauta, 1998).

In the mid-1990s families in the formal sector had negative savings while those in the informal sector were able to make small savings. Calorie intake was similar in all types of household, and the average in all cases is about 75% of the standard recommended level of 2100 calories per capita per day. Fifty-nine per cent of families were below the poverty line and 7% were in extreme poverty. Those families who have a head of household who is employed in the formal economy but also has family income from informal activities showed the greatest level of poverty. Those who live solely from the informal economy have worse housing conditions than those who live wholly or partly from the formal economy (Adauta, 1998).

Families who have difficulty in access to opportunities to trade are poorer. Informal retail trade provides a low income, but a better one than occasional jobs (*biscatos*) that are often the only alternative. The families who were removed from Boa Vista to Zango are poor because they are distant from trading opportunities and have been prevented from access to markets in Viana by people who were there before them. They have a good standard of house but low incomes (Carlos, 2005). This has implications for the process of changing the locations of markets if it reduces the number of people who have access to trading opportunities.

Families are a basic economic unit in such situations, but the family unit is transformed (for example taking on new members) so as to better guarantee its survival. Traditional norms of the family are re-interpreted and used flexibly in a new context. Different members of the family go to work in different areas or occupations so as to spread risks or search new opportunities. The family may also become dispersed geographically to seek opportunities in different regions, such as in diamond-mining or trading with neighbouring countries (Costa and Rodrigues, 2002).

Sub-sector analysis and Value-chain analysis

Sub-sector analyses and value chain analyses are similar¹⁰. They avoid the tendency to see the informal sector as though it were an undifferentiated mass of micro-enterprises. They focus on the movement of a product or service through various stages and the

¹⁰ Value chain analysis is complementary to sub-sector analysis. Value-chain analysis builds on the foundation of sub-sector analysis with some additional analytical elements

linkages and participants at each stage. A *value chain* describes the full range of activities which are required to bring a product or service from conception, through the different phases of production (involving a combination of physical transformation and the input of various producer services), delivery to final consumers, and final disposal after use. They look at the rules and institutions governing the relations between the actors in a given sub-sector. This should lead to a detailed understanding of the opportunities and constraints in a given sub-sector and thereby provide a framework for appropriate policy interventions.

There have been a few studies of this type in Luanda. The study of the fish marketing sub-sector (DW, 1996) and the two studies of water and sanitation (DW, 1995 and 1998) identified the actors in the sub-sectors and the links between them, and how a product is passed along a chain from producer (or importer) to the consumer, also examine where profits are made in the chain.

A methodology known as CAPSA (*Capacitating and Sub sector Analyses*) has been used in Angola (near to Lubango) in 2001 and 2002. CAPSA combines *Capacitating* (CAP) and *Sub sector Analyses* (SA). CAPSA provides a methodology and instruments for people with limited experience to undertake a sub-sector analysis without international experts, and provides training in general aspects of small enterprise development, assisting in designing appropriate interventions that improve the functioning of the actors within the sub-sector.

The objectives of the NGOs who were involved in CAPSA in Lubango were to analyse the productive sectors in urban and peri-urban Lubango, after which interventions would be designed and implemented by these NGOs to improve the performance of small enterprises in certain sub-sectors. A general Economic Mapping (EM) was carried out to determine which sub-sectors were present in the local economy and which of these show most potential for (further) development. It hasn't been possible to locate any results from the exercise in Lubango.

The lack of studies of this type mean that we know little about the relations between the various actors in the informal economy, its rules of the game and its institutions. There is little information about the linkages between the numerous informal entrepreneurs. There have been no recent analyses of the chains of supply and demand that bring products from the raw material supplier to the consumer in Angola.

The fish marketing sub-sector study showed that there is a hierarchy, based on gender and class, in the sub-sector. Industrial fishing boats, belonging to private fishing companies licensed by the State fish and freeze the fish at sea. This is sold to male and female wholesalers who hire lorries to transport fish from the boats to Roque Santeiro Market. Individual women fish-sellers then buy individual boxes of fish and these sell them in the market. The informal wholesalers tended to have strong linkages with the formal sector and some benefit from credit from the formal sector. The informal wholesalers appear to succeed in getting protection from the police and guards, while the retail sector work in precarious conditions and have weak links with the State and the formal sector. Women retailers suffer serious constraints, namely the low level of capital, stiff competition, low negotiating capacity and position, impossibility of reducing costs, limited mobility, limited social networks and weak personal security. Retailers manage to gain a very small income for long days of work, while wholesalers manage to obtain a much larger profit.

Information gaps

Much of the information about the numbers of people in the informal economy comes from data collected in the 1990s. It is suspected that the informal economy was growing very rapidly during the 1990s. The comparison between the figures of Adauta (1998) and Assunção (2006) suggests that this was the case. (Adauta is referring to 1995, Assunção is referring to 2000 and 2001.) However the definitions are not exactly the same, and the latest figures are now at least 6 years old (in a period when the country was still at war).

Information about how many people are involved in the informal economy (or dependent on it for their livelihood) can only be obtained by large-scale household employment and income-expenditure surveys. There is a possibility that such a survey will be carried out by INE (the National Statistics' Institute), with funding from UNICEF and/or the World Bank, within the next year. It will be important to try to ensure that this exercise does provide useful information and that it avoids some of the pitfalls of previous exercises of this type in Angola. This will require lobbying to try to ensure that:-

- the questions asked are the same as those asked in previous surveys, to allow comparisons
- the analysis goes down geographically to a meaningful level (in this case provides information about Luanda without grouping it with other Provinces, or preferably goes down to the level of peri-urban Luanda)
- the data is made available quickly.

One of the most important research needs is to understand what effect the policy environment will have on the informal economy. To make forecasts about this will require much clearer information about policies, and about how the micro-enterprise survivalist informal economy works. Although press cuttings have indicated that there are Government policies that intend to "gradually formalise the informal economy", it has not been possible to locate any detailed policy statements though these will be important for this kind of research. It will also be important to use research to understand more clearly how the informal economy works: who is selling to who, where, at what profit level and in what quantities.

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