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Evidence Brief

November 2026

Transforming the Informal Economy

Moving young people from insecure survival work to productive, protected and rewarding work

Key messages

- **Informal work is the norm, not a waiting room.** In seven of the eight countries, more than 80% of employed young people work informally. In Rwanda, eight annual surveys from 2017 to 2024 show no meaningful movement towards formal work.
- **Informality lasts because it suits powerful interests.** Some officials gain from informal fees and patronage, some employers from cheap and flexible labour, and young workers themselves often see registration as exposure to tax and harassment with nothing in return.
- **Formalisation works only when it is a good deal.** It needs real benefits, lower costs for small businesses and protection from predatory enforcement, all at once. Rwanda made registration cheaper and easier, and informality did not fall.
- **Money alone does not build businesses.** Youth enterprise funds hand out capital without the training, mentoring and market links that make it work. The same Kenyan fund recovers 43% of its loans nationally and 95% where support is built in.
- **One approach does not fit every country.** Where informal work absorbs most young people, the task is to make it more productive and better protected. In South Africa, where informal activity was suppressed in the past, it first has to be allowed, protected and resourced.



Source: Alamy

> The question for policy is therefore not whether agriculture matters for young people. It is why a sector that employs so many offers them so little, and what it would take to change that.

Introduction

Most young Africans are working. The trouble is the terms on which they work. For the great majority, work means informal activity with low earnings, no contract, no social protection and little chance of moving up. This evidence brief looks at why informal work is so persistent, why efforts to formalise it have achieved so little, and what governments and their partners can do to make it more productive, better protected and more rewarding.

We draw on the first phase of the political economy analysis carried out under the Activating Policy to Create Mass, Fulfilling and Dignified Jobs for Africa's Youth initiative in eight countries: Ethiopia, Ghana, Kenya, Nigeria, Rwanda, Senegal, South Africa and Uganda. The study combined

policy reviews, analysis of national survey data, more than 350 key informant interviews and 60 focus group discussions with young people.[1] We set out what the evidence shows, the commitments already in place, the lessons from country experience and the actions that follow, each with a named lead. We close with indicators for tracking progress and the questions the evidence cannot yet answer.

Background and Rationale

Headline unemployment figures hide the real problem. Youth unemployment in Africa is around 10% for those aged 15 to 24, yet about 83% of employed young people work in the informal economy and at least one in four is not in education, employment or training.[2] Unemployment draws most of the policy attention, but low-quality work affects far more young people.

The commitments to change this are clear. The African Youth Charter, the only legally binding continental instrument for young people, gives every young person the right to gainful employment in Article 15 and calls for the informal economy to be regulated so that it becomes a source of decent work. Agenda 2063 sets targets for cutting youth unemployment, and the Ouagadougou+10 Declaration on employment lists social protection and productivity among its six priorities, though it sets no minimum budget.[3] Internationally, International Labour Organization (ILO) Recommendation No. 204, adopted in June 2015, guides the move from informal to formal work and also asks countries to stop formal jobs from becoming informal.[4] Delivery has lagged far behind. The African Union's first report on Agenda 2063 found the continent moving away from, not towards, its target for reducing youth unemployment.[5]

The question for policy is therefore not how to make informal work disappear, which no country in the study has managed. It is how to make the work young people already do more productive, safer and better rewarded, while opening realistic routes into formal opportunities over time.

What the Evidence Shows

Most young people work, but on poor terms

Informality accounts for about 94.5% of employed youth in Uganda, more than 92% in Rwanda, more than 85% in Ethiopia, 80 to 85% in Kenya, more than 80% in Nigeria and nearly four in five in Ghana. In Senegal it covers more than 90% of all employment.[6] Behind these numbers lies very insecure work. Nigeria's 2022 labour force survey records only 6.8% of employed youth with a permanent contract and 1.6% with social security entitlement.[7] In Uganda, 78.4% of young people are employed, yet 64.0% of them work fewer than 35 hours a week.[8] Informality among young women is 5 to 10 percentage points higher than among young men, and rural rates exceed urban rates by similar margins. Formal status is not always a guarantee either: Rwanda's study found cleaners and guards hired through subcontractors who are counted as formal employees but face unstable contracts and low pay.[9]

South Africa is the exception that proves the point. Only about 35% of employed 15 to 24-year-olds work informally, but that is because informal activity was suppressed under apartheid, not because formal jobs are plentiful. Unemployment among 25 to 34-year-olds reached 44.0% on the expanded definition by 2025, and 77.1% of them had been without work for a year or more.[10] Where young people cannot work informally, many end up not working at all.

Informal work persists because it serves many interests

The study separates four kinds of informal work: subsistence self-employment, small productive businesses held back by neglect and lack of credit, informal jobs inside formal firms, and gig and platform work. Each is held in place by different interests. State actors can gain through informal taxes, electoral mobilisation and patronage; employers gain from cheap, flexible labour; and workers often avoid registration because they expect harassment and tax with no benefit in return.[11] A Nigerian researcher described what a surplus of workers does to pay:

> "There are more people than jobs, so employers now dictate wages... people are willing to accept anything because there are no alternatives." Key informant, Abuja, Nigeria

In Senegal, informality lets the state avoid the cost of wider social protection while large employers keep a flexible labour reserve. In Ghana, temporary placement schemes have worked more as disguised unemployment than as routes into lasting jobs. Rwanda shows a different picture: there is no patronage pressure, but the formal sector is simply too small to absorb young workers. In South Africa, informal activity was suppressed rather than sustained, and parts of the state still see support for township enterprise as at odds with their mandate.[12]

Registration brings costs but few benefits

Every country has formalisation as a goal, but the approach is often punitive. In Kenya, small businesses face licences at both national and county level, some register only to apply for a grant and deregister afterwards, and a simplified business permit approved by Parliament has not been fully rolled out. Tax collection is widely seen as extractive, applying the

same rules to a one-person business as to a large firm. One business leader put the alternative simply:

> "We want you to register, we want you to pay NHIF, we want you to pay NSSF, but for the first 200,000 Kenya shillings you make, there is no tax. A lot of people will come out." Private sector key informant, Kenya

In Uganda, formal firms sometimes lobby for tighter rules on informal competitors and officials collect informal fees as the price of being left alone. In Ghana, take-up of social security enrolment and the Ghana Card platform remains low because the costs of registering seem to outweigh the gains. In Senegal, registered businesses often pay more in compliance than they receive in protection, and in Ethiopia few small enterprises grow into mid-sized formal firms. Rwanda offers the cautionary case: it made registration easy through a one-stop centre and linked it to a savings scheme and health insurance, yet informality did not fall.[13] Trade policy also overlooks informal workers. Kenya's trade ministry acknowledged that

> "when you have more than 80% doing business informally, the problem is with us." [14]

Enterprise funds give money without support

Governments and donors invest heavily in youth entrepreneurship, partly because it lets them claim credit for jobs without the slower work of changing the economy. Kenya runs five overlapping youth funds that give capital without checking demand, helping with planning or following up. The Uwezo Fund recovers 43% of its loans nationally, but 95% in Imenti North, where borrowers receive training before funding, ongoing mentoring and group support. In Senegal, about 40% of supported micro-enterprises close before their third year, and Ghana's enterprise programmes report outputs but few lasting businesses.[15] Lack of collateral keeps many young people out altogether:

> "Young people usually do not have collateral. Even when opportunities exist, many of us cannot access them." Focus group participant, Rwanda

Crowded markets add to the problem. As a young person in Oyo, Nigeria, said, there may be "three or four tailors on the same street, some even facing each other."[16] The picture is not all negative. South Africa's National Youth Development Agency disbursed about R400 million (South African rand) in grants over five years and 70 to 80% of funded businesses reported growth or stability, but it can support only about 2,500 of roughly 13,000 applicants.[17]

Young workers carry the risks alone

Social protection that follows the worker rather than the employer is missing in every country. Kenya's Social Protection Policy of 2023 allows for covering gig and casual workers, but the arrangements for people with irregular incomes are not yet working.[18] Young people fill the gap themselves through savings groups and cooperatives, such as Uganda's village savings and loan associations.[19] Some take on serious danger for better pay: in Ghana, informal small-scale gold mining, mostly done by 16 to 30-year-olds, can pay far above the minimum wage but at high cost to safety, health and the environment.[20] Delivery also follows power and place. In Senegal, selection under flagship funds clusters around politically aligned constituencies; in Ghana, flagship programmes concentrate in southern cities; and in Kenya's counties, youth, gender, sports, culture and social services together receive about 2.1% of budgets.[21] Table 1 brings the country evidence together.

Table 1. Informal work among young people: what the study found in each country, and where reform can start

Country	Informal share	What keeps it in place	Where reform can start
Ethiopia	Above 85% of employed youth	Small businesses register but rarely grow into mid-sized formal firms; rules change sharply at that point.	Ease the step from small to mid-sized firm; invest in workspace and power.
Ghana	Nearly four in five employed youth	Patronage shapes access to formal jobs; no social protection in informal work; low take-up of registration.	Simple registration through the Ghana Card with social security that follows the worker; merge youth credit windows.
Kenya	80 to 85% of employed youth	Licences at national and county level; extractive tax collection; five overlapping youth funds.	Tax-free threshold of KSh 200,000 linked to health and pension enrolment; merge youth funds; markets for traders at ward level.
Nigeria	96.1% of youth main jobs (2022)	Compliance costs discourage registration; employers set wages where workers are plentiful.	Workspace and market infrastructure; recognition of informal-worker associations.
Rwanda	Above 92%; no shift from 2017 to 2024	Formal sector too small; informal work inside formal firms through subcontracting; collateral barriers.	Tie investment incentives to hiring and formalising young workers; a framework giving gig and digital workers access to Ejo Heza and social security.

Country	Informal share	What keeps it in place	Where reform can start
Senegal	Above 90% of all jobs	Registered firms pay more than they gain; fund selection clusters politically; about 40% of funded firms close within three years.	Social security that moves with the worker; merge enterprise funds and judge them by survival after year three.
South Africa	About 35% of employed 15 to 24-year-olds	Informal activity suppressed historically; rules made for formal premises; lack of trading space; extortion.	Allow, protect and resource informal activity first; expand grants that need no compliance records.
Uganda	About 94.5% of employed youth	Formal firms lobby against informal rivals; officials collect informal fees; many programmes but little business growth.	Consolidate programmes; invest in local infrastructure; stop capture of funds.

Source: AFIDEP and CAP YEI (2026), Sections 4.1.2, 4.4, 6.2 and 6.5.

Continental and Regional Commitments

Countries already have the commitments they need. Table 2 shows what each one asks of them and where delivery falls short.

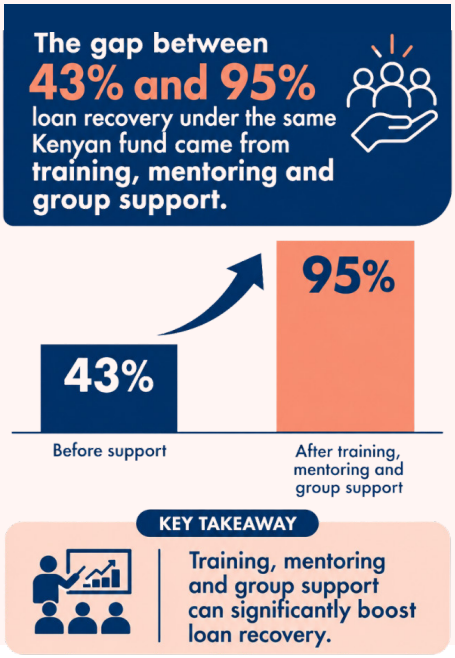
Table 2. Commitments relevant to the informal economy

Instrument	What it commits countries to	What the evidence says
African Youth Charter (2006)	Right to gainful employment (Article 15), including regulating the informal economy so that it offers decent work.	Ratified by more than 40 of the 55 African Union member states, but its participation obligation has been put into practice in very few.
Agenda 2063 and its second ten-year plan (2024 to 2033)	Reduce youth unemployment; job creation for youth, women and vulnerable groups.	The first continental report found performance moving away from the youth unemployment target.
Ouagadougou+10 Declaration (2015)	Six priorities including social protection and productivity; more budget for employment.	No minimum budget is set, so the commitment has little force.
ILO Recommendation No. 204 (2015)	Help workers and businesses move into the formal economy and stop formal jobs becoming informal.	Formal status can still hide poor jobs, as with subcontracted workers in Rwanda.
African Continental Free Trade Area (AfCFTA) Protocol on Women and Youth in Trade (2024)	Tackle collateral, lending and information barriers for young traders; collect trade data by sex and age.	Trade policy in several countries still says little about informal and cross-border traders.

Sources: AFIDEP and CAP YEI (2026), pp. 3 to 4, 29 and 49; International Labour Organization (2015).

Lessons from Country Experience

Four lessons stand out. Design decides results, not young people's attitudes. The gap between 43% and 95% loan recovery under the same Kenyan fund came from training, mentoring and group support. Lower costs are not enough on their own. Rwanda cut the cost and effort of registering and informality stayed put, because the formal sector was too small to absorb young workers. Protection can be built around irregular incomes. Rwanda's Ejo Heza scheme accepts small mobile contributions that suit people whose earnings rise and fall.[22] Support should not wait for registration. South Africa's smallest youth grants ask for no compliance records so that young people are not forced to formalise too early, and the study concludes that legal status should never be a condition for the benefits that would make it worth having.[23]



Who Needs to Act

Table 3 sets out the institutions whose decisions shape informal work, and the part each plays.

Table 3. Institutions to engage and their role

Level and institutions	Role in transforming informal work
Continental and regional: African Union Commission, AfCFTA Secretariat, regional economic communities	Track commitments under the African Youth Charter and Agenda 2063; apply the Protocol on Women and Youth in Trade to small cross-border traders.
Finance ministries and revenue authorities (for example the Kenya Revenue Authority)	Design simple, low tax regimes for small businesses; link registration to benefits; consolidate youth enterprise funds.
Labour and social protection ministries; social security funds (for example Ghana's Social Security and National Insurance Trust, Senegal's Caisse de Sécurité Sociale and Institution de Prévoyance Retraite du Sénégal)	Offer social protection that follows the worker; inspect hazardous informal workplaces; bring informal workers into social dialogue.
Local governments and municipalities	Provide markets, workspace and power; recognise informal trading in land-use plans; replace informal fees with fair rules.
Informal-worker and youth associations (for example Jakarta riders' associations in Senegal and informal-trader associations in Ghana)	Represent informal workers in negotiations; help design and monitor programmes.
Financial institutions, development partners and audit bodies	Offer finance suited to young people without collateral; fund tracer studies; audit programme selection and spending.

Source: AFIDEP and CAP YEI (2026), Sections 4.4, 5.4 and 6.2.

Policy Recommendations

The following actions follow from the evidence and build on the study's cross-country recommendations.[24] Each names the actors from Table 3 best placed to lead.

- **Make formalisation a good deal.** Offer voluntary registration that brings clear benefits, such as credit, larger contracts and protection from harassment, together with simple tax rules for the smallest businesses. Kenya's proposed tax-free threshold of KSh 200,000 linked to health and pension enrolment, and simple registration through the Ghana Card linked to social security, are concrete options.

  Lead: Finance ministries, revenue authorities and social security funds.

- **Provide social protection that follows the worker.** Let informal workers contribute small, flexible amounts, for example by mobile money, to health, pension and injury cover, and put into operation existing policies such as Kenya's 2023 Social Protection Policy.

  Lead: Labour and social protection ministries; social security funds.

- **Invest where informal work happens.** Build markets, workspaces and power connections at ward level and recognise informal trading in land-use plans. In South Africa, add community workshops and safe trading space, adapt municipal rules and treat extortion as an economic problem as well as a policing one.

  Lead: Local governments and municipalities; ministries of trade and local government.

- **Fix youth enterprise finance.** Merge overlapping funds into one well-designed instrument per country, with checks on market demand, financial literacy training, 12 months of mentoring after funding and support in kind rather than cash, and judge it by how many businesses survive beyond three years.

  Lead: Ministries of finance and youth.

- **Protect and organise informal workers.** Extend labour inspection to dangerous informal work such as construction and small-scale mining, and give informal-worker associations legal recognition and a seat in negotiations with government and employers.

  Lead: Labour ministries, informal-worker associations, employer bodies.

- **Reach young women and remote areas, and stop capture.** Use open selection and published beneficiary lists, set participation targets for young

women, fund childcare and transport, and take programmes beyond capital cities to regions such as northern Ghana and Senegal's Kédougou and Tambacounda.

Lead: Youth and gender ministries, local governments, audit institutions.

- **Bring informal traders into trade policy.** Apply the AfCFTA Protocol on Women and Youth in Trade, simplify paperwork for small cross-border traders and protect them from arbitrary charges at borders.

  Lead: Ministries of trade, regional economic communities, AfCFTA Secretariat.

Making Reform Happen

These reforms change who gains and who loses. Benefit-led formalisation suits small businesses, inclusive financial institutions and revenue authorities that want a steady tax base, but it threatens officials who now collect informal fees. Open selection threatens the brokers who capture programme funds.[25] The study suggests pilots that show registration can pay off, and merging youth funds through finance ministry regulation rather than new laws, which gives vested interests fewer chances to block it.[26] Youth groups, informal-worker associations, civil society and audit bodies can push for these changes and hold governments to them.



Source: Pexels

Monitoring, Accountability and Evidence Gaps

Success should be measured by the quality of work, not only by the number of people registered or funded. Six indicators, each broken down by age, sex, location and, where possible, disability, would show whether things are improving: (1) the share of young workers with a written contract; (2) the share covered by social protection; (3) average earnings and hours of work; (4) the survival of funded youth businesses after three years; (5) the share of programme beneficiaries in rural and remote areas; and (6) the number of informal businesses that register voluntarily and stay registered.

Important gaps remain. We still do not know which businesses have moved out of informality and what helped them, or what happens to programme participants over the years after support ends. The study does not yet show which of the four kinds of informal work responds to which policy tool, and it calls for research on why capacity has not changed outcomes in Rwanda. Age bands and survey methods differ between countries, and South Africa's labour force survey is known to undercount informal work, so cross-country figures should be read as broad patterns. Tracer studies of youth programme cohorts and case studies of businesses that have formalised would help close these gaps.

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The Way Forward

Informal work will remain the main livelihood for millions of young Africans for years to come. The goal should not be a lower informality rate for its own sake, but work that pays more, is safer and offers a way up. That means treating registration as something the state must make worth having, investing where informal work happens, and listening to the young people who do it. The commitments already exist. What is missing is delivery with clear owners, budgets and measures of success.

References

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ABOUT THIS BRIEF

This brief is one of a series of thematic evidence briefs drawn from the cross-country political economy analysis of youth employment conducted by the African Institute for Development Policy (AFIDEP) and the CAP Youth Empowerment Institute (CAP YEI), in partnership with the Mastercard Foundation, in Ethiopia, Ghana, Kenya, Nigeria, Rwanda, Senegal, South Africa and Uganda.