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**TOWARDS AND AGAINST FORMALIZATION: REGULATION AND CHANGE IN  
INFORMAL WORK IN MOZAMBIQUE**

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## **ABSTRACT**

The informal economy constitutes the bulk of employment in many emerging economies. Regulation theory suggests that all economic activity is characterized by a complex combination of formal and informal regulation. This article explores the pressures toward and against formalization, and what forms regulation can take, based on the case of Mozambique, and drawing on qualitative research involving elite interviews and observation. The findings highlight how the state may take a modernizing role, incorporating infrastructural development and formal regulation, yet also sustain conservative elements, tolerating: informal activity in the interests of political stability, infringements of employment rights, informal regulation and expropriation of space and natural resources. In theoretical terms, this paper highlights the limitations of accounts that focus on formal regulation; economic activity may be contingent on institutional mediation, but the primary basis of regulation may be informal. In countries such as Mozambique that have faced a troubled past, it should arguably be accepted by local and international institutions that the way forward will entail incremental change.

Key words: Mozambique, Africa, regulation, informal economy

## **TOWARDS AND AGAINST FORMALIZATION: REGULATION AND CHANGE IN INFORMAL WORK IN MOZAMBIQUE**

This is a study of regulation, formalization and persistent informality, examining the informal sector in Mozambique. It is commonly assumed that the informal sector in Africa is an unregulated realm (see Castells & Portes, 1989). However, in contrast to much of the mainstream literature on development, developments in regulation theory suggest that economic activity is not characterized by weak or absent regulation, but that a greater role is accorded to informal regulation in peripheral areas of national economies (Coetzee, Graaf, Hendricks & Wood, 1996; c.f. Jessop, 2001). This article explores what forms the regulation of the informal sector can assume, and the pressures towards and mitigating against formalization. The term ‘formalization’ is complex and value laden. It implies that the logic of state intervention is towards formalization, when in practice, the state may promote or sustain ‘informalization’ when vested interests favour either agenda (Harriss-White, 2010).

The first section explores differing accounts of the relationship between regulation and the informal sector. The following section reports the results of an evaluation of informal employment in Mozambique, a southern African developing economy, drawing on in-depth elite interviews and observational research, and builds on existent literature on employment and institutional development within Mozambique (see, for example, Webster, Wood & Brookes, 2006; Cramer, Oya and Sender, 2008; Lindell, 2008; Wood, Dibben, Stride & Webster, 2010; Dibben, 2010; Dibben & Nadin, 2011; Dibben & Williams, 2012; Dibben & Wood, 2013). The analysis of findings highlights the complexities of regulating for formalization due to the ambivalent role of both state and market in driving and blocking formalization, incorporating both conservative and modernizing influences.<sup>i</sup> In highlighting

the challenges inherent in moving toward formalization, this article has wider implications for those economies attempting to move from emerging to advanced economy status. Mozambique is a useful case study in this regard due to its relative economic success and progressive employment regulation, yet persistently high levels of poverty, with much reliance on informal sector work (AfDB/ OECD, 2008; World Bank Group, 2009).

In this paper, we use the International Labour Organisation (ILO) definition of the informal economy as including employment within informal sector enterprises and informal employment outside of the informal sector where the employment relationship is not covered in law or in practice by national labour legislation, income taxation, social protection or entitlement to certain employment benefits (ILO, 2010). As with many African countries, in Mozambique, the informal economy is diverse, encompassing street and (prevalent in the rural areas) roadside trading, the home production of goods and services, informal workers (employed in informal businesses and by unregulated labour brokers), informal and unregulated goods and public transport (both by road and artisanal shipping), illegal trading of goods. The divisions between formality and informality are not always absolute. Formal workplaces may choose not to declare some of their workers to the authorities, (see, for example, Bischoff and Wood, 2013), or fail to comply with certain labour regulations (Kanbur, Ronconi & Wedenoja, 2013; Bischoff and Wood 2013). Moreover and within supply relations, informal and formal sectors may work closely together to bring costs down, and place the formal sector at arms length from legal transgressions. An example of this would be the relationship between the often illegal woodcutters, and charcoal burners of northern rural Mozambique, local brokers and, ultimately, charcoal processors and packers for export markets. Whilst this study primarily focuses on evidence gathered on street trading and informal employment, much of the evidence has a broader relevance in understanding informal living. In line with established usage, we use the words ‘informal sector’ throughout

this paper, but acknowledge that the sector encompasses many areas of economic activity, and that the borders with the more formal sector are frequently unclear and permeable. For example, informal activities can subsidize formal ones through the use of outsourcing, and through making goods and services cheaper for formal sector organizations (Chen, 2007). In addition, there can be some blurring regarding formality and legality, with a misconception that the informal sector is always illegal (Chen, 2007). Illegal activity is used here to refer to the trade of illegal goods (rather than working practices outside the law or illegal transgressions in terms of trading place). In contrast, the term informal employment is taken to mean that the activity is ‘hidden from or unregistered with the authorities for tax, social security and/or labour law purposes’ but the good/ service supplied is not illegal (Williams and Lansky, 2013: 358). Although around 75 percent of the workforce is employed within the informal economy or agricultural work (AfDB/OECD, 2008; CIA, 2010), it is difficult to be precise on figures, since new businesses start up every day, while others close due to bankruptcy or movement into the formal economy (Amurane, 2007). According to some estimates, approximately 7.6 million Mozambicans are employed in the informal non-agricultural sector, compared to only about 800 000 in the formal sector (Amurane, 2007). A large proportion of informal sector and agricultural workers are women (Chen, 2007). In Mozambique, women form one of the most vulnerable and disadvantaged groups in the labour market (ILO, 2012), with less access to income-generating activities (World Bank, 2008 in ILO, 2012). This situation has implications for the likelihood of broader economic development. In addition, in rural areas women are more likely to lack permanent jobs or receive in-work benefits (Cramer, Oya and Sender, 2008). Within the informal sector in Mozambique – as elsewhere in the world – certain occupations are also dominated by women, including the preparation and sale of street food, the making and sale of traditional alcoholic beverages, and personal services such as laundry and child care.

In using Mozambique as a case study, it is important to acknowledge the influence of its colonial past, which (at over 500 years) was much longer than most other African countries (South Africa included). In simple terms, the form of colonialism was a relatively backward one, geared to trade and the extraction of raw materials; only in the closing years of colonial rule was there a significant investment in infrastructure, but one focused primarily on promoting the trade and port facilities of neighbouring states (Newitt 1995; Haines & Wood, 1995; Isaacman & Isaacman 1976). This lop-sidedness has persisted (Pitcher, 2002; Wood and Dibben, 2007; Phiri, 2012). Two other features of colonialism have left an abiding institutional legacy. The first is the weakness of the Portuguese state. In the early years of colonization, the authorities delegated authority in the central Zambesi basin to praesideos or sertenejos, adventurers who were either formally or informally allocated areas of territory to govern with the primary function of resource extraction (Newitt, 1995; Isaacman & Isaacman, 1976). Their replacement in the late nineteenth century with more direct rule did not always result in effective government, and even in more recent times, it has been argued that official regulatory capabilities (and interest) rapidly diminish away from the principal urban centres (see Pitcher, 2002). The second is the importance of extended family networks in underpinning economic activity amongst the bulk of settlers and the indigenous peasant majority (Pitcher, 2002; Newitt, 1995). The political context is also relevant to understanding the role of the state. The country is now ruled by a democratically elected government. The dominant party, *Frelimo*, was the principal liberation movement during the struggle for independence, and formed the founding government following independence from Portugal in 1975. *Renamo*, a former rightwing rebel movement, is the main opposition party. Whilst in early democratic elections it proved capable of mounting a serious electoral threat to *Frelimo*, in recent years, the lack of effective leadership has overwhelmed the party. In practical terms, this means that Mozambique is now a dominant party system, with what appeared, until

recently, to be an ineffective opposition. However, in 2013, *Renamo* returned to armed struggle due to its diminishing stake in the existing order, arguing that elected *Renamo* officials had been systematically marginalized (AllAfrica.com, 2014a). Other issues raised have included chronic underdevelopment and controversial land allocations *in Renamo's* rural heartland. In a move that appears to be aimed at securing a stake in the potential revenues flowing from the rapidly growing hydrocarbons sector (notably coal and gas), *Renamo* has seized control of significant areas of rural central Mozambique (AllAfrica.com, 2014b). This has disrupted public transport and trade and, by extension trade centred informal livelihoods, and the forcing of peasants back to subsistence agriculture. However, the full implications of this recent development remain unclear.

## **(1) REGULATING THE INFORMAL ECONOMY**

The following sections address, in turn, the potential attitudes of the state toward the formal sector, and alternative strategies for moving toward formalization.

### **(a) Rethinking the state and formalization**

The literature on employment relations and human resource management (HRM) in emerging economies encompasses explorations of paternalist styles of management, the methods used in selection and recruitment such as informal patronage, and the way in which HR practices, in common with everyday relationships, are underpinned by an understanding of reciprocal rights and duties (Kamoche, 2002; Jackson, 2002; Sartorius, Merino and Carmichael, 2012). The latter encompasses issues ranging from employment strategies to access to informal



credit. The informal sector has traditionally been represented within modernization theories as a residue of forms of economic activity not yet absorbed into the modern formal economy (Geertz, 1963), backward and outside of modern economic institutions. It is held that the absorption of the informal sector could be speeded up through top-down policy interventions, changing the cost/benefit ratio for rational economic actors engaged, or thinking of engaging in, such work through improving the perceived or actual likelihood of detection, and raising the penalties for those caught.

More recently, however, it has been acknowledged that informal employment is extensive, persistent and even growing relative to formal employment in many populations (Feige & Urban, 2008; Schneider, 2008). This has raised questions about the relationship between informal activity and national and regional institutional configurations (Nafziger 1988). Rather than being an ‘incorrect’ choice, the neoliberal argument is that informal activity might represent voluntary exit from the formal economy because of greater autonomy, flexibility and freedom in informal employment, thus avoiding taxes and inefficient government regulation (Gerxhani, 2004). From this perspective, informal employment is viewed as a direct result of the *over-regulation* of the market (de Soto, 1989), which stifles economic activity. Thus, a *laissez-faire* approach is sometimes advocated towards informal employment and a de-regulatory approach towards the formal economy, re-orientating state intervention toward a primary focus on protecting property rights. The distinction between formal and informal employment will then disappear and the informal economy will be legitimate. Appropriate measures include: decreases in taxation; a drastic reduction in the regulations of formal employment; benefit reforms; training and advice and business start-up grants (Sepulveda & Syrett, 2007).

Theories of state failure (c.f. Hyden, 1983; Nafziger, 1988) similarly view the rise of the informal sector as a response to institutional shortcomings. More specifically, it is held

that within many developing world contexts, the state lacks a broad basis in society, and is interpenetrated by extended informal peasant based networks of support which debilitate it (Hyden, 1983). In the absence of effective and neutral governance, large proportions of society opt out of formal regulation, relying on informal mechanisms of subsistence. However, in these accounts, the rise of the informal sector is seen as essentially destructive, rather than something to celebrate. Informal work is unregulated, low paid and insecure, and engaged in due to no other options being available (Castells & Portes, 1989; Davis, 2006; Gallin, 2001). Cut-throat competition from the informal sector will erode the position of formal sector players, debasing labour standards, reducing the tax base, and contributing to social disorder (Moody, 1987; c.f. Hyden, 1983), while most informal sector activity is insecure, low paid, hazardous, and often coercive (Harriss-White, 2010) and never moves beyond the level of basic subsistence (see Harrison, 2000).

Much of the early literature on state failure assumed that capitalist development was a necessary stage en route to more advanced forms of social organization (Hyden, 1983). However, as Harvey (2003) notes, capitalist development can be characterized by reenergized primitive accumulation, driving a reversion to pre-modern ways of doing things, rather than modernization; small elites may experience a rapid increase in their personal prosperity, but to the detriment of society at large. Moreover, seeking to resolve the problems of state failure by reducing its capabilities may in fact worsen tendencies to adversarial competition and/or crony capitalism (c.f. Balakrishnan, 2009): leaner government does not necessarily mean better or fairer.

## (b) Informality and regulation

Regulation theory assumes that all forms of economic activity require institutional mediation in order to impart a degree of predictability to commercial exchanges, facilitate information flows and ensure a basic degree of continuity (Jessop, 2001; Boyer, 2003, Boyer, 2006). Regulation theory is not so much a theory of formal regulation, but is based on the working together of formal and informal *regulation* (ibid.). Hence, the question is not about whether the informal sector is subject to some type of institutional mediation, but what form the latter assumes. In contrast to the functionalist tradition, regulation theory draws a distinction between the minimal type of institutional mediation that allows for (potentially volatile and unstable) economic activity to take place, and a *growth regime*, the latter reflecting coherent institutional frameworks that make for stable economic growth across a wide range of sectors (Boyer, 2003; 2006). Informal rules and norms may be more deeply embedded and more resilient than formal ones: at the same time, they are less comprehensible to outsiders, raising transaction costs, and may be narrowly spatially confined (c.f. Jessop, 2001).

In some cases, the nature of informal sector regulation may diverge from that which governs the formal sector, but may be carried out by the same institutions, with variations in the operation and enforcement of formal rules and in relative governmental support. For example, there may be embedded conventions as to where specific types of informal traders may operate, the tithes or rents that should be paid and the relative scope of activity (c.f. Harrison, 2000; Hanlon, 2004). Another example is the regulation of labour. There is often an expectation that informal sector operatives should, in resourcing labour, give first preference to extended family or others with close personal ties (see Harrison, 2000; Amurane, 2007). However, these networks also perform a disciplinary and regulatory function, mediating the operationalization of the employment contract in the absence of effective labour law (c.f.

Marsden, 1999; De Vletter, 1996). However, institutions may not be mutually supportive, and there may be a partial decoupling between formally constituted national institutional frameworks and the informal institutions and associated *regulation* governing informal working (c.f. Jessop, 2001). This loose institutional coupling makes coordination, compatibility and complementarity between different manifestations of economic activity more difficult (Boyer, 2006). In contrast, formality may impart a greater clarity, accessibility (not only insiders know all the rules) and predictability (see Jessop, 2001), implying the need to move the informal economy closer to the formal realm, as the basis for a coherent growth regime. However, as Boyer (2006) notes, institutional change does not necessarily come about through coherent policy interventions, but may reflect opportunism or serendipity.

#### (c) The ambivalent role of the state

The role of the authorities as an agent of formalization may, in fact, be ambivalent. Conservatism might be adhered to since political patrons may not wish to alienate their clients, who in turn, may be reluctant to abandon precarious livings for an unknown or abstract alternative. Governments may also fear political instability<sup>ii</sup>. Moreover, petty and not-so-petty representatives of the authorities may become themselves dependent on the informal extraction of rents from informal traders (c.f. Marcouiller & Young, 1995), or drive the expropriation of the goods and space of informal traders in order to enrich favoured entrepreneurs, national and/or local politicians, and/or to enable petty officials to subsist in the absence of decent pay (Wood, 2004; c.f. Baker, 2001). Weak and poor states are the least equipped to resist calls for a reduced role for the state, removing the possibilities for a renewed statist developmental trajectory. This means that formalization will, at best be of the

ad hoc variety. At worst, the state may engage in rent extraction and outright expropriation from those engaged in informal activity.

On the other hand, the state may seek to promote greater formalization in order to pursue a modernization agenda, perceiving that encouragement is more beneficial than punitive measures (Loayza & Rigolini, 2011). This may be done through providing the facilities and support for informal entrepreneurs to formalize their activities, through job creation, to drive out the need for informal work, and/or via coercion, forcing informal traders out in the hope that formal ones will take their place. Such moves may be light touch and ad hoc, within a broad neo-liberal policy framework or as part of a more coherent and integrated state directed trajectory of capitalist development.

## **(2) METHODS FOR EXAMINING INFORMAL EMPLOYMENT IN MOZAMBIQUE**

The findings draw on primary documents and statistical data in addition to observational research undertaken in Mozambique over almost twenty years. The research was exploratory and incremental and, included 58 in-depth ‘elite’ interviews held between 2005 and 2009 with participants at director level in a range of stakeholder organizations including: government departments such as Industry, Commerce, Quality Standards and Privatization; employer and trade union bodies; ASSOTSI, the main organization representing the informal sector; a Mozambican news agency; and non-governmental organizations. Interviews with senior officials could not provide an exhaustive account of marginalized areas of economy and society, but represented a wide range stakeholder interests - a caveat being that both unions and ASSOTSI focus their efforts on major urban centres, with workers and traders in peripheral areas being largely unorganized. The focus on elite interviews enables in-depth exploration of regulation and the institutional context. The lack of interviews with informal

sector workers is arguably a limitation of the paper. However, existing work on livelihoods provides detail on the lived experiences of those directly working on the land and within the informal sector (see, for example, Cramer, Oya and Sender, 2008). Moreover, observational techniques have provided some insights into the relationships between informal sector workers and regulatory bodies. Between 1992 and 2005 observational work was carried out within more remote areas, and in 2005-2009 in urban areas, with some common trends being apparent. The interviews were also supplemented by primary documents and existing research, and, wherever possible, specific points were independently corroborated from a range of alternative sources. Based on this, it can be concluded that the principal finding – of informal and formal regulation promoting both conservative and modernizing influences on the formalization of work - remains true across the country, albeit that the form may vary according to sector and locale.

The interviews were semi-structured, including pre-determined questions but also eliciting further information through prompts and probes. In 2005 and 2006, interviews focused on the political, economic, and regulatory context, while those in 2007 and 2009 were directed towards understanding employment relations and the regulation of the informal sector. Perceptions of cultural norms were not directly sought, but nevertheless, the interviews revealed insights into accepted rules and behaviours. All interviews were fully transcribed, and lasted between one and two hours.

Within the scope of this study, it was not possible to interview those working within the informal economy although including the voices of those directly involved would be a useful extension of this work, as would updated in-depth research in more rural areas in order to build on existent work in this area. This study also primarily focuses on street trading and informal labour; more hidden forms of informal activity, including much criminal activity are much harder to document, as is a fuller documentation of the role of the authorities in

extracting titles and/or in enforcing the law. Analysis of data was undertaken using NVivo, a computerized package used for the analysis of non-numerical data. Each transcribed interview was imported into the system. Drawing on the literature, a hierarchical coding system was developed in order to assist in the conceptualization of the data (Richards & Richards, 1994), and transcripts were then coded accordingly, with new themes emerging in some cases.

The findings centre on two central research questions. Firstly, whilst much existing work on Mozambique has centred on formal regulatory failures (Hanlon, 2004; Pitcher, 2000), much of this work tends to neglect the inherent ambiguity of a state that has sought to formalize work while moving from post-socialist to capitalism, and from a developing economy to an emerging one. Hence, the first question considers the apparent attitudes of the Mozambican state toward formalization. Secondly, whilst all economic activity depends on some form of regulation, a sustainable, stable and predictable movement toward the formalization of work is contingent on functional regulation. Hence, the second research question centres on the extent to which the regulation currently in place acts as a conservative or modernizing influence on formalization.

### **(3) FINDINGS**

Governments in emerging economies can face pressures toward and against formalization. The latter might be influenced by notions that the retaining of informal sector activity can contribute toward poverty reduction, social stability and economic benefits. Thus, there are pressures toward preserving the status quo.

#### **(a) Government and the Informal Economy: Preserving the Status Quo?**

To what extent is the Mozambican government drawn toward sustaining informality? An important factor concerning the Mozambican government is the aim for poverty reduction. Thus, the growth of the informal economy is valuable in reducing poverty:

The government recognizes that the informal sector supports the development of country in its fight against poverty as many people are without employment. And [working in the informal sector gives them] something to look after their children and [provide them with] education. It is not easy to survive (Director A, OTM, 2005).

Of those working in the informal sector, a large proportion consists of women (Willems et al., 2006). Of these, some are married women supplementing their husband's income, while single women include widows who have a family to support (President, ASSOTSI, 2009).

Many of the workers within the informal economy are organized by ASSOTSI an association that has a membership of 40,000 informal workers and operators, and is an affiliate of the OTM trade union federation; the OTM was originally the union wing of the ruling party, but since the late 1980s has asserted greater independence. According to the President of ASSOTSI (Associação dos Operadores e Trabalhadores do Sector Informal), the informal economy is also viewed as a permanent feature of the economy (President of ASSOTSI, 2009) due to fears of political and social instability. Moreover, attempts to remove informal traders by force have often failed:

There has been more than one attempt to try to dismantle the [informal] market but it was impossible and the government has come to realize, no [this is not sensible]. The



former mayor tried to get rid of that market but he became so unpopular. It's the way of living of so many people (Director of Mozambican News Agency, 2009).

A further reason for retaining the informal economy is its economic contribution. Informal sector traders, although not providing income taxes, are nevertheless required to pay fees in order to sell goods in markets.

The government is accepting [of the informal sector], because it is individual business...If you are paying your taxes the government is not interested to know who you are (President of ASSOTSI, 2009).

As a result of these pressures, there has also apparently been toleration of illegal activity. Illegal goods are commonly available within informal markets (Director of Mozambican News Agency, 2009). Moreover, the police role appears to have changed over the years from repression to tolerance (Director, News Agency, 2009). This is reportedly due to the role of the trade union and ASSOTSI (the organization representing the informal sector):

...the people who are selling things in the streets now are organized by ASSOTSI. The government and police are not allowed to go there and shoot them- they have been organized by ASSOTSI (President of ASSOTSI, 2009).

The changing role of the police has also been influenced by a number of other factors. The real wages of the police declined over much of the 1990s, and during the time of liberalization, they acquired a predatory reputation. Those working in the informal sector, fearful of the police, consequently fled from the police and were named 'dumba-nengues'

meaning 'trust your legs'. Not only street traders, but also motorists, tourists and businessmen were subject to demands for tithes, and/or fined for petty or imagined offences, with refusal resulting in threats of, or actual, imprisonment (see Baker, 2003; Berg, 2005)<sup>iii</sup>. Police harassment of tourists has since declined, with government concerns about the potential damage to a burgeoning tourist economy.

During the most recent research trip in 2009, we did not initially observe police hassling street traders, but on the 14th day a uniformed policeman appeared to be reprimanding street traders. However, closer inspection revealed that the policeman was not warning or arresting the traders, but in fact only having his shoes cleaned (Fieldnotes, September 2009).

Nevertheless, the state and its agents are not universally tolerant of informal activities, particularly in the case of illegal imports, and alcohol. For example, there are periodic confiscations of such products (Director, Mozambican News Agency, 2009; Senior Editor, Mozambican News Agency, 2009). More generally, corruption among public officials remains problematic, and Mozambique and in 2012, Mozambique was ranked at 123 out of 174 countries in the Transparency International Corruption Perception Index (African Economic Outlook, 2014).

#### (b) Modernizing regulations and institutions to promote formalization

On the one hand, as indicated above, the state appeared to tolerate informal activity (with the exception of trade in some illegal goods). At the same time, it has apparently embraced a modernizing agenda, aimed at promoting formalization. Yet, this agenda has incorporated developmental elements related to infrastructural and institutional development and employment regulation, but also more conservative elements - the persistence of activities

undermining moves toward formalization, as outlined in Table 1 below, and explained in the following discussion.

Table 1 here

(i) Space and resources

The government has undertaken various initiatives within the broad area of space and resources. In urban areas, it has set up formal markets, and encouraged the payment of market taxes (ASSOTSI, 2009). However, existing taxation regulations appear to be deterring many informal traders from greater formalization:

What they say in Maputo is that there are thousands of spaces available in the legal official municipal markets which are not being taken up...People don't do this because if they move into the markets they will have to pay taxes. There have been some significant improvements in the municipal markets in terms of electricity and water supplies. Down in the main central market down town there is a car park where people can park their cars. It's safe, but they have to pay for it. None the less all these people would prefer to sell their stuff on the pavements (Senior Editor, Mozambican News Agency, 2009).

Conversely, government assistance has been provided to assist those living in rural districts that have tended to be neglected in the past (Director, Mozambican News Agency, 2009). Here, the government has created provincial one-stop-shops for business support and advice, and provided business start-up loans. The OIL (Orçamente Investemento Locale) government

loan programme is aimed at promoting agriculture, to help the peasantry to move away from basic subsistence and low level informal trade, to increase food production and generate jobs through formal enterprises such as flour mills and brick factories. Recently the provision of loans has been accompanied by training in business management (AIM, 2008b). Each of the 128 local districts is provided with around 300,000 US dollars, depending on the size of the population. The assistance is arguably long overdue:

For the first time, the government decided to look after the peasants. And they are the ones who fought for independence, but they had been forgotten for more than twenty, for thirty years. They were suffering the same way as in colonial times.... There is not much improvement but some. Few people go without shoes now (Director, Mozambican News Agency, 2009).

However, the administration of the fund still requires improvement: in some cases, the fund has been spent on fictitious projects (Director of Mozambican News Agency, 2009).

A further measure that the government has encouraged is the provision of microfinance. The 1989 Urban Enterprise Credit Fund was established by the World Bank and operationalized by the Mozambican Ministry of Labour. By 2005, there were around 103,000 microfinance beneficiaries and around 32 microfinance operators in the country. Microfinance is, however, largely an urban phenomenon- a major constraint is that loans tend to be limited to members' savings. Moreover, interest rates tend to be higher than those charged by commercial banks. This may partly explain why the use of informal microfinance systems is still higher than that of formal microfinance (de Vletter, 2006).

Modernization has also included practices that appear to be aimed at reducing informal activity while serving vested interests through the gradual enclosure of the commons

in the name of development. During the years of state socialism, all property was state owned, a process that has been both officially and unofficially reversed (Arndt, Benfica and Thurlow, 2011)<sup>iv</sup>. An example of change to land use in Maputo is the Marginal, extending from the suburb of Sommerschild to the resort of Costa da Sol. During the war and immediate post war period, this was lined with the dwellings of artisanal fishermen, informal fish markets and other informal enterprises. Over the years, this hive of informal activities was replaced by luxury housing. The decline of artisanal fishing around Maputo has also been worsened through criminal elements illegally stripping prawn beds (AllAfrica, 2008; c.f. AllAfrica, 2011). Nor has such a process been confined to Maputo. For example, in the northern coastal town of Pemba, artisanal fishermen and informal traders have been gradually marginalized along Wimbe beach, again with their trading and living space being subsumed by hotels and luxury housing.

#### (ii) Institutional development

Recent years have seen developments to a range of institutions including: the role of trade unions, banking, customs and schooling (for further in-depth analysis of institutions within Mozambique see Wood, Dibben, Stride & Webster, 2010; Dibben & Williams, 2012).

The OTM union federation was set up in 1983 by the government, but is now theoretically independent (Labour Law, 2007). It has 16 affiliated trade unions and around 250,000 members (Director A, OTM, 2009). A second federation, CONSILMO, was formed by three breakaway unions that felt that OTM was too close to the ruling party. Unions in Mozambique tend not to organize casual workers (Webster, Wood & Brookes, 2006) or those working in the informal sector. However, many of the workers within the informal economy are organized by ASSOTSI, as mentioned above. More recently, the OTM union has been

considering trying to more actively and directly address the needs of informal sector workers (OTM, 2009), which may act to promote formalization, through incorporating these workers into mainstream union activities.

Although progress has been made on primary education, there still remains an inadequate secondary school system (Fauvet, Senior Editor, Mozambican News Agency, 2009). The government provides vocational training (Labour Law 2007, Article 238). However, this is relatively weak and only 15 percent of secondary level students undergo formal technical and vocational education and training courses each year. There is also sectoral variation: while the transport sector has an active industrial policy, this is not extended to all sectors. The government has recognised the need to improve vocational training and in 2005 launched a strategic plan for a new co-ordinating body for informal sector training, albeit that this has made limited progress (OECD, 2008).

### (iii) Business regulations

A range of measures have been introduced which may lead to formalization of small businesses including, in 2008, the introduction of a simplified tax for small businesses, payable as a percentage of turnover or as a lump sum (Senior Editor, Mozambican News Agency, 2009). Under this measure, any company, individual trader or producer with a volume of business less than about \$100,000 per annum can opt for this tax rather than current income, corporation and value added taxes (AIM, 2008a). However, it has not been widely taken up: small farmers have to possess an identification card to qualify for tax exemptions but 3.5 million farm families do not comply with this regulation (AEO, 2009). Moreover, a business can only be registered if the owner has a bank account and a specific

amount of capital, a still-in-force colonial law originally introduced with the aim of keeping Africans out of business (Bertelsman Stiftung, 2010).

One of the other measures that may reduce numbers in the informal economy is cooperatives, most notably in agriculture, within a society where most of the population live on the land. These organizations have been established for over twenty years in Maputo and are highly successful. Most members are women involved in vegetable farming who sell their produce in Maputo markets and on the streets. Legislation on cooperatives was passed in 2008 in order to encourage their growth (Senior Editor, Mozambican News Agency, 2009).

### (iii) Employment regulation

Regulation of formal employment might lead to protection of workers, and reduced numbers being forced to take up informal sector work. Mozambique has quite a comprehensive framework of employment legislation. Various rights were enshrined in the 1990 constitution including: freedom of association and trade union organization, the right to strike, a fair wage, rest and vacation, and a safe and healthy work environment. Moreover, the Tripartite Commission brings together the state, employers and unions, and sets the minimum wage (Artur, 2004). Employment legislation was further developed in the 1998 Labour Law and 2007 Labour Law which covers most private sector employees (but still only applies in certain respects to domestic work and mining, private security and rural work). Additional collective rights include collective bargaining and participation, while individual rights include those relating to: pay; non-standard work; gender discrimination; health and safety; and child labour.

However, there is poor enforcement of health and safety legislation, despite periodic crackdowns (AllAfrica.com, 2011b) and differences in wages for white and black

Mozambicans (Director of Mozambican News Agency, 2007, 2009), while the role of the labour inspectorate is limited due to a lack of resources (Levy, 2003; Artur, 2004). Moreover, although child labour is forbidden by law (Labour Law, 2007), it is still widespread. Young boys can be observed selling goods on the streets to both tourists and local residents (Fieldnotes, September, 2009).

Those working in the informal sector are predominantly women, and almost all are black Mozambican (President of ASSOTSI, 2009). The disadvantages faced by women and Black Mozambicans are likely to continue while informal rules and norms relating to patronage persist:

People are appointed by their seniors. People appoint those below them, and appoint on the basis of friendship and trust. There is a level of incompetence. People are scared to show things are not going well. It is like a club. There is a politically based organization and appointment system. So competence is second and first, do we trust them? This may seem irrational if you do not understand the culture.... (Senior Manager, Mozambican University, 2007)

Such practices, as Round, Williams & Rodgers (2008) suggest, can encourage participation in the informal economy. Those who lack the necessary insider contacts, or the financial resources necessary to invest in the patronage required for formal sector work, seek refuge and security in the sphere of secure intimate contacts and informality at the communal level. In such cases, informality comes to represent a safe haven.



#### (4) CONCLUSIONS

In Mozambique, there is recognition of the legitimacy of the informal sector, and attempts to engage with the principal organization representing informal traders. At the same time, the role of the state in assisting formalization has been, as noted above, both conservative and progressive. On the one hand, it has increasingly recognized that a large informal sector acts as a safety valve, providing marginal livings for the poor, and hence, tolerance may help to stabilize the status quo. On the other hand, there have been some efforts to help informal traders to formalize their activities through provision of better trading spaces and informal sector support. Such efforts can make formalization more attractive (Loayza & Rigolini, 2011).

At the same time, there are elements working against change. The state has supported the ongoing process of primitive accumulation of space and resources, leading to the enriching of some, whilst marginalizing those dependent on informal livings, reflecting the re-emergence of expropriation as a feature of contemporary capitalism within many national settings (Harvey, 2003). Moreover, the state has apparently ignored the flouting of some formal regulations, owing to problems of either capacity or a lack of political will; the political costs of imposing regulation may greatly outweigh the benefits of intervening (c.f. Ferguson, 1990; Ndawonde, 2009). Moreover, the informal sector plays a role in disciplining labour in the formal sphere through driving down labour standards (Moody, 1997). From an employee perspective, downward pressure on wages is made more palatable through the visibly bleak alternative of informal sector working, providing little more than basic subsistence. The relationship between the proliferation of informal sector working and downward pressures on the terms and conditions of formal sector employment deserves further investigation.

Informality can be highly functional for certain groupings of ‘insiders’ (Nafziger, 1998), but also capable of underpinning basic subsistence (c.f. Wood & Frynas, 2006). In Mozambique, regulation is mediated by both formal and also informal institutions, which can be defined as: ‘socially shared rules, usually unwritten, that are created, communicated, and enforced outside of officially sanctioned channels’ (Helmke & Levitsky, 2004: 727). An ‘economy of affection’ includes support in a range of areas such as credit, business development, education and community development (Hyden, 1983). Yet, neo-liberal prescriptions to curtail the role of the state to reduce its predatory capabilities can in fact worsen matters, with weaker regulatory and enforcement encouraging renewed waves of primitive accumulation.

In theoretical terms, this paper highlights the limitations of accounts that focus on formal regulation, be it in terms of legal traditions, or formal institutional configurations; whilst economic activity may be contingent on institutional mediation, the primary basis of regulation may be informal (Jessop, 2001). Hence, a concentration on formal regulatory reform may have a less than anticipated impact on practice in this area. This study also points to the relative compatibility between specific institutions and embedded rules (Boyer, 2006; c.f. Sosthenes, 2008). There is little doubt that institutions are far less closely coupled than in advanced societies (c.f. Lane & Wood, 2009). However, this does not mean that institutions do not exist at different levels, or that embedded patterns of behaviour mitigate against diffuse diversity within both the formal and informal sectors (ibid). Rather, what is clear is that institutions are ambivalent and polyvalent, and that, in seeking to gain advantage, different players may work towards or against more effective institutional coverage and associated regulation. Within the informal sector, there is much variation on gender, regional and sectoral lines; women outside of the greater Maputo metropole are generally in a more precarious position than men working within it. Within the rural periphery, much of the

peasantry operate in a relatively closed subsistence-based economy, with weak or absent formal regulation and service provision. Here, there is a continuing need for government policies that will enable marginalised workers such as women to access better paid employment (Oya and Sender, 2009), leading to broader economic development. These policies are in line with the International Labour Organisation's proposed strategy for integrating policy in order to enable the formalising of work. The strategy argues for action in areas such as job creation, economic growth, enforcement of international labour standards and employment rights, equality, and both rural and urban development (ILO, 2013 in Williams and Lansky, 2013). Within the urban core in Mozambique, whilst formal regulation may again be limited, informal sector operators have to engage at a range of levels with the authorities, involving resource exchanges, reciprocity and omissions, in a manner that imparts predictability to exchange relations. On the one hand, informal regulation assumes a vital role in the event of formal regulatory failure. On the other hand, partially decoupled regulatory institutions, and over-reliance on the informal, and an associated diminishment of the potential role of the state, makes for a greater volatility, and cannot provide the basis for a stable and predictable trajectory of economic growth (Boyer, 2006; c.f. Hanlon, 2004).

A limitation of much of the socio-economic neo-institutionalist literature on tropical Africa is that one is sometimes left with general calls for better institutions (see Wood & Frynas, 2006). Yet, effective institutions depend on meaningful social compromises between broad interest groupings, which in turn, are contingent on effective grassroots mobilisation and organization, forcing compromise by changing the status quo (Ferguson, 1990). The progress of ASSOTSI notwithstanding, such mobilization remains, at the time of writing, a seemingly distant prospect (c.f. Hanlon, 2004; Harrison, 2000). A key factor here might be the way in which informal activities effectively subsidise formal ones (through explicit outsourcing or making some goods and services

cheaper for formal sector producers) - the distinction between formality and informality is not always clear (Chen, 2007). Earlier research has indicated the permeable boundaries between legal, illegal, and even supra-legal commercial activity in Mozambique, making it difficult to draw an absolute distinction between them. Examples include the fishing and hardwood industries, and certain import-export activities (Roper and Wood, 2003). Moreover, dramatic change from below does not seem realistic given Mozambique's troubled past, since the country needs to build economic development while at the same time maintaining social and political stability. Hence, whilst formalization matters, there is little doubt that the process is likely to be both difficult and contested. In countries such as Mozambique that have faced a troubled past, it should arguably be accepted by local and international institutions that the way forward will entail incremental change.

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## Notes

<sup>1</sup> In this paper we are not suggesting that modernization necessarily implies the adoption of a Western (e.g. US model), Asian (Korean, Japanese), or any other existent approach to work organization. The focus is on the regulation and institutions necessary for promoting the



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formalization of work and conversely, the conservative tendencies inhibiting change in this respect.

<sup>ii</sup> It is worth noting that the Tunisian revolution was sparked off by the self-immolation of an informal trader who was denied the means for a basic living by the authorities.

<sup>iii</sup> The authors have personal experience of this

<sup>iv</sup> For many years, property transactions took the form of informal measures, such as the sale of keys to properties. More formally speaking, property may now be leased for 99 years. Individuals may physically own any improvements they have made to a parcel of land.

Table 1      The modernization of regulations and institutions

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<b>Formalisation through modernizing regulations and institutions</b>	<b>‘Conservative’ elements associated with modernization</b>
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<b>Space and resources</b>	Setting up formal markets Market taxes Regional grants for small business development Business support	Removal of informal sector workers from land-accumulation by dispossession Mismanagement of regional grants to small business
<b>Business regulations</b>	Tax incentives for small businesses Regulations promoting cooperatives	Lack of business registration
<b>Institutional development</b>	Trade unions Schooling and vocational training	Secondary level education underdeveloped Limited skills development for informal sector workers
<b>Employment regulation</b>	Labour law protecting job security Moves toward gender equality	Lack of enforcement of health and safety Persistence of child labour Gender differences in employment Informal institutions regulating work / patronage