

# Impact assessment of formal employment in Senegal



# Summary

1

I&P and FERDI carried out a study on the social and economic impacts of employment and explored the impacts of an employment contract. Just over 200 employees were interviewed in 6 portfolio companies, covering several sectors, hierarchical levels and types of contractualization.

2

Entrepreneurs are aware of the importance of formalization. However, they face many obstacles, such as tax risk or informal competition, which hampers formalization in the context of Senegal, where 97% of companies are informal.

3

Companies play an essential role in access to employment and provide income for entire households. Employees were able to embark on new life projects by increasing their spending on education and housing.

4

Companies actively participate in the formalization of employment. This facilitates employees' access to credit and opens the door to benefits. The retirement contribution and health insurance offered by most companies supported by I&P provide an essential safety net for employees.

# The Senegalese labour market



## Sectors

**Half of the working population is employed in the primary sector.** However, the Senegalese agriculture is characterized by a high vulnerability to climatic hazards and locust threats (due to desert locusts). **The other half is equally divided between the secondary and tertiary sectors.**



## Independent workers

**Almost 60% of Senegalese are considered self-employed.** Lacking access to formal jobs, many of them set up small businesses to try to support themselves. But they have no **income guarantee and generally no health coverage.**



## Income

**The average monthly salary is about 96,000 FCFA** (just under 150€ per month). It should be noted that **the average salary of women is almost 40% lower than that of men in Senegal.**

## FORMAL AND INFORMAL

While there is a clear definition of the informal sector, it is difficult in practice to distinguish formal and informal sectors. There are **many cases of "semi-informality"** in which formal firms use undeclared subcontracting or service contracts. In this study, we considered as informal not only employees without a declared employment contract, but also forms of semi-informality. **20% of our sample is therefore considered informal.**

## THE ESSENTIAL

Lacking unemployment insurance, most Senegalese manage to support themselves by starting a small business or working informally. **The informal sector is therefore omnipresent in Senegal and 97% of companies are considered informal.**

# The typical informal employee

## SPECIFICATIONS



### EDUCATION

The less educated an individual is, **the higher the probability of working in the informal sector.**



### GENDER

**Women are over-represented in the informal sector.** Under-investment in girls' education, early marriage, lack of access to finance and property and their role in the household reduce their integration into the formal market.



### MILIEU SOCIAL

Social reproduction is an important factor since **having a father working in the informal sector reduces a child's chances of having a contract in the future.**



### STATUT MARITAL

**Married workers** are more likely to have access to formal employment.

## CONSEQUENCES



### POVERTY

Informality has important consequences on workers' living conditions, particularly in terms of housing. **In Dakar, 41% of informal workers are paid less than the legal minimum wage,** versus 2% for formal employees.



### VULNERABILITY

**Income disparity between workers is higher in the informal sector.** Wages are particularly less stable because they overreact to fluctuations in economic activity.



### HUMAN CAPITAL

The stress related to the future is **detrimental to the development of informal workers and their health,** which eventually affects their productivity.

## THE ESSENTIAL

The typical informal worker could be considered as a **poorly educated woman whose parents work in the informal sector.** Informality creates a vicious circle since precariousness and instability of income affect productivity and thus employability.

# Methodology

204 employees in 6 different companies



## C.A.I.F (4 employees surveyed)

The Centre d'Appui à l'Initiative Féminine (CAIF) is a professional training centre specialised in catering and hotel management, sewing and styling, hairdressing and aesthetics.



## COGELEC ENERGY (9 employees surveyed)

Company specialized in electrical work, rural electrification, and the supply, installation and maintenance of electrical and hydraulic equipment.



## Laiterie du Berger (134 employees surveyed)

Production of dairy products from local fresh milk collected from more than 800 farmers in the Richard-Toll area.



## NEST (28 employees surveyed)

Senegalese medical network composed of a paediatric tray and a maternity ward, offering a complete follow-up of women and young children.



## OuiCarry (15 employees surveyed)

Complete logistics service allowing any individual or corporate customer in Senegal to place an order on the Internet and have it delivered to their home address..



## SENAR (14 employees surveyed)

Processing and marketing of agricultural products such as groundnuts and cashew.

## THE ESSENTIAL

The questionnaires were **anonymous to allow employees to respond frankly**. No member of management was allowed to attend the surveys to guarantee the accuracy of the answers. The objective of the study is not to attribute the observed effects directly to the companies ("**prove**"). However, it does illustrate how, and not to what extent, the activity of these companies has economic and social impacts on their employees ("**improve**").

# Impacts of a job



## ACCESS TO EMPLOYMENT

**31%** of workers obtained their **first job thanks to the companies surveyed**.

**70%** of employees experienced a period of unemployment before working in companies supported by I&P. They thus represent a way out of unemployment.



## REMUNERATION GAINS

**60%** higher average salary observed compared to the national average.

Median salary before employment	<b>+37%</b>	Median salary after employment
80 000 FCFA (120 euros)		110 000 FCFA (167 euros)



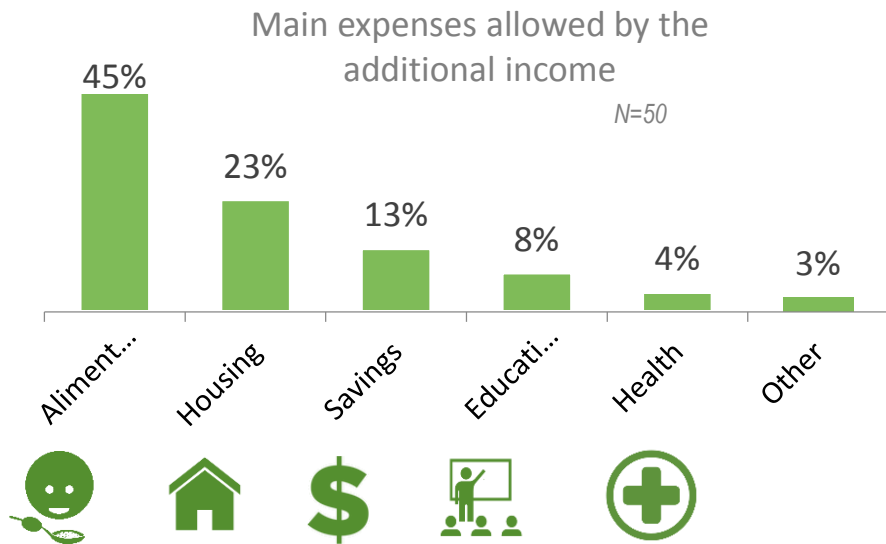
## INCOME FOR RELATIVES

**45%** of household income is generated by the employee surveyed on average.

**9** individuals on average under the same roof maintained **thanks to an income**.

# Improvement of the standard of living

*Increased spending on housing, food and education*



## HOUSING

- 57%** of employees **moved or improved their housing** as a result of their employment
- 90%** of employees have **access to running water and electricity** in their homes



## EDUCATION

- 43%** of employees have **at least one child attending a private school**, which are considered to be of better quality but more expensive



## PENSION

- 78%** of employees **had never made contributions** before they joined the company

## THE ESSENTIAL

Thanks to wage increases, workers **mainly increase their food expenses**. Emphasis is also placed on **housing quality**, as **access to water, electricity and healthy housing** will have many implications for human development (better health, education, etc.). Employees can also better anticipate their retirement.

# Working conditions (1/2)

*A more favourable situation compared to the previous job*

## Average satisfaction (on a scale from 1 to 5)

Work environment



Health and safety at work



Responsibilities assigned



Employment security



Compensation



## Relationship with management (on a scale from 1 to 5)

Ability to dialogue



Understanding of claims



Acknowledgement



**50%** say they are **generally satisfied with their jobs**, compared to 25% of **dissatisfied**

**70%** **prefer their current situation to their previous situation** (compared to 20% who preferred their previous situation)

THE  
ESSENTIAL

**More than two thirds of employees are more satisfied with their situation since joining the company.** Relations with management and opportunities for dialogue are generally commended, as is the working atmosphere. Nevertheless, wages are still considered too low, as 60% of workers are not satisfied with their remuneration.



# Working conditions (2/2)

*A focus on training with no solution to the heavy workload*



**THE  
ESSENTIAL**

Almost half of the training sessions were conducted by trainers from outside the company, which shows a **desire to improve the level of human capital** and adopt high standards. **However, workload remains a problematic issue since overtime hours are numerous and often unpaid.**

# Benefits of an employment contract

*Job security, social protection and income stability are the main reasons for satisfaction*

## 1<sup>st</sup> advantage: protection against dismissal

In the lack of unemployment benefits and safety nets provided by the State, the guarantee of sustainable employment and protection against dismissal is the first benefit spontaneously mentioned by the employees.

## 2<sup>nd</sup> advantage: access to health insurance

Health is a major concern for employees in a country where few Senegalese have health coverage and many have to give up health care. Access to health insurance, which is often allowed by formalization, is therefore essential.

## 3<sup>rd</sup> benefit: a guaranteed salary at the end of each month

The predictability and stability of income is particularly appreciated in the context of the employment contract. It reduces the anxiety associated with the uncertainty of the future and makes it easier to start life projects (housing, children, etc.)

## DEVELOPMENT AND SOCIAL RECOGNITION

**73%** of employees say that the **formal contract makes it easier to reconcile private and professional life**

**Almost 80%** of employees believe that the contract **provides greater social recognition in society**, believe that they are **more fulfilled at work** since they have a contract and perceive the employment contract as a **way to reduce the stress associated with tomorrow's anxiety**

# Social protection and welfare

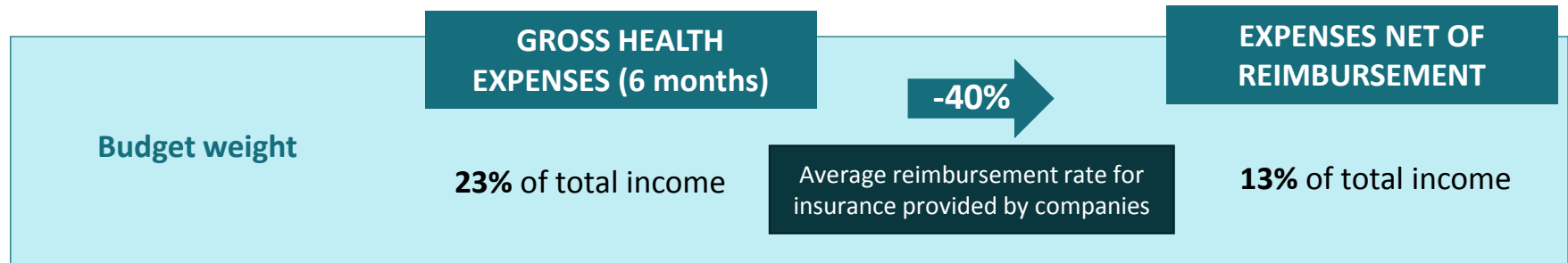
A first insurance for many employees

**73%** of employees have health insurance for the first time

**Multiplicative insurance within the household**

An insured employee **allows on average to cover two other people in his or her household**, for a total of three people covered

Health costs are a considerable burden on the household budget reduced by health insurance



## SOCIAL SECURITY COVERAGE IN SENEGAL

Only **14%** of employees are covered by health insurance in Senegal. However, membership of an **IPM (Institution de Prévoyance Maladie)** is an employer's obligation.

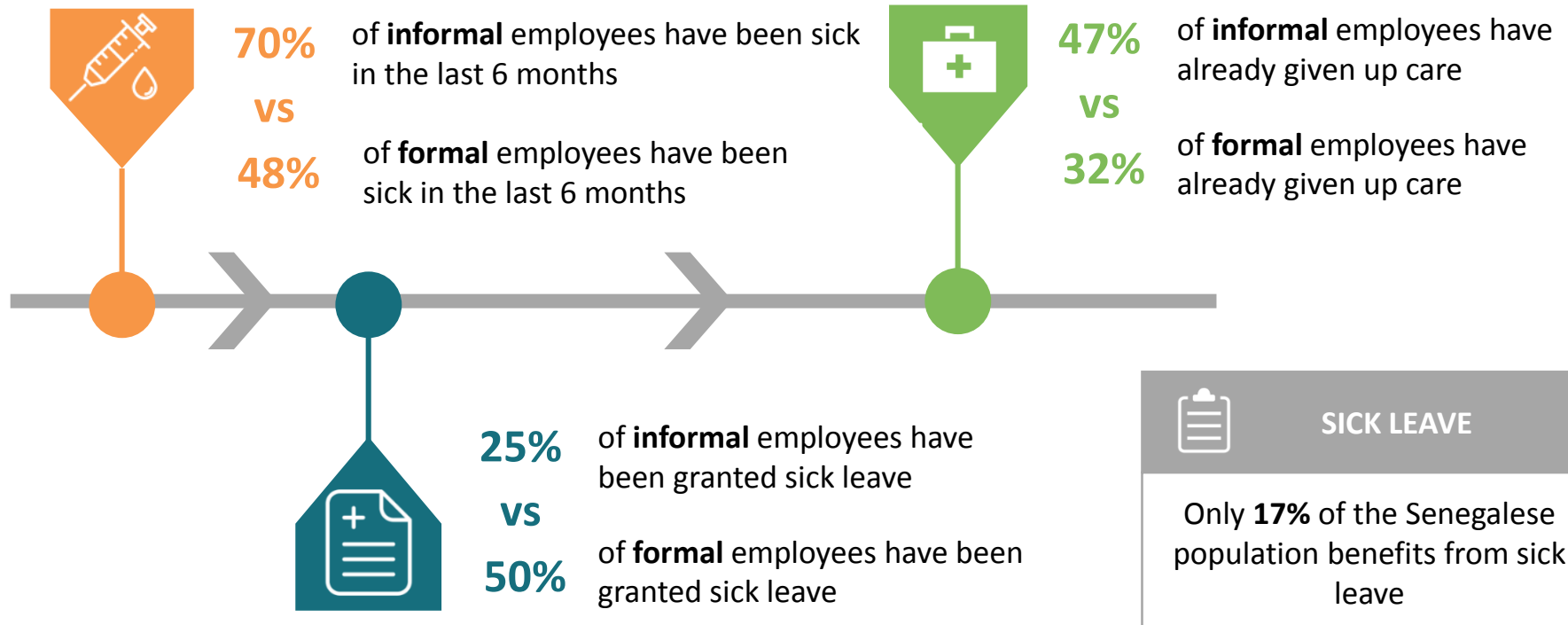
**THE ESSENTIAL**

**Almost three-quarters of workers are covered by health insurance for the first time through their formal employment.** An advantage that informals cannot enjoy. This social protection policy has a multiplier effect since other family members benefit from it. While the insurance offered helps to ease family budgets, it is considered insufficient by many employees who are not completely satisfied with it because many expenses are not covered.

\* Source : Enquête Nationale sur l'Emploi au Sénégal (ENES), 2015

# Health

## Formal employees are healthier



### THE ESSENTIAL

Informal workers are generally in **poorer health** than their formal counterparts. Without income and health coverage, they more often give up care. With often more difficult working conditions, they experience more frequent health problems, which they cannot treat. Informal workers thus enter a vicious circle of deteriorating health status. In fact, **85%** of employees believe that having a formal contract improves their health.

# Integration to the financial system

*80% of employees who received a credit had never borrowed before*

- Formalization implies bancarisation:

**82%** of **formal** employees have a **bank account** **vs** **42%** of **informal** employees have a **bank account**

**72%** of **formal** employees receive their salaries by **bank transfer** **vs** **8%** of **informal** employees receive their salaries by **bank transfer**

- The contract, a guarantee for the bank

**50%** of formal employees have **obtained a loan** since their arrival, mainly those on permanent contracts **vs** **20%** of **informal** employees received a loan

## BANKING RATE IN SENEGAL

**21%** of the Senegalese population has a bank account in 2017\*

Formalization is generally accompanied by the **opening of a bank account**, a phenomenon that is still marginal at the national level. Thus, formal employment allows the **development of banking**, in particular through the policy of paying wages by **bank transfer**. Access to credit is then facilitated through this banking history.

# Life plans

*The contract improves children's schooling and housing comfort*



## CHILDREN

Formal  
3 / 2  
Informal

**Children** on average per household

**60%** of workers think that formalization **encourages the decision to have children**

**83%** of employees believe that the contract provides **better schooling for children**



## HOUSING

Permanent  
25% / 10%  
Fixed-term

of workers are **homeowners**

Formal  
56% / 30%  
Informal

of employees have **improved the comfort of their accommodation** since joining the company

**82%** of workers believe that obtaining a contract **facilitates access to home ownership**

## THE ESSENTIAL

Employment allows workers to project themselves into the future by **investing in their children and their homes**. Indeed, the **stability** provided by the contract, as well as paid leave and maternity leave, encourage the decision to **start a family**. Credibility with banks, particularly with people on permanent contracts, is also strengthened, making it easier to access **ownership status**.

# Focus: gender



*One third of employees are women*

- Gender equality is observed

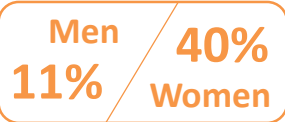
81%

of employees feel that there is **no gender bias in the company**

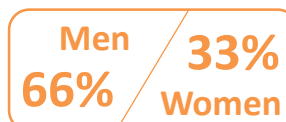
55%

of workers believe that the contract **reduces gender discrimination**

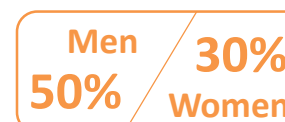
- But women generally retain a more precarious status



do not have a **formal employment contract**



have a **permanent contract**



**have applied for a bank loan** since their arrival

## L'ESSENTIEL

As one third of employees are women, companies offer **significant economic opportunities to people who are often excluded from the labour market**. Employees do not feel discriminated against because the **scores given to working conditions are equivalent between men and women**. However, women are much more concerned about informality and also **under-represented among permanent contracts**, which hinders their access to credit.

# Obstacles to formalization

## *Structural limitations in the access to a contract*



### A source of inflexibility

**37%** of the workers interviewed spontaneously cite **lack of flexibility** as the main disadvantage of the contract. For example, they cannot take advantage of professional opportunities as easily because they are linked to the company.

They cannot return to their villages at any time, or come to work according to their needs. The contract does not allow for such an easy adaptation to different life events, nor does it allow for the accumulation of several jobs as is often the case in Senegal.



### Fear of tax administration

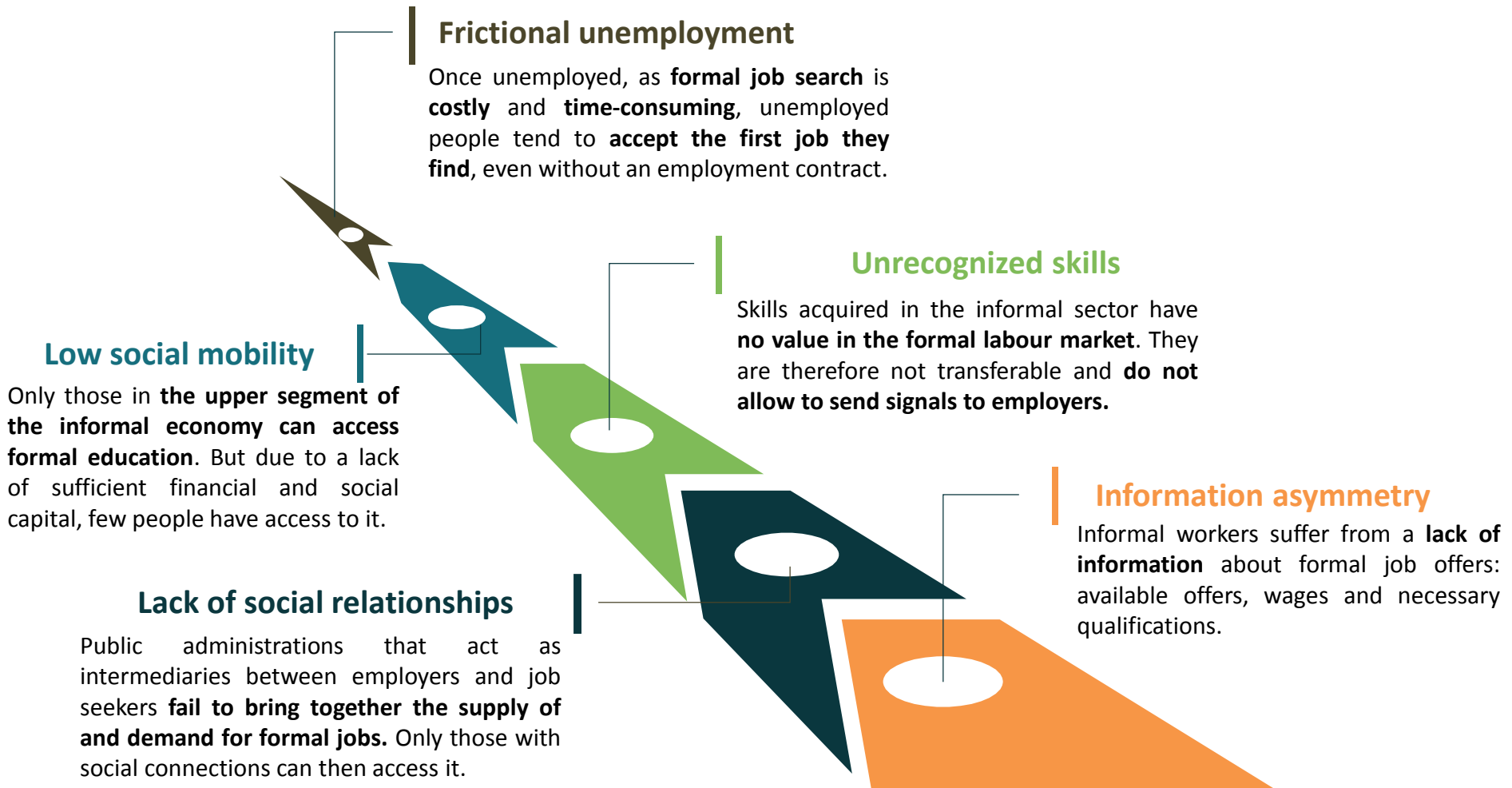
**85%** of employees believe that **the level of corruption is high in Senegal**.

**60%** of employees surveyed **think they have more to fear from the tax authorities when they are formal**. While one might think that formalization makes it possible to be in compliance and no longer have to fear the tax administration, in the end it is the other way around. The majority of workers believe that the tax administration will increase its supervision once they have declared themselves. They therefore fear sanctions for not declaring their secondary activities, their housing, etc



# A difficult transition towards the formal sector

*There are many difficulties and obstacles to accessing formal employment*



# Integration into the formal labour market

*A difficult process*

## Obtaining an work contract is difficult

**60%** of employees have obtained their first employment contract in this company

## Informality is a first step before the contract

**63%** of formal employees started in the company as informal

## Informality is a situation that is undergone.

**96%** of informal employees want to become formal

**68%** Of workers say they are ready to accept informal employment in the event of dismissal

**I&P partner companies play a major role in access to formal employment.** This role is all the more important as once formalized, their chances of obtaining other formal contracts elsewhere increase. More formal workers think they can get a contract elsewhere. The difficulty is to secure this first contract, which seems to be a sustainable entry point into formality.

THE  
ESSENTIAL

# Conclusions (1/2)

## IMPACTS OF A JOB

- **Access to work-** Companies supported by I&P represent a way out of unemployment since nearly 70% of employees have experienced a period of unemployment. They also allow nearly one-third of employees to enter the labour market for the first time and offer a first experience that is so important to be more employable.
- **A higher salary that supports an entire household** – With a salary 60% higher than the national average, employees contribute almost half of the household income. With an average of nearly 9 people in the household, this salary has changed the daily lives of many people. Many have embarked on new life projects by investing in education and housing.
- **Fulfilling working conditions** – Over two thirds of workers are more satisfied with their situation since joining the company. A major effort is put into training with just over half of the workers who have already received at least one training. They are thus generally satisfied with the tasks and responsibilities entrusted to them.

# Conclusions (2/2)

## FORMALIZATION

- **Formalization of the economy** – In a country where the majority of workers derive their income from the informal sector, I&P partner companies have enabled 31% of employees to have a first job and especially 60% of employees to sign their first declared employment contract. This formalization is accompanied by several social benefits such as paid leave or maternity leave for women.
- **Essential social benefits** – Companies offer initial health insurance to 73% of employees. This coverage extends to two additional people in the household on average. It is also the first time 78% of employees have joined the pension system.
- **Integration into the financial system** – The contract is often accompanied by the opening of a bank account, in particular through the payment of salaries by bank transfer. Access to credit is then facilitated thanks to this banking history: twice as many formal workers have access to credit.
- **Life plans** – The contract encourages the decision to have children and improves children's schooling. Almost twice as many formal workers have improved the comfort of their homes.
- **Rigidity and fear of tax administration** – However, the contract is less flexible. Once bound by a contract, workers cannot so easily take advantage of other economic opportunities. While the contract should protect the employee from tax auditors, it also makes the home visible to the tax authorities. As a result, more of them have been confronted with corruption.
- **From informal to formal** – More than half of the workers started informally, often to test their skills. Informality is considered as a first step before the contract. The difficulty is to obtain this first contract, which is then a durable entry point into the formality. More formal workers think they can get a contract elsewhere.

# Recommendations

<b>Formalization</b>	Informality is widely suffered and it is important to be able to meet workers' expectations and allow them to access the benefits of the contract. The <b>formalization process must therefore be maintained and accelerated.</b>
<b>Overtime hours</b>	Despite the contract, the legal duration is often not respected. Measures are expected to <b>compensate for the many hours of overtime that are often unpaid and unrecovered.</b>
<b>Importance of a permanent contract</b>	The positive impacts of the employment contract are overwhelmingly related to permanent contracts. The <b>stability of the contract</b> enables access to credit and life projects. It is important to encourage this form of contractualization, which also promotes employee development, productivity and loyalty.
<b>Healthcare</b>	In the end, health insurance coverage remains relatively low, although employees consider it essential. <b>Improving health coverage</b> is an important way for them to enhance the perceived value of their contract.
<b>Pension</b>	Workers often express doubts about the actual payment of pension contributions. It is important to <b>address these concerns</b> , for example by providing their contributor number or by arranging an appointment with IPRES to allow them to verify the status of their contributions.
<b>Awareness</b>	Employees are <b>simply not aware of the benefits of the contract.</b> Explaining the role of the various contributions and the benefits provided is an important element in building employee loyalty in the company.

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