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# #InformalTalks Webinar

## The informal economy: What is it? Where does it come from? How big is it? Why is it growing?

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# The informal economy: What is it? (1 / 7)

## Misunderstanding about the informal economy

- Not equivalent to illegal or shadow economy
- Not the “deliberate intention of evading the payment of taxes or social security contributions, or infringing labour or other legislations or administrative provisions”

# The informal economy: What is it? (2/7)

## Components

- Micro-businesses that constitute a spontaneous economy covering the ordinary-traditional way of life
- Workers operating under harsh conditions: undeclared, under-declared or sub-contracted

# The informal economy: What is it? (3/7)

## Definitions

- Definitions in terms of employment
  - Definition of employment in the informal sector (1993)
  - Definition of informal employment (2003)
  - Employment in the informal economy
- Definitions in terms of National Accounts
  - Sub-sector of the household institutional sector

# The informal economy: What is it? (4/7)

## 1993 definition of employment in the informal sector

- Elaborated by the 15<sup>th</sup> International Conference of Labour Statisticians (ICLS)
- All unincorporated economic units and operating with less than 5 permanent paid employees and/or non-registered and/or not registering their employees
- Definition based on the characteristics of the enterprise within which the person works

# The informal economy: What is it? (5/7)

## 2003 definition of informal employment

- Elaborated by the 17<sup>th</sup> ICLS following a review of the 1993 definition
- All jobs for which the holder is not benefiting of social protection or not contributing (as well as his/her employer) to social protection
- Definition based on the characteristics of the job a person holds

# The informal economy: What is it? (6/7)

## Forms

- Micro-businesses such as crafts, shops, etc. operating in fixed premises
- Street vendors, mobile workers, home-based workers, construction and transport workers, working for their own-account or for contractors
- Paid workers in the formal sector not fully benefiting of their rights
- Paid domestic workers in the households, not fully benefiting of their rights
- Producers of goods for own final use (subsistence farmers in particular)

# The informal economy: What is it? (7/7)

## Agriculture or not agriculture?

- The informal economy includes agriculture and more broadly primary activities (agriculture, animal husbandry, forestry, fishery, etc.)
- But few data collections allow the identification of informal units in the primary sector
- The most common and recommended indicator for the measurement of employment in the informal economy is not counting agriculture



# The informal economy: Where does it come from?

- Concept coined at the beginning of the 1970s to reflect the situation of rural-urban migrants and jobs they spontaneously occupied or created once in town

⇒ informal sector

- Rapid increase of workers hired or sub-contracted under hard conditions of work along with the globalisation process

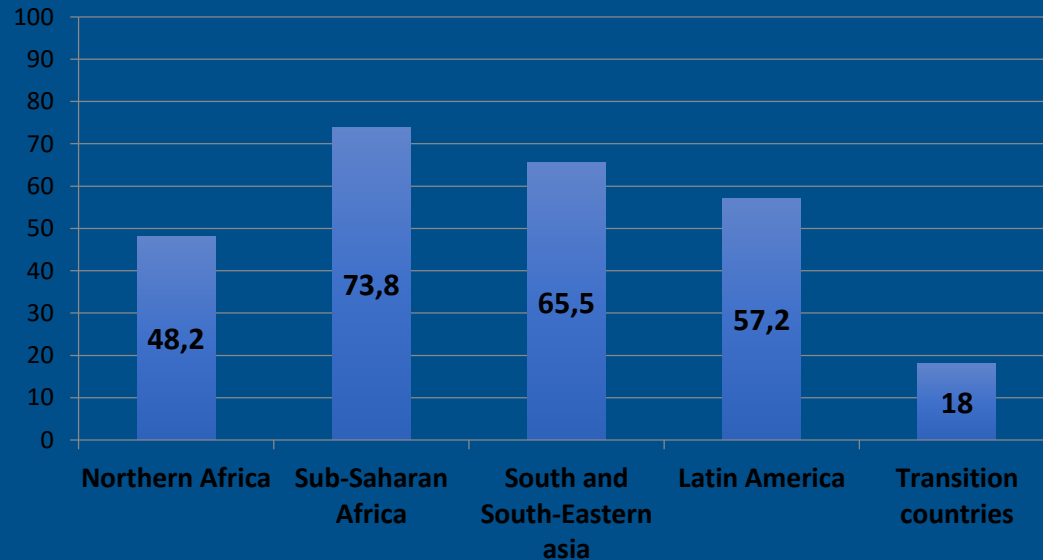
⇒ informal employment in the formal sector

# The informal economy: How big it is? (1/4)

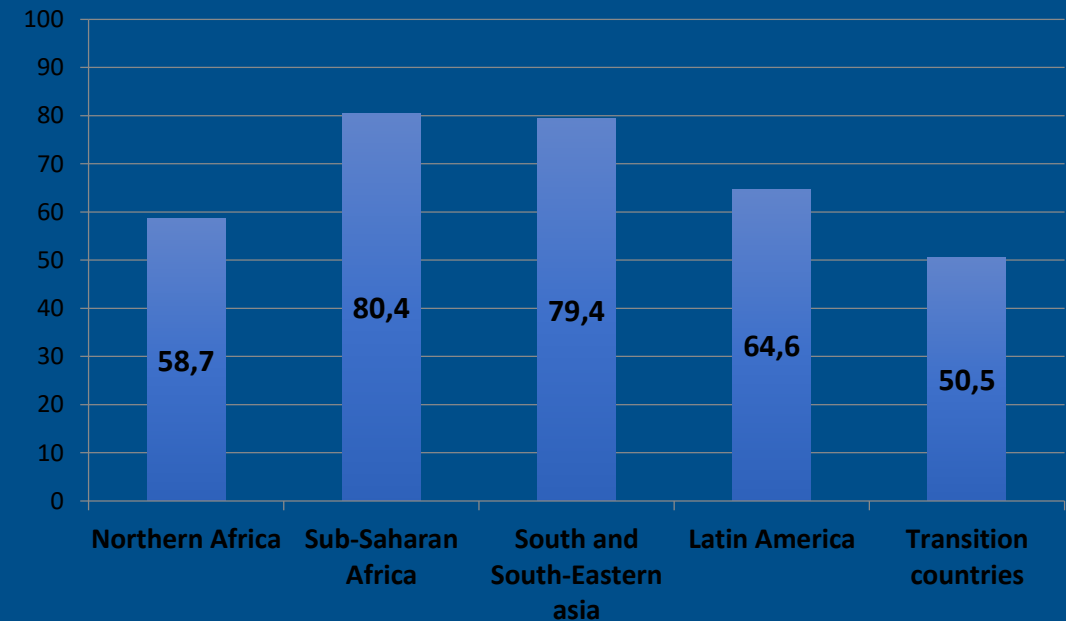
## Main characteristics of employment in the informal economy

The informal economy provides employment to 61.2% of the global labour force (2 billion people) and 50.5% without agriculture (ILO, 2018)

**Informal economy in % of non-agricultural employment**

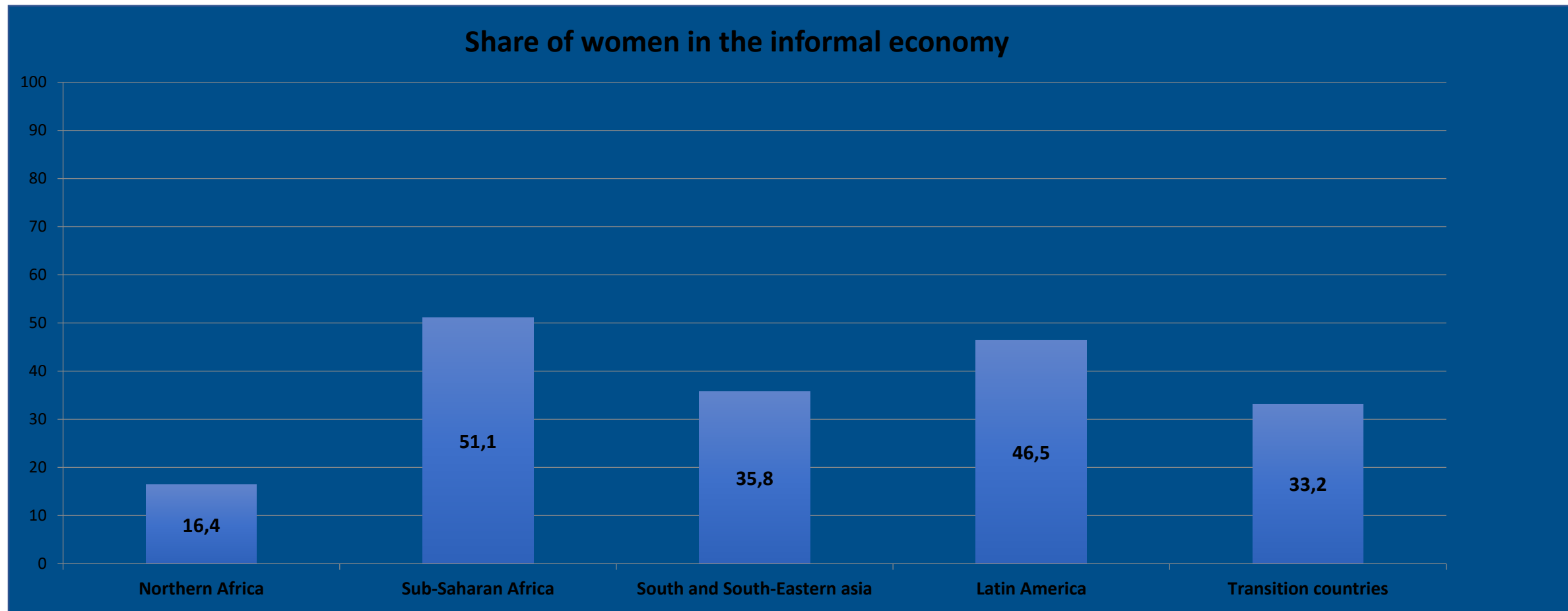


**Informal sector in % of informal economy**



# The informal economy: How big it is? (2/4)

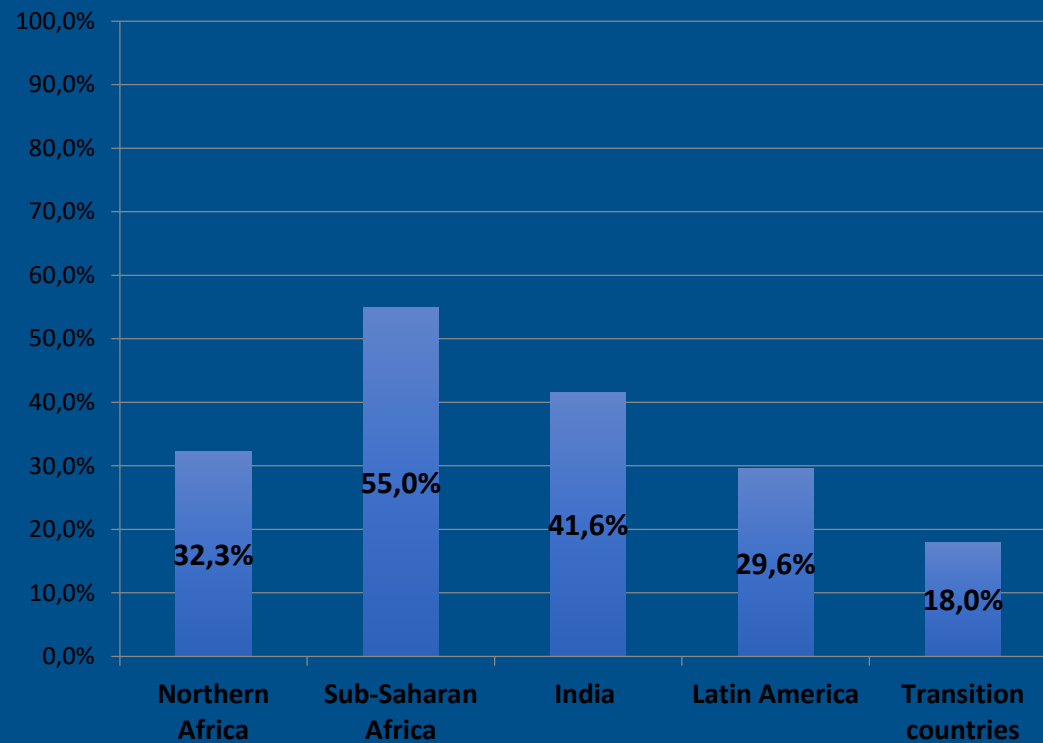
## Main characteristics of employment in the informal economy



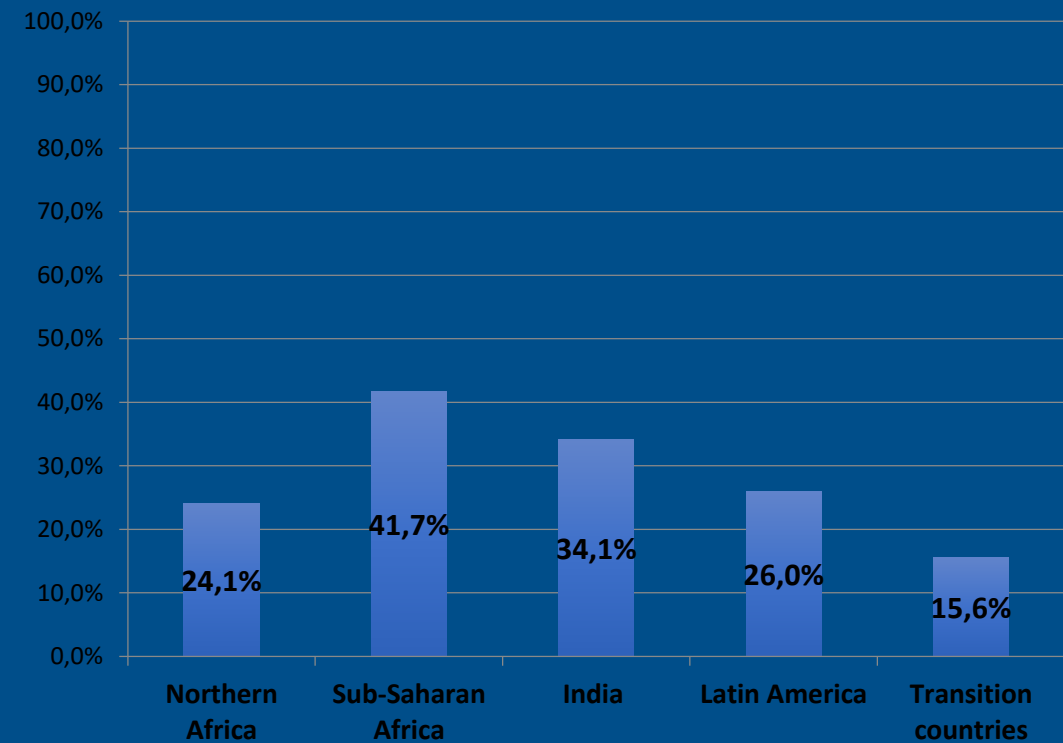
# The informal economy: How big it is? (3/4)

## Contribution to GDP

**Informal sector (including agriculture) in %  
of total GDP: 2010s**



**Informal sector (excluding agriculture) in %  
of non agricultural GVA: 2010s**



# The informal economy: How big it is? (4/4)

## Is there an informal economy in developed countries?

- Does the concept of informal economy have the same meaning in developed and developing economies?
  - In developing countries, it is recognised as an acknowledgeable part of the economy that is traditionally unregistered because of inability of the state or inadaptation of the legislation
  - In developed countries (and to some extent in transition economies), it is assimilated to illegal work
- ⇒ Different criteria of definition and risk of misleading comparisons

# The informal economy: Why is it growing? (1/4)

- In absolute numbers, the informal economy has continuously been growing
- Data show a trend of increase of employment in the informal economy (as a share of non-agricultural employment) until the 2008-09 financial crisis
- When the economies began to recover, a downturn was observed, continuing until now in Asia, Latin America and Northern Africa, but reversing upwards in sub-Saharan Africa and in transition economies (Charmes, forthcoming)

# The informal economy: Why is it growing? (2/4)

- In most developing countries, the youth population and more generally the working age population are growing more rapidly than the total population
- Many countries, especially in sub-Saharan Africa, are entering into the stage of demographic dividend or bonus
- But the demographic dividend is a bonus if governments and economies are able to provide and create productive and inclusive employment
- If associated with low economic growth rates, then unemployment, underemployment and employment in the informal economy rise up

# The informal economy: Why is it growing? (3/4)

- Structural adjustment programmes and more generally the globalisation process have paved the way for a dramatic increase of informal jobs in the formal sector
- Growth of the informal economy results from an increase in employment in micro-businesses as well as in sub-contracted (or not) informal employment in the formal sector



# The informal economy: Why is it growing? (4/4)

## Pro-cyclical and contra-cyclical trends

- When the economy grows, informal micro-businesses tend to grow and informal employment in the formal sector to shrink
- When an economic crisis occurs, micro-businesses are hurt and informal employment in the formal sector absorbs the impact
- The growth of the micro-businesses component may compensate the drop of the informal employment in the formal sector component, especially where it is much larger (Sub-Saharan Africa in particular where it represents 80% of the whole informal economy)

# Conclusion

## Transition from the informal to the formal economy

- 2015 ILO Recommendation 204 concerning the transition from the informal to the formal economy
- SDG of universal health coverage and ambition of universal social protection: call for policies balancing incentives and enforcement
- Need for increased fiscal resources by fighting against illegal work (informal employment in the formal sector) and promoting micro-businesses through adequate incentives



# Thank you

## Questions & Answers

The views expressed in this webinar do not necessarily reflect the views of the European Commission.





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“How to tackle the Informal Economy? Key policies and approaches”

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