

The informal economy

What is it? Where does it come from? How big is it? Why is it growing?

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It is first necessary to overcome a commonly shared misunderstanding

- The informal economy is not synonymous of illegal economy or shadow economy
- The informal economy is not characterised by the “deliberate intention of evading the payment of taxes or social security contributions, or infringing labour or other legislations or administrative provisions”
- Even though most operators and workers in the informal economy suffer from the non recognition of their civil and social rights

The informal economy is two-fold

- It is comprised of micro-businesses that constitute a spontaneous economy on the one hand and thereby includes all these activities that are part of the ordinary-traditional way of life: crafts and trade shops that pre-existed to the legal framework and the positive law and regulations conveyed by modernisation and globalisation
- The informal economy is also comprised of workers operating under harsh conditions of work because undeclared or under-declared or sub-contracted by their formal employers, on the other hand
- Depending on regions and countries, the former or the latter predominates

The informal economy: What is it? (1)

- Definitions in terms of employment
 - Definition of employment in the informal sector (1993)
 - Definition of informal employment (2003)
 - Employment in the informal economy is the combination of the two previous definitions
- Definitions in terms of National Accounts
 - The informal sector is a sub-sector of the household institutional sector

The 1993 definition of employment in the informal sector

- The 15th International Conference of Labour Statisticians (ICLS) defined the informal sector as comprised of unincorporated economic units (= neither corporations, nor associations = not holding complete set of accounts) and operating with less than 5 permanent paid employees and/or non-registered and/or not registering their employees
- It is a definition based on the characteristics of the enterprise within which the person works

The 2003 definition of informal employment

- Because the 1993 definition was limited to micro-businesses and failed to identify informal work in formal large enterprises,
- The 17th ICLS defined informal employment as the jobs for which the holder is not benefiting of social protection or not contributing (and his/her employer as well) to social protection
- It is a definition based on the characteristics of the job a person holds

The informal economy: What is it? (2)

- Concretely, the informal economy is comprised of 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)

Agriculture or not agriculture?

- A question often asked is: does the informal economy includes agriculture and more broadly primary activities (agriculture, animal husbandry, forestry, fishery, etc.)
- The response is yes, although few data collections allow the identification of informal units in the primary sector
- But 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?

- Initially (at the beginning of the 1970s) the concept was coined to reflect the situation of rural-urban migrants and the jobs they spontaneously occupied or created once in town. These people could not afford open unemployment and had to survive with petty, low paid jobs. This is the origin of the informal sector.
- Then the globalisation process and the related international competition, with job relocations and outsourcing, resulted into a rapid increase of workers hired or sub-contracted under hard conditions of work. This is the origin of the second important component of employment in the informal economy: informal employment in the formal sector

The two major components of the informal economy

- A predominant component is comprised of informal micro-businesses
- A complementary component of informal employment in the formal sector

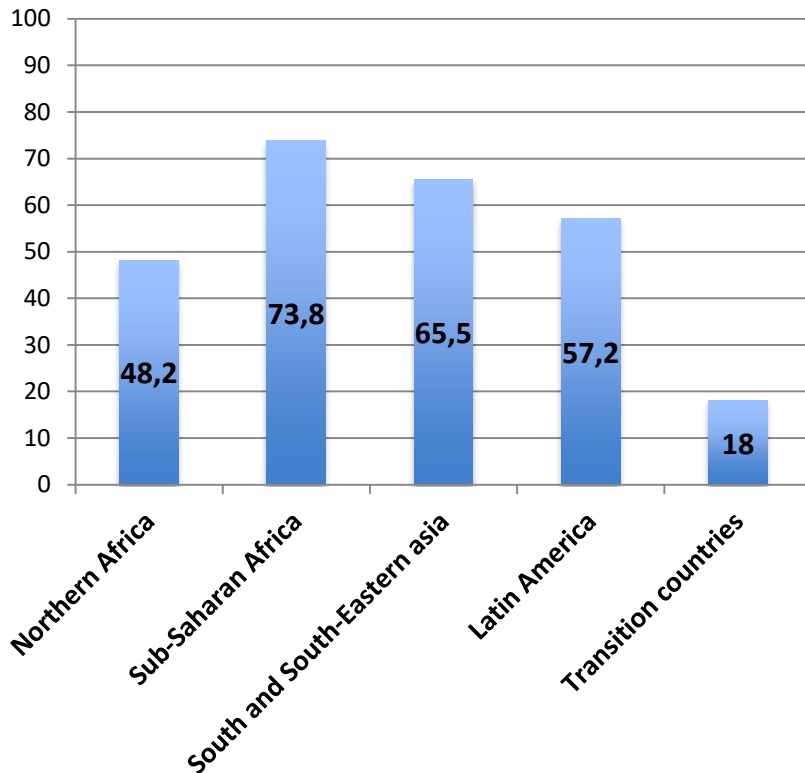
The informal economy: How big it is?

(1) Employment

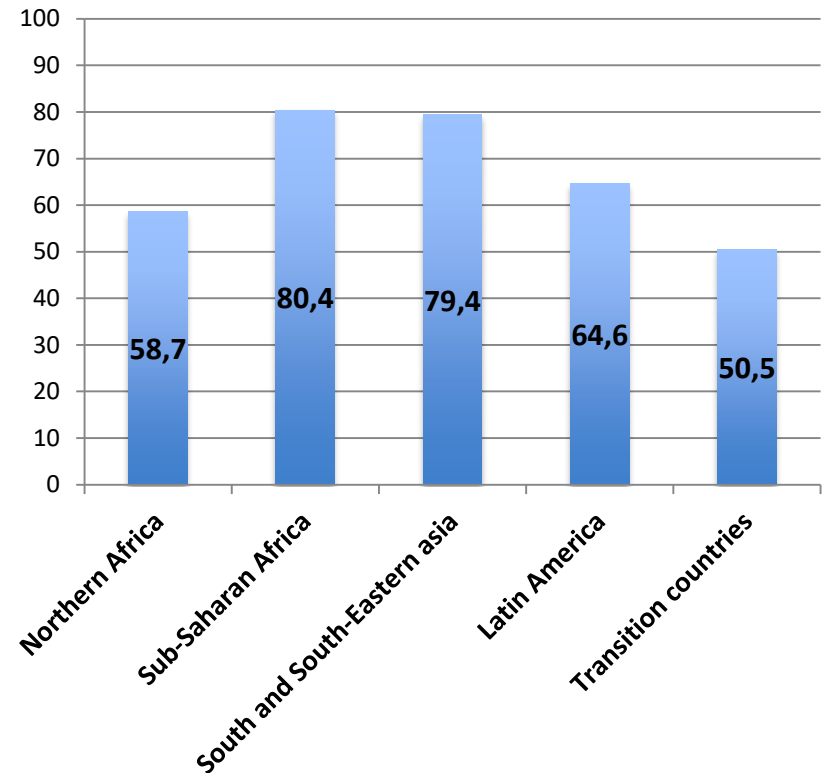
- A recent ILO (2018) estimate shows that the informal economy provides employment to 61.2% of the global labour force (2 billion people) and 50.5% without agriculture
- More specifically employment in the informal economy accounts for 73.8% of non-agricultural employment in sub-Saharan Africa, 65.5% in Southern and South-Eastern Asia, 57.2% in Latin America, 48.2% in Northern Africa and 18% in transition economies of Eastern Europe and Central Asia
- Micro-businesses of the informal sector represent 80% of employment in the informal economy in sub-Saharan Africa and Asia against 60-65% in Latin America and the Middle East North Africa and 50% in transition economies
- Women account for more than half of total employment in the informal economy in sub-Saharan Africa and a little bit less in Latin America, and hardly 16% in the Middle East North Africa

Main characteristics of employment in the informal economy (1)

Informal economy in % of non-agricultural employment

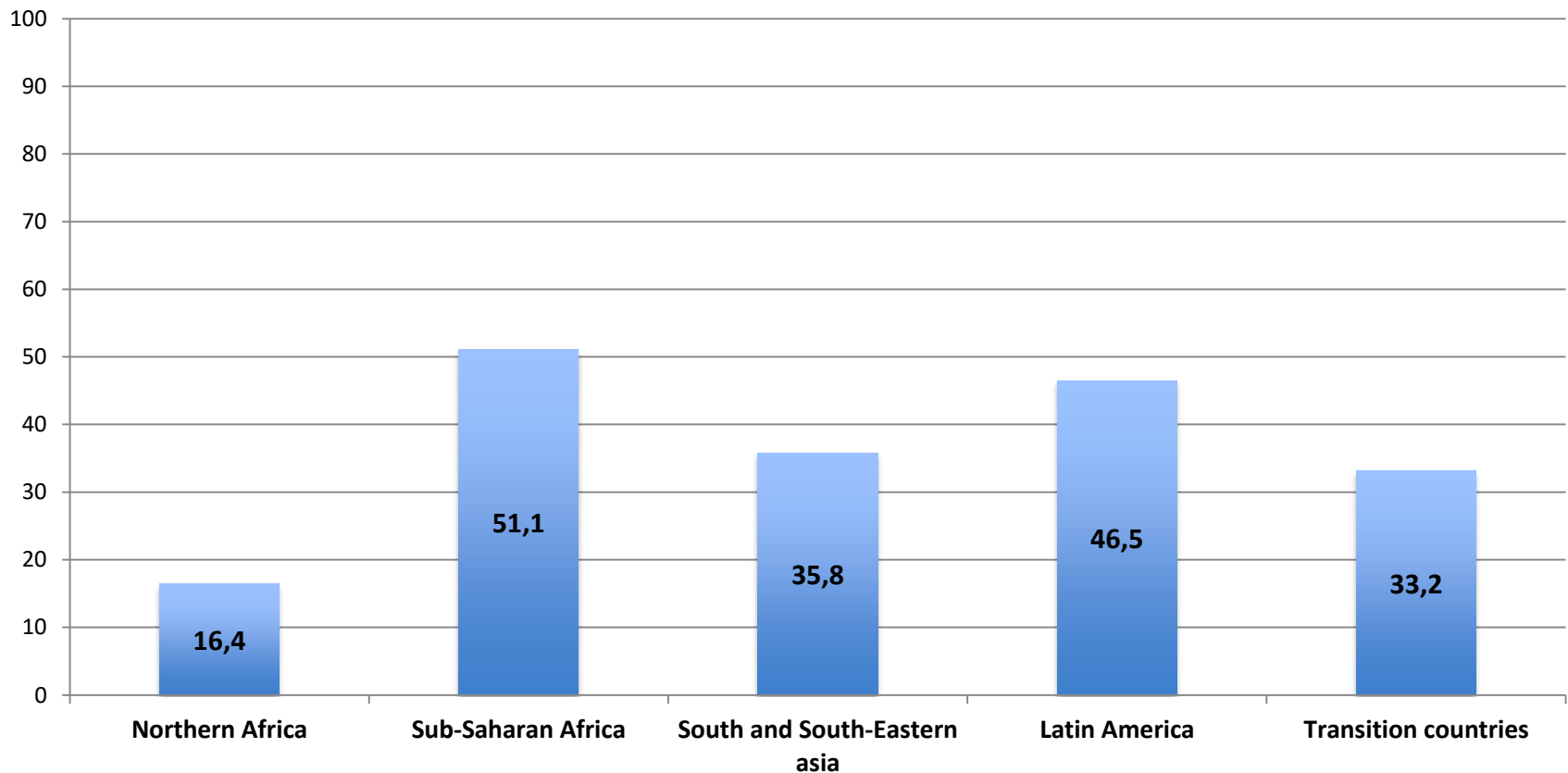


Informal sector in % of informal economy



Main characteristics of employment in the informal economy (2)

Share of women in the informal economy



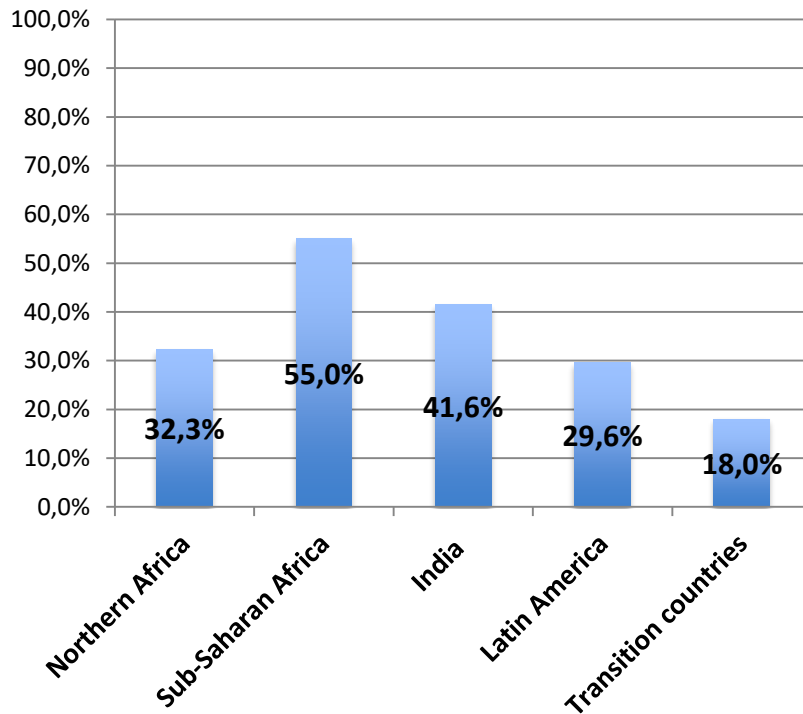
The informal economy: How big it is?

(2) Contribution to GDP

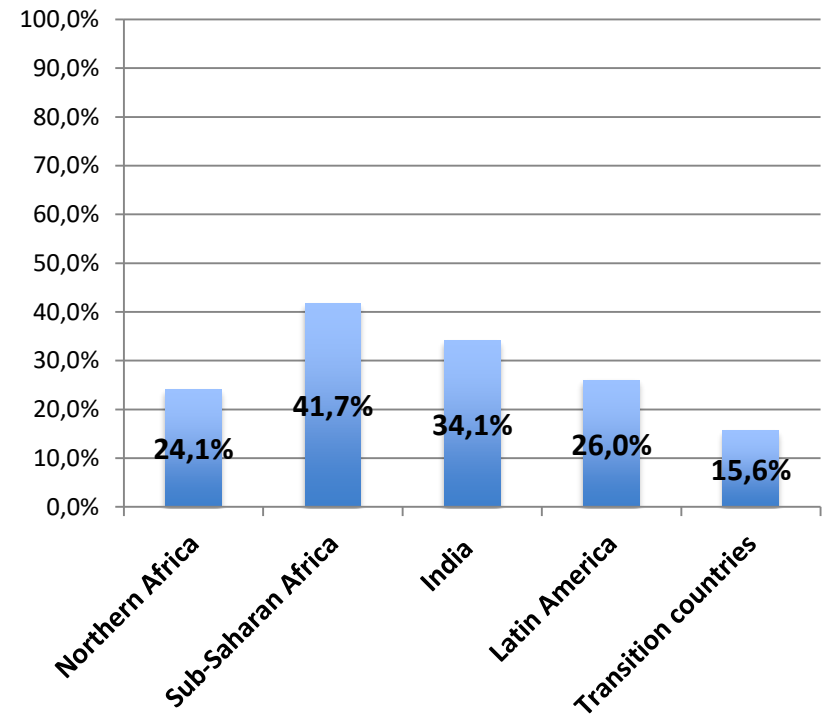
- This is the area where there are still many misunderstandings
- The definition by the economic unit (informal sector) allows measuring its contribution to GDP
- 55% of total GDP in sub-Saharan Africa (including agriculture) and 25.1% (excluding agriculture); 41.7% of non-agricultural GDP
- In India these shares are respectively 41.6%, 25.9% and 26%
- In Latin America: 29.6%, 21.8% and 26%
- And in transition economies: 18%, 12.7% and 15.6%

Contribution to GDP

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



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



Is there an informal economy in developed countries?

- Though the ILO global estimate covers all regions, the question remains whether the concept of informal economy has the same meaning in developed and developing economies
- In developing countries, the informal economy 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), the informal economy is assimilated to illegal work
- Therefore the criteria of definition cannot be exactly the same and comparisons may be misleading

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

- Is there empirical evidence of growth in the long term?
- In absolute numbers, the informal economy has continuously been growing
- Data show that in all regions, with ups and downs but steadily, employment in the informal economy (as a share of non-agricultural employment) increased until the 2008-09 financial crisis.
- It is when the economies began to recover that 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)

- In most developing countries, the youth population and more generally the working age population is growing more rapidly than the total population
- Many countries, especially in sub-Saharan Africa are entering into the stage of demographic dividend or bonus: the working age population comes to exceed the dependent population
- But the demographic dividend is a bonus if governments and economies are able to provide and create productive and inclusive employment
- Where and when 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)

- Structural adjustment programmes applied consecutively to oil and debt crises, and more generally the globalisation process that exacerbated competition on labour costs, 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 an increase in sub-contracted (or not) informal employment in the formal sector

The informal economy: Why is it growing? Pro-cyclical and contra-cyclical trends (4)

- When the economy grows, informal micro-businesses tend to accompany this growth whereas informal employment in the formal sector shrinks
- When an economic crisis occurs, micro-businesses are equally hurt and informal employment in the formal sector increases in order to absorb the impact
- Depending on regions and periods the growth of the micro-businesses component may compensate the drop of the informal employment-in the formal sector component, especially in regions where the former component is much larger than the latter (Sub-Saharan Africa in particular where it represents 80% of the whole informal economy)

Transition from the informal to the formal economy

- The 2015 International Labour Conference unanimously adopted the Recommendation 204 Concerning the transition from the informal to the formal economy
- In view of achieving the SDG of universal health coverage and more generally universal social protection, countries are encouraged to design adequate policies in terms of balanced incentives and enforcement
- They need to increase fiscal resources by fighting against illegal work (informal employment in the formal sector) and promoting micro-businesses through adequate incentives