



**Is Informal Normal?
Towards More and Better Jobs in
Developing Countries**

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Overview

- Informal employment is:
 - pervasive,
 - persistent even in countries with adequate growth, and
 - hardly a hidden phenomenon.
- Informal employment is linked to poverty *on average*
but it encompasses very heterogeneous realities
→ differentiated approaches
- The crisis makes policies to deal with informal employment all the more urgent and relevant


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- 1 Overview
- 2 Informal Employment: Size and Trends
- 3 Welfare implications of job quality
- 4 Dealing with Informal Employment

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What's new on informal employment? Motivation

Old Agenda	New Agenda
<ul style="list-style-type: none"> • Informal employment to gradually disappear with development • Being informal = Being poor • Informal employment = immobility <p><i>Policy agenda:</i></p> <ul style="list-style-type: none"> • Policies to “formalise” the informal 	<ul style="list-style-type: none"> • Growth is not sufficient to eradicate informal employment • Informal employment is heterogeneous • People move between employment states <p><i>Policy agenda:</i></p> <ul style="list-style-type: none"> • Multi-tiered approach to policy

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Definition

Informal employment refers to jobs or activities in the production and sales of legal goods and services which are not regulated or protected by the state

Statistical implementation (ILO), based on *social protection* :

- Informal employment = employment in the informal sector + informal employment in the formal sector
 - Informal sector: self-employed (employers, own account workers, family helpers) + wage employees + employers in micro-enterprises (less than five workers)
 - Formal sector: Wage employees and paid domestic workers without social protection

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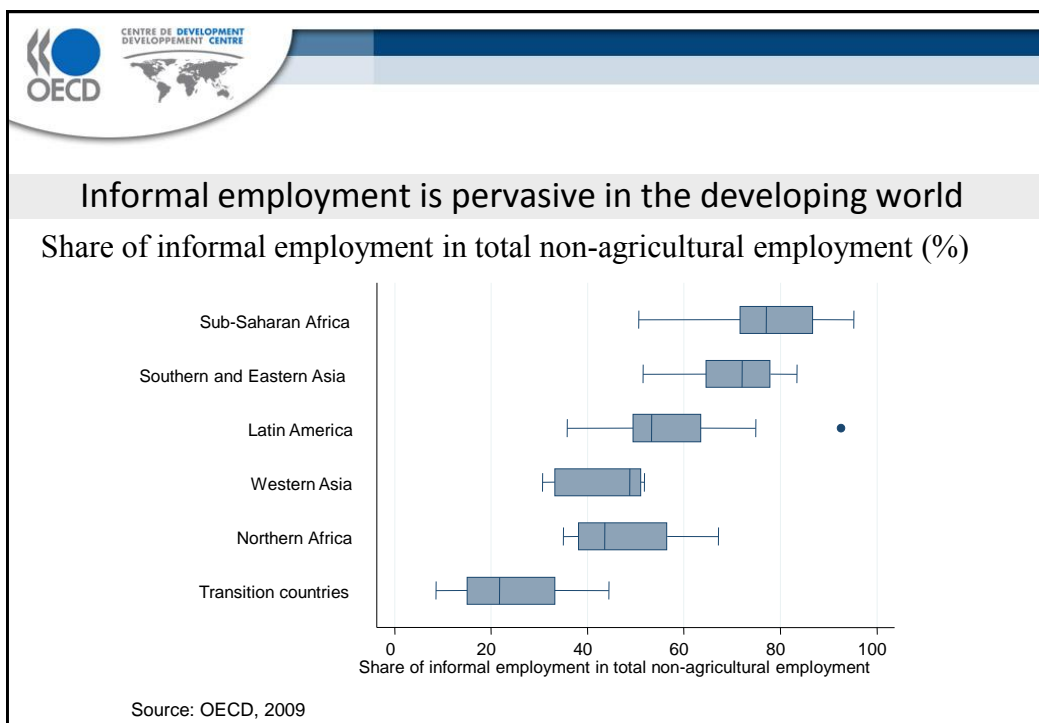
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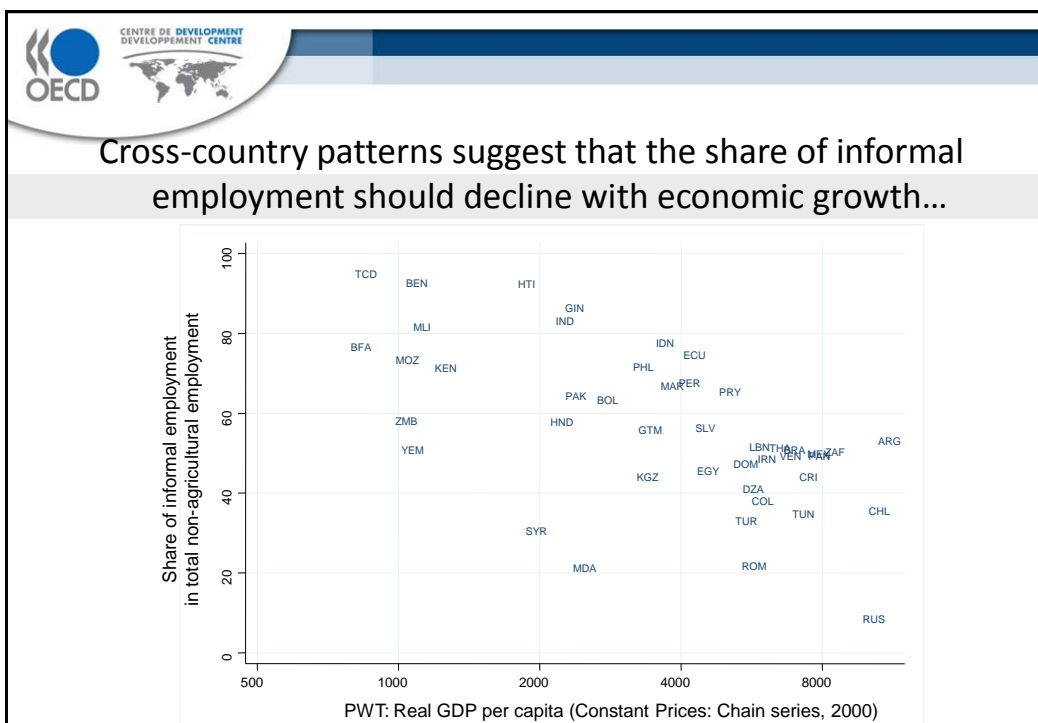
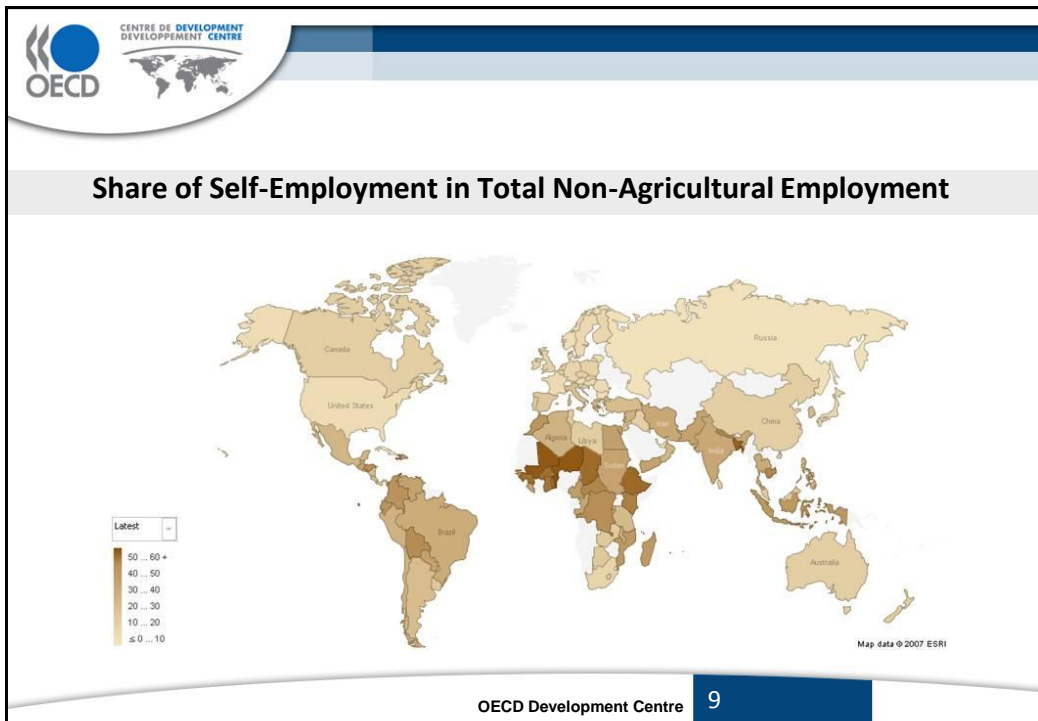
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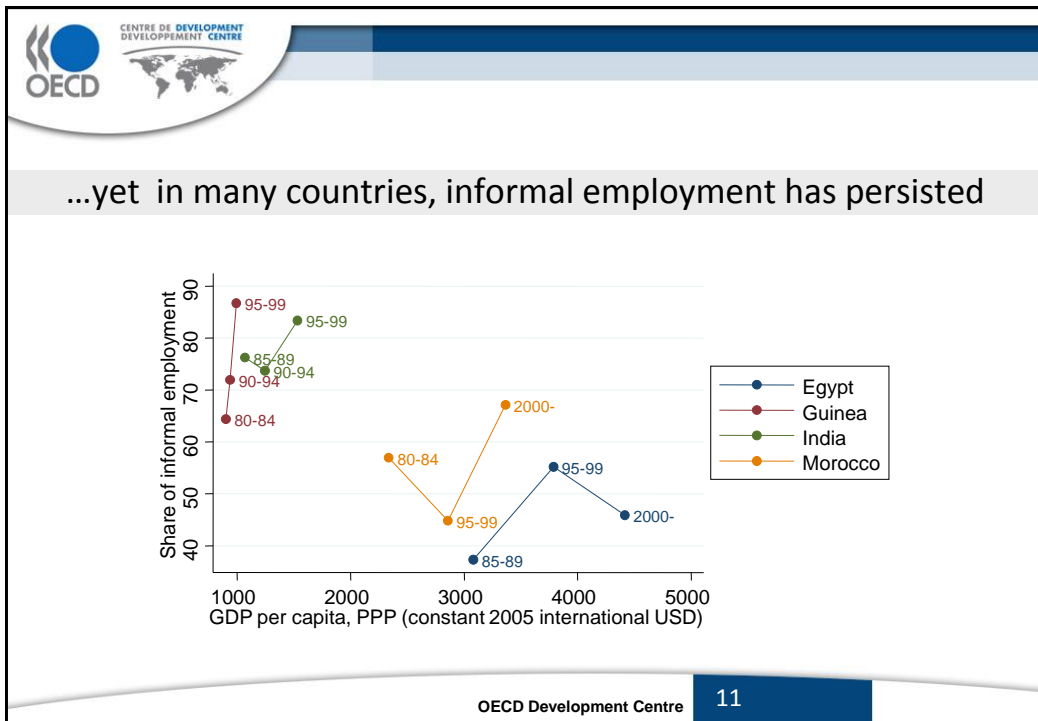
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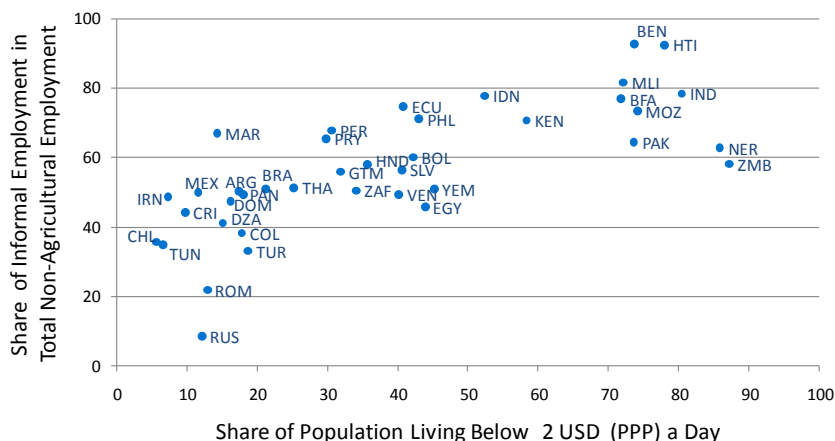
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Why is persistent informality worrying?


Informal work is very diverse but, *on average*:

- The share of informal workers is strongly correlated with poverty rates (700 million informal poor workers)
- Substantially lower earnings for informal employees:
 - 1.1 of minimum wage in Morocco, India.
 - Less than half of average wage in Mexico, Brazil.
- Multiple social costs of informality:
 - Shortfall in pension, health and labour safety coverage, fiscal receipts
 - High vulnerability to idiosyncratic *and aggregate* shocks... the crisis!

Poverty and the prevalence of informal work



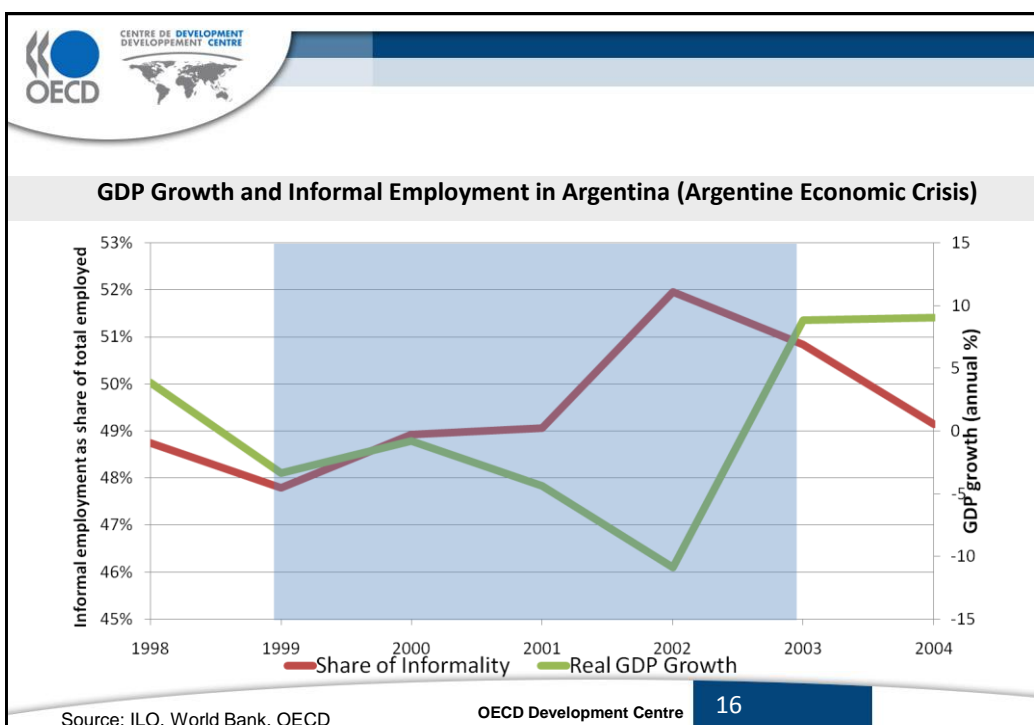
Source: Is Informal Normal? and World Bank Group (2007).



Informal employment and the crisis

- Recent crises suggest: Informal Employment ↑
- Models of cyclical behaviour of Informal Employment: dualist, entrepreneurship for non-tradable sectors: IE ↑
- Return migrants: Informal Employment ↑
 - 20 million people in China return to rural areas, 95 % unskilled
 - Reduced remittances

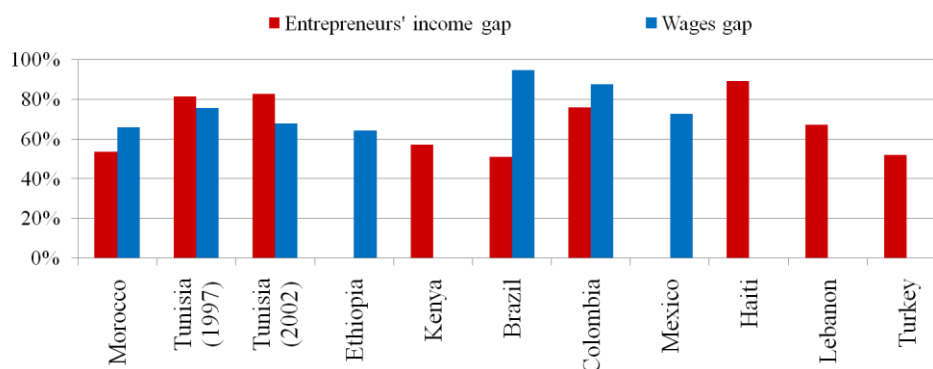
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The gender dimension of informal employment

- Economic research and policy focused on Labour Force Participation
- Neglect of quality of jobs
- Working women are not overall more likely to be informal...
...but they are overrepresented in worse forms of informal employment and earn substantially less

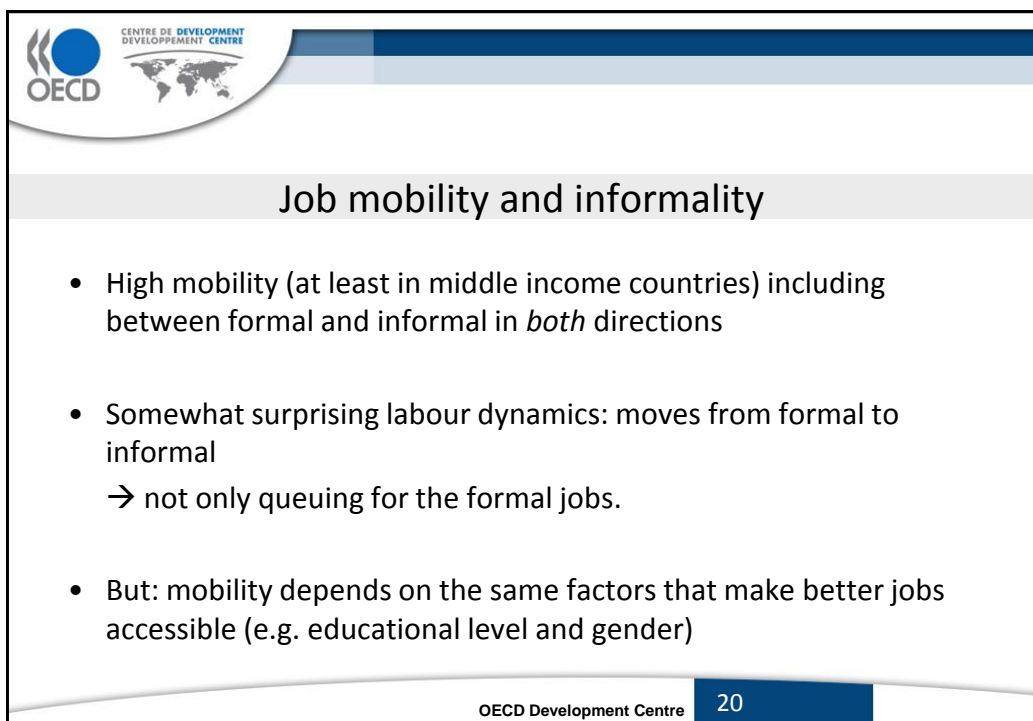
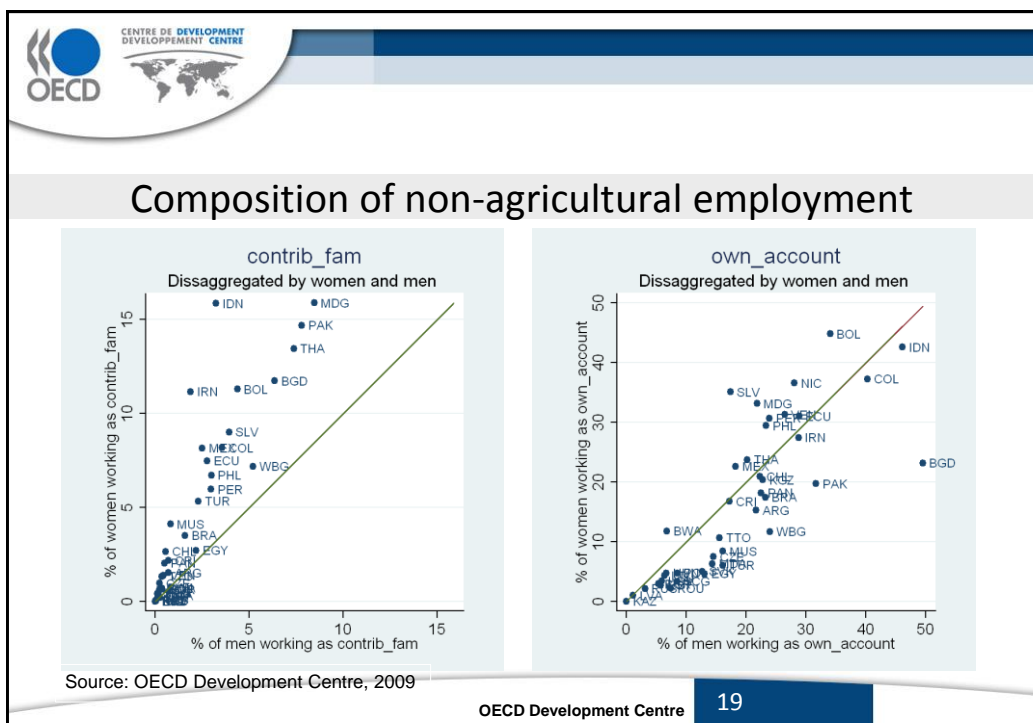
Gender (earnings) gaps in informal employment

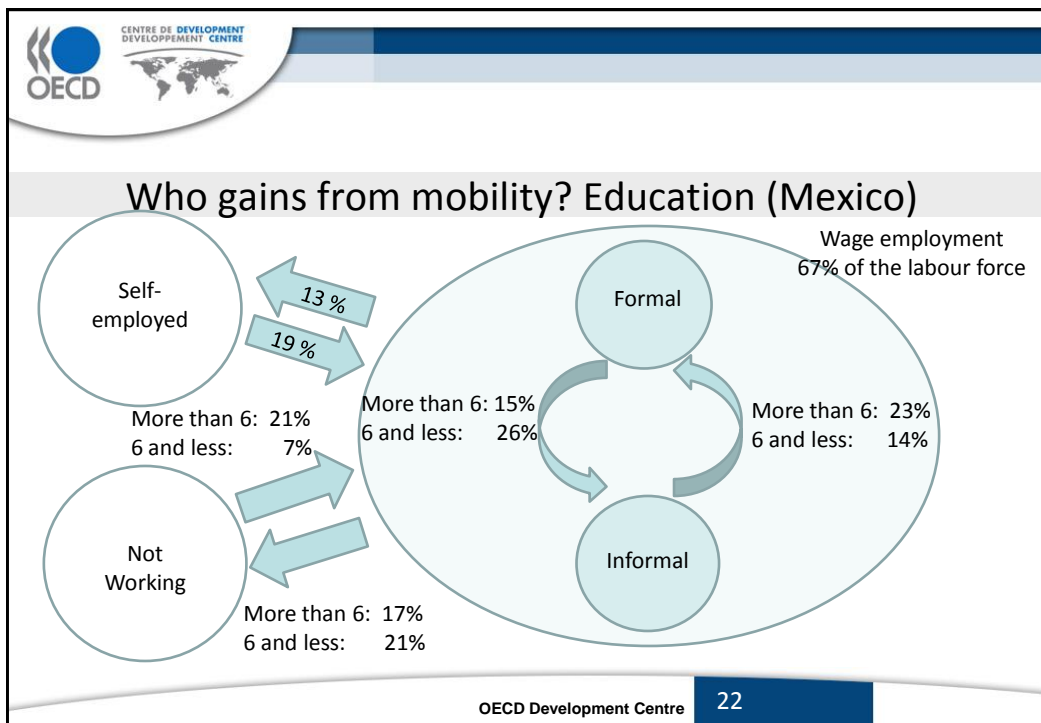
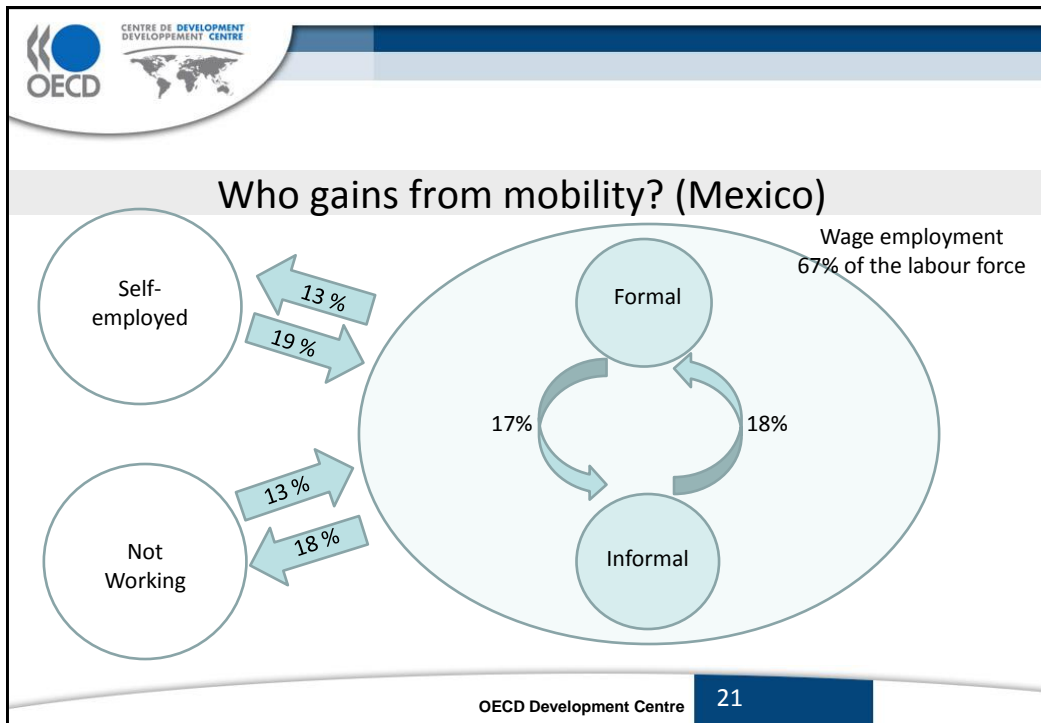


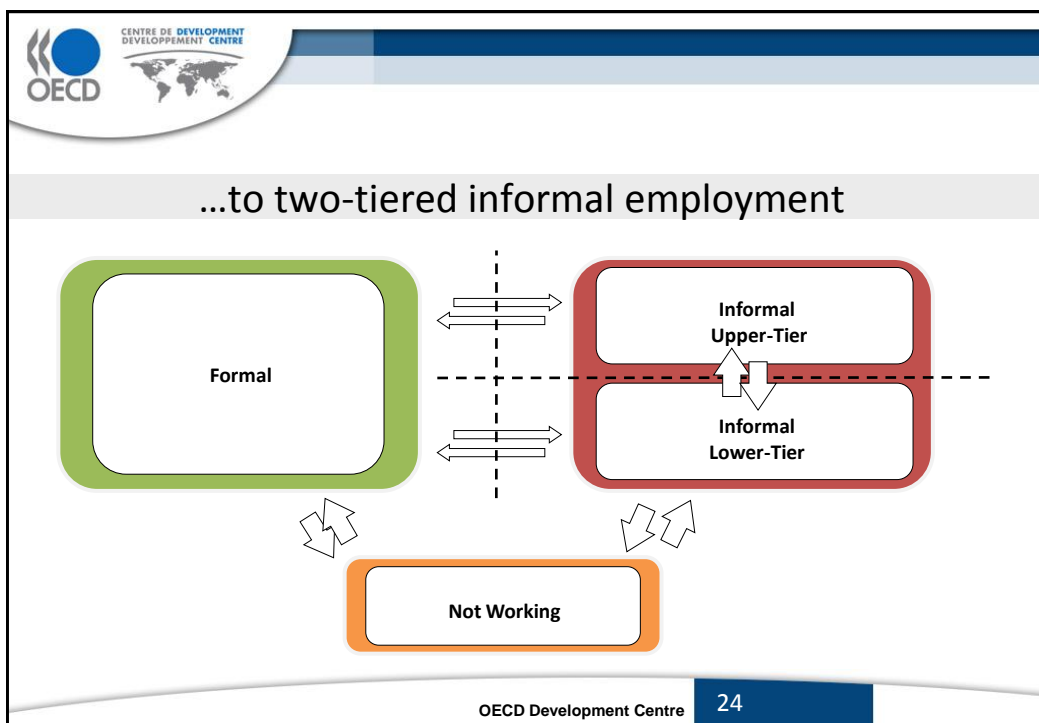
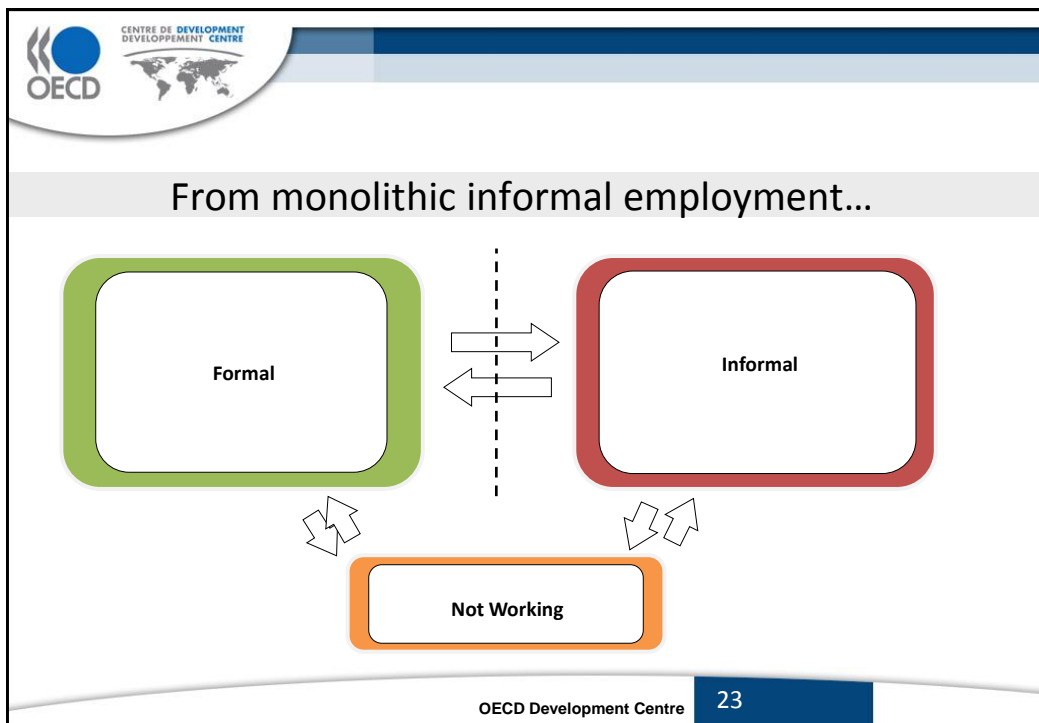
Notes: (1) Years and coverage: Morocco (2002), Tunisia (1997 and 2002), Ethiopia (1996), Kenya (1999), Brazil (1997), Colombia (1996), Mexico (1994), Haiti (2004), Lebanon (2004), Turkey (2000).

(2) Data for Ethiopia, Brazil, Colombia, Mexico and Turkey are for urban areas only.

Source: Various sources, see OECD Development Centre (2009), Chapter 2 for details.










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A policy framework

- Beyond “business as usual” (growth concerns and poverty alleviation)
- 3 core objectives
 - i. Increase the number of good, formal jobs
 - ii. Protect and promote workers in the lower tier of informal employment
 - iii. Provide incentives for more jobs to become formal

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What can we do about it?

- Improving the quality *also* of informal jobs
- Three common ingredients
 - More and better jobs:
 - Incentives for choosing formality:
 - Protecting and promoting informal workers

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More and better jobs

- Macro-economic policies:
 - Crucial importance for employment outcomes
- Structural and sector policy:
 - More policy coherence: social protection and business promotion agenda
- Labour market reform:
 - *better* regulation

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Providing incentives for the upper-tier

- Business climate reforms to lower the cost of formality
 - regulatory costs, tax administration reform, public goods

plus

- Enforcement of labour, tax and social security regulations, including strengthening labour inspections
- Improving the benefits of formality
 - Better governance, public service, linking contributions and benefits

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Promoting and protecting informal workers

- Inclusive education and training
 - adapted to informal workers and recognising experience in informal work
- Social protection
 - Cash transfers are useful poverty alleviation tools
 - Social protection/assistance for workers (universal coverage programmes)
 - Public works/work guarantee programmes
 - Unemployment insurance

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Discussion

- How do these findings relate to structural change of an economy? (sectors, productivity,...)
- How do we protect informal workers while not providing disincentives for formalization?
- How to promote employment intensive growth that leads to more and better jobs?

Thank you



