INFORMAL ECONOMY: INTEGRAL TO DEVELOPMENT ECONOMICS

MARTY CHEN
LECTURER IN PUBLIC POLICY, HARVARD KENNEDY SCHOOL
AFFILIATED PROFESSOR, HARVARD GRADUATE SCHOOL OF DESIGN
INTERNATIONAL COORDINATOR, WIEGO NETWORK

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REMARKS

My remarks will be in 4 parts:

- **Informal Employment**

- **Informal Employment, Poverty and Inequality**

- **Informal Economy, Formal Economy & Formal Regulations**

- **Informal Employment: What Next?**
Informal = “Normal”
- informal employment is large and is growing in some contexts
- most informal workers are trying to earn an honest living
- the informal economy contributes to the formal economy & to the total economy

Informal Employment, Poverty & Inequality
- decent work = key pathway to reducing income poverty & inequality
- decent work pillars = opportunities + rights + protection + voice
- decent work deficits = greater for informal workers, than formal workers

To reduce income poverty & inequality….
- need to reduce decent works deficits of informal workers
- need to integrate informal economy into economic policies & plans
Self-Employed in Informal Enterprises (i.e. unincorporated enterprises that may also be unregistered and/or small)

- employers
- own account operators
- unpaid contributing family workers
- members of informal producer cooperatives

Wage Workers in Informal Jobs (i.e. jobs without employment-linked social protection)

- informal employees of informal enterprises
- informal employees of formal firms
- domestic workers hired by individuals/households without employer contributions
INFORMAL EMPLOYMENT AS % OF NON-AGRICULTURAL EMPLOYMENT 2004-2010

Average & Range by Regions

South Asia: 82%
62% in Sri Lanka to 84% in India

Sub-Saharan Africa: 66%
33% in South Africa to 82% in Mali

East and Southeast Asia: 65%
42% in Thailand to 73% in Indonesia

Latin America: 51%
40% in Uruguay to 75% in Bolivia

Middle East and North Africa: 45%
31% in Turkey to 57% in West Bank & Gaza

INFORMAL EMPLOYMENT: WIEGO MULTI-SEGMENTED MODEL

Hierarchy of Earnings & Poverty Risk: by Employment Status & Sex

<table>
<thead>
<tr>
<th>Poverty Risk</th>
<th>Average Earnings</th>
</tr>
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<tbody>
<tr>
<td>Low</td>
<td>High</td>
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<tr>
<td>High</td>
<td>Low</td>
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</table>

- Employers: 2—9%
- Informal Employees: n.a.
- Own account operators: 33—53%
- Casual Day Laborers: n.a.
- Industrial Outworkers/Homeworkers: n.a.
- Unpaid Family Workers: 5—12%

Segmentation by Sex

- Predominantly Men
- Men and Women
- Predominantly Women

Sources: Chen et al. 2005; Vanek et al. 2014
Note: % = regional averages of informal employment outside agriculture
LINKAGES WITH FORMAL ECONOMY

- Informal Self-Employed are linked to formal firms which are their...
  - suppliers
  - buyers

- Informal Wage Workers are linked to formal firms which are their...
  - employers
  - contractors
LINKAGES WITH FORMAL REGULATIONS

- Informal employment operates outside of the reach of protective laws or regulations, such as labor regulations
- BUT not outside the reach of all state regulations – and certainly not outside the reach of state practice
- In fact, the state often uses or abuses its authority to harass or penalize informal units/workers
- Also, the state constructs opportunities for more powerful actors to impose costs on informal workers
- Further, state resources and incentives are biased towards formal units/workers
# MARKET & STATE COSTS TO INFORMAL WORKERS

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<thead>
<tr>
<th></th>
<th>HBW</th>
<th>SV</th>
<th>WP</th>
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<tbody>
<tr>
<td>by contractor/middleman</td>
<td>bad raw materials</td>
<td>goods adulterated</td>
<td>time wasted</td>
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<tr>
<td></td>
<td>delays &gt; wages deducted</td>
<td>prices manipulated</td>
<td>buyer changes price</td>
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<td></td>
<td>state payments</td>
<td></td>
<td>buyer cheats on weight</td>
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<tr>
<td></td>
<td>opportunity and direct costs of transport</td>
<td></td>
<td>buyer threatens/steals</td>
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<tr>
<td>by city</td>
<td></td>
<td>confiscations</td>
<td>confiscations</td>
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<tr>
<td></td>
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<td>police demand bribes</td>
<td>police demand bribes</td>
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<tr>
<td></td>
<td></td>
<td>evictions</td>
<td>police chase WP away</td>
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<tr>
<td></td>
<td></td>
<td>arbitrary/excessive fines</td>
<td>police harassment</td>
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<tr>
<td></td>
<td></td>
<td>police beatings</td>
<td>police beatings</td>
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INFORMAL EMPLOYMENT: WHAT NEXT?

- promotion of opportunities, rights, protection and voice in the informal economy
- reduction of state bias towards formal units/workers and against informal units/workers
- integration of informal economy into economic policies & plans
“The challenge is to convince the policy makers to promote and encourage **hybrid economies** in which micro-businesses can co-exist alongside small, medium, and large businesses: in which the street vendors can co-exist alongside the kiosks, retail shops, and large malls. Just as the policy makers encourage bio diversity, they should encourage **economic diversity**. Also, they should try to promote a **level playing field** in which all sizes of businesses and all categories of workers can compete on equal and fair terms.“

Ela Bhatt  
Founder, SEWA  
Founding Chair, WIEGO
FOR MORE DETAILS

Please visit www.wiego.org

THANK YOU!