

ELLA Summit on Informality and Inclusive Growth
Johannesburg, 4-5 October 2016

Summit Report

The ELLA Programme

The Evidence and Lessons from Latin America (ELLA) programme¹ has at its heart the idea of South-South learning. This is reflected in the pairing of research institutions in Latin America and Africa; in the requirement that the research be comparative in nature; and in the development of specific arenas for learning.

The Development Policy Research Unit (DPRU), based within the School of Economics at the University of Cape Town, and Colombian research centre Fedesarrollo, based in Bogotá, have partnered to conduct research into the relationship between informality and inclusive growth. Since 2014, researchers from the two institutions have been analysing this relationship in South Africa and Colombia and, more broadly, within Sub-Saharan Africa and Latin America. This partnership has resulted in the publication of a number of research outputs, including two regional evidence papers and a comparative evidence paper. Published outputs from this research can be found [by clicking this link](#) or via the QR code on the right.



The two institutions have also been engaged in dissemination activities with a particular focus on South-South learning. For example, in mid-2016 the team moderated an online learning forum—or Online Learning Alliance—for participants from around the world, but specifically Africa and Latin America, on the issue of informality and inclusive growth. Highlights from this learning alliance can be found [by clicking this link](#) or via the QR code on the right. Subsequent to this, the Summit on Informality and Inclusive Growth was organised to bring policymakers, policy implementers, civil society, academics and policy researchers together to share their views and experiences related to the challenges of informality in the context of achieving inclusive economic growth.



The Summit on Informality and Inclusive Growth was co-hosted by Fedesarrollo and the Development Policy Research Unit (DPRU), as part of the ELLA programme in Johannesburg at the Radisson Blu Sandton Hotel on the 4th and 5th of October 2016. This report aims to provide an overview of the proceedings and discussions that took place during the summit.

Summit Objectives

The key objective of the summit was to offer participants the opportunity to learn first-hand about experiences from Sub-Saharan Africa and Latin America in terms of policies around informality and the impact of informality on inclusive growth. By discussing results of the ELLA research on South Africa and Colombia and their respective regions and by sharing participants' views and experiences from their work in this area, the expectation was that participants would be able to take back useful lessons that could be translated into action in their own contexts.

Participants heard from a number of South African and Colombian researchers and experts. The Colombian and Latin American experience and insights were presented by Leonardo Villar, Cristina

¹ ELLA, which stands for Evidence and Lessons from Latin America, is a south-south knowledge and exchange programme that mixes research, exchange and learning to inspire development policies and practices that are grounded in evidence about what works in varied country contexts. The programme has been designed and is coordinated by Practical Action Consulting (PAC) Latin America, in line with the objectives agreed with the funder, the UK Department for International Development (DFID), UK Aid. The Institute for Development Studies (IDS), Sussex University, UK, supports on research design, methods and outputs. For other ELLA publications and knowledge products go to www.ella.practicalaction.org.

Fernandez, Guillermo Perry and Angel Melguizo. South African presenters included Haroon Borat, Morné Oosthuizen and Kezia Lilenstein.

Summit Attendees

A good mix of individuals from academia, business, government and civil society attended the Summit. Government representatives included policymakers and policy implementers from national, provincial and local government, enabling participants and organisers to gain insights from individuals working face-to-face with informal businesses.

| Organisation Type | Male | Female | Total |
|--------------------------|-------------|---------------|--------------|
| Academic/Research | 10 | 5 | 15 |
| Business | - | 1 | 1 |
| Government | 11 | 12 | 23 |
| NGO/Civil Society | 4 | 3 | 7 |
| Total | 25 | 21 | 46 |



Overview of Sessions

Day One:



Welcome and Introductions

Speaker: Haroon Bhorat (Professor of Economics, and Director of the Development Policy Research Unit at the University of Cape Town).

Haroon Bhorat welcomed all the attendees to the event, including Professor Guillermo Perry as an honoured guest at the Summit. Professor Perry is a former Minister of Finance for Colombia, and Chief Economist for the World Bank.

Bhorat explained that the ELLA project partly focuses on South Africa within the context of informality and its links to inclusive growth. He further explained that during the last 18 months, a team from the Development Policy Research Unit has engaged with a team from Fedesarrollo (the Colombian research institute and policy think-tank based in Bogotá).



The project coalesced around the following three activities:

1. Research done on the individual countries and their regions around informality and inclusive growth.
2. Comparative research that builds a typology of informality in terms of its links to inclusive growth, based on the country and regional research.
3. Dissemination by means of webinars, policy discussions, and learning materials through online portals.

Haroon touched on the idea that there are three issues that should be considered, when researching and discussing informality:

1. Definitions and conceptualising the informal sector.
2. The size and the shape of the informal economy or sector.
3. A broader view of growing or developing the informal sector.

Informality and Inclusive Growth

Speaker: Morné Oosthuizen (Deputy Director of the Development Policy Research Unit at the University of Cape Town).

Morné Oosthuizen shared his hopeful expectation that through the summit, the attendees will have the opportunity to share some of their own research and experiences from working in this area, enabling all participants to learn from each other in a more meaningful way. From ELLA's perspective, a big emphasis is on



policy lessons and policy learning, and that is one of key things that had been expected to come out of the summit.

Oosthuizen shared the names of team members who have contributed to the research:

DPRU Team:

- Morné Oosthuizen
- Aalia Cassim
- Kezia Lilenstein
- Francois Steenkamp

Fedesarrollo Team:

- Cristina Fernandez
- Leonardo Villar
- Juan Camilo Medellin
- Francisco Fernandez

PAC, IDS Advisors:

- Mark Lewis
- Don Leonard
- Shandana Mohmand
- Egidio Farina
- Ani Silwal

Oosthuizen gave an overview of the ELLA programme and its focus on South-South learning. He went on to describe the global pressure on governments to engender an inclusive pattern of economic growth, motivating the theme of this summit. Oosthuizen provided an overview of various demographic, economic and geographic indicators for Colombia and South Africa and explained why they are good countries for a comparison of this nature: they are very similar in many aspects, except in terms of labour market outcomes. Specifically, Colombia is characterised by a high degree of informality, while South Africa suffers from extremely high unemployment.

Why Colombia and South Africa?

- Actually quite similar in many respects

| | Colombia | South Africa | Year |
|---------------------------|-----------------------------|-----------------------------|------|
| Area | 1.0 million km ² | 1.2 million km ² | |
| Population | 48 million | 54 million | 2014 |
| Share in working ages | 68.5% | 65.4% | 2015 |
| GDP | US\$ 378 billion | US\$ 350 billion | 2014 |
| GDP per capita (PPP) | \$ 13 357 | \$ 13 046 | 2014 |
| Inequality (Gini) | 54.2 | 63.4 | 2011 |
| Urbanisation rate | 73.2% | 64.3% | 2014 |
| Pop in largest city | 9.6 million | 9.2 million | 2014 |
| Pop in 1 mil+ urban areas | 20.3% | 20.0% | 2014 |
| Natural resource rents | 10.3% of GDP | 9.2% of GDP | 2013 |
| Intentional homicides | 31.8 per 100 000 | 31.9 per 100 000 | 2013 |

Finally, he took the attendees through the various challenges in defining both inclusive growth and informality. While there is no consensus on a formal definition of inclusive growth, the challenge around informality is that a common definition is often assumed even though country's typically deviate, sometimes quite significantly, from this definition. At the same time, terms such as *informal employment*, *informal sector* and *informality* are often used interchangeably, even though they have different technical definitions. Therefore, a discussion of the definitions generally and of the specific definitions settled on by the research team was important to ensure that participants have the same definitions in mind when contributing.

For more information, see: [Informality and Inclusive Growth](#).

Taxonomy of Informality in Colombia and South Africa

Speaker: Leonardo Villar Gomez (Executive Director of Fedesarrollo).

Leonardo Villar gave an overview of the main argument set forth in the Comparative Evidence paper produced by DPRU and Fedesarrollo. He detailed a taxonomy of informality in Colombia and South Africa, developed as part of the ELLA research, with informality divided into voluntary, induced and subsistence informality:



1. **Voluntary informality** typifies workers who decide to be informal, given that the benefits of being informal are greater than those of being formally employed. This cost benefit analysis includes monetary variables such as income and taxes but it can also include other ‘amenities’ of being informal such as labour flexibility, being one’s own boss and independence., by explaining what the three types of informality are, and what the relevant productivity indicators of all the types of informalities are.
2. **Induced informality** describes those informal workers who are willing to work formally and possess the necessary level of productivity to be employed freely in this market, but are relegated to informal jobs because of excessive labour protection or implicit rules of the society, such as labour discrimination.
3. **Subsistence informality** is typified by those workers who are willing to work in the formal sector (or do not have particular preferences for informality) but do not possess the necessary skills in order to produce at the level required by the formal labour market. While these individuals may suffer from entry barriers to the formal labour market, a significant reduction in these barriers is not likely to generate an increase in their formal employment rates since the main driver of this kind of informality is their low productivity, coupled with a lack of demand for low productivity jobs in the labour market.

| Summary: Types of informality: SA and Colombia | | | |
|--|---|----------------------------|--|
| Dimension | Indicator | South Africa | Colombia |
| Choice and Voluntary Informality | Transition between informality and formality | Medium (26%) | Low (13%) |
| | Preferences for informality- surveys | Very low (22%) | Low (35.9%) |
| | Cyclicality: coefficient of correlation | Low: Pro-cyclical average | Low: Counter-cyclical average because of regulations |
| Barriers to Formality and Induced Informality | Indicators of segregation: Relative probability of informality | High: Women and Non-whites | Medium: Women and ethnic minorities |
| | Minimum wage/average wage | Low (17%) | High (66%) |
| | Labour tax/commercial profits | Low (4%) | Medium high (18.6%) |
| Productivity | % of workers earning wages < min. hiring cost | N/A | High (48%) |
| | Relative probability of informality for low productivity groups | High | High |

In his presentation, Villar also detailed ways in which these types of informality may be identified in Colombia and South Africa. The main conclusion is that informal workers cannot be treated as a single, homogeneous group. Further, even in instances where informality may promote inclusive growth for

vulnerable groups, the cost of informality at a societal level should not be ignored. Finally, where South Africa can learn about the potential costs of high levels of informality from Colombia, Colombia may be able to learn from the more flexible arrangement of setting wage minima in South Africa.

Comments on this paper were made by Guillermo Perry, Non-Resident Fellow at the Center for Global Development and former Chief Economist of the Latin America and Caribbean region of the World Bank (1996-2007). Perry provided comments to the paper presented by Villar. He described the paper as “excellent”, saying that it provides a useful comparison of informality and inclusive growth in Colombia and South Africa, and more generally in Latin America and Africa. He mentioned the need to complement the paper with an analysis of motivations and policy implications of informal firms, noting that often it is the firm that opts to be informal, rather than the worker necessarily.

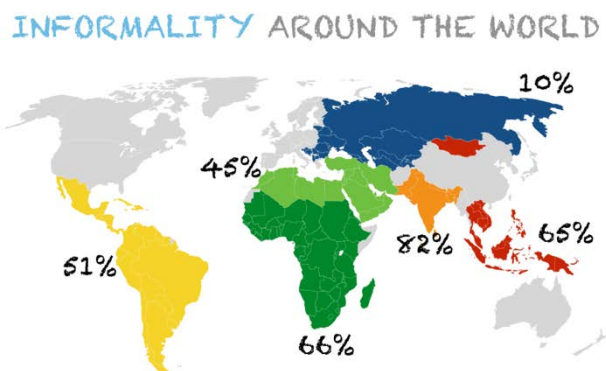
For more information, see: [Identifying the Types of Informality in Colombia and South Africa. Informality in Africa and Latin America](#)

Speaker: Kezia Lilenstein (Researcher at The Development Policy Research Unit at the University of Cape Town).

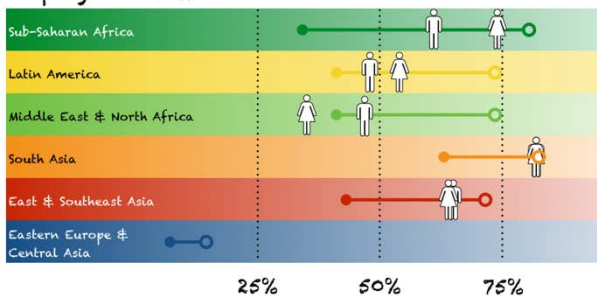


Kezia Lilenstein shared some very insightful background information and discussed the tools required to assist individuals with identifying the effect of informality on inclusive growth in their own countries.

She first gave an overview of informality and inclusive growth in the Sub-Saharan Africa and Latin American regions, noting that in many instances informality is important for absorbing people into the labour market in many countries in these regions. There is also a large degree of heterogeneity in terms of the structure of informality between countries in both regions. For example, Mexico shows a high degree of voluntary informality; Argentina, Senegal, Paraguay, the Republic of the Congo, Bolivia, Zimbabwe, Cote d'Ivoire and Brazil show evidence of induced informality, and Burundi, Namibia and South Africa show evidence of a high degree of subsistence informality. Generally, there is limited data and literature on informality in African countries, something which is important to address going forward.



Informal employment as share of non-agricultural employment (%), 2004-2010



Key

- Lowest country estimate
- Highest country estimate
- ♀ Average rates by sex

Source: Vanek, J. et al. 2014. Statistics on the Informal Economy: Definitions, Regional Estimates & Challenges. WIEGO Working Paper (Statistics) No. 2. April.

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For more information, see [Rethinking the Effect of Informality on Inclusive Growth: Latin America and Sub-Saharan Africa.](#)

Informality in Latin America

Speaker: Guillermo Perry (Non-Resident Fellow at the Center for Global Development, former Chief Economist of the Latin America and Caribbean region of the World Bank, 1996-2007).

Guillermo Perry provided a very detailed picture of informality in Latin America, noting that the focus should not only be on the exclusion of workers and firms from the formal sector, but also on exit from the formal sector as a motivation for informality. Perry noted that, while some firms opt for informality due to the low net benefits of formality, in other instances workers collude with firms in not paying social security contributions in exchange for higher salaries. He also discussed the differences in informality by sector:



in tradeable sectors informality is typically lower, but is often high in the non-tradeable sectors where economies of scale are of lesser importance. Reference was also made to the comparative advantages of and constraints facing workers, as well as the challenges around ensuring effective and sustainable social protection.

Main themes from the report

- We need to focus not only on **exclusion**, but **exit** as motivations for informality
 - Many firms/workers are **unable** to become formal due to poor regulations and rigidities **but**
 - Many firms/workers **choose** not to interact with government and opt out of social protection
 - Implies new emphasis on firm/worker **cost benefit analysis** of formality **and other motivations** in addition to understanding regulatory barriers.

- Informality, Distribution, Average Productivity are all reflections of a larger socio-economic equilibrium

Perry further noted the relationship between the strength of enforcement and the ratio between informality and unemployment: where enforcement is stronger and regulations therefore more binding, informality tends to be lower and unemployment higher.

For more information, see [Informality: Exit and Exclusion](#).

Informality in Sub-Saharan Africa

Speaker: Imraan Valodia (Professor of Development Economics, University of Witwatersrand) – via skype.

Imraan Valodia focussed his presentation on informality in Sub-Saharan Africa by discussing the variance between accepted ‘facts’ about informality and what we see today. The difference between historical and emerging conceptualisations of the informal economy have important implications for policy, with Valodia outlining the differing policy responses.

Valodia provided an overview of informality from the perspective of “What we Thought” and “What we See”.

- First, the idea that the informal economy was a temporary phenomenon and that it would cease to exist as the economy develops is contradicted by the fact that the informal economy is today disproportionately the site of employment creation in the developing world.
- Second, the view that the informal economy existed because small enterprises were evading regulations is countered by the fact that workers in the informal economy generally operate in clear sight and are in fact disadvantaged by being outside of regulation.
- Third, while the prevailing view is that the informal economy is characterised by levels of productivity that are uniformly lower than those observed in the formal economy, current evidence suggests that the informal economy is very diverse in terms of levels of productivity.
- Finally, instead of cushioning the economy during economic downturns as originally thought, the informal economy may bear the brunt of economic recessions.

| What we thought (WWT) | Policy Implications of WWT | What we see (WWS) | Policy implication of WWS |
|--|--|--|--|
| The IE is a temporary phenomenon which will cease to exist as the economy grows and develops | Development policy should promote the formal economy and discourage the IE | The IE has grown substantially and is now the major source of employment in much of the developing world. The IE is disproportionately the site of employment creation | Development policy should support the IE which provides a livelihood for the vast majority of low-income earners |

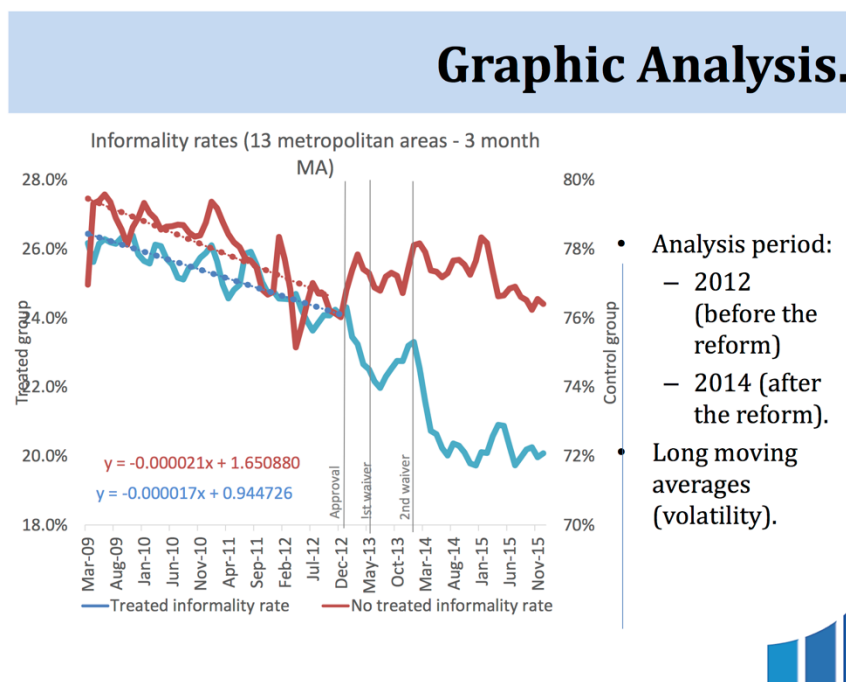
For more information, see [Conceptualizing the Informal Economy: Evolution, Myths and Realities](#).

Day Two:



The Impact on Informality of Reducing Labour Taxes in Colombia **Speaker:** Cristina Fernández (Fedesarrollo).

Cristina Fernández presented the results of research on the impact of payroll taxes on informality with reference to the case of the 2012 Colombian tax reform. She shared a brief background of how the 2012 Colombian tax reform was implemented, and an overview of their methodology. The conclusion of the research was that the significant decline of 13.5 percentage points in payroll taxes was associated with a decline in the informality rate in Colombia of between 4.3 and 6.8 percentage points for affected workers. Overall, this resulted in a decline in the economy-wide informality rate of between 1.6 and 2.6 percentage points. Men in their productive years with low levels of education were most favoured by the reform.



The research therefore suggests that at least part of the reason for high levels of informality in Colombia is the high payroll taxes that have been implemented over time. Thus, the reduction of these payroll taxes implied a reduction in the costs associated with formality and a subsequent decline in the rate of informality, with the effect being particularly strong for relatively low productivity workers (i.e. those with low levels of education).

For more information, see [Payroll Taxes and their Impact on Informality](#).

Informality in Latin America: Taxes and Beyond

Speaker: Angel Melguizo (Senior Economist at the Organisation for Co-operation and Development (OECD) in Paris, France).

Angel Melguizo explained that informality is normal for the workers in Latin America, in terms of non-wage earners, workers in small firms, or low-income workers. Informality is also high for middle-income workers, and in Latin America there is a growing emerging middle class. However, this is seen as a negative, especially given that it is not easy to do long term planning or to have social insurance with such high informality. Nor is there a good representative economic/labour model, where enforcement takes place e.g. channelled through the wage bill. There are also disincentives to formality for firms and/or workers, with non-wage labour costs and labour regulations (e.g. minimum wages), and the existence of non-contributory benefits. High costs of formality (taxes and labour regulation) could be playing a role, especially when interacting with labour regulations. Informality then leads to low trust in the state and/or financial sector, and also low productivity.



Principles of a pro-formality agenda

- **Global:** interactions between social protection (pensions, health) and taxes
+ **Coordination** among institutions (regulation, supervision, administration)
- **Efficiency:** incentives to formal labour participation
- **Innovation:** supervision and compliance mechanisms
- **Transparency:** simple goals; public debate and political agreements

Melguizo also noted that, while labour costs are heterogeneous within the region, they are relatively low in LAC compared with the OECD, partly due to low taxes on wages (22 percent compared with 36 percent in the OECD region), which can also be explained by the personal income tax (where the average formal worker is exempted). Personal income tax in LAC is borne fully by the top two or three deciles, in the context of 55 percent of workers being informal. As taxes on wages can be burdensome, especially for the transition from informality to formality, the way forward must go beyond taxes: with a comprehensive pro-formality package, where incentives can be monetary and non-monetary, along with productive development policies.

For more information, see [Informality in Latin America: Taxes and beyond](#).

The GCRO Quality of Life 2015 survey and Gauteng’s informal sector entrepreneurs and cross border traders

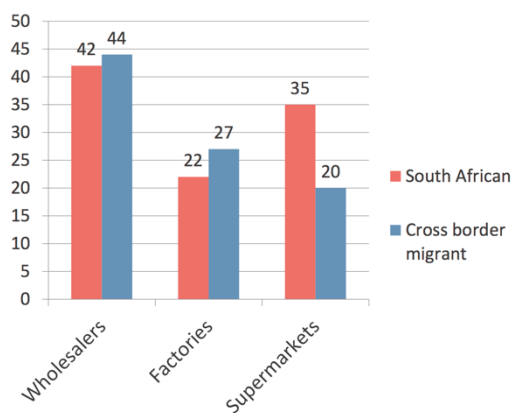
Speaker: Sally Peberdy (Senior Researcher at the Gauteng City-Region Observatory).

Sally Peberdy gave an overview of informal entrepreneurship in Gauteng using the Quality of Life 2015 Survey conducted by the Gauteng-City Region Observatory, and shared very insightful information on the small scale cross border trade and how it affects Gauteng. The research showed that the majority of new businesses are in the informal sector and are financed through personal savings. In addition, most informal businesses (45 percent) are in the wholesale and retail sector, while only one-quarter of small businesses know about available government services.



Sally also discussed another survey which interviewed informal sector entrepreneurs. South African informal sector traders used less capital than cross-border migrants when starting a business. Cross-border migrants were more likely to use wholesalers and factories when purchasing supplies whilst South African traders were more likely to use supermarkets, resulting in higher costs for South African traders. Finally, cross-border migrants were more likely to make profits of over R6 401 per month.

Relationships with formal sector (%)
GCRO Informal sector entrepreneurs survey 2014 (multiple mention question)



- Cross border migrants are more likely to use wholesalers and factories for supplies
- South Africans are more likely to use supermarkets and small shops & retailers for supplies –likely to be more expensive
- The same proportion of South Africans & cross border migrants (38%) bought supplies for their businesses in bulk with other business owners
- The formal sector is the main source of goods for all nationalities
- **HOWEVER competition from large stores was a problem experienced:**

| | South African | Cross border migrant |
|-----------|---------------|----------------------|
| Often | 41 | 31 |
| Sometimes | 35 | 37 |
| Never | 24 | 32 |

Importantly, the research presented by Peberdy highlights the important linkages between the formal and informal economies. In particular, the different sourcing behaviours of South African and cross-border migrant informal entrepreneurs—the former sourcing stock from retailers, the latter from wholesalers—are reflected in differentials in terms of competitive pressures experienced and profits, for example.

For more information, see [Informal Entrepreneurship and Gauteng](#).

The Township (Informal) Economy: An Area Level Perspective

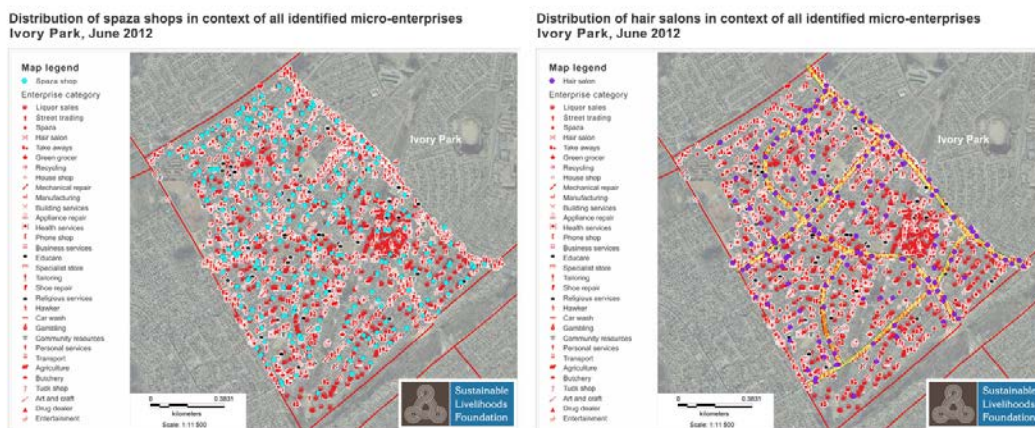
Speaker: Andrew Charman (Director of the Sustainable Livelihoods Foundation and head of the Formalising Informal Micro-Enterprises Project).

In his presentation, Andrew Charman explained how a township (informal) economy is emerging in South Africa. Entrepreneurship is embraced as a means of survival, employment, and wealth accumulation, but there is fluidity between survival, induced and voluntary informality. While most people start in business on their own initiative, and micro-enterprises survive and grow (to a point), there is also an entrepreneurship ‘problem’ at play. He also discussed how the growth of businesses in townships is often hindered by resource constraints, entrepreneurial outlook, and structural impediments. Misguided policies and regulation also hamper enterprise development and growth.



Charman shared research from a 5-year study of nine townships in four of South Africa’s provinces, in particular focusing on micro-enterprises and their spatial distribution in Delft South, with comparative analysis from 2010 and 2015. Core obstacles to informal businesses that were identified included crime, street trade restrictions, land access and/or use rights constraints, price competition, police harassment and licensing restrictions.

different spatial logics...



6

Some of the policy priorities since identified through the research include: land rights (zoning and access for commercial use); designating high streets as special zones (provided with a business oriented infrastructure and facilities); broad concessions for street trade and mobile trade; minimising regulatory barriers (to facilitate formalization through a developmental approach); influencing the role and function of shopping malls/large retail developments; recognising the transport sector as a ‘gateway’ to small-business development; enhancing business use of ICT through free data/wi-fi hotspots; and avoiding unsustainable business approaches (such as incentives for cooperatives).

For more information, see [The Township \(Informal\) Economy: An area level perspective](#).

Overview of the Discussions

The discussions touched on a number of important issues, some of which will be highlighted here.

Echoing the points made in the early presentations, the issue of consistent **definitions** was raised at various points over the two days. First, definitions were raised in the context of cross-country comparisons, which are often made difficult by a lack of consistency. Definitions are perhaps even more problematic where they appear similar, but may deviate significantly from each other. This is the case for certain definitions of informality that are described as ILO definitions, but which have been adapted to local contexts. It is clear that even small tweaks to definitions can have significant impacts on who is included, at the individual level but also at the level of categories of workers. Second, early emphasis on definitions appeared to have resonated with participants as at various points the discussion was brought back to this issue as a way to make sure that participants' contributions were framed according to a common understanding.

One issue that the summit clearly exposed was the differing perception of informality according to the local **context**. Latin American participants were surprised at the often positive view of informality as a source of jobs held by many of the African participants, while African participants were surprised at the negative view held by the Latin Americans. This difference is at least partly rooted in the perceived alternative: in Latin America, the alternative is viewed as formality, while in many African countries (and in South Africa in particular) the alternative is seen to be unemployment. While context helps explain these perceptions, it is also key to understanding the nature of informality within a particular country or region and to informing policy choices.

An important feature of the discussion was the recognition of the centrality of the notion of **heterogeneity**: heterogeneity in country contexts, but also in the motivations and choices of firms and workers. Thus, for example, individuals and firms may choose informality for a number of reasons, with different reasons often leading to differing outcomes and requiring different policy interventions. Further, workers and potential workers are not homogeneous and possess different characteristics in terms of educational attainment, skill sets, mobility and preferences, amongst other things. An important difference amongst workers is **gender** and, although this was not a focus of the research or the summit, the interactions between gender and labour market behaviour was highlighted. As was noted, women are typically constrained by household and care responsibilities; they therefore have less time available to seek work, may be more constrained in their ability to travel long distances to places of employment, and may be more vulnerable in informal work settings.

Much of the discussion centred on the question of linking the informal economy into growth processes and ensuring that informal workers and firms are able to share in the gains from growth. One possibility is pursuing policies aimed at the **formalisation** of informal workers and firms. There appeared to be general agreement that policies aimed at formalisation should focus on encouraging the process of formalisation rather than forcing it (i.e. more 'carrot', less 'stick'). This was in agreement with some of the evidence presented in the ELLA research papers. Thus, if benefits to formalisation are small in a particular context, the focus may need to be on reducing the costs to create an incentive to formalise. In the same vein, a participant raised an experience from Nigeria where government partnered with a financial institution to provide bank accounts to informal traders at reduced rates. The success of the intervention was attributed to the fact that it attempted to formalise without disrupting informal firms. It was further noted that, within the context of formalisation, skills become a key consideration. In other words, skills become an issue in a pro-formality agenda, suggesting that countries should focus on getting educational and skills outputs commensurate with the financial and other inputs invested into the education and training systems.

The process of formalisation is linked to the idea of **transitions**, which was an issue that the ELLA research investigated in some detail. While the formalisation process is linked to the transition between informality and formality, there are also potential transitions between unemployment and informality and between unemployment and formality. Where informality is viewed as a better outcome than unemployment, then the transition from unemployment to informality should be encouraged. There were, though, differences in opinion as to the desirability of this latter type of transition, with some participants stating a strong preference for transitions to formality—whether from informality or unemployment—and for decent jobs, and an aversion for any transition into informality. In the context of high unemployment, however, Guillermo Perry made the point that we should distinguish between societal longer-term goals (such as formal employment), from the smaller incremental steps on the road to achieving these goals. In other words, while informality may be a demonstrably inferior outcome to formality, it may be only one step along the path from unemployment to formality. The key here is to ensure that each new policy or policy reform takes us closer to achieving these goals.

The transition from unemployment to informality is, though, not always straightforward. Although the informal sector is typically considered a sector where entry and exit is easy, there are often barriers to entry in reality. Barriers to entering the informal sector are, then, manifested in high levels of unemployment. These barriers may vary from issues such as access to credit, premises or services, to issues of crime or perceptions of community members. While policy interventions for some of these barriers may be simple and relatively easy to implement, others may have very long lags or may require various coordinated cross-cutting interventions in order to achieve results.

A second possibility for facilitating the process of informal workers and firms benefiting from economic growth lies in the strengthening of mutually beneficial linkages between the formal and the informal economies. **Formal-informal linkages** may be an effective means of stimulating the informal economy by tying informal firms into formal supply chains, progressively building skills, networks and markets, for example, improving conditions and benefits for workers, and gradually drawing informal firms into the formal economy. There are, though, important challenges around developing formal-informal linkages. One participant noted the requirement for a change in mind-set amongst formal businesses, citing the unwillingness of many formal firms to engage with informal firms (the particular example used was the high-end service sector). This may suggest scope for policy that aimed to encourage such linkages. Similarly, government itself may need to consider ways in which it may be able to relax requirements for firms to allow them to do business with the state. It was also noted that not all linkages are necessarily benefiting informal firms or workers: cited examples typically describe how informal firms supply formal firms (e.g. laundry services in India), but in South Africa formal firms typically fulfil the role of supplier. This dynamic was argued to have far fewer beneficial impacts for informal firms and workers.

Related to this, the research finding that large numbers of cross-border migrants come to South African cities to source stock for their businesses in other Southern African countries was met with great interest from local government representatives, who viewed this type of activity as presenting important economic opportunities for their cities.

The relationship between the formal and informal economies is complex and challenging to successfully negotiate. This challenge is particularly keenly felt at the local government level and representatives of local government shared with us some of their experiences. Local governments in South Africa grapple with the challenge of making urban economies more inclusive of informal activities within the inherited apartheid **spatial** context. The policy of opening up formal business areas to informal traders, for example, creates both opportunities for the informal economy as well as challenges for formal businesses and local government. Various views were expressed as to the

desirability of allowing informal street traders to compete side by side with formal retailers, or of creating spaces within formal malls for informal trading, for example. Similarly, there was a call for more creative spatial planning, particularly within informal settlements and townships, from local governments in order to create environments conducive to establishing and growing thriving enterprises.

An important concern expressed during the summit revolved around **social protection** and the challenge posed by informality in ensuring appropriate coverage. As one participant noted, we should not pursue formality for formality's sake, but rather because of the benefits it provides to workers, firms and society generally. For workers, one of the key benefits of formality relates to coverage of social protection programmes. A particular lesson for sub-Saharan African countries offered by Latin American participants was to design more flexible programmes that account for mobility of labour between formal and informal sectors, as well as for the fact that many workers may work for long periods within the informal sector. Further, policymakers should avoid the excessive bundling of benefits to ensure that workers do not opt out because they do not value particular benefits. Finally, policy should ensure that the appropriate incentives are in place; for example, subsidising health insurance for informal workers may create incentives for workers to opt out of the formal sector. Since many sub-Saharan African countries are still in the early stages of establishing comprehensive systems of social protection, these are key lessons from the Latin American experience.

Related to the concerns around social protection is the phenomenon of labour brokers and the '**informalisation**' of workers despite them working in 'formal' jobs. This is a challenge also experienced in Latin America, with the policy response in Colombia being to require part-time contracts to be compliant in terms of social protection. As noted by one of the participants, the dynamics may be different for firms and for workers and, given the scarcity of paid work and the resulting uneven power relationships, workers are often informalised against their will.

Finally, at various points in the discussion the issue of data was raised, both in terms of problems of comparability across countries as well as the simple **lack of data**. The latter is a particular problem within sub-Saharan Africa and has significant implications for the ability of governments to make evidence-based policy. In many contexts, we do not properly understand the motivations of workers or of consumers, and we do not fully appreciate the binding constraints facing informal firms. We also do not properly understand the process of labour market transitions due to the general lack of panel data, as noted by Valodia. Governments in the region must, therefore, provide the appropriate support for the collection of good quality data and, in particular, help ensure that such data is broadly available for research. At the same time, there is a need to strengthen capacity within governments to interrogate data and research and to formulate policy based on robust evidence. The lack of data also manifests itself at the local level where, it can be argued, the need for data may be the most pressing. Thus, several local government representatives affirmed the need for better information on individuals active within local informal economies.

Appendix

A1. Summit Programme & Agenda



ELLA Summit on Informality and Inclusive Growth

Johannesburg

4th & 5th October 2016

| DAY ONE: 4th October | | |
|----------------------|--|---------------------------------------|
| 9:15 – 9:30 | Welcome | Haroon Borhat |
| 9:30 – 10:30 | Opening Address | Alan Hirsch (tbc) |
| 10:30 – 11:00 | Coffee | |
| 11:00 – 11:30 | Informality and Inclusive Growth | Morne Oosthuizen |
| 11:30 – 12:00 | Taxonomy of Informality in Colombia and South Africa | Leonardo Villar |
| 12:00 – 12:10 | Comments | Guillermo Perry |
| 12:10 – 13:00 | Open discussion | |
| 13:00 – 14:15 | Lunch | |
| 14:15 – 14:40 | Informality in Africa and Latin America | Kezia Lilenstein |
| 14:40 – 15:10 | Informality in Latin America | Guillermo Perry |
| 15:10 – 15:40 | Coffee | |
| 15:40 – 16:05 | Informality in Sub-Saharan Africa | Imraan Valodia |
| 16:05 – 16:15 | Comments | Angel Melguizo |
| 16:15 – 17:00 | Open discussion | |
| 19:00 | Dinner | |
| DAY TWO: 5th October | | |
| 09:30 – 10:00 | The Impact on Informality of Reducing Labour Taxes in Colombia | Cristina Fernandez |
| 10:00 – 10:30 | Informality in Latin America: Taxes and beyond | Angel Melguizo |
| 10:30 – 11:00 | Open discussion | |
| 11:00 – 11:30 | Coffee | |
| 11:30 – 11:50 | TBC (Informality in Gauteng) | Gauteng City Region Observatory (TBC) |



| | | |
|---------------|---|------------------|
| 11:50 – 12:10 | TBC (Social Spatial Research in Delft) | Andrew Charman |
| 12:10 – 13:00 | Open discussion | |
| 13:00 – 14:15 | Lunch | |
| 14:15 – 15:15 | Open discussion on lessons for policymaking | |
| 15:15 – 15:30 | Wrap Up | Morné Oosthuizen |

A2. List of Attendees

| # | Name | Institution |
|----|-----------------------|--|
| 1 | Aalia Cassim | National Treasury |
| 2 | Abrahams Mutedi | Department of Labour |
| 3 | Alejandra Campero | National Treasury |
| 4 | Andrew Charman | Sustainable Livelihoods Foundation (SLF) |
| 5 | Angel Melguizo | OECD's Development Center |
| 6 | Ashraf Adam | South African Local Government Association |
| 7 | Carli Bunding-Venter | World Bank |
| 8 | Charles Parkerson | South African Local Government Association |
| 9 | Chris Rooney | Development Policy Research Unit |
| 10 | Clement Mulamba | National Treasury |
| 11 | Cristina Fernandez | Fedesarrollo |
| 12 | David Francis | WITS University |
| 13 | Dumisani Mzila | KZN Economic Department |
| 14 | George Mutasa | KZN Dept of Economic Development |
| 15 | Guillermo Perry | Universidad de los Andes |
| 16 | Hameda Deedat | Naledi |
| 17 | Hannah Diaz | GSDPP, University of Cape Town |
| 18 | Haroon Bhorat | Development Policy Research Unit |
| 19 | Hilary Joseph | City of Cape Town |
| 20 | Ian Macun | Department of Labour |
| 21 | Imraan Valodia | University of the Witwatersrand |
| 22 | Kate Philip | Government Technical Advisory Centre, National Treasury |
| 23 | Kezia Lilenstein | Development Policy Research Unit |
| 24 | Kirsten Pearson | Government Technical Advisory Centre, National Treasury |
| 25 | Leonardo Villar Gomez | Fedesarrollo |
| 26 | Lisa Higginson | Urban Econ |
| 27 | Martin Luther Munu | Economic Policy Research Centre (EPRC) |
| 28 | Masingita Khandhela | eThekweni Municipality |
| 29 | Morne Oosthuizen | Development Policy Research Unit |
| 30 | Muhammad Usman | Centre for Renewable Energy and Action on Climate Change |
| 31 | Namugaya Kisuule | City of Tshwane |
| 32 | Nonsikelelo Nyembe | Saldanha Bay Municipality |
| 33 | Olusegun Ogunleye | University of the Witwatersrand |
| 34 | Peliwe Lolwana | University of the Witwatersrand |
| 35 | Rudi Dicks | DPME |
| 36 | Sally Peberdy | WITS/GCRO |
| 37 | Sanele Ngubane | KZN Economic Department |
| 38 | Sibongile Nkomana | Centre for Development and Enterprise |
| 39 | Simangele Nkwinika | City of Tshwane: Office of the Executive Mayor |
| 40 | Simon Mukwaya | LEA |
| 41 | Siphelele Ngobese | SA Cities |
| 42 | Sophie McManus | Open Data Durban |
| 43 | Thabani Madlala | TIPS (Trade & Industrial Policy Strategies) |
| 44 | Thabisile Mkhize | Saldanha Bay Municipality |
| 45 | Therese Karger-Lerchl | National Treasury |
| 46 | Timothy Page | City of Cape Town |

A3. Audio recordings

Please visit the event page on the DPRU website to find audio recordings of the event.