

Rethinking the Effect of Informality on Inclusive Growth: Latin America and sub-Saharan Africa

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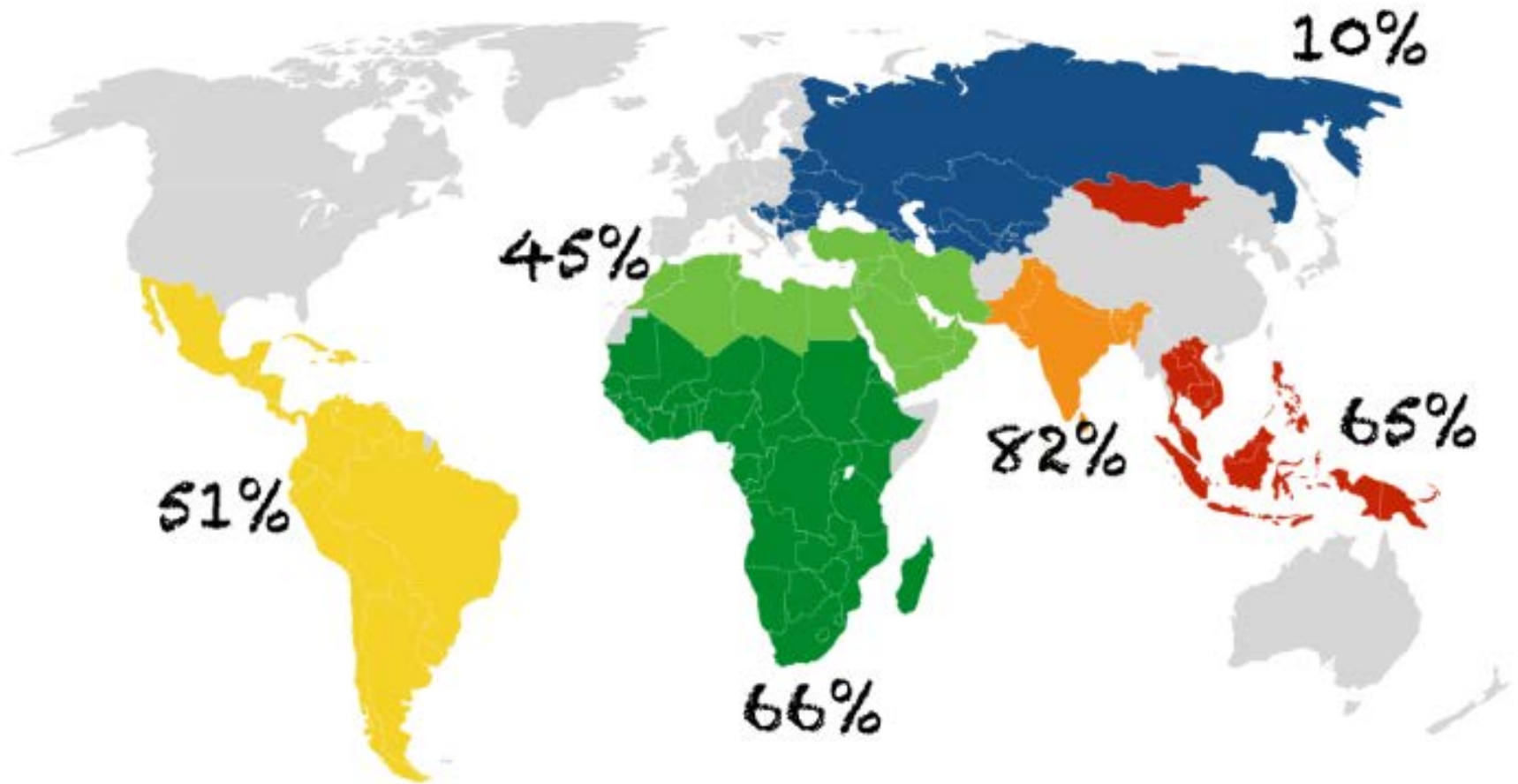
Recap: Typology of Informality

- 1. Voluntary:** have a preferences for working in the informal labour market due to benefits of informality.
- 2. Subsistence:** don't have a preference for informality but they don't have the skills to produce in the formal labour market.
- 3. Induced:** don't have a preference for informality and productivity is comparable to formal workers but are prevented from entering due to barriers to formality.

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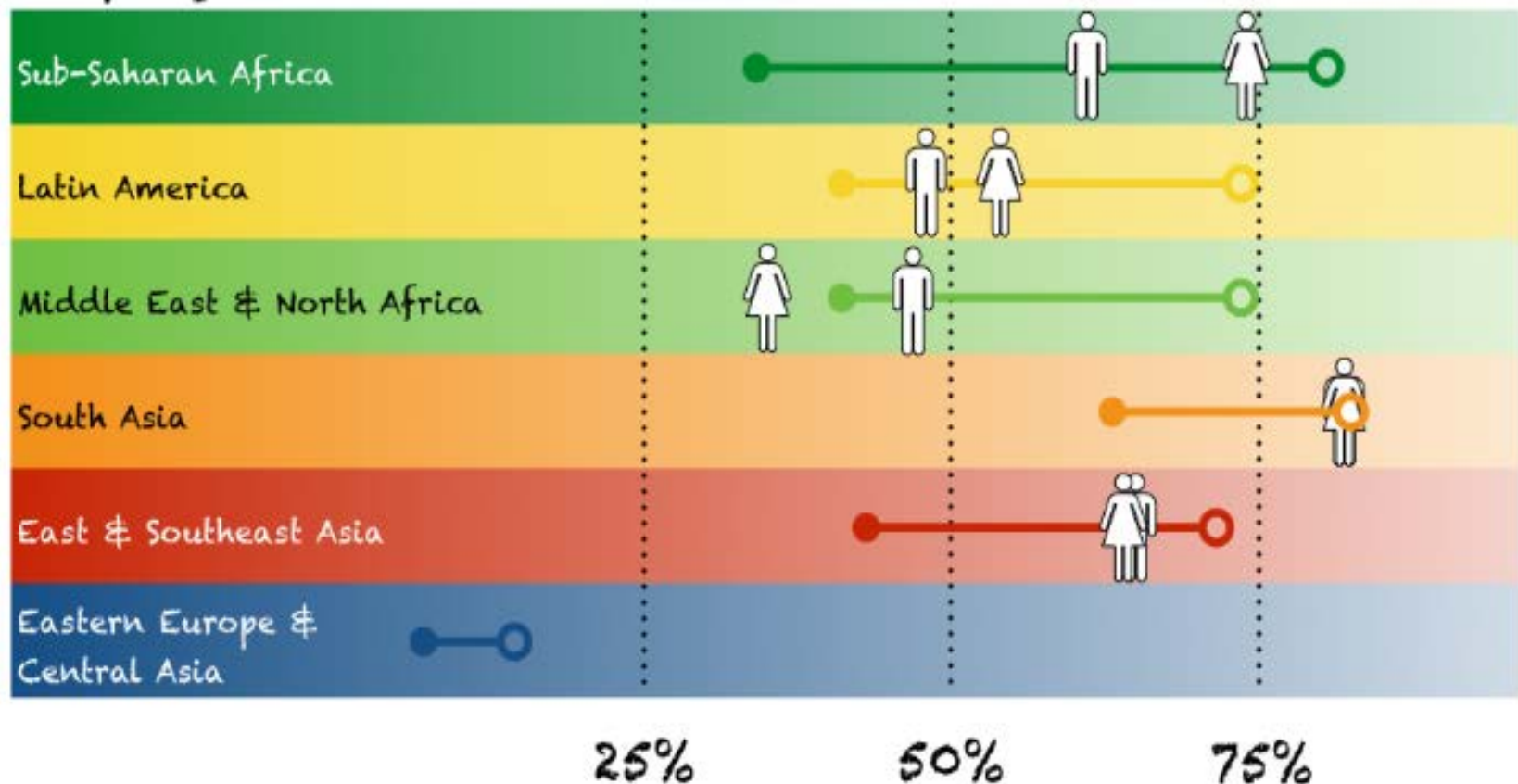
- 1. Overview**
2. Preferences for Informality
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4. Summing Up

INFORMALITY AROUND THE WORLD



Informality by Region

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



Inclusive Growth by Region

- Latin American countries typically in **medium** ranges of IG:
 - **Medium-high:** Mexico & Uruguay
 - **Medium:** Brazil, Chile, Ecuador, El Salvador, Paraguay & Peru
 - **Medium-low:** Bolivia, Colombia, the Dominican Republic & Panama
- Data for Africa is harder to find.
 - **Low:** South Africa and Ghana
 - **Not inclusive:** Ethiopia, Madagascar, Kenya, Uganda and Zambia

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Surveys

Workers find substitutes for the protection or services offered by formal institutions, or are willing to trade formal protections off for another dimension of job quality (Maloney, 2004).

- **Sub-Saharan Africa:**
 - Very little available information
 - Impossibility of finding wage employment was main reason for entering informal sector in Tanzania and the Republic of Congo (Benjamin & Mbaye, 2014)
- **Latin America:**
 - Percent of informal who would prefer formal job: 60% in Colombia, 57% in Argentina, 48% in Bolivia and 43% in the Dominican Republic (Arias & Bustelo, 2007; Arias et al., 2007).
 - Mexico: only 12% of males, 6% of females were informally self-employed because they couldn't find a job in the formal market (Perry, 2007).

Counter or Pro-cyclical

- **Sub-Saharan Africa:**

- Limited information, evidence of some counter-cyclical in Zambia, Mauritius in the last 15 years and in Zimbabwe in the 1990s (Daniels, 2003).
- In Senegal: informal sector absorbed jobs lost from the industrial sector between 1994 & 2001 (Lindauer & Velenchik, 2002).

- **Latin America:**

- Mexico & Brazil: informal employment doesn't behave as a substitute for unemployment, pro-cyclical in Mexico (Bosch & Maloney, 2008).
- Counter-cyclical: Colombia, Chile, Uruguay & Venezuela. No clear relationship for other countries (Tornarolli et al., 2014).

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Implicit Barriers (1 of 2)

- **Ethnicity:**

- **Latin America:** Countries with large indigenous populations have higher informality rates, but no bias against immigrants found (Tokman, 2008). In Brazil races other than Whites have higher informality rates (Fairris & Jonasson, 2016). In Colombia there is high informality among ethnic minorities (Bernal, 2009).
- **Sub-Saharan Africa:** Little information on countries other than SA. In Tanzania in 1980 Asians earned more than Africans in the private sector. (Armitage & Sabot, 1991). In seven West African countries, majority ethnic groups do not seem to be advantaged (Nordman et al., 2011).

Implicit Barriers (2 of 2)

- **Gender:**
 - **Latin America:** 50% females and 45% males informally employed (Vanek et al., 2014).
 - **Sub-Saharan Africa:** 74% females and 61% males informally employed (Vanek et al., 2014).
- **BUT this is not necessarily bad, if more females prefer to be informal!**
 - In Mexico and Brazil women show a higher preference for informal work.
 - Therefore, not easy to establish if high rates of female informality is due to labour market segregation or preferences.

Explicit Barriers (1 of 2)

- **Payroll Taxes:**

- Labour taxes as % of profits not particularly high in Latin America (14%), or in sub-Saharan Africa (16%) when compared with the global average (16%) and low compared to OECD members (24%).
- **Latin America:** Very high in Brazil, Costa Rica & Argentina; High in Mexico; Medium-high in Bolivia & Colombia; Very low in Chile
- **Sub-Saharan Africa:** High in Senegal & Cote d'Ivoire; Medium-high in Sudan, Cameroon & Tanzania; Very low in SA & Kenya

Explicit Barriers (2 of 2)

- **Minimum Wages**
- *Using ratio of minimum wage to value added per worker:*
 - **Latin America:** High in Guatemala, not particularly high in Colombia & Perú.
 - **Sub-Saharan Africa:** High in Zimbabwe, Kenya, Zambia & Rep. of Congo.
 - **However** this doesn't capture how binding the minimum wage is for poorly educated workers.
- **How the minimum wage is set is also important:**
 - European countries that set the minimum wage at a national level tend to have higher rates of informality (Hazans, 2011)
 - In cases like Mexico, high payroll taxes are compensated for by a very low minimum wage.

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Overall...

- **High degree of heterogeneity in the regions, tentatively:**
 - Mexico shows more **voluntary** informality.
 - Argentina, Senegal, Paraguay, the Republic of the Congo, Bolivia, Zimbabwe, Cote d'Ivoire & Brazil show evidence of **induced** informality.
 - Burundi, Namibia & South Africa should have high **subsistence** informality if we argue countries that with evidence of involuntary informality coupled with low evidence of barriers to formality should have a high share of subsistence informality.

Conclusions

- **Hopefully** we provided some tools for individuals to complete this analysis in their own countries
- Informality is NB for **absorbing** people into labour market in many countries.
- **SA:** main barrier to formality is based on ethnicity, otherwise low barriers compared to other countries in the region.
- Generally **limited** data/literature in African countries.

Thank you