

## (Re)conceptualizing poverty and informal employment

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### Context

This paper aims to address the dominant narrative that informal employment is comprised of low paid and unproductive work. This is not to deny that working poverty is the reality for many informal workers or that, of the roughly 839 million working poor in the developing world that survive on less than \$2/day, about 80% are in the informal sector (ILO, 2016). However, the poverty narrative ignores what this income provides daily to working individuals and families. It also reinforces the dualist conceptualisation of the informal economy as a backwards sector which is delinked from the ‘modern’ formal sector. The conventional poverty approach therefore frames the informal sector as a problem to be solved rather than as a critical source of household income.

A better understanding of role of informal employment in actually *reducing* poverty – rather than perpetuating it – could influence a new generation of policies that recognize and support the role of earnings from informal employment in the households of the working poor. This is an important consideration since progress in reducing working poverty (that is, poverty among the employed), particularly in developing countries, has stalled over the past five years (ILO, 2016). There will, therefore, come a point when addressing poverty in the informal economy will need to receive more attention from countries as they strive to meet their poverty reduction targets.

### The informal economy and working poverty in South Africa

To explore the potential for measuring the link between informal employment and poverty *reduction*, we (see Cichello and Rogan 2017) undertook an analysis of household survey data from South Africa. A cursory analysis of household income data as typically measured from income and expenditure surveys can be deceiving. Absolute levels of earnings simply reflect the fact that individual earnings and household incomes are often very low in the informal economy. Without contextualizing the impact of these earnings, a first glance at the distribution of household income in South Africa shows that the vast majority (57% of all household income) is attributed to “formal” earnings and relatively little income flows into households from government transfers and informal employment, 7% and 9%, respectively.

However, when considering the impact of this income on keeping households out of poverty or at least closer to the poverty line, we highlight three findings from the South African case study:

- 1) While formal earnings are still the single largest factor in reducing poverty, government transfers and **earnings from informal employment are actually more important to poverty reduction relative to their overall share of household income**. For example, while only 9% of household income comes from social grants, 14% of that household

income which currently keeps households above the poverty line comes from informal employment. This is an important finding for policymakers, because it highlights the role that earnings from the informal economy contribute both to households and to poverty reduction at the national level.

- 2) The **‘per job’ impact of informal jobs on overall poverty reduction is relatively high.** Despite significantly lower incomes in the informal economy, the earnings of a typical self-employed worker in South Africa have 63% of the poverty-reducing impact, at the extreme poverty line, compared with earnings from a formal sector job. Put differently, eliminating 100 informal self-employment activities, as some government policies have sought to do in order to discourage “illegal trading” would drive as many households into extreme poverty as eliminating 63 formal jobs. It is precisely these types of stark comparisons that are made possible when the focus is switched to the contribution of informal employment to poverty **reduction**.
  
- 3) There is also **substantial variation in poverty reduction within the informal economy.** Informal employees and domestic workers have a “per job” impact on poverty reduction which is even closer to a formal job (81% and 85%, respectively). In other words, eliminating these jobs is almost the same as eliminating formal jobs. So it is the ability of these types of employment, despite their low earnings and difficult working conditions, to keep households out of poverty that makes their contributions so significant.

### **(Re)conceptualizing poverty and informal employment?**

One conclusion from the analysis of South African earnings data is that, if governments are serious about reducing working poverty in developing countries, then protecting the earnings and working conditions of workers in the informal economy should be a priority.

Without analyses that highlight the role of informal employment in reducing poverty, the perception will remain that informal employment is not a viable solution to poverty reduction because it is, by nature, low paid and does not offer social and legal protection. However, if policy makers understand the importance of earnings from informal employment to keeping many workers and their households out of poverty, policies concerned with informal employment may look quite different. Measuring the contribution of informal earnings towards national development goals such as the poverty headcount, is one way to make connection more tangible and relevant to policy.

Data constraints are a key problem, however, since many countries do not capture data on total household income (in order to measure income poverty) and status in employment (e.g. from Labour Force Surveys) in the same national survey. A clear recommendation which stems from this research is that, as countries work towards developing comparable indicators of working

poverty (Ostermeier, Linde, Lay, & Prediger, 2015), they should also strive to collect data that highlights the impact of informal employment on national poverty rates.

Notwithstanding these existing data constraints, reducing working poverty in the informal economy is directly related to meeting three of the Sustainable Development Goals (SDGs)<sup>1</sup>. Since working poverty is a central feature of overall income poverty in most developing countries, the goals of reducing income poverty (SDG 1) and achieving decent work for all (SDG 8) cannot be met without addressing the challenges faced by informal workers in pursuing their livelihoods. Moreover, since women who work are more likely than men to work in informal employment and in jobs which are the most vulnerable (ILO, 2013), protecting earnings in the informal economy is a crucial strategy to achieve gender equality (SDG 5).

### **References:**

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Ostermeier, Martin, Linde, Sarah, Lay, Jann, & Prediger, Sebastian. (2015). SMARTer indicators for decent work in a post-2015 development agenda: a discussion and a proposal *GIGA Working Paper No. 266*. Hamburg: German Institute of Global and Area Studies.

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<sup>1</sup> <http://www.undp.org/content/undp/en/home/sustainable-development-goals/>