

# **GOOD JOBS, BAD JOBS, NO JOBS**

**Labor Markets and Informal Work  
in Egypt, El Salvador, India,  
Russia, and South Africa**



Tony Avirgan, L. Josh Bivens & Sarah Gammage, eds.

**Global Policy Network**  

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**ECONOMIC POLICY INSTITUTE**

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# About the Global Policy Network

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The Global Policy Network (GPN) consists of labor-oriented think tanks and researchers around the world. GPN's work reflects a concern with the economic, social, and political conditions of working people in both developing and developed nations. The network's purpose is to exchange information and research among its member organizations, facilitate coordinated analysis of common issues, and provide information to others on the state of working people in the global economy. Through these activities, GPN enhances the capacity among NGOs, trade unions, and other grassroots groups in less-developed nations for independent economic analysis from the point of view of workers – the vast majority of their people.

The GPN was formed out of concern for how globalization can bring great benefits to global income and economic development. The organizations involved with GPN are committed to building a fair, prosperous, and sustainable economy for all of the world's people to share. Five think tanks comprise the Steering Committee that governs the network.

DIEESE	Inter Trade Union Department of Statistics and Socio-Economic Studies (São Paulo, Brazil)
EPI	Economic Policy Institute (Washington, D.C., USA)
FAFO	Institute for Applied Science (Oslo, Norway)
NALEDI	National Labour and Economic Development Institute (Johannesburg, South Africa)
KLSI	Korean Labor Studies Institute (Seoul, Korea)

The Steering Committee selected EPI to serve as Secretariat of the GPN, coordinating the initial organization and on-going activities of the network. EPI's efforts on behalf of GPN contributed to the creation of a new network that now works with more than 50 participants, most of which are existing or emerging think tanks. More than half are based in developing countries.

# About EPI

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**The Economic Policy Institute** was founded in 1986 to widen the debate about policies to achieve healthy economic growth, prosperity, and opportunity.

In the United States today, inequality in wealth, wages, and income remains historically high. Expanding global competition, changes in the nature of work, and rapid technological advances are altering economic reality. Yet many of our policies, attitudes, and institutions are based on assumptions that no longer reflect real world conditions.

With the support of leaders from labor, business, and the foundation world, the Institute has sponsored research and public discussion of a wide variety of topics: trade and fiscal policies; trends in wages, incomes, and prices; education; the causes of the productivity slowdown; labor market problems; rural and urban policies; inflation; state-level economic development strategies; comparative international economic performance; and studies of the overall health of the U.S. manufacturing sector and of specific key industries.

The Institute works with a growing network of innovative economists and other social science researchers in universities and research centers in the U.S. and abroad who are willing to go beyond the conventional wisdom in considering strategies for public policy.

Founding scholars of the Institute include Jeff Faux, distinguished fellow and former president of EPI; Lester Thurow, Sloan School of Management, MIT; Ray Marshall, former U.S. secretary of labor, professor at the LBJ School of Public Affairs, University of Texas; Barry Bluestone, Northeastern University; Robert Reich, former U.S. secretary of labor; and Robert Kuttner, author, editor of *The American Prospect*, and columnist for *Business Week* and the Washington Post Writers Group.

For additional information about the Institute, contact EPI at 1660 L Street NW, Suite 1200, Washington, DC 20036, (202) 775-8810, or visit [www.epinet.org](http://www.epinet.org).

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# Origins of the GPN workforce development study

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There is an increasing interest in how the process of globalization affects the economic, civic, and educational conditions of disadvantaged communities around the world. Concerns have arisen about globalization and its attendant impact on labor markets and employment standards, and there are questions about the appropriate roles of regulatory organizations. There has been particular interest in understanding the broader forces and processes that are prompting a shift in the terms and conditions of employment and contributing to changes in formal and informal employment. These changes to the labor market are particularly troublesome because they appear to undermine the earning power of less-skilled workers and erode the power of workers generally.

In late 2002, the Global Policy Network (GPN) was contacted by the Assets program of the Ford Foundation, which wanted to explore the feasibility of a multi-country study examining these various issues. Both Ford and GPN wanted countries that represented diversity in geographical location, size, and stage of development. A process of consultation resulted in the selection of Egypt, El Salvador, India, Russia, and South Africa.

Two researchers from each of the five countries meet with labor market and gender experts in early 2003. Participants in the three-day meeting collectively created a research template and methodology for the study of workforce development in the selected countries. The research was conducted primarily during the second half of 2003 and the first half of 2004.

During the second half of 2004, there was a series of “dissemination meetings” held in the capital of each of the participating countries. Representatives of government, trade unions, academic institutions, and non-governmental organizations met to review the data and discuss the policy implications of the research. Following the meetings, the studies were further modified and then prepared for publication by the research and publications departments at the Economic Policy Institute.

The result of these efforts is the five studies presented in this volume. Each chapter examines the labor market in a particular country, with a specific emphasis on the informal economy. A second phase of the workforce development project, planned for 2005, will look at other factors that destroy or create good jobs. These areas of study will include, but not be limited to, trade, privatization, labor market liberalization, and child labor.

The continuing workforce development research will be periodically updated at the Global Policy Network’s Web site, [www.GPN.org](http://www.GPN.org).



# Will better workers lead to better jobs in the developing world?

By *L. Josh Bivens and Sarah Gammage*<sup>1</sup>

Nobody doubts the significance of informal employment in the developing world. When workers cannot find opportunities in traditional wage employment, the need for subsistence demands they find work somewhere else. Much of what accounts for “informal” employment is familiar even to the most casual observers: street vendors and shoeshine workers in the large cities of the developing world, for example. Other informal employment situations are a less visible feature of an economy’s landscape, like home-based garment assembly and manufacturing or industrial waste recycling.

There are a number of reasons to be concerned about the existence and persistence of informal employment in the developing world. Such employment is often characterized by poor working conditions, both in terms of remuneration and the existence and/or enforcement of basic labor standards. Further, informal employment can leave too many workers frozen out of the networks they need to access to insert themselves higher up in the global value chains that their labor so often serves. Carr, Chen, and Tate (2000) demonstrate how home-based production can leave workers with insufficient information and bargaining power to claim the economic rents that globalization makes increasingly available to employers and contractors, concentrating them instead in the hands of local middlemen and transnational corporations.

Improving the economic position of informal workers is thus a powerful potential lever for raising living standards and reducing poverty in the developing world. Understanding the extent, characteristics, and dynamics of informal employment is a crucial first step in this process. To this end, the five country studies that make up this volume make an important contribution, both in benchmarking how informal employ-

ment should be measured and in identifying the opportunities within each country for useful policy changes.

While each of these studies attests to the importance of informal employment to each nation's economy, there is striking heterogeneity in the form and dynamics of these employment arrangements across countries. Nevertheless, one of the overarching themes to emerge from these studies is the importance of detailed, country-specific analyses, both of the reality of informal employment and the optimal policy responses. In short, although this volume does offer an analysis of informal work in five countries and an introduction to theories of informal work situations, it is not meant as a solution to the ongoing academic debates regarding a general theory of informal employment (although it is not wholly silent on this issue, either).

That said, a few common findings emerge from these studies. First, informal employment is not caused solely by a lack of good workers; rather, it is largely driven by a lack of good jobs. While expanded education is a pressing need in the developing world, the lack of qualified workers does not lie behind the persistence and/or expansion of the informal economy that has characterized many of these countries' labor markets. Second, the most simplistic theory motivating the existence of informal employment, the "*lack of growth*" hypothesis, does not seem to find much compelling support from these studies. In many countries, it appears that the informal sector is growing more rapidly than the formal sector. Much like education, faster economic growth is a badly needed tonic for the developing world, but it is not the sole impetus for more formal employment, and provides only a necessary, and not a sufficient, basis for the expansions of opportunities for informal workers.

## **Background**

### ***The causes of informality***

There are a range of theories offered to account for the existence and persistence of informal employment. Chen, Sebstad, and O'Connell (1999) identify four overarching (or macro) theories of informality. The first, mentioned above, is the *lack of growth* hypothesis. This theory assumes that growth in gross domestic product (GDP) will automatically lead to a growing share of formal employment (World Bank 1995). A failure to see a large rise in the formal sector's share of employment

thus becomes only a symptom of the larger malady—slow economic growth. It should be noted that, depending on the strictness of the definition of informality, this theory borders on tautology. Swaminathan (1991, p. 1) points to some distinctive features of activity in the informal sector:

What these activities appear to have in common is a mode of organization different from the unit of production most familiar in economic theory, the firm or corporation. These activities are also likely to be unregulated by the state and *excluded from standard economic accounts of national income.* (italics added)

Although many informal activities are captured in the national accounts as economic transactions, some will not be measured or registered. This is particularly true for household enterprises. Where informal production and exchange go unmeasured, their contribution to economic growth also goes uncounted. Hence, by definition, an expanding formal sector will lead to higher (measured) GDP.

A second theory as to the causes of informality is the *jobless growth* theory (UNDP 1993). This theory can be thought of as the first derivative of the lack of growth theory: increased formalization requires not just *positive* economic growth, but economic growth *well in excess of the underlying rate of productivity growth*, to absorb workers into the formal economy.

In a different vein, a third theory points to a more benign driver of informality: growth in the small-enterprise sector (sometimes referred to as the *growth from below* theory). This theory posits that small enterprises, often by dint of greater flexibility and freedom from regulation, have managed to expand more rapidly than larger scale enterprises.

Lastly, the *structural change* (or *period of adjustment*) theory asserts that informality is essentially a layover between formal employment in different sectors. As economies change over time (by decreasing the agricultural share and increasing the industrial share, for example), the adjustment period between the expanding sector absorbing workers and the declining sector shedding them asserts itself as a period of informality.

A number of other authors have identified a range of region-specific theories regarding informality. Portes (1989), for example, has ar-

gued that rising informality in Latin America is a remnant of the import-substitution policies pursued from the 1950s through the 1970s, which caused a shift to more decentralized production that characterized these economies after the debt crisis and adoption of neo-liberal policies in the 1980s.

These theories and their variants inform the findings of the five country studies in this volume, as well as the discussions relating to the role of policy in influencing informalization.

### ***Informalization: A taxonomy***

These divergent theories can be used to construct a taxonomy of contexts and processes within which to place different episodes of informalization. The experiences of different countries could theoretically fit into any one of these categories; these are not meant to be macro theories about (in)formalization, but frameworks for understanding how (in)formalization is proceeding in a specific country. Further, none of these classifications are mutually exclusive explanations for a particular country's experiences with informalization.

**Dualist:** Informal employment is a feature of precapitalist societies that can exist side-by-side with capitalist production for extended periods of time. As economies modernize, informal employment will atrophy and eventually fade away.

**Structuralist:** Informal employment is the outcome of a capitalist process that conspires to keep labor costs low. Key policy issues relate to increasing the bargaining power of informal workers through enforcement of labor standards, unionization, labor market regulation, and expansionary macroeconomic policies.

**Legalist:** Informal employment is not necessarily a symptom of degraded quality of employment, but is a consequence of entrepreneurs striving to escape burdensome regulation and/or official corruption associated with the formal sector.<sup>2</sup> The accompanying policy response addresses the product market: promoting more transparent and enforceable property rights (land titling, for example) and reforming the tax and transfer system.

## The case studies

This volume consists of five country studies that attempt to provide a solid foundation for understanding the extent, causes, and consequences of informalization, with the explicit goal of providing information and recommendations to policy makers. Each of the studies' authors was asked to do the following:

- Identify and document changes over time in the nature of work in informal and formal employment;
- Explore the skills and worker characteristics of individuals employed in informal and formal jobs, where possible differentiating workers by gender, age, race, urban or rural location, and job tenure;
- Develop a consistent measure of skills differences and the potential mismatch between the formal and informal employment; and
- Document observed changes over time in the terms and conditions of employment, paying particular attention to benefits such as pensions, health care, vacations, and training.

In addition to providing a platform from which to examine workforce development policies, the research highlights and analyzes the broader processes prompting changes in the terms and conditions of employment or contributing to changes in formal and informal employment. In particular, we wish to explore processes (including government policies) that may contribute to the degradation of work and stimulate an expansion of the informal sector and informal employment.

### *Methodology*

This study was undertaken with the goal of analyzing formal and informal labor markets and exploring whether policies can be developed that: 1) improve the terms and conditions of informal employment which manifest as degraded pay, poor working conditions, or limited prospects for advance; 2) raise worker productivity; and 3) improve the terms and conditions of employment in all sectors. Explicit attention is paid to *active labor market policies* and their relevance for particular groups that may be disproportionately vulnerable to or confined to informal employment, such as youth, women, and displaced rural workers.

Active labor market policies (ALMPs) are policies aimed at reducing labor market rigidities or failures, as well as at preventing the degradation of the situation of various targeted groups such as the less educated, youth, and minority groups. ALMPs can generally be subdivided into three categories: training, direct job creation or subsidies, and improved job matching.

For example, programs such as Project QUEST in San Antonio, New Mexico exemplify active labor market policies that focus on training and job matching in developed country contexts (Rademacher et al. 2001). Project QUEST provides training for numerous occupations within multiple industries and intervenes to reduce the cost of employee recruitment and turnover. Similar programs such as those initiated under the auspices of the Garment Industry Development Corporation in New York provide training services for workers as well as technical and marketing assistance to businesses to increase worker retention and reduce the loss of jobs (Conway and Loker 1999). These programs have been successful in retraining displaced workers and securing matches with employers. But to what extent do such programs offer relevant or useful guidelines for labor markets where informal employment exceeds formal employment and where worker skills might be limited by a poorly functioning and degraded education system? Similarly, what might be the role for other labor market intermediaries such as unions in creating and sustaining good jobs?<sup>3</sup> The studies in this volume attempt to review the context in which ALMPs will operate and explore how they may need to be refined to address the existence of dual or highly segmented formal and informal labor markets in developing countries.

Among the contributions of the studies in this volume is a serious attempt to empirically measure the expanded definitions of informal employment identified by the International Labour Organization (ILO). In the past, many studies examining this issue have restricted their attention to the informal *sector*. A notable approach in this volume is the examination of not only informal sector employment but also informal jobs within the formal sector, including in the public sector.

The five studies collected here explore a variety of different definitions of informality, departing sharply from the conventional definition of the informal sector, which is usually limited to workers engaged in production in small or unregulated enterprises with fewer than five to 10 employees.<sup>4</sup>

In recent years, a group of informed activists and researchers, including members of the Women in Informal Employment: Globalizing and Organizing (WIEGO) network, have worked with the ILO to broaden the concept and definition of the “informal sector” to incorporate certain types of informal employment that were not included in the earlier concept and definition (including the official international statistical definition). They seek to incorporate into this new definition the whole of informality—including both commercial and employment relations—manifest in industrialized, transition, and developing economies and reflecting the complex dynamics of contracting in labor markets today, particularly the employment arrangements of the working poor.

These observers have supported the development of a new definition, concept, and terminology that extends the focus from *enterprises* that are not legally regulated to *employment relationships* that are not legally regulated or protected. In brief, their new definition of the “informal economy” focuses on the nature of employment in addition to the characteristics of enterprises. Under this new definition, the informal economy is seen as comprised of all forms of “informal employment”—that is, employment without formal contracts (i.e., covered by labor legislation), worker benefits, or social protection—both inside and outside informal enterprises, including:

- *Self-employment in informal enterprises:* workers in small unregistered or unincorporated enterprises, including employers, own-account operators, and unpaid family workers.
- *Wage employment in informal jobs:* workers without formal contracts, worker benefits or social protection for formal or informal firms, for households, or those employees with no fixed employer, such as employees of informal enterprises; other informal wage workers (for example, casual or day laborers); domestic workers; industrial outworkers, notably home workers; unregistered or undeclared workers; and temporary or part-time workers.

These definitions of informal employment allow us to explore the nature of work and the terms and conditions of employment for those workers lacking contracts and benefits working in either formal or informal enterprises. The expanded definition of the informal economy encompasses all those workers in wage-employment in informal jobs as

well as the self-employed, including unpaid family workers, own-account workers, and employers in informal enterprises.<sup>5</sup> **Table 1** outlines the different categories of informal work arrangements.

Such expanded definitions of informality create a better framework for examining the changing nature of employment in economies where privatization, deregulation, and outsourcing have prompted growth in more tenuous and contingent employment. Furthermore, we are able to chart the numerous relationships and channels by which production and distribution processes are linked within and between the formal and informal economy.

The research template for the five studies included in this volume was designed to provide a structured approach to exploring the nature of formality and informality and the terms and conditions of employment for workers in formal and informal employment.

Traditional analyses of the formal and informal sector may contribute unduly to the belief that there is a discrete partition that separates informal from formal sector work. These five case studies underscore that formality and informality are characteristics on a continuum of employment and production. There are no clean joints along which the formal and informal sector naturally separate.

To determine how the traditional definition of informal and formal sectors can obscure important subtleties, we examine whether workers in the informal sector do in fact receive some of the benefits that are generally attributed to formal employment.

### ***Principal findings***

The key findings from the five country reports (Egypt, El Salvador, India, South Africa, and Russia) attest to the importance of informal employment and the size of the informal economy in each country. While the estimated size of informal employment varies, it is clear that a significant number of all jobs are informal (as shown in **Table 2**).

In Egypt, informal employment was estimated to be 6.5 million, approximately 40% of total employment. In El Salvador, the estimated 1.7 million informal workers represent 69.1% of total employment. In South Africa, 2.7 million workers in the informal economy account for 22.5% of total employment. In Russia, the informal economy was estimated to be populated by 9.5 million workers, or approximately 14.4% of total employment. In India, the 360 million workers in the informal sector represent over 90% of total employment.

**TABLE 1 Categories of informal work arrangements**

Category of informal work	Definition
Informal sector	Own-account workers, unremunerated family workers, domestic servants and individuals working in production units of between 1 and 10 employees.
Informal employment	Informal wage workers and unpaid family workers who may work in the formal or informal sector. These workers are defined as informal if they lack a contract, specific health and pension benefits, and social security coverage.
Informal enterprises	Defined by the nature of regulation in each context: the availability of a license, and the payment of licenses, taxes and fees.
Informal economy	Includes both private informal workers and the informal self-employed as well as employers in informal enterprises.

**TABLE 2 Informal employment as a percentage of total employment in five countries**

	Year	Informal employment (in millions)	Percentage of total employment
Egypt	1998	6.5	40.1%
El Salvador	2002	1.7	69.1
India	1999	360.2	92.1
South Africa <sup>1</sup>	2003	2.3	22.5
Russia <sup>2</sup>	2002	9.5	14.4

<sup>1</sup> Excludes domestic workers. Including domestic workers, these figures rise to 3.2 million workers, or 28% of total employment.

<sup>2</sup> These numbers show employment specifically in the informal sector.

Source: Authors' analysis of chapters two through six.

A small percentage of workers in the informal labor market reported that informal employment was not their primary source of income. The largest such group was found in Russia, where approximately 22% of those working in informal employment held other primary or secondary jobs.

*Sectoral distribution of informality*

All five case studies find that, while informal employment is frequently concentrated in services, there are jobs that lack contracts and benefits throughout the economy. As shown in **Table 3**, informal employment in Egypt is visible in all sectors, with the greatest concentration of informal workers in manufacturing (29%), construction (24%), trade (19%), services (16%), and transport (11%). It is interesting to note that, while the largest numbers of informal workers are clustered in manufacturing, informal employment represents only 48% of all jobs in this sector in Egypt. In construction, however, 82% of all workers are informally employed.

There are distinct sectoral patterns in El Salvador and Russia, where the majority of informal employment is concentrated in retail and petty trade, hotels and restaurants, construction, domestic service, and light manufacturing.

In El Salvador, 33% of all informal employment is found in trade, hotels, and restaurants; 26% in agriculture, livestock, and fishing; 14% in manufacturing; and 6% each in domestic service and construction.

In Russia, 67% of those employed in the informal economy worked in non-agricultural activities. The Russian data reveal that the greatest concentration of informal workers is found in trade, hotels, and restaurants (43%), with another 30% in agriculture, forestry and fishing, 12% in transport, construction, and communications, and 10% in industry.

*Own-account work*

Many of those in the informal sector cluster are essentially small shop-owners or other self-proprietors, whose labor is referred to as own-account work—typically in small and microenterprises. In El Salvador, according to data from 2002, 43% of all those working in any capacity in the informal economy were own-account workers, while only 6% of individuals in formal employment were own-account workers.

In Russia, two-thirds of individuals working in the informal sector were self-employed in small enterprises, 78% of which report having fewer than five employees.<sup>6</sup>

*Education*

It is clear from all five studies that individuals with the least amount of formal education are more likely to find work in informal employment.

**TABLE 3 Distribution of formal and informal employment in Egypt, 1998**

	Male			Female			Total		
	Distribution of informal workers	Distribution of formal workers	Share of all workers in the formal sector	Distribution of informal workers	Distribution of formal workers	Share of all workers in the formal sector	Distribution of informal workers	Distribution of formal workers	Share of all workers in the formal sector
Mining	0.5%	0.5%	62.3%	0.0%	0.0%	0.0%	0.4%	0.4%	62.3%
Mfg.	20.3	28.5	52.6	6.1	30.5	49.5	16.6	28.7	52.3
Electricity	2.8	0.0	100.0	1.0	0.0	100.0	2.3	0.0	100.0
Construction	3.4	25.8	17.2	0.9	2.5	64.0	2.8	23.5	18.3
Trade	4.6	18.2	28.3	2.1	24.6	29.8	4.0	18.8	28.5
Transport	7.3	12.1	48.5	2.7	0.5	96.4	6.1	10.9	51.4
Finance	2.9	1.6	73.8	4.1	5.0	80.0	3.2	1.9	75.7
Services	58.2	13.4	87.1	83.1	37.0	91.6	64.6	15.7	88.6
Total	100.0	100.0		100.0	100.0		100.0	100.0	65.4

Source: El Mahdi and Amer for chapter I (Egypt).

**TABLE 4 Workers by highest level of education and sector in South Africa, 2003**

Highest level of education	Formal workers	Informal workers
None	4.1%	12.3%
Grade 0-3	2.8	7.4
Grade 4-6	8.7	16.8
Grade 7-9	17.4	29.1
Grade 10-12	43.4	29.3
Diploma	12.8	2.4
Degree	8.9	1.2
<b>Total*</b>	98.1	98.5

\* Totals do not add to 100 because of rounding errors and a small portion of the sample whose education levels were not reported.

Source: Adapted from research by Braude in chapter 5 (South Africa).

In South Africa, in particular, the education levels of workers in the formal and informal economy differ dramatically, as shown in **Table 4**. Approximately 16% of workers in the formal economy have completed less than a sixth-grade education while 37% of workers in the informal economy have less than a sixth-grade education. By contrast, nearly 22% of formal economy workers hold a diploma or higher degree, whereas fewer than 4% of informal economy workers have the equivalent level of education. Braude estimates that 95% of all informal economy workers have less than secondary school qualifications, i.e., have not completed through grade 12 (see chapter 5 on South Africa).

A similar picture emerges from the other countries. In 1998 only 6% of all formal workers in Egypt were illiterate, while 30% of all informal workers could not read.

In El Salvador in 2002, 21% of all informal workers had not attended school and had no formal education. Approximately 22% had between one and three years of formal education and a further 25% had between four and six years of education. In total, almost 16% of informal workers had less than a secondary school education. By contrast, in formal employment only 2% of workers lacked any formal education, while 59% had completed secondary school or hold a higher qualifica-

tion. The Salvadoran household survey also defines workers by their skill level according to their occupation. According to the estimates reported in chapter 2, 40% of all workers in the informal economy are unskilled, while only 15% of workers in the formal economy were classified as unskilled. In 2002, 29% of all those in formal employment were defined as professional, scientific, or technical workers—a group which generally has higher levels of educational attainment—while only 3% of all those in informal employment classified as such.

Crucially, however, these studies all agree that while individuals with more formal education are less likely to find themselves working in the informal economy, the acquisition of formal education, even to levels exceeding the average, does not guarantee formal employment. For example, 5% of all wage workers in the informal economy had a university or post-graduate degree in Egypt. In Russia in 2002, almost half those informally employed had at least a high school education. Although only 19% of all workers in the informal economy are categorized as “skilled workers” in the Russian Longitudinal Monitoring Survey, between 10% and 11% of all workers in the informal economy hold a higher degree.

### *Experience*

A number of the case studies compiled here explore the effect of experience on informal work arrangements. Experience was defined as the number of *potential* years in the labor market: i.e., the difference between the current age of the individual and the estimated age of labor market entrance, taking into account the number of years, on average, spent in school. While this is likely to be an imperfect measure of actual experience, it does provide some information about the potential experience that each individual may have in the labor market and affords a basis from which to assess the returns on experience. Further, any measurement error is likely to be attributed equally to workers in the informal and formal economy, allowing for a comparison of these two groups.

In Egypt, El-Mahdi and Amer (chapter 1) find that average levels of experience are higher for both men and women in the formal economy as compared with the informal economy. In 1988, workers in the formal economy had an average of 18.1 years of potential experience, while workers in the informal economy had approximately 14.1 years of potential experience. By 1998, the average level of potential experience

**TABLE 5 Average years of potential experience in formal and informal employment in Egypt, 1988 and 1998**

Experience in years	1988		1998	
	Formal	Informal	Formal	Informal
Males	20.5	15.9	22	15.1
Females	11.2	9.3	15.2	6.2
Total	18.1	14.1	20.3	14.3
Sample size	2,392	1,187	2,933	1,403

Source: El Mahdi and Amer in chapter 1 (Egypt).

for formal-sector employees was 20.3 years as compared with 14.3 potential years of experience in the informal economy (see **Table 5**).

The Russian chapter also explores measures of skill composition and their relationship to job tenure in the formal and informal economy (see **Table 6**). Comparing conventional definitions of the informal *sector* with the expanded definition of informal *employment*, Sinyavskaya and Popova (2004) find that both tenure and experience are greater for workers in formal employment and the formal sector when compared to their informal counterparts. Workers in formal employment report an average length of 10.3 years in their current job, while workers in informal employment report an average of 1.6 years.

### *Hours of work*

All five country studies found that workers in the informal sector work longer hours than those in formal employment. In Egypt in 1998, the average number of hours worked in the informal economy was 51.6 per week, compared to 44.6 hours per week on average worked in the formal economy (see **Table 7**). Although workers in both the formal and informal economy have seen their average work hours rise, growth in the informal sector has been 3.7 times greater.

### *Wages, incomes, and poverty*

The wages and incomes associated with informal employment are much lower than for workers in the formal economy. In El Salvador, 62% of all workers in the informal sector earn less than the monthly minimum wage. Lara calculates the poverty rates of workers in both the informal

**TABLE 6 Length of service and seniority in Russia, 2002<sup>1</sup>**

	Employment		Sector <sup>2</sup>		Total
	Formal	Informal	Formal	Informal	
Average length of service in current job (in years)	10.3	1.6	10.5	2.6	9.5
Average seniority (in years)	21	14	21.1	15.2	20.4

<sup>1</sup> Author's analysis of Russian Longitudinal Monitoring Survey (RLMS) for 2002.

<sup>2</sup> The informal sector includes informal own-account enterprises, enterprises that are defined to be informal and unregistered, and workers in production units with fewer than five employees.

Source: Sinyavskaya and Popova, chapter 4 (Russia).

**TABLE 7 Average hours of work per week in formal and informal employment in Egypt, 1988 and 1998**

Average hours of work per week	1988		1998	
	Formal	Informal	Formal	Informal
Males	45.6	48.7	46.4	51.8
Females	38	45.2	39.4	50.1
Total	43.7	48.2	44.6	51.6
Sample size	2,389	1,187	2,935	1,400

Source: El Mahdi and Amer, chapter 1 (Egypt).

and formal economy in El Salvador and finds that, whereas only 13.3% of all workers in the formal economy are considered poor, 43% of workers in the informal economy are poor.

The Egypt study measures relative pay for workers in the formal and informal economy, and finds that informal workers earn approximately 84% of what formal economy workers earn. This sectoral gap is much greater for women; women working in the informal economy earn 53% of what their counterparts earn in the formal economy. Further, real wages for both men and women fell in formal and informal work over the period under study, with formal sector wages falling by twice

as much as those in the informal sector. Despite this slower rate of decline, wages in informal employment remain significantly less than those in the formal sector.

In South Africa, wages and incomes are also highly unequal between the informal and formal economy. Braude reports that more than half of his sample of informal economy workers earned less than 500 Rand per month in 2003, while less than 1% of all formal economy workers earned less than this amount.<sup>7</sup> Approximately 75% of workers in the informal economy earned less than 1,000 Rand per month, while only a little more than 15% of formal economy workers wages fell in this range.

These inequalities become even starker when we consider the racial distribution of wages and incomes. The United Nations Development Project's (UNDP) Human Development Report for South Africa shows that in 1995 the average white household earned four times as much as its average African counterpart. By 2000, the average white household was earning six times the average income of the typical African household (UNDP 2000).

Wages and incomes in South Africa's informal economy are consistently lower than those in the formal economy. In chapter 5, Braude observes: "...the incomes [in the informal economy] are at best equal to the lowest minimum wage in the formal sector...Jobs created in the informal sector are not the result of the expansion of economic opportunity, but the expansion of survivalist strategies." For Braude, the growth in informal employment and informal production reflects subsistence strategies developed as a means of survival in an economy where the availability of good jobs is rationed.

#### *Labor market segmentation by gender and race*

In general, informal and formal employment exhibit significant labor market segmentation by both gender and race. Women typically earn less than men in both the formal and informal sector. In India, for example, men in informal employment earn 49% and women earn 43% of the average wage in the formal sector.

In Egypt women earned an average of 70% of male wages in formal employment and 82% of male wages in informal employment in 1988 (see **Table 8**). By 1998, women's average wages as a percentage of men's had risen to 86% in the formal economy but declined in the informal

**TABLE 8 Female earnings as a percentage of male earnings by education level in Egypt (real wages in 1988 and 1998)**

Level of education	1988		1998	
	Formal	Informal	Formal	Informal
Illiterate	71%	69%	61%	58%
Read and write	68	52	64	40
Below intermediate	68	50	85	38
Intermediate	61	111	80	43
Above intermediate	77	42	77	54
University	62	92	83	80
Post-graduate	55	22	54	NA*
<b>Total</b>	70	82	86	53

\* NA = Not available.

Source: El-Mahdi and Amer, chapter 1 (Egypt).

economy to 53%. These changes took place as real wages fell dramatically in both sectors.

A similar pattern can be observed in South Africa, and further, informal employment is concentrated mostly in select racial classifications. Just over 60% of all workers in the formal economy are male, compared to 55% in the informal economy. A large majority of workers in the informal economy (85%) are black, Coloured, or Indian.

Further, women in the South African economy tend to be clustered in informal employment in trade and services. In all industries in the informal sector, with the exception of mining and quarrying, female earnings fell well below the male earnings for black workers (see **Table 9**). It should, of course, be noted that comparing average wages in each sector does not allow us to compare equivalent job categories or control for hours worked.

The case studies reveal that in three of the five countries informal employment was growing faster than formal employment over the period under study. This does not preclude that there may be periods when these tendencies reverse, or that in some countries informal employment may be pro-cyclical while in others it is counter-cyclical. Clearly these conclusions are highly sensitive to the periods under review and the definitions of informality applied. Yet these findings highlight that there may be significant growth from below where small scale enter-

**TABLE 9 Female earnings as a percentage of male earnings for black workers in South Africa, September 2002**

	Formal unionized	Formal nonunionized	Informal
Agriculture etc.	72%	90%	87%
Mining & quarrying	85	61	100
Manufacturing	76	70	46
Electricity etc.	65	100	NA <sup>1</sup>
Construction	97	65	44
Wholesale & retail	83	82	54
Transport etc.	100	129	41
Financial etc.	111	113	67
Community etc.	113	77	74
Private households <sup>2</sup>	67	53	100

<sup>1</sup> NA = Not available.

<sup>2</sup> Includes African, Indian/Asian, and Coloured.

Source: Braude (2004).

prises in the informal economy appear to be growing faster and absorbing more workers than enterprises in the formal economy.

## Degradation of employment

The documented differences in wages, education, skill level, and job tenure between informal and formal employment in all five countries were largely expected. Notwithstanding, there are a number of alarming tendencies. In all five countries there are substantial numbers of workers with greater than average levels of education working in informal employment. Given this, it seems hard to argue that these workers are in the informal economy because they have inadequate education and/or low levels of productivity. The existence of substantial numbers of educated workers in the informal economies of each of the five countries studied provides compelling evidence that there are just not enough good jobs in these economies.

Additionally, in all five countries there appears to be a tendency toward the degradation of employment and the erosion of the terms and conditions of formal employment that persists across sectors—including those generally thought to be centers of formal employment, such as

manufacturing, construction, and public employment. In several cases, more jobs in these sectors currently lack benefits, pensions, and contracts—the hallmarks of quality, formal-sector employment—than they did in the early 1980s.

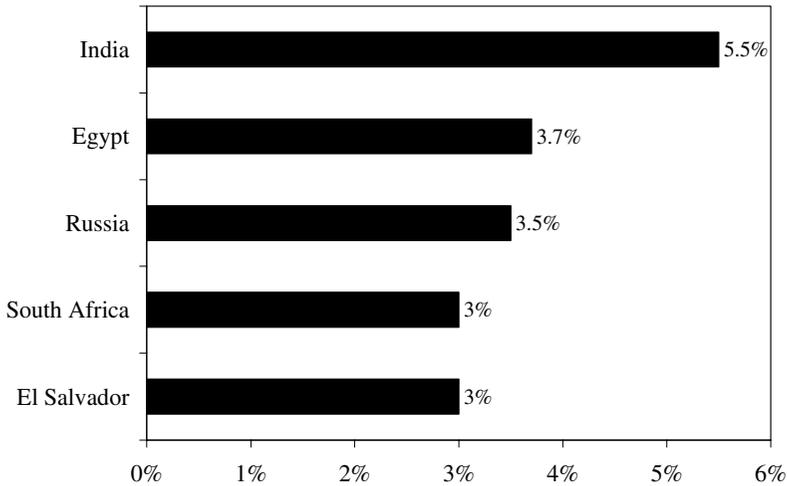
Informal employment relationships are generally not covered by legislated labor protections or trade union representation. Indeed, the work relationship between the employer and employee in small-business sectors is rarely governed even by any sort of written contract. In Egypt, 85% of workers in Greater Cairo were found to be working without a contract, while only 74% of workers in Greater Cairo were covered by Social Security contributions.

Growing informalization thus carries with it the very real threat that large (and disproportionately vulnerable) groups of workers will find themselves shut out of pension benefits and other social insurance guarantees that are tied to formal-sector employment. Further, the relative isolation of several forms of informal employment (home-based production, for example) leaves these workers out of networks that could provide them the information and bargaining power to claim a greater share of economic output.

One conclusion that is forcefully supported by this group of studies is that the informal sector is not in general decline throughout the developing world. In short, the simple version of the structural change theory seems to provide little insight in regards to contemporary developments in informalization.

The size of the informal sector has declined or remained the same in only two of the five countries studied: South Africa and El Salvador. In South Africa, formal employment growth exceeded informal employment growth over the period 1999 to 2003, and in El Salvador there has been a small decline in the growth of informal jobs over the period 1991 to 2002. This informal job decline in El Salvador, however, could in large part be driven by enormous rates of emigration from the Salvadoran economy, particularly from rural areas.

In Egypt, certainly, and perhaps in Russia, the informal sector is growing at a more rapid rate than the formal sector. But Braude (chapter 5) correctly points out that assessing the true rate of growth (or decline) in informal employment is fraught with difficulties. While the South African surveys show a very slight increase in informal employment's share of total employment, it is impossible to rule out the possibility that this

**FIGURE 1 GDP growth rates, 1990-2002**

Sources: World Bank (2003).

growth is not a direct function of better techniques used to measure the informal economy in recent years. In short, the apparent growth in the informal sector could be due to actual growth, more accurate methods of empirical measurement, or some combination of both.

That said, it seems clear from the research provided in this volume that all five countries have problems generating robust growth of formal and “modern” employment, and that sitting back and waiting is not an appropriate policy response for promoting quality employment opportunities. These studies point to several possible avenues for the concerned policy maker, although no one response stands out as a cure for all ills.

## Implications for policy

### *Strong and weak forms of “lack of growth” theory*

All five countries in this sample have sustained positive economic growth over the past decade (see **Figure 1**). Between 1990 and 2004, officially measured GDP growth was in excess of 3% for all five countries.

While these growth rates may seem good by developed country standards, they still remain well below what is needed to absorb the rapidly

**TABLE 10 Annualized growth rates in five countries, 1995-2000**

	Population -1	Real GDP -2	Productivity -3	Absorption (4) = (1) + (3)	Slack (5) = (4) - (2)
Egypt	1.9	3	2.2	4.1	1.1
El Salvador	2.1	1.2	0.2	2.2	1.1
India	1.8	4.6	4.2	6	1.4
Russia	-0.4	2.2	1.8	1.4	-0.8
South Africa	1.8	0.9	0.6	2.4	1.6

Source: Authors' analysis of Penn World Table.

growing potential labor force in each country. **Table 10** charts rates of growth of the labor force and productivity along with GDP in each country over a relevant sample period. These data highlight the fact that it is not just positive GDP growth that is needed to generate employment and reduce labor slack, but rather *GDP growth in excess of productivity and labor force growth*.

While it is clear that positive economic growth will not lead automatically to a decline in informality or informalization, our analysis reveals that there may be insufficient aggregate demand in each of these economies relative to productivity and population growth to absorb a growing labor force. Growth is not a panacea, but closing the output gap in these economies would contribute mightily to sustaining better quality of employment, and there still seems to be substantial macroeconomic slack in these economies.

### ***Active labor market policies***

To date, ALMPs have not been used extensively in these economies, with some small exceptions. In El Salvador some targeted training programs have been developed for particular sectors—most notably youth (between the ages of 18 and 25) and the urban unemployed. The Salvadoran Institute for Professional Development (INSAFORP)<sup>8</sup> provides training and accreditation in business development, computing, secretarial skills, and other skills including auto mechanics, electrical work and maintenance, soldering, construction, and plastics. Thus far, no in-depth analysis of the labor market outcomes as a result of receiving this training has been undertaken. Furthermore, no data appear to be avail-

able that track the recruitment, retention, and long-term employment of trainees.

In Egypt in 2000 a National Training Fund was developed as part of a broader initiative launched under the National Employment Program. In addition, the Productive Families Scheme (PFS) was developed to provide resources to the self-employed in small family-run and owned businesses. The PFS provides access to resources, raw materials, and training for locally produced goods and crafts. There are approximately 3,474 training centers in operation with a staff of 5,700 trainers (El Mahdi and Amer 2004). The Egyptian Ministry of Social Affairs also manages a vocational skills training program that targets youth who have dropped out of secondary and primary school.

In South Africa a Skills Development Act was introduced in 1998, which developed mechanisms to address skills mismatch. A series of training programs and workplace-based learning and financial incentives were introduced to stimulate on-the-job training. A central component of the Skills Development Act addressed the introduction of new forms of skills acquisition through “learnerships and skills programs” administered through the National Skills Development Strategy, which provides a framework to coordinate workforce development. The Skills Development Levies Act of 1999 instituted a program to collect levies for skills training under the Sector Education and Training Authorities (SETAs).<sup>9</sup> The SETAs were charged with promoting and organizing training on a sectoral basis and not within industries. The SETA training programs allow individuals who are not formally employed within a particular industry to gain access to training and skills development, and the programs are sufficiently flexible to include small businesses and provide opportunities to the unemployed.

Russia also offers a series of employment intermediation services to facilitate hiring and reduce the time spent in unemployment. These programs are run through state employment services that provide assistance with recruitment and the job search.

### ***Job training and human capital development***

Of the three prongs of ALMPs (training, direct job creation/subsidy, and job matching aids), the first seems to be most indirect in attacking the problems of informalization. All nations, especially those in the developing world, would be well served by increasing the quality of basic,

universal education available to its citizens. However, ALMPs that are devoted to job training are largely focused on the supply-side, which seems inefficient in the range of economies (Russia and Egypt, especially) where well-educated workers exist in large numbers in informal employment or in those economies where insufficient demand limits the supply of good jobs (particularly El Salvador and India).

Further, given that measurements of the informal economy are still in their infancy, it seems premature to assert that the low productivity of informal workers (even those without formal education credentials) constitutes the chief impediment preventing them from moving into formal-sector jobs.

Finally, arguing against the “first-best efficiency” of directed human capital spending are the recent findings on the pronounced cyclical patterns of formal-sector growth in Latin America.<sup>10</sup> Given that productivity and skill levels are likely constant over the business cycle, the finding of significant increases in formal-sector work during booms and formal-sector declines during economic slowdowns points to the dominance of labor demand in determining the allocation of workers into formal or informal employment.

### ***Labor standards (the structuralist response)***

It seems likely that resources could be more profitably invested in other dimensions of ALMPs, either by providing employment subsidies to firms in order to encourage them to formalize employment relations with their employees and/or in providing information and building social networks that will improve the information of job seekers and employers. Carr, Chen, and Tate (2000) provide an example of shea butter workers in Burkina Faso and India that are forced into home-based production. This isolation leaves them without the information or means to take advantage of emerging market opportunities and leaves them on the short side of transactions with more organized (corporate) buyers. Carr, Chen, and Tate (2000) point to a need to support individual producers in forming purchasing associations to boost their price-bargaining powers vis-à-vis other players in the market. While perhaps not apparent on its face, this recommendation seems, in a sense, to constitute a classic ALMP intervention in terms of matching workers (the home-based workers) with those institutions (purchasers, in this instance, instead of firms) who will most value their inputs. The study points to

similar intermediation interventions that have taken place in Burkino Faso and India as models for improving the price and bargaining power of workers and producers in the global value chain.

Galli and Kucera (2004) point to a strong association between improved labor standards and the formalization of employment relations in Latin America. In a sense, the matching problem identified in Carr, Chen, and Tate (2000) seems to be aided through the labor market institutions associated with effective labor market protections (our own interpretation, not necessarily that of the authors). This finding also argues in favor of a deeper analysis of the role of unions in guaranteeing worker rights, overseeing enforcement and organizing, or extending benefits to, workers in the informal economy.

The range of estimates for unionization rates within the informal economy throughout the world reveal very low rates of union penetration, falling between 3% and 5%. Unions can also potentially offer job-matching and intermediation services extending membership to include informal workers (AFL-CIO 2002). This role for intermediation services, which matches workers to good jobs, argues strongly against the idea of promoting flexibility through deregulation in the labor market as a primary goal of policy makers, a policy recommendation advocated by the World Bank (1995). Galli and Kucera (2004) rightly point out that different labor standards will have different economic effects, and policy makers need to be clear on which are most appropriate for spurring formal-sector employment.

### ***More transparent and enforceable property rights (the legalist response)***

The Russia and India reports suggest another policy angle. Among the problems associated with the isolation of workers involved in informal employment is lack of access to credit markets and the resources spent inefficiently in trying to secure private property arrangements.

Both of these problems would be greatly improved through the acquisition of legally recognized title-to-assets. Field et al. (2003) examine recent experiments with the provision of legal titles to occupied dwellings in Peru. Those receiving the titles were more likely to find more remunerative work and felt less constrained to protect the right to their dwellings. Thus, the granting of titles contributed to a much improved environment for making productive employment matches.

As a subset of legalist programs and policies, measures to provide safety nets, and access to pensions and health benefits that address all workers, can significantly improve the nature of work and fall-back options available in the informal economy. Attempts to generalize access to such benefits and provide pensions and health care resources to informal workers will greatly improve the well-being of these workers.

Programs and policies that address property rights and rights to assets also have the potential to address some of the gender inequities and gender-specific vulnerabilities documented in the case studies. Where women are disproportionately concentrated in the informal economy, they have fewer rights to productive assets, earn lower wages, and are less likely to be able to accumulate savings, secure credit, or obtain pensions. These measures can be targeted to compensate for particular deficits for vulnerable workers in certain contexts.

***Other interventions:***

***Beyond the legalist and structuralist measures***

Although these studies did not directly estimate the number of informal workers in home-based and small production units, it is clear that a substantial portion of the informal economy comprises own-account workers, home-based workers,<sup>11</sup> the self-employed, or those in small informal enterprises. A host of policies can be enacted to support these enterprises and activities that may contribute to increasing output and consequently improving the terms and conditions of work. For example, ensuring that piped and potable water is available to these enterprises, connecting workplaces and homes to sewage, and engaging in slum upgrading can greatly improve the work environment. In some cases, investing in basic infrastructure may be more easily deployed than seeking legalist or structuralist remedies—largely because of opposition to the latter from powerful sectors and economic interests.

***A mix of policy and programs?***

In the classification system laid out in the introductory portion of this summary, the emphasis on improved adoption and enforcement of labor standards will prove most effective where it is determined that much of the persistence and growth of informalization is driven by structural factors. In these areas, workers have experienced declines in the quality of employment though degraded bargaining positions vis-à-vis firms as

the result of the erosion of other institutions that have improved fallback options in the era of globalization.

The emphasis on formalization of property rights and social networks will be most effective when much of the persistence and growth of informalization is thought to be the results of legalist pressure—i.e., burdensome and ineffective institutions that stifle entrepreneurial drive for forcing residents to waste valuable resources asserting control of their own property and assets.

It seems likely that a blend of the approaches laid out in this introduction could prove useful for each of the countries studied. In fact, the legalist and structuralist remedies could even prove complementary at times.

## **Conclusion**

Fostering decent work should be a fundamental objective of those concerned with improving living standards throughout the developing world. But before reasonable prescriptions can be made, the causes of the lack of quality work need to be diagnosed.

The five country studies gathered here offer a solid foundation for such a diagnosis. They all provide empirical measures of the more up-to-date and sophisticated definitions of the informal economy and track the evolution of informal work over the recent past.

Each study lays out the development of informalization against the appropriate macroeconomic context—a key contribution. Given the crucial importance of rapid macroeconomic expansion in providing the necessary condition for growth in decent employment, policy maneuvers that will influence the macroeconomy (e.g., trade and investment liberalization) need to be judged on this dimension as well as others such as microeconomic efficiency.

A few findings stand out from this set of studies. First, none of the five countries have had unambiguous success in generating sustained expansions of formal employment, even as all have posted positive GDP growth. Second, while the structure of formal employment reveals strong sectoral patterns (being most pronounced, for example, in the manufacturing and public sector), there is a significant presence of informal employment across all sectors. In short, no job, no matter what sector it is in, is immune to informality or informalization. Third, informality is

disproportionately the lot of those with inferior education credentials, yet non-trivial numbers of workers with significant education credentials work in the informal economy in each sector, strongly signaling the insufficiency of good jobs, not just good workers.

Beyond this, the overarching message of these collected studies is that informality and informalization in each country follows its own trajectory and requires policies tailored to meet their specific experiences based on country-specific institutions, history, and even geography.

## Endnotes

1. We are very grateful to the contributors of this volume and to Ravi Naidoo for comments on this chapter. All analysis, interpretations, and errors in this chapter are the responsibility of the authors only.
2. The legalist approach is best represented in de Soto (1989).
3. See, for example, AFL-CIO (2002).
4. The expanded definition of informality draws heavily on work by the ILO and in particular Jacques Charmes, Marty Chen, and Joann Vanek. See ILO (2002).
5. Informal employment is the overall category that refers to both employment in the informal sector and in informal jobs.
6. This reflects the definition of the informal sector applied by the Russian team that categorized all units of fewer than five employees as being in the informal sector, in addition to own-account workers and unpaid family members.
7. 8 Rand = US\$1 in 2003.
8. For more information consult <http://www.insaforp.org.sv/>.
9. The Skills Development Levies Act mandated a contribution by employers of 0.5% of monthly payroll for the year commencing April 1, 2000. The levy was increased to 1% of payroll in April 1, 2001. Every employer registered for PAYE or that has an annual payroll in excess of R250 million must pay the levy. The levies contribute to on-the-job training and workforce development initiatives, which are overseen by inspectors under the SETA.
10. On this, see Marquez and Pages (1998).
11. The term “home-based workers” refers to two types of workers who carry out remunerative work within their homes—*independent own-account producers and dependent subcontract workers*. Carr, Chen, and Tate (2000) estimate that over 50% of all enterprises in six sub-Saharan African countries are home based.

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# Informal employment: rethinking workforce development

By *Martha Chen and Joann Vanek*<sup>1</sup>

We know only too well that it is precisely the world of work that holds the key for solid, progressive, and long-lasting eradication of poverty. It is through work that people can expand their choices to a better quality of life. It is through work that wealth is created, distributed, and accumulated. It is through work that people find a dignified way out of poverty...Poverty elimination is impossible unless the economy generates opportunities for investment, entrepreneurship, job creation, and sustainable livelihoods.

— *Juan Somavia, Director General,  
International Labour Organization (ILO 2003)*

As the Director General of the International Labour Organization stated in his report to the 2003 International Labour Conference, employment and poverty are intrinsically linked. And, yet, sufficient attention is not paid to employment issues in the debates on poverty or in poverty reduction strategies. In part, this is because the data to prove and illustrate these linkages are not readily available. The five workforce development studies featured in this volume represent an important new source of data and analysis on this relationship. Following a common framework of questions, each of the studies analyzed the links between macroeconomic processes and labor force development in their respective countries. More importantly, they also disaggregated the labor force by formal and informal employment, as well as by women and men.

In this conclusion, we begin by highlighting the contribution these five country studies make to our understanding of labor markets and to

the field of labor statistics. We then summarize the common and distinct findings of the studies as well as their implications for future research and analysis. We conclude with a discussion of the policy and programmatic implications of the findings.

## **The importance of the five country studies to understanding labor markets**

As noted in the introduction to this volume, the five country studies were designed to identify and document changes over time in the nature of work in informal and formal employment. Special attention was given to the skills and other characteristics of individuals engaged in informal and formal employment and to the terms and conditions of informal and formal employment.

In general, data that examine the numbers of workers in informal employment are not readily available, and there is even less information about the skills and other characteristics of different categories of informal workers or the terms and conditions of different types of informal employment. National statistical offices have only recently begun to give priority to the collection of data on informal employment and, in collecting these data, countries have often used different definitions. Over the past decade, the global research network Women in Informal Employment: Globalizing and Organizing (WIEGO) has worked to promote the collection of data on informal employment by national statistical offices and the analysis of these data by researchers and advocates. WIEGO has also worked closely with the International Labour Organization, the United Nations Statistical Division, and the International Expert Group on Informal Sector Statistics to broaden the definition of the informal economy to include informal employment both inside and outside informal (i.e., small, unregistered) enterprises. This expanded definition was endorsed by the 2002 International Labour Conference in the Conclusions to the General Discussion on the Informal Economy and by the 2003 International Conference of Labour Statisticians in a resolution on informal employment.

One of the major contributions of the country studies in this volume is that they have analyzed existing national data using this expanded concept of informal employment. Within the constraints of the available data sets, four of the country studies featured in this volume ap-

plied the expanded definition of informal employment described above. The exception is the India study, which did not analyze data on informal employment collected in the National Sample Survey of Employment and Unemployment but rather used estimates of employment in what are referred to in India as the “organized” and “unorganized” sectors based on administrative data of the Directorate General of Employment and Training.

For those who are interested in changing official labor force statistics to make these statistics more relevant to measurement of employment in developing countries, the use of these data by the research teams is of great importance. To justify the collection of new and improved data based on a broader definition of informal employment, the data already collected need to be tabulated and analyzed. Statisticians have made efforts in recent years to develop methods and statistics on the large share of the global workforce that remains outside the world of full-time, stable, and protected employment. Data sets are available now on informal employment that were not available 10 years ago.

But national surveys are expensive undertakings, and the resources that are required for new data collection efforts must be justified in terms of usage and the mobilization of advocates to plead the case for why the data are needed. At the same time, national statistical offices often do not make it easy for outside researchers to use their data. Whether or not they encountered such difficulties, the researchers who carried out the five country studies made the effort to use existing national data in their reports. By applying these data toward policy-relevant analysis, the five country studies in this volume make an effective case for the collection of more data on informal employment.

Moreover, these studies also made the case for *better* statistics on informal employment. They identified problems with the existing data—which often were not collected explicitly to look at issues of informal employment—as well as areas where additional data were needed. Thus, these studies suggest important directions for future data collection in the area of informal employment (the possible directions for future research are outlined in more detail at the end of this chapter).

Finally, the type of analysis undertaken by the researchers is considerably more complex than the standard tabulations that are released by national statistical services. In contrast to the more typical user, who is generally interested in published tabulations, four of the research teams

who carried out the country studies did their *own* analysis of the data. The analyses they carried out were useful in suggesting linkages between informal employment, gender, and poverty, and further work based on these findings is proposed later in this chapter. Such analysis requires working with the actual data sets. This type of use relates to a long-term objective of the global research network WIEGO: namely, the creation of a comprehensive data archive of microdata from labor force and other related surveys on informal employment. Development of such a database is a complex undertaking that requires not only improvement in the available data but also widespread use of the data in analyses such as those undertaken here. Analysis of the data in multiple countries is essential to the creation of a harmonized classification system in which to store the data.

## **Major findings of the five country studies**

While the introduction to this volume has summarized in some detail the main findings of the five workforce development studies, it is worth repeating here the common findings of these studies and the promising lines of future research and analysis that they suggest.

### ***Common findings***

The five studies found a number of commonalities in the size and makeup of the informal economy, including the following:

- The informal economy comprises a large share of total employment in all countries: ranging from about 15% in Russia to 25% in South Africa, 40% in Egypt, 70% in El Salvador, and over 90% in India.
- The informal economy as a share of total employment is growing in all countries except El Salvador (where out-migration may account for the lack of growth in the informal economy).
- The informal economy is visible in all sectors of the economy but tends to be concentrated in agriculture, light manufacturing, retail trade, construction, and transport.<sup>2</sup>
- Informal economy workers have, on average, less education and experience than those who work in the formal economy.

- Those who work in the informal economy work longer hours, on average, than those who work in the formal economy.
- A large share of informal workers are poor or earn below the minimum wage.
- Informal workers, especially women, earn less, on average, than their formal counterparts.
- Female informal workers also earn less, on average, than their male counterparts within the informal economy, leading to a gender gap in wages or earnings within the informal economy.

A related finding in four of the countries (Egypt, El Salvador, India, and Russia) is that economic reforms and restructuring have had a negative effect on the quality of employment in terms of earnings and benefits.

#### *Promising lines of analysis*

Considered as a whole, the five studies represent an important first step in understanding the impact of recent economic changes on workers, especially those who are engaged in the informal economy. They also suggest some promising areas of analysis for future research, such as:

- The links between race/ethnicity and informal employment (South Africa); age and informal employment (Egypt); and education and informal employment (Egypt, El Salvador, and South Africa).
- The share of the informal and formal workforce that earns above or below a certain level, e.g., the minimum wage or living wage (El Salvador and South Africa).
- The relationship between unemployment and underemployment in the informal economy (El Salvador).
- Worker benefits and informal employment (Egypt, El Salvador, and South Africa).
- The rate of unionization and informal employment (South Africa).

The studies also point to the need for further analysis that would look more deeply into the heterogeneity and composition of informal employment, such as:

- sectoral composition of informal employment, including dynamics of change within different economic sectors;
- segmentation of the informal economy by employment status, gender, and race/ethnicity; and
- categories of the informal workforce that earn above or below the stipulate level (e.g., the minimum wage or living wage).

We acknowledge that the existing national data in the five countries may simply not lend itself to this kind of disaggregation. But we would like to highlight the need for official data on informal employment that can be disaggregated by branch of economic activity or industry and by employment status, place of work, gender, and race/ethnicity. Findings from the country studies collected here as well as from sub-national and local surveys in other countries suggest that the informal economy is segmented by employment status, gender, and race/ethnicity. An informed policy approach to the informal workforce would require an understanding of its heterogeneity as well as its segmentation.

Comparing average wages or earnings *between* the formal and informal economy is an important first step in analyzing the linkages between employment and poverty. The next important step is to compare average wages or earnings *within* both the formal and informal economies. While it is true that informal workers are more likely to be poor than formal workers, not all informal workers are poor and not all formal workers are non-poor. While the five country studies compare earnings in formal and informal employment, they do not provide findings on relative earnings *within* the informal economy. In a recent publication, we featured data from 15 countries (compiled by our colleague Jacques Charmes) on earning differentials within the informal economy that suggest that the average monthly earnings of micro-entrepreneurs who hire others is higher than their employees (as might be expected) but also higher than the earnings of own-account operators who do not hire others. In fact, in most of these countries, own-account operators earned only slightly more, on average, than the employees of micro-entrepreneurs (Chen, Vanek, and Carr 2004).

*Informal employment and poverty reduction*

Perhaps most important in future research is to link research findings on employment and poverty to the wider debates on poverty reduction (e.g., the Poverty Reduction Strategy Papers or the Millennium Development Goals). It is our contention, and that of the global research network WIEGO which we represent, that addressing employment issues—or, more precisely, informal employment issues—is an essential pathway to poverty reduction. These studies provide important new comparisons of the average relative earnings in the formal and informal economies. But more analysis is needed to highlight the linkages between informal employment and poverty, especially analysis that looks at relative poverty levels *within* the informal economy and at the insecurity of work and income within the informal economy.

*Informal employment and macroeconomic policies*

In analyzing recent trends in workforce development in their respective countries, each of the studies have focused on macroeconomic processes. But, in teasing out the policy implications of their findings, the studies (and the overall workforce development initiative) have tended to focus more on the supply side—rather than the demand side—of labor markets. As a result, none of the studies has proposed an employment framework for macro-economic policies.

In the concluding sections of this paper, we make some recommendations regarding what can be done in the future to improve workforce statistics and research and promote appropriate workforce development policies and programs that take into account the reality of informal employment, particularly in developing countries.

***Implications for workforce statistics and research***

The implications for further workforce statistics and research fall into two main categories, data collection and data analysis.

*Data collection*

By using existing national statistics, this volume's five country studies have taken an essential first step in influencing the collection of more and better national labor statistics that include both formal and informal employment. It is hoped that the publication of findings from the set of pioneering studies in this policy-oriented volume will help influence

the collection of more and better labor statistics not only in the five countries that were studied, but also in other countries.

It is important, therefore, to use the expertise gained through this research to advocate with statistical authorities and other government officials for technical improvements in and the further development of statistics in this area. In working with national governments and United Nations agencies, WIEGO has found that active collaboration between the producers and users of statistics is essential to improving the statistics on informal employment by showing the usefulness of doing so and, more specifically, to getting countries to make special efforts to collect data on informal employment.

The overall objective of future work on statistics on the informal economy should be to ensure that estimates on the size, composition, and economic value of the informal economy, disaggregated by sex and by employment status, are incorporated into official statistics at national, regional, and international levels in a systematic and ongoing basis. The specific goals should be to improve statistical methods and measures to strengthen data collection systems; to develop and manage a pooled data base; to promote on-going compilation and analysis of existing statistics; to generate national, regional, and global estimates; and to disseminate improved concepts, methods, findings, and estimates. To pursue these objectives, the joint action of national, regional, and international statistical services, relevant governmental agencies, and activists and researchers working on the informal economy will be required.

### *Data analysis*

As we noted at the beginning of this chapter, more efforts need to be made to analyze the links between working in the informal economy, gender, and poverty. A major problem is that standard poverty measures are based on income or expenditure data for households, while labor force data are collected at the individual level. There are technical problems in linking these two types of data, but these are not insurmountable. For example, as a follow-up to this project, the research teams in Egypt and El Salvador are carrying out additional analyses of national data from their respective country data at two different levels: average wages or earnings and benefits at the *individual* level, and sources of income (all formal, all informal, or both) at the *household* level.<sup>3</sup>

As part of this line of analysis, more efforts need to be made to disaggregate the informal economy by employment status, gender, and race/ethnicity, and to then compare average wages or earnings and benefits—plus the terms and conditions of employment—of workers across these various categories.

### ***Implications for workforce development***

The overall goals of this research initiative were to analyze formal and informal labor markets and to explore whether policies can be developed that would 1) raise worker productivity, employability, and competitiveness and 2) improve the terms and conditions of employment, particularly informal employment. Explicit attention was paid to *active labor market policies* and their relevance for particular groups that may be disproportionately vulnerable to—or confined to—informal employment, including, youth, women, displaced rural workers, and migrants.

In developed countries, active labor market policies (ALMPs) generally fall into three main categories: skills training, direct job creation or subsidies, and improved job matching. The researchers who carried out the five country studies featured in this volume attempted to review which active labor market policies would prove most relevant and effective to workforce conditions in their respective countries. In their introduction to this volume, Bivens and Gammage have raised questions regarding the relevance of the standard set of ALMPs for developing countries, specifically, “to what extent do such programs offer relevant or useful guidelines for labor markets where informal employment exceeds formal employment and where worker skills might be limited by a poorly functioning and degraded education system?” The underlying issue is whether and in what ways active labor market policies need to be refined to address the existence of highly segmented formal and informal labor markets in developing countries.

In concluding this volume, we would like to offer our own analysis of what kinds of labor market policies and programs are required in countries where informal employment constitutes a large or major share of total employment. To begin with, it is important to recognize that there is an ongoing process of informalization in both developed and developing countries, and that relatively few formal jobs are being created. The dearth of formal employment opportunities has brought up a key workforce issue: how to protect workers from the “downside” ef-

fects of informalization. In other words, active labor market policies need to encompass both workforce *protection* measures as well as workforce *development* schemes. Second, it is important to recognize that in most developing countries the share of self-employment in total employment is quite high. As a result, active labor market policies in developing countries need to address self-employment as well as wage employment, both formal and informal.

More fundamentally, we would argue, active labor market policies in developing countries need to address demand-side structural constraints that discourage the creation of formal jobs, encourage informalization of employment relations, and undermine the competitiveness of micro-entrepreneurs and own-account producers. That is, the challenge of workforce development initiatives in developing countries is not just to address supply-side constraints such as low worker skills and education or to overcome the mismatch between skills and jobs. There are larger structural issues at play that help shape who has access to what resources (including bargaining power) and how goods and services are produced and distributed. It is important to gain a political-economy and institutional understanding of who wins and loses—including why and how—in the process of economic reforms and trade liberalization.

In addition to generating higher rates of economic growth, all economic policies—not just labor market policies—need to increase the market access and productive capacity of a broad cross-section of economic actors. The appropriate policy framework to ensure that growth is broad-based and reduces poverty should include the following inter-related components:<sup>4</sup>

- *Employment intensity*: policies to increase the quantity of employment opportunities, notably, labor-intensive production.
- *Employment quality*: policies to improve the quality of employment opportunities, including appropriate skills and technologies, labor standards, social protection, organization and representation, and a conducive regulatory environment.
- *Employment opportunities*: policies that target employment opportunities to—and build the skills and capacity of—the working poor (especially women) in the informal economy, as well as policies targeted toward improving terms of trade and/or employment of

the working poor (especially women) in the informal economy. These include skills training and capability building, expanded assets and resources, improved access and competitiveness of the working poor, and increased bargaining power and negotiating opportunities.

These components of effective policy should be promoted through three basic types of interventions:

- *Employment-oriented economic policies:* macro-economic, trade, financial sector, revenue and expenditure, infrastructure and services, labor, social services and social protection, and labor statistics and other labor force information.
- *A combination of employment-oriented programs and policies:* credit, basic infrastructure, skills and training, market access and competitiveness, and organizing and collective bargaining.
- *Employment-oriented institutional reforms:* negotiating, conflict resolution, and demand-making institutions, and institutional representation of the working poor in such institutions.

Clearly, what we have outlined in this chapter represents an ideal and comprehensive response to workforce development, especially targeted at the working poor in the informal economy. We do not expect that many countries or institutions will attempt—much less successfully develop—a comprehensive policy or programmatic response to this type of workforce development. But we hope that those who seek to promote workforce development for the working poor, especially in the informal economy, will use this framework to identify their points of intervention—their points of comparative advantage—as well as those of other stakeholders. And, in doing so, develop collaborative ties with other stakeholders to build incrementally toward a comprehensive policy and programmatic response to informal employment, with the ultimate goal of helping to reduce poverty and increase equity, including gender equity.

## Endnotes

1. Martha Chen, a lecturer in public policy at the Kennedy School of Government, Harvard University, is the Coordinator of WIEGO. Joann Vanek, a specialist in social and gender statistics, is the Director of WIEGO's Statistics Program. Women in Informal Employment: Globalizing and Organizing (WIEGO) is a global research policy network that seeks to promote better statistics, research, and policies in support of the working poor, especially women, in the informal economy.
2. Historically, the informal sector was thought to be a non-agricultural phenomenon or, more narrowly still, an urban phenomenon. The official international definition of the informal sector, adopted by the International Conference of Labour Statisticians, gave individual countries the flexibility to decide whether or not to include agriculture in their measures of the informal sector. The new expanded definition of informal employment includes informal employment in agriculture.
3. WIEGO has been asked by the United Nations Development Fund for Women (UNIFEM) to write the 2005 Progress of the World's Women—UNIFEM's flagship publication—on the relationship of informal employment, gender, and poverty. To do so, WIEGO requested that funds be made available to commission additional analysis of national data in a number of countries, including Egypt and El Salvador.
4. This framework builds on the "Employment Framework for Poverty Reduction in Ghana" developed by James Heintz of Political Economy Research Institute at the University of Massachusetts/Amherst in his report of a joint ILO-UNDP mission to Ghana.

## References

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