

Informality, Gender and Poverty

A Global Picture

This paper seeks to focus attention on the challenge of decent work for the working poor in the informal economy. The findings presented here are based on recent analyses of national data in a cross-section of developing countries. The data illustrate the multi-segmented structure of the labour force – both formal and informal – and the average earnings and poverty risk associated with working in the different segments. Special attention is paid to the differential location of the working poor, both women and men, in multi-segmented labour markets. The paper argues that there is a need to reorient economic policies to promote more and better employment in order to reduce poverty; improve national employment statistics to capture all forms of informal employment; rethink economic models of labour markets to incorporate self-employment and all forms of waged labour; and increase the representative voice of workers – especially informal workers, both women and men – in the processes and institutions that determine economic policies and formulate the “rules of the (economic) game”.

MARTHA CHEN, JOANN VANEK, JAMES HEINTZ

The persistence of poverty worldwide is a major challenge of the 21st century. More than one billion people struggle to survive on less than \$1 a day [UN 2005]. Of these, roughly half – 550 million – are working [ILO 2005]. By definition, these working poor cannot work their way out of extreme poverty. They simply do not earn enough to feed themselves and their families, much less to deal with the economic risks and uncertainty they face. Yet employment is not high on the international agenda for poverty reduction: most notably, employment is neither a target nor an indicator under the first major Millennium Development Goal of eradicating extreme poverty and hunger; and employment is an explicit target in only a handful of Poverty Reduction Strategy Papers.¹ This paper makes the case for an increased focus on employment, particularly informal employment, in efforts to reduce poverty.

Employment and Poverty

The Challenge

For much of the 20th century, economic development – at least in Europe and north America – was predicated on the model of state-based social and economic security as embodied in the welfare state, the goal of full employment and related protective regulations and institutions [ILO 2004]. However, by the 1980s, a new economic model began to take shape: one that is centred on fiscal austerity, tight monetary policy focused on maintaining very low inflation rates, free markets, and the “rollback” of the state. Under this model, there are three main policy prescriptions for economic development and growth: trade and financial liberalisation, market deregulation and privatisation.

Unless properly managed, these policy prescriptions can have contradictory outcomes in terms of employment and poverty. Without an explicit focus on increasing the demand for labour, economic growth will not generate as many jobs as needed.

Moreover, without an explicit focus on the quality of employment, the jobs that are created may not be regulated or protected. Recent economic growth has been associated with flexible labour markets, outsourcing of production and growth of temporary and part-time jobs. For the poor to be able to work their way out of poverty, they need more and better employment opportunities.

This paper seeks to provide a context for the other papers in this special issue of the *Economic and Political Weekly*, by focusing attention on the challenge of decent work for the working poor in the informal economy and by providing a comparative international perspective on this challenge. The next section briefly discusses the definition and concept of the informal economy. The following – and main – section presents recent statistical and research findings on the links between informality, gender, and poverty from a cross-section of developing countries. The concluding section calls for a reorientation of economic policies to focus on creating more and better work; and, more specifically, for (a) improved national labour force statistics to capture all forms of informal employment; (b) a rethinking of labour market models to take into account the structure and dynamics of the labour force in developing countries; and (c) representative voice of the working poor – both women and men – in the processes and institutions that determine economic policies and formulate the “rules of the (economic) game”.

Informal Economy

Historical Debates

Since its “discovery” in the early 1970s, the informal economy and its role in economic development have been hotly debated. Some observers view the informal economy in positive terms, as a “pool” of entrepreneurial talent or a “cushion” during economic crises. Others see the informal economy as a source of livelihood for the working poor. Still others view it more

problematically, arguing that informal entrepreneurs deliberately avoid registration and taxation.

Underlying these varying perspectives are three dominant schools of thought regarding the informal economy:

– The dualist school, popularised by the ILO in the 1970s, subscribes to the notion that the informal sector of the economy is comprised of marginal activities – distinct from and not related to the formal sector – that provide income for the poor and a safety net in times of crisis [Hart 1973; ILO 1972; Sethuraman 1976; Tokman 1978].

– The structuralist school, popularised by Caroline Moser and Alexandro Portes (among others) in the late 1970s and 1980s, subscribes to the notion that the informal sector should be seen as subordinated economic units/enterprises and workers that serve to reduce input and labour costs and, thereby, increase the competitiveness of large capitalist firms [Moser 1978; Castells and Portes 1989].

– The legalist school, popularised by Hernando de Soto in the 1980s and 1990s, subscribes to the notion that the informal sector is comprised of “plucky” micro-entrepreneurs who choose to operate informally in order to avoid the costs, time and effort of formal registration and who need enforceable property rights to convert their assets into legally recognised assets [de Soto 1989, 2000].

Although interest in the informal economy has waxed and waned since its “discovery” in 1972, it has continued to be useful as a concept to many policy-makers, activists and researchers. This is because the reality it seeks to capture – the large share of the global workforce that remains outside the world of full-time, stable and protected employment – is so significant. At present, there is renewed interest in the informal economy worldwide. This renewal of interest stems from the fact that, contrary to the predictions of many economists, the informal sector has not only grown worldwide but also emerged in new guises and in unexpected places. It now represents a quite significant but largely overlooked share of the global economy and workforce.

New Term and Expanded Definition

Because it is both persistent and changing, this renewed interest in the informal economy has been accompanied by a rethinking of the concept. In recent years, a group of informed activists and researchers, including many of the contributors to this volume and other members of the global research policy network Women in Informal Employment: Globalising and Organising (WIEGO), have worked with the International Labour Office (ILO) and the International Expert Group on Informal Sector Statistics (called the Delhi Group) to broaden the earlier concept and definition of the “informal sector” (including the official international statistical definition) to incorporate certain types of “informal employment” that had not been included in the earlier concept and definition. They sought to include the whole of informality, as it is manifested in industrialised, transition and developing economies and the real world dynamics in labour markets today, particularly the employment arrangements of the working poor.

In brief, the expanded definition focuses on the nature of employment, in addition to the characteristics of enterprises, and includes all types of informal employment both inside and outside informal enterprises. This expanded definition has been endorsed at the International Labour Conference (ILC) in 2002 and the

International Conference of Labour Statisticians (ICLS) in 2003. In 1993, the ICLS adopted an international statistical definition of the “informal sector” to refer to employment and production that takes place in small and/or unregistered enterprises. In 2003, the ICLS broadened the definition to include certain types of informal wage employment outside informal enterprises: statisticians refer to this larger concept as “informal employment”.

So defined, informal employment is a large and heterogeneous category. For purposes of analysis and policy-making it is useful to divide formal and informal employment into more homogeneous sub-sectors according to status of employment, as follows:²

Informal self-employment including: employers in informal enterprises; own account workers in informal enterprises; unpaid family workers (in informal and formal enterprises); and members of informal producers’ cooperatives (where these exist).³

Informal wage employment: Employees without formal contracts, worker benefits or social protection employed by formal or informal enterprises/employers or by households. Depending on the scope of labour regulations and the extent to which they are enforced and complied with, informal employment relations can exist in almost any type of wage employment. However, certain types of wage work are more likely than others to be informal. These include: employees of informal enterprises; casual or day labourers; temporary or part-time workers; paid domestic workers; unregistered or undeclared workers; and industrial outworkers (also called homeworkers).

Worker-Centred Perspective

This expanded definition extends the focus from enterprises that are not legally regulated to employment relationships that are not legally regulated or protected. It also serves to focus attention on informal workers: i e, those who are informally employed.⁴ This worker-centred focus has been accompanied by significant rethinking of the composition, causes, and consequences of informal employment, as follows:

Composition: The informal economy is widely recognised to include a range of self-employed persons who work in small unregistered (i e, informal) enterprises. The worker-focus serves to highlight that these include: (a) a more entrepreneurial class of employers who invest their own capital in running informal enterprises and who hire others and may not, therefore, contribute their own labour; (b) own account workers who do not hire others and who contribute both their own capital and labour to the enterprise (either a single person operation or a family business/farm); and (c) unpaid family workers (in family businesses or farms) who contribute their own labour and may or may not contribute their own capital. In addition, the worker focus serves to highlight that the informal workforce also includes:

– A wide range of wage workers: Employees in informal enterprises; casual day labour in construction and agriculture; temporary, part-time, and contract workers without employment-based protections.

– Some workers who are neither fully dependent wage workers or fully independent self-employed: disguised wage workers such as industrial outworkers who work on a sub-contract for a piece rate but are responsible for all non-wage costs of production; and dependent contractors such as commission agents who sell goods on a commission for others or taxi and truck drivers who work for a company that owns the vehicles they drive.

Causes: There are different causal theories of what gives rise to informality. Many economists subscribe to the notion that informal entrepreneurs choose – or volunteer – to work informally [Maloney 2004]. Yet many economists also recognise that informal employment tends to expand during economic crises or downturns, suggesting that necessity – in addition to choice – drives informality. Other observers point out that informalisation of employment relations is a feature of contemporary economic growth and the global economy. A worker focus helps to deepen our understanding of what gives rise to informal employment under different circumstances, including the following:

- Some of the self-employed choose – or volunteer – to work informally in order to avoid registration and taxation. While others do not choose to work informally but do so out of necessity or tradition.

- Many of the self-employed would welcome efforts to reduce barriers to registration and related transaction costs especially if they were to receive the benefits of formalising, such as written and enforceable commercial contracts as well as access to financial resources and market information.

- Much of the recent rise in informal wage employment is due to the decline in formal employment or the informalisation of previously formal employment relationships.

- Formal employment relationships get informalised when employers choose to (a) retain a small core regular workforce and hire other workers on an informal basis; (b) avoid payroll taxes and employer-contributions to social security or pensions; and/or (c) avoid other obligations as employers. In such cases, the employers (not the workers) are avoiding regulation and taxation.

Consequences: The poverty and other outcomes of work are a function not only of the level or earnings but also of the period over which earnings are sustained, the volatility of these earnings, and the arrangements through which they are achieved, including related costs and benefits. Three dimensions of work are instrumental in determining the social outcomes of work: place of work, production system, and employment status. Each place of work is associated with specific risks and, thus, different degrees of security or insecurity. Micro-entrepreneurs and wage workers tend to lose market knowledge and bargaining power as they move from traditional to industrial to global systems of production. And each employment status, as outlined below, is associated with different degrees of autonomy and risk for those who work in them.⁵

While informal work does offer positive opportunities and benefits, such as flexibility of work hours and convenience of work location, the costs are often quite high. Some of these are “out-of-pocket” direct expenses needed to run an informal business or otherwise work informally; others are indirect, reflecting the more general conditions under which the working poor live and work. Some of these can be rather high over the long-term, such as when a worker has to sacrifice access to health and education (or training) for herself or family members. Also, there are psychological and emotional costs – in terms of a worker’s self-esteem and dignity – associated with many forms of informal work.⁶

In brief, the benefits of informal employment are often not sufficient and the costs are often too high for those who work informally to achieve an adequate standard of living over their working lives. In general, only informal employers who hire others earn enough to predictably rise above the poverty threshold.

The employment-based definition of the informal economy can help support and promote a worker-centred approach to poverty reduction and economic development, if used by national statisticians in collecting employment data and by national policy makers in designing policies. The worker-centred approach to reducing poverty, which this paper calls for, is one that focuses on the needs and constraints of the working poor as workers, not only as citizens or as members of poor households and disadvantaged communities.

Informality, Gender, and Poverty

Size and Significance

Informal employment is particularly important in developing countries, where it comprises one half to three-quarters of non-agricultural employment: specifically, 48 per cent in northern Africa; 51 per cent in Latin America; 65 per cent in Asia; and 72 per cent in sub-Saharan Africa. If South Africa is excluded, the share of informal employment in non-agricultural employment rises to 78 per cent in sub-Saharan Africa.⁷ If comparable data were available for other countries in southern Asia, in addition to India, the regional average would likely be much higher. If informal employment in agriculture is included, as is done in some countries, the proportion of informal employment greatly increases: from 83 per cent of non-agricultural employment to 93 per cent of total employment in India; from 55 to 62 per cent in Mexico; and from 28 to 34 per cent in South Africa.

Throughout the developing world, informal employment is generally a larger source of employment for women than formal employment and generally a larger source of employment for women than for men. Other than in northern Africa, where 43 per cent of women workers are in informal employment, 60 per cent or more of women workers in the developing world are in informal employment (outside agriculture). In sub-Saharan Africa, 84 per cent of women non-agricultural workers are informally employed as compared to 63 per cent of men; and in Latin America the figures are 58 per cent of women in comparison to 48 per cent of men. In Asia, the proportion is 65 per cent for both women and men.

Composition and Segmentation

In developing countries, self-employment comprises a greater share of informal employment (outside of agriculture) than does wage employment, ranging from 60 to 70 per cent of informal employment, depending on the region. In most countries for which data are available, women (as well as men) in informal employment are more likely to be in self-employment than in wage employment. In northern Africa and Asia and at least half of the countries of sub-Saharan Africa and Latin America, more women in informal employment (outside agriculture) are in self-employment than in wage employment. By contrast informal wage employment is more important for women in Kenya, South Africa and four countries in South America – Brazil, Chile, Columbia and Costa Rica. In these countries more than half of women in informal employment are wage workers. Moreover, in all but one of these countries – South Africa – women are more likely to be informal wage workers than are men. In explaining these patterns, it is important to recognise that paid domestic work is an important category of informal employment

for women in all Latin American countries as well as in South Africa.

But the informal economy, especially in developing countries, is more highly segmented than the simple wage employment versus self-employment dichotomy would suggest. The main segments of informal employment, classified by employment status, are as follows:

- Employers: Owner operators of informal enterprises who hire others;
- Employees: Unprotected employees with a known employer: either an informal enterprise, a formal enterprise, a contracting agency or a household;
- Own account workers: Owner operators of single-person units or family businesses or farms who do not hire others;
- Casual labourers: Wage workers with no fixed employer who sell their labour on a daily or seasonal basis;
- Industrial outworkers: Sub-contracted workers who produce from their homes or a small workshop;
- Paid contributing members of cooperatives or producer groups: and
- Unpaid contributing family workers: Family workers who work in family businesses or farms without pay.

A set of national data analyses in five developing countries commissioned for a 2005 UNIFEM publication (see below) found that, with respect to non-agricultural informal employment, women are more likely than men to work as own-account workers, domestic workers, and unpaid contributing workers in family enterprises [Chen et al 2005]. In contrast, men are more likely to work as employers and wage workers (ibid).

In the countries studied for the UNIFEM publication, men comprise the majority of informal agricultural workers, although exceptions exist.⁸ However, in many countries women still account for a large share of own-account agricultural workers and a majority of unpaid workers on family farms. Typically, few women are employed as informal agricultural wage workers. Informal agricultural employment tends to be more precarious than non-agricultural informal work, and it is characterised by very low earnings, uncertain incomes, and high risks of poverty.

To understand labour markets in developing countries, it is important to recognise the multi-segmented nature of the informal economy. To understand and address poverty, it is also important to understand the work arrangements, and associated costs and benefits, of different segments of the informal economy.

Links with Poverty

Making the link between informality, gender, and poverty means assessing the costs and benefits associated with different segments of informal employment against the location of the working poor, both women and men, within them. Statistical data on associated costs and benefits are limited: so testing these linkages statistically is very difficult. However, several recent sets of national data analyses have considered the average earnings and/or the poverty risk of different segments of the labour force, both formal and informal.

(1) The first set is the analysis of national data in five countries – Egypt, El Salvador, India, Russia and South Africa⁹ – commissioned by the Economic Policy Institute-Global Policy Network (EPI-GPN) for a comparative workforce development project funded by the Ford Foundation. Following a common framework

of questions, these EPI-GPN analyses all studied the links between macroeconomic processes and labour force development (though they varied in the measures used). Most importantly, for our purposes here, they also disaggregated the labour force by formal and informal employment, men and women.

(2) A second set is the analysis of national data in five countries – Costa Rica, Egypt, El Salvador, Ghana, and South Africa – commissioned for the 2005 issue of UNIFEM's flagship publication *Progress of the World's Women* by the WIEGO network in consultation with the ILO.¹⁰ Following a common data tabulation plan, these analyses were designed to (a) distinguish workers not only by the main categories – formal and informal, agricultural and non-agricultural – but also by the employment statuses within them; and (b) link employment data with earnings data and, for some of the countries, household income data.

There are important differences between the two sets of analyses. The EPI-GPN set of country cases was designed to look at broad trends in unemployment; formal and informal employment; and, where possible, earnings. The UNIFEM-WIEGO-ILO set of national data analyses was designed to look in-depth at the links between employment status (formal and informal), earnings and household poverty at a single point in time. In the three countries that were common to the two sets of analysis – Egypt, El Salvador, and South Africa – the data sources and years were roughly comparable.

(3) A third relevant analysis is a compilation of data for 14 countries by Jacques Charmes. For all countries, Charmes compares data on the average monthly income of micro-entrepreneurs (i.e. informal employers who hire others) and the average monthly wage of employees of micro-enterprises, both expressed as multiples of the legal minimum wage level in those countries.¹¹

In addition to these three sets of multi-country data analyses, findings from analyses of recent national data from Tunisia and India are also presented.

Employment and Earnings

The links between employment, gender, and poverty can be seen by comparing (a) average earnings in formal and informal employment and (b) average earnings of different categories of informal employment.

Average earnings in formal and informal employment: A first comparison is the contrast between average wages or earnings in formal and informal employment, taken as a whole. In three of the five countries in the EPI-GPN set of studies, the analysts were able to compare average wages or earnings data. The results confirm that, on average, wages or earnings are higher in formal than in informal employment, as summarised below:

– Egypt: Average real wages of the formal and informal workforce, both sexes, were measured at two points in time (1988 and 1998). The results suggest a large gap between formal and informal real wages in both years and for both sexes, but a narrowing of the gap by the second point of time as formal real wages declined more rapidly than informal real wages. However, between the two points in time, female informal wages declined faster than female formal wages [El Mahdi and Amer 2005].

– El Salvador: Earnings from formal and informal employment in relation to the minimum wage were compared for 2002. A relatively small share (14 per cent) of the formal workforce earns below the minimum wage. Within the informal workforce, a higher share of rural workers (77 per cent) than urban workers

(49 per cent) earn below the minimum wage [Lara 2005]. It should be noted that the minimum wage is set at a level that would not cover the cost of “basic goods”.

– South Africa: The income of formal and informal sector workers for 2001 was compared. While the majority of formal workers earn above 1,000 rand per month, the majority of informal workers earn less than 1,000 rand. The estimated minimum level of income needed for a family of five is set at 1,777 rand per month [Braude 2005].

In all five countries in the UNIFEM-WIEGO-ILO set of data analyses, average earnings in most forms of informal employment, particularly in agriculture, are well below earnings for formal employment. In Costa Rica and El Salvador, however, average earnings for informal employers are equal to or higher than earnings in formal employment; and in Ghana and South Africa, average earnings of informal public wage workers are higher than those of formal private-sector employment. In general, wage employment in the public sector, both formal and informal, has higher average earnings than wage employment in the private sector.¹²

Comparative earnings within informal employment: A second comparison is the difference in average earnings within informal employment. As noted earlier, the informal economy is diverse and segmented. The different segments are associated with different earning potentials that would be concealed by the average for the informal economy as a whole.

The national data from 14 countries compiled by Jacques Charmes (nd) show the disparities in earnings within informal employment. In every case, except Kenya, the average monthly income of micro-entrepreneurs is higher than the average monthly wages of the employees of micro-enterprises. Generally, the wages of employees tend to hover around the minimum wage – which in itself may be less than the minimum needed for survival (ibid).

Another important comparison is between the average earnings of micro-entrepreneurs and of own account operators. Among the 14 countries studied by Charmes, only two – Colombia and India – report separate earnings data for employers and own account operators. In India, the lowest multiple of average monthly income to legal minimum wage (1.34) was for own account operators in India. In marked contrast, the average monthly income of employers in India was 5.4 times the legal minimum wage. A similar contrast was found in urban Colombia, where employers earn 4.2 times the legal minimum wage and own account operators earn only 1.6 times. In fact, in urban Colombia the employees of micro-enterprises earn nearly as much as own account operators: 1.5 times the legal minimum wage. In sum, in both Colombia and India, micro-entrepreneurs/informal employers earn higher monthly average income than own account operators, and own account operators have only slightly higher average earnings than employees of informal enterprises (ibid).

Similarly, an analysis of 1997 data on employment in the informal sector (small unregistered enterprises) in Tunisia found that the employers who hired others – the micro-entrepreneurs – were not poor. Indeed, the average income of micro-entrepreneurs was found to be four times as high as the legal minimum salary and 2.2 times the average salary in the formal sector.

Although micro-entrepreneurs may have relatively high earnings in Tunisia – and elsewhere – most workers in informal employment do not fare so well. For example, the micro-entrepreneurs

in Tunisia paid their employees on average roughly the legal minimum wage of 200 dinars per month. The Tunisian study also included information on earnings in jobs outside informal enterprises – notably for homeworkers. Homeworkers, who are paid by the piece, earned an average of 60 dinars per month, which is only 30 per cent of the minimum wage [Charmes and Lakehal 2003].

The UNIFEM-WIEGO-ILO set of five-country studies found a hierarchy of average earnings across the different segments of the informal economy. To begin with, average earnings in agricultural informal employment are lower than average earnings in non-agriculture informal employment. Among non-agricultural informal employment, in all five countries, informal employers have the highest average earnings followed by own-account workers, and then casual wage workers and domestic workers (ibid) [Chen et al 2005]. This UNIFEM-WIEGO-ILO set of country studies did not separate out industrial outworkers who, as noted above, tend to have the lowest average earnings of all. These studies also did not provide systematic evidence on where employees of informal enterprises belong in the hierarchy.¹³

In most of these country cases, separate data on employees of informal enterprises or informal employees more generally are not available. In Egypt, such data are available from an enterprise survey but these cannot be linked to the broader labour force analysis. In South Africa, such data was available from the labour force survey. Wage employees in informal (unregistered) enterprises earn somewhat less than own-account workers, while informal employees in registered enterprises earn more than own-account workers. Therefore, in South Africa, informal employees in unregistered enterprises would be more closely linked with casual wage workers than with regular wage workers [Chen et al 2005].

Within informal employment, in all five countries in the UNIFEM-WIEGO-ILO set of analyses, women’s hourly earnings uniformly fall below those of men in identical employment statuses. The gender gap in earnings is particularly pronounced among own-account workers – both agricultural and non-agricultural. This gender gap in earnings is compounded by the gendered segmentation of informal employment, as women are more likely to be own account workers than regular wage workers.

Employment and Poverty

Household poverty: Two recent labour force surveys – the 2002 Labour Force Survey in South Africa and the 1999-2000 National Sample Survey of India on employment and unemployment – provide unique data that begin to answer questions regarding the relationship between employment and poverty. Both surveys collected household expenditure data as well as data on employment, including informal employment; and both studies tried to link these variables in a meaningful way by classifying households by sources of income and by expenditure categories. Analyses of these data sets all found an overlap between depending on informal employment and being poor at the household level.¹⁴

South Africa was one of the three countries studied in both the EPI-GPN and UNIFEM-WIEGO-ILO sets of country cases. The EPI-GPN study looked at the relationship between monthly household expenditure categories and the sources of employment income in households: that is, by whether a household had one or more persons in permanent employment, in

informal employment, in domestic work or unemployed [Braude 2005]. The higher the monthly expenditure category, the higher the percentage of households with persons in permanent employment. Moving down the expenditure categories, the percentage of households with persons in informal employment (including domestic services) increases. Not surprisingly, the lowest expenditure category had the highest percentage of households with an unemployed person or persons (using an expanded definition of unemployment). It should be noted that the unemployment rate is very high in South Africa (ibid).

The South Africa analysis in the UNIFEM-WIEGO-ILO set of country studies looked at the relationship of household income categories and whether the majority of household employment income is from formal or informal sources, as well the number of earners, the sex of the household head, and the sex of the primary earner [Chen et al 2005]. Households that depend primarily on informal employment income have significantly higher poverty rates than households with a majority of income coming from formal employment. Female-headed households have significantly higher poverty rates than male-headed households. Similarly, households whose primary earner is female have significantly higher poverty rates than households in which the primary earner is male. However, these gender differentials are much less pronounced when households have access to formal employment (ibid).

In marked contrast to South Africa, the unemployment rate in India is not high, and the vast majority of workers – 92 per cent – are in informal employment (using the expanded definition of informal employment). A recent analyses of the 1999-2000 India data looked at poverty rates among urban Indian households that sustain themselves on informal employment income by broad industrial sector and employment type [Sastry 2004].¹⁵ Households that depend on “regular” (as opposed to casual) informal wage employment have lower poverty rates relative to households that rely on self-employment, and households that depend on casual labour as their primary source of income are the most likely to be poor. This hierarchy of poverty risk – households depending on “regular” informal wage employment having the lowest, self-employment the next highest, and casual wage employment the highest risk – is robust across industrial sectors in urban India.

Another study in India, also using data from the National Sample Survey, but from two earlier surveys (1987-88 and 1993-94), found a similar relationship between poverty and the nature of employment income. Dubey et al analysed the probability of urban households being poor according to their main source of income – classified as regular salary, self-employment and casual wage labour – and by the size of the city or town in which they were located [Dubey et al 2001]. Their analysis shows that, for cities or towns of all sizes and both points in time, households with regular salaried employees (both formal and informal) have the lowest probability of being poor, while those that depend on casual day labour have the highest probability, and households that depend on self-employment falling roughly halfway in between.¹⁶ All employment groups fared better in larger cities. And, between the two rounds of the survey, the probability of being poor declined for all groups.

Individual poverty: The UNIFEM-WIEGO-ILO set of country studies used an innovative technique for measuring the risk of poverty among employed persons. According to this technique, the “poverty risk” associated with different employment statuses is defined as the share of all persons employed in a given status

who live in households whose incomes place them below the national poverty line. This technique connects the type of employment, measured at the individual level, to the risk of poverty, measured at the household level. As such, it is only feasible in those countries where national data on employment and household income are linked. The hierarchy of poverty risk so defined is the reverse of the hierarchy of earnings detailed above: informal agricultural workers have the highest risk of poverty and, among the non-agricultural informally employed, informal employers have the lowest risk of poverty, own account workers have a higher risk of poverty, while casual wage workers and domestic workers have the highest risk [Chen et al 2005]. Since the UNIFEM-WIEGO-ILO country studies did not separate out employees of informal enterprises or industrial outworkers it was not possible to measure the poverty risk of these groups.

In all five UNIFEM-WIEGO-ILO study countries, gender-based differences in poverty risk are associated with the multi-segmented character of the labour force, as women are concentrated in forms of employment with low earnings and higher poverty rates. However, no systematic pattern emerged in the country case studies in terms of differences between men’s and women’s poverty rates within a particular employment status. One possible explanation is that households in which women are engaged in remunerative work might have lower poverty rates relative to households in which women do not allocate time to income-generating activities. If this is the case, a household’s poverty status can be determined by women’s access to paid employment, no matter how low their earnings.

Hierarchies of Earnings and Poverty Risk

In sum, the statistical evidence presented in this paper suggests a hierarchy of earnings and poverty risk across the various segments of the labour force, as illustrated in Figures 1-3. While average earnings are higher in formal employment than in informal, there is also a hierarchy of earnings within the informal economy. Employers have the highest average earnings followed by their employees and other “regular” informal employees, then own account workers, followed by casual wage workers and domestic workers, and finally industrial outworkers. Within this hierarchy, women are disproportionately represented in segments of the informal labour force with low earnings (Figure 1). The fact that women tend to be under-represented among informal employers and “regular” informal wage workers and over-represented among industrial outworkers leads to a gender gap in average earnings and in poverty risk within the informal economy. Average earnings are lower and the risk of poverty is higher among all women workers in the informal economy compared to all men workers within the informal economy.

The hierarchy of poverty risk among households depends on whether households have some formal sources of employment income or only informal sources (Figure 2) and also on what type of employment is the primary source of employment income (Figure 3). Figure 2 illustrates that households which rely primarily on informal sources of employment income face higher poverty risk than those that rely on formal sources. Figure 3 illustrates that households which depend on the most precarious forms of informal employment as their primary source of income are likely to have substantially higher poverty risk than those that have access to more stable and better quality employment.

Figure 1: Segmentation of Informal Employment by Average Earnings and Sex

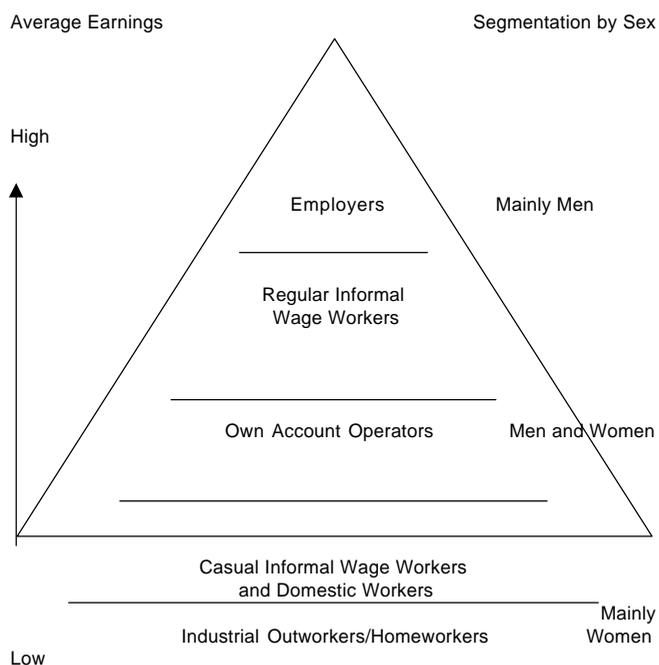


Figure 3: Poverty Risk of Households by Primary Source of Income

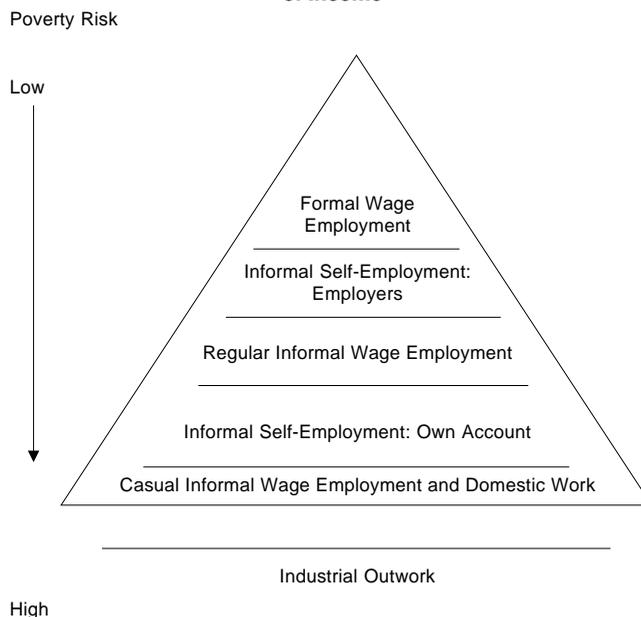
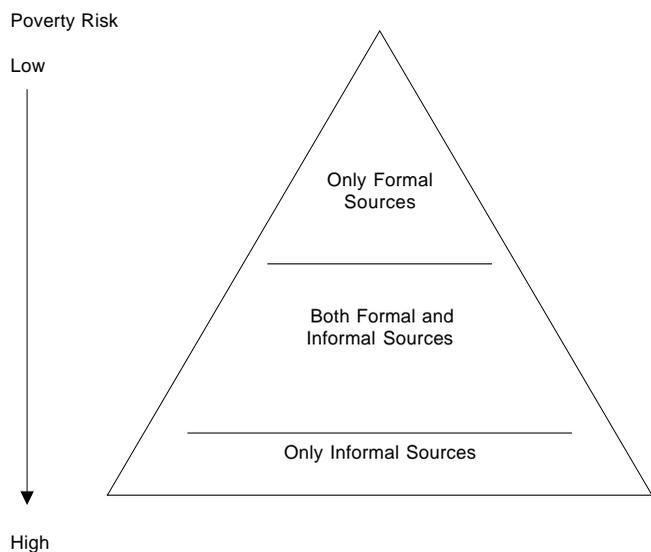


Figure 2: Poverty Risk of Households by Sources of Income



These figures can be used as advocacy tools to underscore the critical importance of the intersection of gender, employment and poverty. They also provide a structure for framing further research on these interrelationships.

Addressing Informality, Reducing Poverty

Among the poor, employment earnings are the main source of income. Therefore, the quantity and quality of employment available to women, men and households matter a great deal in determining who is poor and who is not – not only in terms of income poverty but also in terms of other dimensions of poverty. As this paper has illustrated, most of the working poor are engaged

in informal employment. Efforts to combat poverty must, therefore, pay greater attention to needs and constraints faced by the working poor, both women and men, in the informal economy. In other words, promoting decent work for the working poor, both women and men, is a key pathway to reducing poverty. Specifically, it requires:

- Creating more and better employment opportunities;
- Creating incentives for informal enterprises to register and for employers to extend benefits to workers; and
- Increasing the returns to labour of those who work in the informal economy [Diez de Medina 2005].

This will require a major reorientation of economic thinking, economic planning, and economic policies. The global community needs to recognise that there are no short cuts to reducing poverty and gender inequality; and that economic growth alone – even if supplemented by social policies to compensate the losers – cannot eliminate poverty and inequality. The global community needs to set more and better employment – especially for working poor women and men – as a core priority and target of all economic policies. It should also recognise that economic policies that are narrowly focused on inflation-targeting, such as those promoted by the IMF and the World Bank, can create an economic environment that is hostile to an expansion of more and better employment opportunities.

Reorienting economic policies towards creating more and better employment will not be possible unless several preconditions are met:

The visibility of workers – especially working poor women and men – in labour force statistics and other data used in formulating policies needs to be increased. More countries need to collect statistics on informal employment broadly defined, and countries that already do so need to improve the quality of the statistics that they collect. In addition, in order to undertake an analysis of employment poverty, attention needs to be given in national data collection to linking labour force and income/expenditure surveys. Additional analyses such as those presented in this paper need to be undertaken and the results of these

analyses need to be fully integrated into economic planning and policy-making.

All forms of informal employment need to be integrated into economic models of labour markets. Existing economic models of labour markets focus on the supply and demand of wage labour. These models tend to exclude the self-employed and to conflate the various types of waged workers (formal salaried workers in both private and public enterprises, employees of informal enterprises, contracted or subcontracted workers of various kinds, domestic workers and casual day labourers). They also fail to estimate or account for the extent of underemployment, including among the self-employed, which often more accurately captures the employment problem in developing countries than does unemployment.

The representative voice of workers – especially informal workers both women and men – in the processes and institutions that determine economic policies and formulate the “rules of the (economic) game” needs to be increased. This requires building and supporting organisations of informal workers and extending the coverage of existing trade unions, cooperatives, and other worker organisations to include informal workers. This also requires making rule-setting and policy-making institutions more inclusive to include representatives of the working poor.

In conclusion, poverty cannot be reduced by expecting economic policies to generate employment and social policies to compensate the losers. Economic growth often fails to generate sufficient employment or decent employment and compensation through social policies is seldom sufficient and often neglected altogether. Poverty reduction – not just economic development – requires a major reorientation in economic priorities to focus on employment, not just growth and inflation. To be effective, strategies to reduce poverty and promote equality should be

worker-centred: that is, they must focus on the needs and constraints of the working poor, especially women, as workers, not only as citizens, as members of a vulnerable group, or as members of poor households. This requires pursuing an inclusive development policy process that promotes the participation of the poor, both men and women, as workers: that is, a worker-centred policy process. A worker focus will provide coherence and relevance to poverty reduction strategies because most poor people work, because employment earnings represent the main source of income in poor households, and because working conditions affect all dimensions of poverty, well-being, and human development. [EJW](#)

Email: martha_chen@harvard.edu

Notes

[This paper is based on the evidence that the authors compiled and analysed for three recent publications:

(a) In *Women and Men in the Informal Economy: A Statistical Picture* [ILO 2002b] written for the International Labour Conference 2002 General Discussion on ‘Decent Work and the Informal Economy’, we presented the first compilation of existing statistics on informal employment broadly defined.

(b) In *Mainstreaming Informal Employment and Gender in Poverty Reduction: A Handbook for Policy-Makers and Other Stakeholders* [Chen et al 2004], the third in a series of Commonwealth Secretariat publications on gender mainstreaming in critical development issues, we presented data compiled from existing studies on the topics of employment – especially informal employment – earnings and poverty.

(c) For *Progress of the World's Women 2005: Women, Work and Poverty* [Chen et al 2005], the third issue of UNIFEM's flagship publication, we designed a tabulation framework and commissioned new analyses of official national statistic in five developing countries (and one developed country) on the linkages between employment – especially informal employment – earnings and poverty.]

SPECIAL ISSUE

MONEY, BANKING AND FINANCE

March 18, 2006

Universal Banking: Solution for India's Financial Challenges?

–A K Khandelwal

Financial Liberalisation in India: An Assessment of Its Nature and Outcomes

–C P Chandrasekhar, Parthapratim Pal

On Liberalising Foreign Institutional Investments

–Mihir Rakshit

Current State of the Indian Capital Market

–R H Patil

Agricultural Credit in India: Status, Issues and Future Agenda

–Rakesh Mohan

Commercial Bank Lending to Small-Scale Industry

–K S Ramachandra Rao, Abhiman Das,

Arvind Kumar Singh

A Review of Bank Lending to Priority and Retail Sectors

–Mohua Roy

Monetary Policy and Operations in Countries with Surplus Liquidity

–Mridul Saggar

Basel II and Bank Lending Behaviour: Some Likely Implications for Monetary Policy

–D M Nachane, Saibal Ghosh, Partha Ray

Stock-Flow Norms and Systemic Stability

–Romar Correa

Is the Role of Banks as Financial Intermediaries Decreasing? A Helicopter Tour

–A S Ramasastry, N K Unnikrishnan

Internal Credit Rating Practices of Indian Banks

–M Jayadev

Productivity Growth in Regional Rural Banks

–A Amarendra Reddy

Foreign Banks in Historical Perspective

–A Karunakaran

An Architectural Plan for a Microfinance Institutional Network

–R Dasgupta

Macroeconomic Fundamentals and Exchange Rate Dynamics in India: Some Survey Results

–N R Bhanumurthy

Life Insurance and the Macroeconomy: Indian Experience

–H Sadhak

For copies write to: Circulation Manager,

Economic and Political Weekly,

Hitkari House, 6th Floor, 284, Shahid Bhagatsingh Road, Mumbai 400 001.

- 1 UNIFEM and James Heintz reviewed 41 PRSPs for the *Progress of the World's Women 2005*. Of these, only five set any kind of explicit target for employment and only 23 incorporated some form of employment indicators as part of the monitoring and evaluation process [Chen et al 2005].
- 2 "Employment status" is a conceptual framework used by labour statisticians to delineate two key aspects of labour contractual arrangements: the *allocation of authority* over the work process and the outcome of the work done; and the *allocation of economic risks* involved [ILO 2002a].
- 3 The guidelines also included production for own final use (i.e., subsistence production) as informal. In many countries this is not considered an important category and is not included in employment statistics.
- 4 The term "informal workers" is used here in a broad inclusive sense to include wage workers, small producers, service providers and traders.
- 5 See Chapter 4 of Chen et al (2005) for more details.
- 6 See Chapter 4 of Chen et al (2005) for a typology of the costs of working informally and a set of examples illustrating the typology.
- 7 Data on the size and composition of informal employment are from ILO (2002b), unless other sources are cited.
- 8 In the countries studied for the UNIFEM publication, agricultural employment accounted for a larger share of women's employment than men's employment in India and Egypt. However, this is largely explained by the significant number of women working unpaid on family agricultural enterprises. India was also an exception in that a significant number of women work as informal agricultural wage labourers.
- 9 These studies were coordinated by the Global Policy Network of the Economic Policy Institute in Washington DC under a comparative workforce development project funded by the Ford Foundation. These studies have been published in a volume called *Good Jobs, Bad Jobs, and No Jobs: Labour Markets and Informal Work in Egypt, El Salvador, India, Russia and South Africa* edited by Tony Avirgan with L Josh Bivens and Sarah Gammage [Avirgan et al 2005].
- 10 The authors of this paper designed the common data tabulation plan and commissioned the national data analyses for the *Progress of the World's Women* in consultation with the ILO Statistics Bureau and with financial support from UNIFEM and UNDP, and the ILO funded a synthesis analysis of the findings by James Heintz [Heintz 2005]. The data analysis teams included Jesper Venema, ILO-Panama, for Costa Rica; Egypt: Mona Amer and Alia El Mahdi, University of Cairo; Edgar Lara and Reinaldo Chanchan, Funde Nacional para el Desarrollo (FUNDE) for El Salvador with assistance from Sarah Gammage; James Heintz, University of Massachusetts for Ghana; and Daniela Casale, Colette Muller, and Dorrit Posel, University of KwaZulu-Natal, for South Africa. The findings have been published in summary form in Chapter 3 of Chen et al (2005).
- 11 The 14 countries whose national data was compiled by Charmes include: Morocco and Tunisia in Northern Africa; Benin, Burkina Faso (street vendors only), Chad, Ethiopia (urban), Gabon, Kenya, Mali, and Niger in Sub-Saharan Africa; Brazil, Colombia, and Mexico (all urban) in Latin America; and India and Indonesia in Asia. All of the data was from the late-1990s with the exception of Morocco where the data was from 1992 [Charmes nd].
- 12 See Chapter 3 of Chen et al (2005) for more details.
- 13 In Egypt, the only country for which earnings by size of informal firm were available, the average wage of employees increases with firm size.
- 14 A related phenomenon, which deserves more study, is the concentration of certain racial or ethnic groups as well as immigrant populations in the informal economy. For example, in South Africa, 85 per cent of all workers in the informal sector are black [Braude 2005]. In Guatemala, according to a 1989 household survey, indigenous workers are 4.3 times more likely to be working in the informal sector than in the formal sector [Funkhouser 1996].
- 15 In this study, households classified as sustaining themselves on informal employment income are households with at least one person employed as an informal worker and no household member employed outside of the informal economy.
- 16 While the findings of both studies may not be surprising, there are very few empirical analyses linking household poverty and employment in this way.

References

- Avirgan, Tony, L Josh Bivens and Sarah Gammage (eds) (2005): *Good Jobs, Bad Jobs, and No Jobs: Labour Markets and Informal Work in Egypt, El Salvador, India, Russia and South Africa*, Economic Policy Institute, Washington DC.
- Braude, Wolfe (2005): 'South Africa: Bringing Informal Workers into the Regulated Sphere, Overcoming Apartheid's Legacy' in Avirgan et al (eds), *Good Jobs, Bad Jobs, and No Jobs: Labour Markets and Informal Work in Egypt, El Salvador, India, Russia and South Africa*, Economic Policy Institute, Washington DC.
- Castells, Manuel and Alejandro Portes (1989): 'World Underneath: The Origins, Dynamics, and Effects of the Informal Economy' in Alejandro Portes, Manuel Castells and Lauren A Benton (eds), *The Informal Economy: Studies in Advanced and Less Advanced Developed Countries*, John Hopkins University Press, Baltimore.
- Charmes, Jacques (nd): 'Average Monthly Incomes of and Wages Paid by Micro-Entrepreneurs (as Multiples of Legal Minimum Wage)', table of official national statistics from 14 countries, presented in Chen et al 2004.
- Charmes, Jacques and Mustapha Lekehal (2003): 'Industrialisation and New Forms of Employment in Tunisia' in Martha Chen, Renana Jhabvala and Guy Standing (eds), *Rethinking Informality and Work* (forthcoming).
- Chen, Martha, Joann Vanek and Marilyn Carr (2004): *Mainstreaming Informal Employment and Gender in Poverty Reduction: A Handbook for Policy-Makers and Other Stakeholders*, The Commonwealth Secretariat, London.
- Chen, Martha, Joann Vanek, Francie Lund, and James Heintz with Renana Jhabvala and Christine Bonner (2005): *Progress of the World's Women 2005: Women, Work and Poverty*, UNIFEM, New York.
- de Soto, Hernando (1989): *The Other Path: The Economic Answer to Terrorism*, Harper Collins, New York.
- (2000): *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*, Basic Books, New York.
- Diez de Medina, Rafael (2005): 'A Model of Change for the Informal Economy', powerpoint presentation for 'Knowledge Fair on Decent Work and the Informal Economy', International Labour Conference, International Labour Office, Geneva.
- Dubey, Amaresh, Shebhashis Gangopadhyay and Wilima Washwa (2001): 'Occupational Structure and Incidence of Poverty in Indian Towns of Different Sizes', *Review of Development Economics*, 5 (1), pp 49-59.
- El Mahdi, Alia and Mona Amer (2005): 'Egypt: Growing Informality, 1990-2003' in Avirgan et al (eds), *Good Jobs, Bad Jobs, and No Jobs: Labour Markets and Informal Work in Egypt, El Salvador, India, Russia and South Africa*, Economic Policy Institute, Washington DC.
- Funkhouser, Edward (1996): 'The Urban Informal Sector in Central America: Household Survey Evidence', *World Development*, 24 (1), pp 1737-51.
- Hart, Keith (1973): 'Informal Income Opportunities and Urban Employment in Ghana', *The Journal of Modern African Studies*, 11 (1), pp 61-89.
- Heintz, James (2005): 'Synthesis of Country Case-Studies and Tabulations for *Progress of the World's Women 2005*', ILO, Geneva.
- International Labour Office (1972): *Employment, Incomes and Equality: A Strategy for Increasing Productive Employment in Kenya*, International Labour Office, Geneva.
- (2002a): *Decent Work and the Informal Economy*, Report VI, International Labour Conference, 90th Session, International Labour Office, Geneva.
- (2002b): *Women and Men in the Informal Economy: A Statistical Picture*, International Labour Office, Geneva.
- (2004): *Economic Security for a Better World*, International Labour Office, Geneva.
- (2005): *World Employment Report 2004-05: Employment, Productivity and Poverty Reduction*, International Labour Office, Geneva.
- Lara, Edgar Lopez (2004): 'Formal and Informal Employment in El Salvador: A Study of Labour Development' in Avirgan et al (eds), *Good Jobs, Bad Jobs, and No Jobs: Labour Markets and Informal Work in Egypt, El Salvador, India, Russia and South Africa*, Economic Policy Institute, Washington DC.
- Maloney, William F (2004): 'Informality Revisited', *World Development*, Vol 32, No 7, July.
- Moser, Caroline N (1978): 'Informal Sector or Petty Commodity Production: Dualism or Independence in Urban Development', *World Development*, 6, pp 1041-64.
- Sastry, N S (2004): 'Estimating Informal Employment and Poverty in India', Discussion Paper Series No 7, UNDP, Delhi.
- Sethuraman, S V (1976): 'The Urban Informal Sector: Concept, Measurement and Policy', *International Labour Review*, 114 (1), pp 69-81.
- Tokman, Victor (1978): 'An Exploration into the Nature of the Informal-Formal Sector Relationship', *World Development*, 6 (9/10), pp 1065-75.
- United Nations (2005): *The Millennium Development Goals Report*, United Nations, New York.