

**INFORMAL SECTOR, POVERTY AND GENDER**  
**A REVIEW OF EMPIRICAL EVIDENCE**

Background paper for the World Development Report 2001

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This study was undertaken within the framework of a collaboration between the World Bank (Poverty Reduction and Economic Management Department) and WIEGO, Women in Informal Employment: Globalising and Organising, a global coalition, launched in 1997 under the initiative of SEWA (Self-Employed Women Association), UNIFEM and HIID (Harvard Institute for International Development). The main purpose of the study was to review statistical data available at national level on informal sector, poverty and women's participation.

For many, if not most, economists, social scientists and policy makers, it is taken for granted that informal sector operators and their households generate low incomes which maintain most of them under the poverty line. This paper intends to be an exploration into the size of informal sector in the total labour force and its contribution to GDP as well as its share in the generation of the household income, through the currently available statistical data which have been collected during the past two decades. Special emphasis will be given to gender issues according to the availability of data. To this aim, it will be referred to original national estimates on informal sector based on a single harmonised definition and a unique methodology which allow to generate coherent and consistent indicators likely to be compared with other aggregated macro-economic indicators. In this respect, poverty indicators are much less consistent and comparable; however they will be tentatively compared with informal sector estimates in view of testing a possible correlation between them. It should be stressed here that many figures, data and tabulations, which are usually displayed in recent publications, may revealed misleading as they often mix data at national, urban (or even capital) level, without much caution. Here, we have emphasised national data, and especially non-agricultural labour force, GDP and incomes, in view of a better and more appropriate approach of the informal sector, as it was internationally defined in 1993.

After a brief reminder of the definition and contents of the concepts of informal sector and poverty, will be presented synthesis tables at regional levels on size and contribution of the informal sector and levels of generated incomes. Once is not usual: Africa provides the most detailed, various and demonstrative data, maybe because this continent lacked of statistics for long and because the extent of the phenomena under review was without common proportion compared to other regions.

## **I. Informal sector and poverty: definitions and measurement.**

Emerging of more than two decades of surveys, the main features of **informal sector** economic units are: ease of entry ; small scale of the activity ; self-employment, with a high proportion of family workers and apprentices ; little capital and equipment ; labour intensive technologies ; low skills ; low level of organisation with no access to organised markets, to formal credit, to education and training or services and amenities ; cheap provision of goods and services or provision of goods and services otherwise unavailable ; low productivity and low incomes according to some analysts, or, on the contrary, incomes that are notably higher than in the public sector, especially during the recent period and in the context of structural adjustment policies, for other observers.

Although these activities are legal, they rarely comply with official and administrative requirements. More specifically, as they often go unregistered, they do not pay relevant taxes, not only or not mostly out of a desire or willingness to escape and to remain concealed, but more likely because of the inability of governments to enforce often inadequate regulations. Informal sector activities are often tolerated as a kind of recognition that the laws are inadequate. Furthermore, they have become a means for many countries to cope with population growth, rural-urban migrations, economic crises, poverty and indebtedness.

In addition, many formal wage-earners are engaged in informal businesses held as additional jobs in order to compensate declining wages and purchasing powers. Thus, one

cannot consider that there is a perfect dichotomy between participants in the informal sector on the one hand, and people who receive wages and salaries from Government, public and private modern sectors (usually called the protected sector), on the other.

The complexity and looseness of the concept explain why it has not been possible until now to reach an international agreement on a definition covering the variety of analytical purposes adopted by data users. For this reason labour statisticians have decided to distinguish the several definitions that may vary according to the need of users at the tabulation stage, from the one single statistical definition for the purpose of data collection (ILO, 1993 a and b).

The underlying "umbrella" concept encompasses the various parts of the economy that are insufficiently reflected in official statistics : it refers to the specifics of the varying scopes used for the relevant surveys ; it is as simple as possible and uses one single criterion or a small number of operational criteria ; yet, it is broad enough to cover as large a universe as is conceptually compatible with the notion of informal sector.

The definition may be summarised as follows :

For statistical purposes, the informal sector is regarded as a group of production units which form a part, within the System of National Accounts (SNA), of the household sector as unincorporated enterprises owned by households.

Household enterprises (or unincorporated enterprises owned by households) are distinguished from corporations and quasi-corporations on the basis of their legal status and the type of accounts they hold : accordingly, household enterprises are not constituted as separate legal entities independently of the household or of household members that own them, and no complete set of accounts are available which could permit a clear distinction between the production activities of the enterprises and the other activities of their owners.

The informal sector is defined, irrespective of the kind of workplace, the extent of fixed capital assets, the duration of the activity of the enterprise and its operation as a main or secondary activity, as comprising:

- 1) informal self-owned enterprises which may employ family workers, and employees on an occasional basis: for operational purposes and depending on national circumstances, this segment comprises either all self-owned enterprises, or only those which are not registered under specific forms of national legislation (factories or commercial acts, tax or social security laws, professional groups, regulatory or similar acts, laws or regulations established by national legislative bodies).

- 2) enterprises of informal employers which may employ one or more employees on a continuous basis and which comply with one or both of the following criteria :

- size of the establishment below a specified level of employment (defined on the basis of minimum size requirements embodied in relevant national legislation or other empirical or statistical practices : the choice of the upper size limit taking account of the coverage of statistical enquiries in order to avoid an overlap),

- non-registration of the enterprise or its employees.

Furthermore, and for practical purposes, the informal sector may and should be restricted to non agricultural activities. Professionals and domestic workers are included in the informal sector as far as they comply with the definitional characteristics or criteria. Home-based workers are included if they are own-account or sub-contracting with other informal sector units. Non-market production is excluded.

The value of this definition resides in the fact that it leans on existing practises for estimating informal employment at a national or macro-economic level.

The statistical definition distinguishes two main components or segments of the informal sector:

- the "family enterprises" (own-account informal enterprises) without permanent employees,
- the "micro-enterprises" (informal employers) with permanent employees.

An important characteristic of the informal sector - the place of work - is not part of the definition although it plays a major role in the differentiation of the activities: but for the present purpose, it should be stressed that the micro-enterprises are defined as those informal sector units which employ salaried employees on a continuous basis and below a given size limit, be they home-based, street-based or established in fixed premises.

The adoption of an international definition of the informal sector which is not too restrictive nor too difficult to apply (as an umbrella concept) has given a great impetus to the implementation of national surveys on the informal sector in several countries and has allowed to proceed to indirect estimates at various periods, including years preceding the adoption of the 1993 definition.

Informal sector surveys at national level have now become available for a greater number of countries, which give the size of the sector and of its main components through a strict application of the criteria used for the international definition. Progress has also been made in labour force surveys and other data collection systems on employment, and it has become possible to proceed to indirect estimates in many countries, with a reduced number of assumptions: in many countries, the comparative analysis of sources on labour force and employment provide useful and reliable estimates of informal sector employment, based on the application of the criteria if the new international definition.

The comparative analysis of sources consists in the calculation of a residual balance as an outcome of the comparison between labour force surveys (or population censuses) taken for their exhaustive figures of employment on the one hand, and other sources providing partial figures on registered employment (such as social insurance or fiscal statistics or, when available, establishment censuses distinguishing the size and the type of registration of the establishments) on the other hand. The main objective of such comparisons is to identify this share of the employees and of the employers which is part of the informal sector.

Comparing the active population figures from censuses (or household surveys) with those concerning the registered employment, or again the GDP with the accounts of

registered firms' results, represent mere estimates based on the use of the residual balance technique. These techniques have enhanced our awareness of the importance of the role played by the informal sector and indeed the inadequacies of our measurement instruments. But now they enable us nevertheless to assess its trends.

As to **poverty** and its measurement through the **poverty line**, many income-expenditures or budget-consumption surveys have been carried out over the past two decades and in various regions in the world, which have provided the necessary data for the measurement of a poverty line and of the share of population living below this poverty line.

Only a few of these surveys have developed a nutrition module consisting in the precise weighting of the various types of agricultural and food products used by the housekeeper in the preparation of meals for the household. In these cases, the poverty line could be defined on the basis of the minimum caloric intake (a number given by the FAO/WHO standards and roughly equivalent to 1500-1800 kilocalories per person, or 2100-2200 kcalories per equivalent-adult). A monetary valuation of this minimum caloric intake can be made in reference to the diet and the modes of acquisition and prices observed in the households situated around the poverty line. These same households also give the types, quantities and values of non-food products consumed, in order to reach a less restrictive poverty line, taking account of other non-food basic needs. Such estimates are referred to as "absolute poverty".

Such surveys remain scarce because of their cost, and for many countries, it is necessary to assess poverty line indices on the basis of less detailed and rougher data. Using usual income-expenditures surveys (to which belong the numerous priority or integrated "Social Dimension of Adjustment" (SDA) surveys, as well as the "Living Standard Measurement Study" (LSMS) surveys carried out under World Bank programmes), the poverty line is defined through a notion of "relative poverty", that is the proportion of the population living with less than the average income or less than 2/3, 3/4 or half of this average income. It can also be calculated on the poorest 25 per cent of the population or of the households.

Given the variety of national definitions, the World Bank has finally proposed, in its 1990 World Development Report to measure poverty by reference to the population living with less than 1\$ PPP (i.e. defined by using the standard purchasing power parity exchange rates). However, relating indicators on the share of informal sector in the labour force or GDP remains a somewhat risky attempt, at least as risky than the comparison with GNP per capita. A more interesting orientation seems to lie in the examination of the structure of sources of income. If most of the estimates of poverty rely on the measurement of expenditures taken as more reliable than income, recent progress have been made in the measurement of income and it is more frequent to observe incomes higher than expenditures in some surveys: these progress are due to recent efforts to measure incomes from informal sector, but also incomes from transfers, a major issue for the assessment of poverty. Moreover, the enumeration of as long a list of sources of income and specially of transfers as possible, has generated more complete and reliable responses in the survey questionnaires. Consequently, the share of non-farm self employment and of private transfers in total household income has become an interesting indicator that is more and more often available.

These conceptual and methodological preliminaries being put down, we will present now the main indicators of size, contribution and trends of informal sector in the various parts of the developing world.

## **II. Size and contribution of the informal sector in the developing countries.**

During the period we refer to, that is the two decades between 1975 and 1995 (1975-1984 and 1985-94), the GNP per capita has decreased in most countries except in Asia, and when it did not, the increase was much lower than the dramatic growth of the labour force: therefore, the urban unemployment rates have passed beyond two digits in North Africa and in sub-Saharan Africa and they are rapidly reaching this threshold in Latin America (table 1). Certainly this trend is partly due to the progress in measurement of a phenomenon which remained unknown for a long time in countries where it is not subsidised: in the absence of compensations, such high rates mean the dissatisfaction of the youth entering a labour market which is unable to provide them with jobs adequate to the qualifications they have been more and more numerous to acquire in the education system. When asked whether they are working, they respond they do not, even if they are engaged in informal activities: in fact, they envisage those activities as a shame at worst, and at best as provisional and transitory and as such not to be considered as real work. Unemployment rates are very high in most countries, but these figures significantly drop when complementary questions are raised or when time-use is measured, such as in Benin.

**Table 1: Trends in labour force, unemployment and informal employment.**

	Annual growth rate		Urban or national* unemployment rate Years 90	Employment rate in the informal sector(3)	
	GNP/cap 1980-93	Labour force 1980-95		Years 1980	Years 1990
<b>North Africa</b>	<b>1.0</b>	<b>3.0</b>	<b>15.8(1)</b>	<b>38.8(1)</b>	<b>43.4(1)</b>
Algeria	- 0.8	3.8	20,5*	21.4	25.4
Morocco	1.2	2.6	12,0*	56.9	
Tunisia	1.2	2.8	16,8*	36.0	39.3
Egypt	2.8	2.5	14,0*	58.7	65.3
<b>Sub-Saharan Africa</b>	<b>-1.4</b>	<b>2.5</b>	<b>16.0(1) (4)</b>	<b>68.1(1)</b>	<b>74.8(1)(4)</b>
Benin	- 0.4	2.7	10.1	86.0	92.8
Burkina Faso	0.8	2.0		70.0	77.0
Chad	3.2	2.3			74.2
Guinea	-	2.2	12.3	64.4	71.9
Kenya	0.3	3.3	16.2	61.4	71.6
Mali	- 1.0	2.4	9.9	63.1	78.6
Mauritania	- 0.8	2.2	31.6	69.4	75.3
Mozambique	- 1.5	1.6			73.5
Niger	- 4.1	3.0		62.9	
Senegal	- 0.1	2.7		76.0	
South Africa	- 0.2	2.6	29.3		18.9
Zaire	-	2.9		59.6	
Zambia		3.0			58.3
<b>Latin America (2)</b>	<b>- 0.4</b>	<b>2.5</b>	<b>8.1(1)</b>	<b>52.3(1)</b>	<b>56.9(1)</b>
Argentina	- 0.5	1.6	18.8	47.5	53.3
Bolivia	- 0.7	2.6	3.6	56.9	63.6
Brazil	0.3	2.6	4.6	52.0	57.6
Colombia	1.5	3.5	9.0	55.2	55.5
Ecuador	1.5	3.4	6.9	51.2	53.5
Mexico	- 0.5	3.2	6.3	55.5	59.4
Paraguay	- 0.7	2.9	5.6	61.4	65.5
Venezuela	- 0.7	3.3	10.3	38.8	46.9
<b>Asia</b>		<b>1.9</b>	<b>5.3</b>	<b>53.0</b>	<b>63.0</b>
India	3.0	1.9		76.2	73.7
Indonesia	6.8	2.8	7.2	39.2	77.9
Pakistan	3.1	3.1	6.1	39.0	64.6
Philippines	- 0.6	2.7	7.4		66.9
Thailand	6.3	2.2	0.4	57.4	51.4
Iran	- 0.2	3.3			43.5
Turkey	2.4	2.6			

**Sources** : Charnes J. (1996) for Africa, and Tokman (1990) and OIT(1997) for Latin America. Trends in labour force are taken from the World Development Indicators, 1997, and trends in GNP per capita from the Human Development Report, 1997.

**Notes**: (1) Non-weighted arithmetical means. (2) Informal employment estimates for 1990 and 1995. (3) As a share of total non agricultural employment. (4) Without South Africa.

Despite this increase in unemployment rates, the rise of employment in the informal sector is observed everywhere and has been particularly rapid in all regions. In nearly a decade (9 years in average), informal employment rose by 6.7 percentage points in sub-Saharan Africa, 10 in Asia, and 4.6 points in North Africa; the figure for Latin America seems lower (4.6) but it occurred in half a decade (from 1990 to 1995). Countries which have known a higher than average increase are: Egypt in North Africa, Mali and Guinea in Africa



south of Sahara, Venezuela, Bolivia, Argentina and Brazil in Latin America. Recent data on Mali (see table 2) show that this steady trend has continued (12 points more from 1989 to 1994 and 3.3 from 1994 to 1996), while in Chad, recovering from a long civil war, the increase was of 15.8 percentage points in less than 3 years, between 1993 and 1996.

Tables 2,3 and 4 synthesise the main available estimates at national level and for non-agricultural labour force, in the various developing regions and for various periods. It should be noted that these figures are comparable with a good reliability as they have been estimated with homogeneous concepts and methods, in Latin America as well as in Africa. As to Asia, it is non-wage employment outside agriculture which has been chosen as a proxy for informal sector and this proxy is comparable with the family enterprise segment of the informal sector in the other continents.

As a whole, the informal sector is known to be anti-cyclical, so much so that it has become a criterion for characterising it: it grows and expands as the economic cycle is oriented downward, and it shrinks or at least its growth slows down when the cycle turns upward. Such a trend in the downward cycle clearly comes out of the figures presented in tables 1 and 2. This global anti-cyclical characteristic of the informal sector has still to be investigated and documented in a more detailed way, especially in order to identify the role of its various components or sub-sectors.

Apparently however the turning point and the beginning of the recovery do not generate a reversal in the prevailing trend: several years, if not many, are probably necessary to bring informal sector participants back to less informal behaviours and to make them appreciate the advantages of operating officially. In this respect it is interesting to look at the differentiated trends followed by the two segments that the new international definition allows to distinguish: the micro-enterprises (with permanent employees) represented by the informal employers and their employees, and the family enterprises (without permanent employees) represented by the own-account and family workers. Is the segment of "family enterprises" or the segment of home-based workers or street vendors anti-cyclical and increasing when economic growth is slowing down, and is the "micro-enterprises" segment pro-cyclical, increasing when the economic growth is starting again? The most illuminating figures have been made available by the ILO in Latin America (OIT, 1997): table 3 shows these major trends of the two components of the informal sector during the past 5 years, while table 5 tries to go further in the past and follows up the share of family enterprises in the non-agricultural labour force since 1980.

According to OIT-PREALC estimates (1990) referring to urban labour force in the 80's, the micro-enterprises segment has grown faster (7.5% per year) than the family enterprises segment (6.7) during the decade, twice than the total labour force (3.7) or the public sector (3.7) and 15 times the large and medium private enterprises (0.5). The continuation of this trend is confirmed by the data from table 3: during the 5 following years (1990-95), no one single country has known a regression of the informal sector as a whole, but in all countries the share of family enterprises in the informal sector has dropped and consequently the share of micro-enterprises has increased: the anti-cyclical characteristic of the informal sector could be thwarted and hidden, when the cycle turns upward, by the rapid growth of the pro-cyclical micro-enterprises segment which is reluctant, or has to be promoted and encouraged, to enter the modern sector.