



# **The International Context: Statistics and Schools of Thought**

**By Caroline Skinner drawing on Martha Chen's Work  
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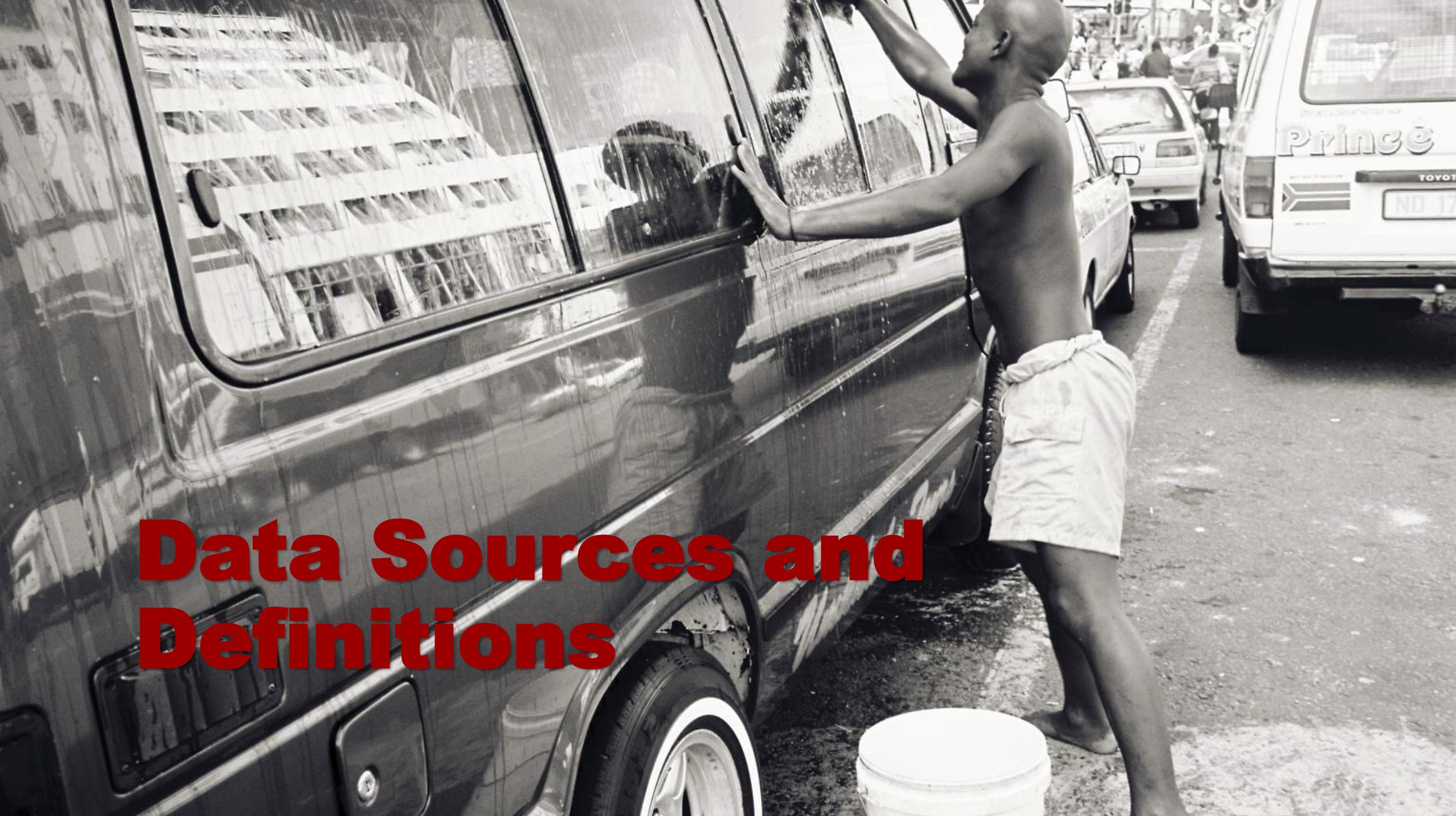
# Outline

Notes on data sources and definitions

WIEGO/ ILO informal sector statistics:

- Regional estimates
- Informal sector employment by sex
- Informal employment by employer vs own account and by industry
- Informal sector contribution to GDP

Schools of thought



# Data Sources and Definitions

# **Note on Data Sources**

Drawn from the ILO / WIEGO data base

Based on labour force survey data submitted to the ILO by country national statistical agencies

Regional estimates generated by James Heintz

Country level data available in the appendices of ILO 2013

Used latest available data 2004 - 2010

# Note on Definitions

International Conference of Labour Statisticians norms:

“*informal sector*” refers to employment and production that takes place in unincorporated, small or unregistered enterprises – the enterprise based definition

“*informal employment*” refers to employment without social protection through work both inside **and outside** the informal sector – employment based definition.

This data, in line with the project, concentrates on employment in the informal sector.



# Size of the Informal Sector

# Employment in the Informal Sector

(as % of non-agricultural employment)

South Asia: 69%

East and Southeast Asia (excluding China): 57%

China\*: 22%

**Sub-Saharan Africa: 53%**

Latin America and the Caribbean: 34%

\* Estimates for urban China based on six cities

Source: Vanek et al, 2014: 10

# Sub-Saharan Africa – Informal Sector Employment and Informal Employment

Survey Year	Country	Number in the informal sector	% of non-agric employment in the informal sector	Informal employment <u>outside</u> of the informal sector % of non-agric emp
2004	Mali	1,029,000	71.4	11.3
2008	Cote d'Ivoire	2,434,000	69.7	n.a
2008	Zambia	854,000	64.6	11.7
2010	Uganda	2,344,000	59.8	13.7
2005	Madagascar	893,000	51.8	21.9
2005/2006	Tanzania	2,353,000	51.7	25.0
2010	Liberia	284,000	49.5	10.8
2008	Lesotho	255,000	49.1	21.6
2004	Ethiopia*	1,089,000	41.4	n.a
2004	Zimbabwe	698,000	39.6	n.a
<b>2010</b>	<b>South Africa</b>	<b>2,225,000</b>	<b>17.8</b>	<b>14.9</b>
2009	Mauritius	57,000	9.3	n.a

Source: ILO, 2013, adapted from Table 2.1, page 10.

# Sub-Saharan Africa – Informal Sector Employment by Sex

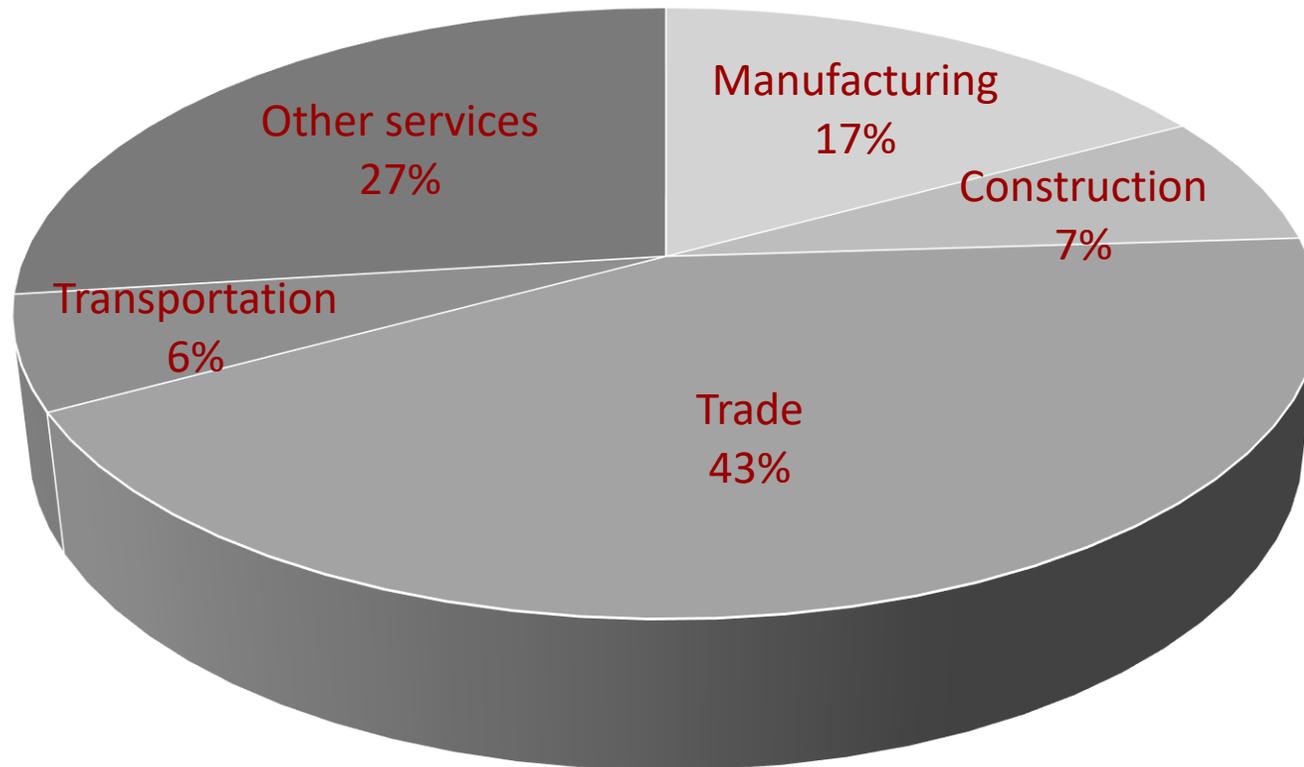
(as a % of total non-agricultural employment, latest year available)

Survey Year	Country	% women	% men
2004	Mali	79.6	62.9
2008	Cote d'Ivoire	82.8	60.5
2008	Zambia	70.3	60.9
2010	Uganda	62.2	57.9
2005	Madagascar	63.8	40.7
2005/2006	Tanzania	49.8	53.2
2010	Liberia	65.4	33.4
2008	Lesotho	48.1	49.9
2004	Ethiopia*	47.9	36.3
2004	Zimbabwe	53.1	31.2
2010	South Africa	16.8	18.6
2009	Mauritius	6.7	10.6

# **Sub-Saharan Africa – Nature of Employment**

- 67 % of those in informal employment are self employed (33% in wage employment)
- Of the self employed, only 2% are employers, 53% are own account workers, 11% contributing family workers.

# Sub-Saharan Africa - Distribution of Non-agric IE by Branch of Economic Activity

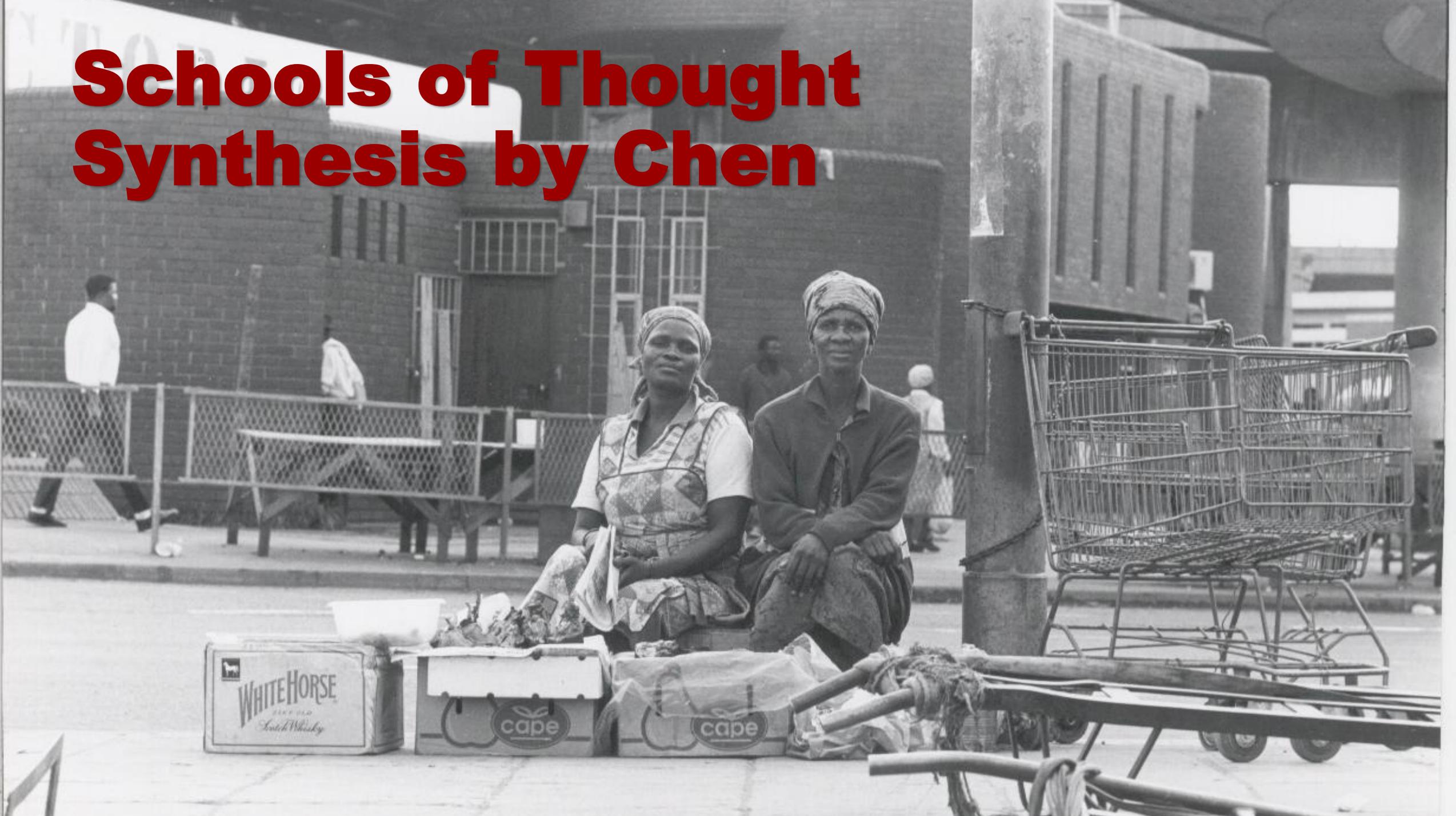


# Percentage contribution of the informal sector (excl. agric) to GDP

Sub-Saharan Africa		Middle East and North Africa		Asia	
Benin (2000)	61.8	Algeria (2003)	30.4	India	46.3
Burkina Faso (2000)	36.2	Egypt (2008)	16.9	<b>Latin America</b>	
Cameroon (2003)	46.3	Iran (2007)	31.1	Colombia (2006)	32.2
Niger (2009)	51.5	Tunisia (2004)	34.1	Guatemala (2006)	34.0
Senegal (2000)	48.8	Palestine (2007)	33.4	Honduras (2006)	18.1
Togo (2000)	56.4			Venezuela (2006)	16.3

(Source: Adapted from ILO, 2013:22)

# Schools of Thought Synthesis by Chen



# Dualists

The *Dualist* school sees the informal sector as comprising 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).

**Causes:** They argue that informal operators are excluded from modern economic opportunities due to imbalances between the growth rates of the population and of modern industrial employment, and a mismatch between people's skills and the structure of modern economic opportunities.

**Policy focus:** They pay relatively little attention to the links between informal enterprises and government regulations. But they recommend that governments should create more jobs and provide credit and business development services to informal operators, as well as basic infrastructure and social services to their families.

# Structuralists

The *Structuralist* school sees the informal economy as subordinated economic units 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).

**Causes:** They argue that it is the nature of capitalism/capitalist growth drives informality: specifically, the attempts by formal firms to reduce labour costs and increase competitiveness and the reaction of formal firms to the power of organized labour, state regulation of the economy (notably, taxes and social legislation); to global competition; and to the process of industrialization (notably, off-shore industries, subcontracting chains, and flexible specialization).

**Policy focus:** Governments should address the unequal relationship between “big business” and subordinated producers and workers by regulating both commercial and employment relationships.

# Legalists

The *Legalist* school sees the informal sector as 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 property rights to convert their assets into legally recognized assets (de Soto 1989, 2000).

**Causes:** The *Legalists* argue that a hostile legal system leads the self-employed to operate informally with their own informal extra-legal norms.

**Policy focus:** They argue that governments should introduce simplified bureaucratic procedures to encourage informal enterprises to register and extend legal property rights for the assets held by informal operators in order to unleash their productive potential and convert their assets into real capital.

# Voluntarists

The *Voluntarist* school also focuses on informal entrepreneurs who deliberately seek to avoid regulations and taxation but, unlike the legalist school, does not blame the cumbersome registration procedures.

**Causes:** The *Voluntarists* argue that informal operators choose to operate informally—after weighing the costs-benefits of informality relative to formality.

**Policy focus:** They argue that informal enterprises should be brought under the formal regulatory environment in order to increase the tax base and reduce the unfair competition to formal businesses.

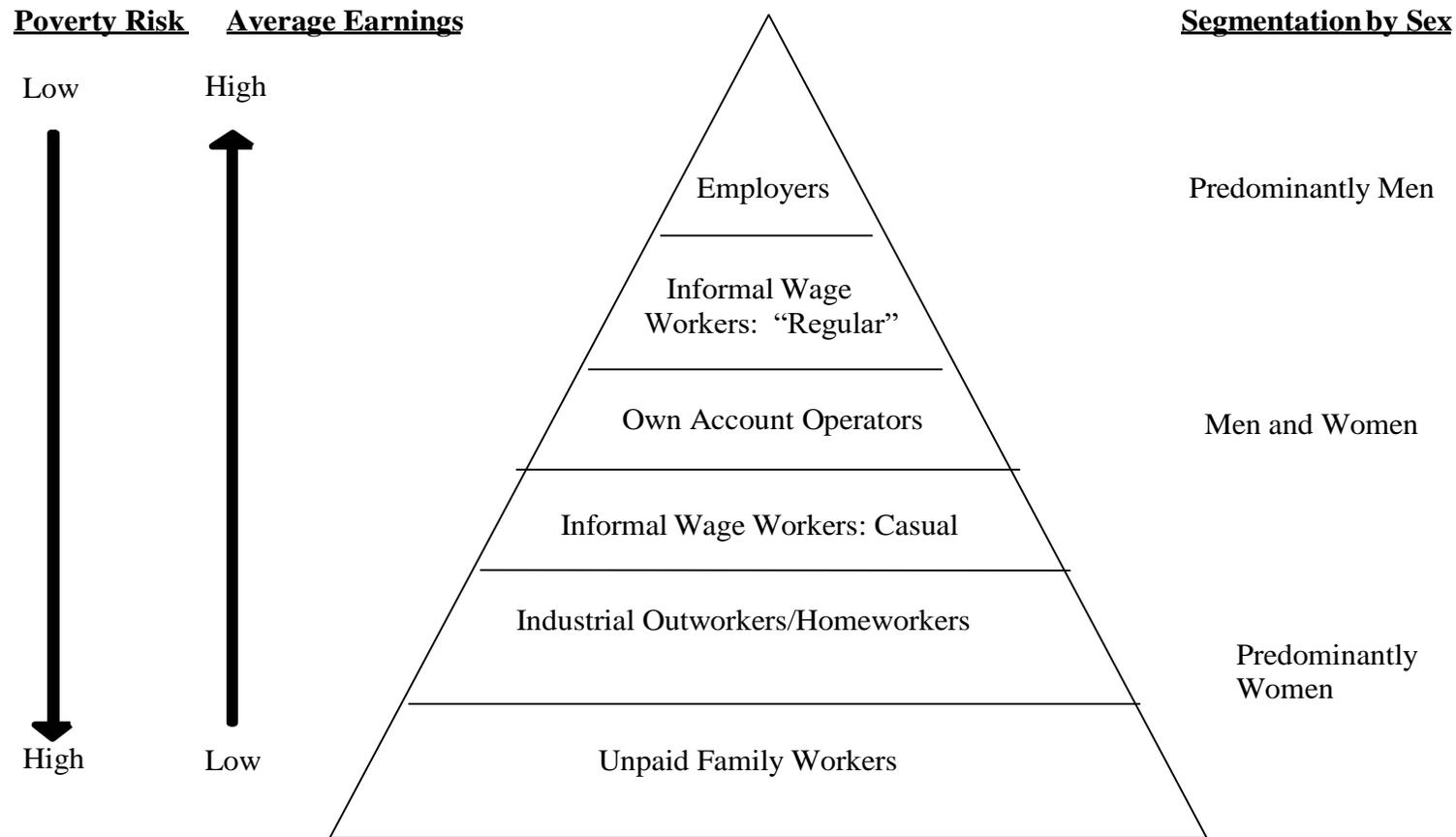
# Integrated Framework

Chen (2012: 6) concludes that given the heterogeneity of the informal economy, there is merit to each of these perspectives noting that each school reflects one or another “slice of the (informal) pie.”

She goes on to present an integrated framework. This model has been developed and tested, using data from 11 countries. A multi-segmented model of informal employment defined in terms of statuses in employment.

# Integrated Framework:

Segmentation of the IE by average earnings, poverty and risk



# Integrated Framework

Chen (2012:11) contends:

‘Most causal theories are valid—but only for certain segments of informal employment; and no single causal theory can explain each segment of informal employment. Further, the four dominant causal explanations—exit from, exclusion from, and entry barriers to formal regulations as well as subordination to or exploitation by formal firms—are not a sufficient set of causal explanations. Wider structural forces and informal regulations also drive informality.’

# Concluding Thoughts



# Concluding thoughts

- South Africa's informal sector is comparatively small.
- Given the high levels of unemployment, shedding light on the barriers to entry into the informal sector, remains critical.
- The notion of the 'informal sector' disguises significant heterogeneity. To really understand its nature, we need segment exist data in multiple ways. This is critical to effective policy making.
- In considering different segments and varies data sets, we should be mindful of which set of causal factors might be at play.
- Areas of contention in terms of policy focus might well be rooted in the different schools of thought / ideological differences.



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# Stats SA implement of ICLS

**'Informal sector:** The informal sector has the following two components:

- i) Employees working in establishments that employ fewer than five employees, who do not deduct income tax from their salaries/wages; and
- ii) Employers, own-account workers and persons helping unpaid in their household business who are not registered for either income tax or value-added tax.'

(Stats SA, 2015:xxi)