



**THE INFORMAL ECONOMY IN LATIN AMERICA:  
A GLOBAL PERSPECTIVE**

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# PRESENTATION

Four-part presentation on the informal economy:

- size and significance
- composition and diversity
- causes and consequences
- policy debates and framework

But first a few words regarding:

- what and who we are talking about

# EXPANDED DEFINITION OF THE INFORMAL ECONOMY

- The informal economy is the diversified set of economic activities, enterprises, and *workers* that are *not* regulated or *protected* by the state.
- So defined, the informal economy - or informal employment - is comprised of:
  - Self-employment in informal enterprises: self-employed persons in small unregistered or unincorporated enterprises, including:
    - employers
    - own account operators
    - unpaid contributing family workers
  - *Wage employment in informal jobs*: wage workers without legal protection for formal or informal firms, for contractors, for households, or with no fixed employer, including:
    - non-standard employees of informal enterprises
    - *non-standard employees of formal enterprises*
    - *casual or day labourers*
    - *industrial outworkers (also called homeworkers)*

## Notes:

1. This expanded definition was endorsed by the 2002 International Labour Conference and the 2003 International Conference of Labour Statisticians (ICLS)
2. The elements of this expanded definition that were not included in the earlier definition (1993 ICLS) of “informal sector” are in *italics*.

# WORKING POOR IN THE INFORMAL ECONOMY

Around the world, the working poor in the informal economy includes those who work:



## In Unregulated Factories:

- garment makers
- shoe makers



## In Small Workshops:

- scrap metal recyclers
- shoe makers
- weavers
- garment makers and embroiderers
- paper-bag makers



## On Streets or In Open Spaces:

- street vendors
- push-cart vendors
- garbage collectors
- roadside barbers
- construction workers



## In Fields, Pastures, and Forests:

- small farmers
- agricultural labourers
- shepherds
- forest gatherers



## At Home:

- garment workers
- embroiderers
- shoemakers
- artisans or craft producers
- assemblers of electronic parts



# THE INFORMAL ECONOMY: SIGNIFICANCE AND TRENDS

- The informal economy is *large* by whatever measure is used:
  - **share of total employment:** 60-90 % of total employment in developing countries
  - **share of economic units:** e.g., 80% of all enterprises in India are not registered
  - **share of GDP:** informal enterprises (i.e., the informal sector) contribute 25-50% per cent of non-agricultural GDP in developing countries
- The informal economy is *growing* in terms of:
  - **share of total employment**
  - **share of new jobs**

# THE INFORMAL ECONOMY: A GLOBAL PERSPECTIVE

- **Developed vs. Developing Countries:**
  - share of **total employment** that is **non-standard or informal**
    - developed countries: 25-40%
    - developing countries: 60-90%
  - share of **non-agricultural employment** that is **self-employment**
    - developed countries: 12%
    - developing countries: 31-55%
- **Developing Regions:**
  - share of **total employment** that is **informal**
    - **South Asia and Sub-Saharan Africa:** largest share (>85%)
    - **other regions:**
      - South East and East Asia (75%)
      - Middle East and North Africa (60%)
      - Latin America (60%)

# THE INFORMAL ECONOMY: A REGIONAL PERSPECTIVE

- **Relatively low incidence:**
  - Chile (40%)
  - Costa Rica
  - Uruguay
  - Panama
  - Venezuela
  - Dominican Republic
- **Average incidence (60%):**
  - El Salvador
  - Jamaica
  - Brazil
  - Mexico
- **Relatively high incidence:**
  - Honduras
  - Nicaragua
  - Ecuador
  - Guatemala
  - Peru
  - Colombia
  - Paraguay
  - Bolivia (75%)

Source: World Bank 2007, Figure 1.3 c (% employed as low-skilled self-employment, wage worker in informal enterprise, or unpaid contributing family worker)

**INFORMAL ECONOMY IN MEXICO:  
SHARE OF EMPLOYMENT AND CONTRIBUTION TO GDP  
2003-2006**

	Share of Total Employment				Share of Total GDP			
	2003	2004	2005	2006	2003	2004	2005	2006
<b>Non-Agricultural</b>								
<b><u>Informal Employment :</u></b>								
In informal enterprises	28.8	28.8	28.1	27.1	16.8	17.2	17.7	17.5
Outside informal enterprises	16.2	16.7	17.3	17.8	10.6	10.9	11.2	11.7
<i>Sub-Total</i>	<i>45.0</i>	<i>45.5</i>	<i>45.4</i>	<i>44.9</i>	<i>27.5</i>	<i>28.1</i>	<i>28.9</i>	<i>29.2</i>
<b>Agricultural</b>								
<b><u>Informal Employment</u></b>	16.0	15.1	14.2	13.5	3.2	2.7	2.4	2.1
<b><i>Total Informal Employment</i></b>	<i>60.9</i>	<i>60.5</i>	<i>59.7</i>	<i>58.4</i>	<i>30.7</i>	<i>30.8</i>	<i>31.3</i>	<i>31.3</i>

Source: Calculations prepared by Rodrigo Negrete, Instituto Nacional de Estadística, Geografía e Informática (INEGI)



# CAUSES OF INFORMALITY: DIFFERENT THEORIES

<u>CAUSAL THEORY</u>	<u>SCHOOL OF THOUGHT</u>	<u>CENTRAL ARGUMENT</u>
EXCLUSION	Dualists (ILO-WEM)	mismatch between demand for and supply of labour
ENTRY (BARRIERS )	Legalists (de Soto)	unreasonable regulations and hostile legal environment
EXPLOITATION	Structuralists (Portes)	subordination of informal units and workers to capitalist firms
EXIT	Voluntarists (Maloney)	calculated decision by informal entrepreneurs to exit formal system

# RELATIVE SIZE OF INFORMAL ECONOMY: KEY DRIVING FACTORS

Various factors “drive” the *relative size* of the informal economy:

- Relative shares of different economic sectors in employment and GDP: notably, share of agriculture
- Stage and pattern of industrialization and trade liberalization
- Degree and pattern of urbanization
- Relative size of public sector/degree of privatization
- Institutional context
- Policy environment

# **DIVERSITY OF INFORMAL LABOUR MARKETS**

Key variables for understanding diversity within informal labour markets:

- Economic sector
- Occupation or trade
- Employment status
- Place of work
- Type of unit

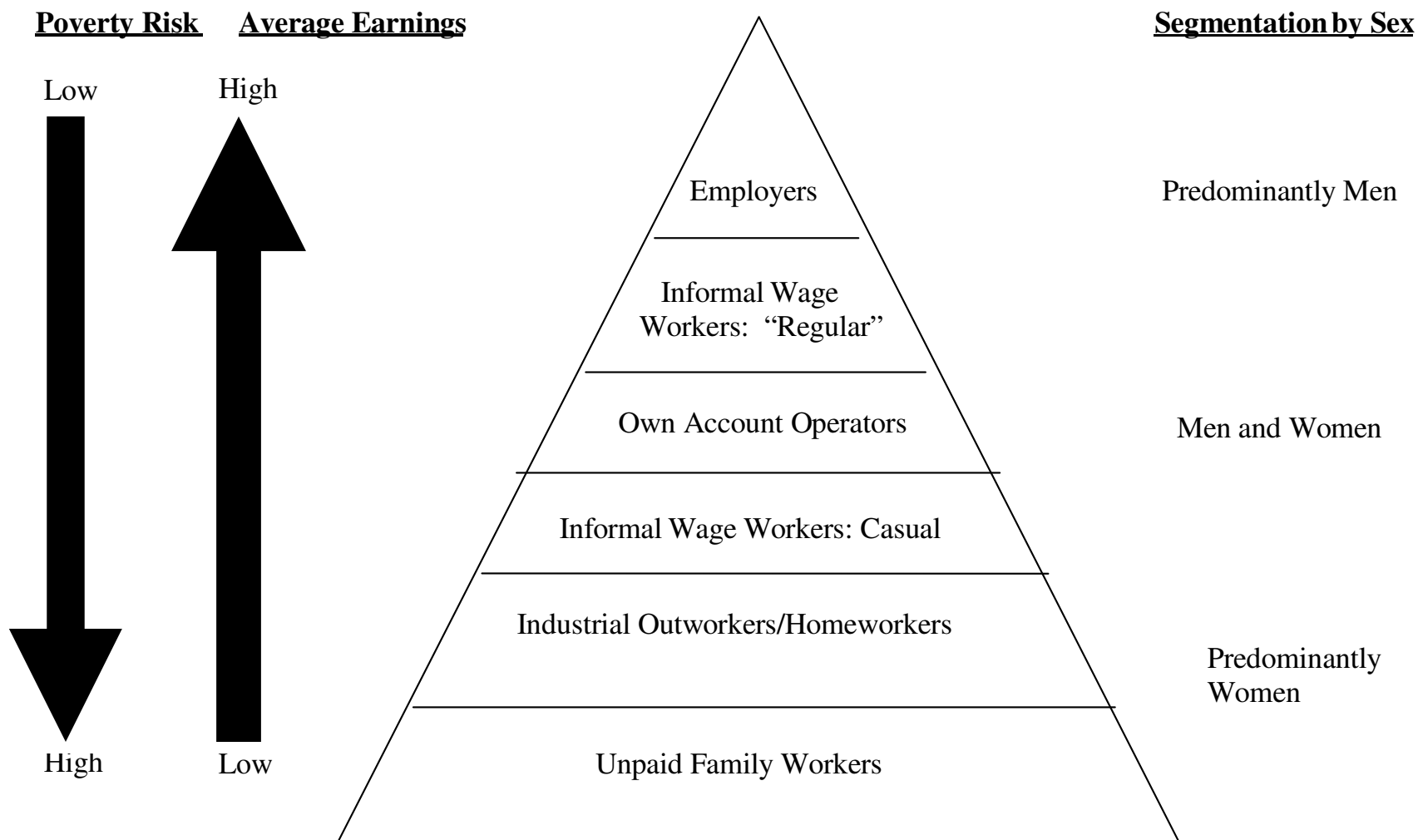
# **INFORMAL PRODUCERS AND WORKERS IN GLOBAL VALUE CHAINS**

- **By Employment Status**
  - self-employed producers
  - members of cooperatives/producer groups
  - wage workers
  - industrial outworkers
- **By Type of Unit**
  - small workshop or small-holder farm
  - cooperative or collective enterprise
  - large factory or commercial farm
  - home-based unit
- **By Sector**
  - traditional commodities: processed/unprocessed
  - non-traditional commodities: processed/unprocessed
  - labor-intensive manufactured goods

# GARMENT WORKERS IN GLOBAL VALUE CHAINS

- **Large formal factory**
  - **formal employee:** with legal rights and social protection  
= **core workforce**
  - **informal employee:** without legal rights and social protection  
+ hired under non-standard contracts or through contract agencies  
= **peripheral workforce**
- **Small informal workshop**
  - **formal employee:** with legal protection
  - **informal employee:** without legal protection
- **Home-based unit**
  - **self-employed**
  - **industrial outworker**

# DIFFERENT SEGMENTS, DIFFERENT CAUSES AND CONSEQUENCES



# INFORMALITY AND POVERTY

- Most of the world's poor – especially in developing countries – are **working**.
- There are some 500 million working poor **earning less than US\$ 1 per day**.
- These working poor are **not able to work their way out of poverty**.
- This is because the vast majority of the working poor – those who earn less than US\$ 1 per day - earn their living in the informal economy where:
  - **average earnings are low**
  - **risks are high**
- Poverty reduction is not possible without a) **increasing the assets and earnings** and b) **reducing the risks** of those who work in the informal economy.

# THE FORMALIZATION DEBATE

- Formalization narrowly defined: **duties and costs of informal enterprises**
  - single set of procedures: registration
  - taxation + compliance with regulations
- Formalization broadly defined: **rights and benefits + duties and costs of informal wage workers** as well as informal enterprises
  - incremental process
  - extension of formal benefits
  - continuum from informality to formality



# FORMALIZATION BROADLY DEFINED

- **registration + taxation + regulation**
- **legal identity**
- **benefits of being formal enterprises:**
  - access to finances + market information
  - access to public infrastructure + services
  - use of public space
  - enforceable commercial or employment contracts
  - formal property rights
  - access to government subsidies + incentives
  - membership in formal business associations
- **benefits of being formal workers, including:**
  - right to organize + bargain collectively
  - freedom from discrimination
  - minimum wages
  - health insurance + old age pensions + disability allowance
  - membership in formal trade unions

# POLICY FRAMEWORK

- # 1 - **Promote formalization** of the informal economy by:
  - expanding **formal employment opportunities**
  - creating **incentives** for informal enterprises to formalize
  - creating **incentives** for socially responsible **employment practices**
  - promoting appropriate **labour regulations** to provide basic worker benefits/rights to informal wage workers
  
- # 2 – **Provide legal and social protection** to those who continue to operate informally by:
  - creating appropriate legal frameworks to protect informal workers and informal enterprises
  - creating appropriate mechanisms to provide social protection to the informal workforce
  
- # 3 – **Increase productivity** of those who continue to operate informally by:
  - providing appropriate education, training, and technology
  - providing targeted financial services and business development services
  
- # 4 - **Create a level playing field** for all enterprises and all workers by:
  - promoting **participatory policy processes** and **inclusive rule-setting institutions** that include representatives of informal entrepreneurs and informal wage workers
  - promoting a **fair policy and regulatory environment** that is not biased against or “blind” to informal businesses and informal workers

# KEY ENABLING CONDITIONS: EMPOWERMENT OF THE WORKING POOR

- **Representative *Voice***
  - **more and stronger organizations of the working poor** in the informal economy
  - **representation of such organizations** in policy-making and rule-setting bodies at all levels
- **Legal and Policy *Validity***
  - **legal identity and rights as workers, entrepreneurs, asset holders**
  - **legal empowerment through inclusive legal and policy reform processes and appropriate legal and policy reforms**
- **Official *Visibility***
  - **improved labor force and other economic statistics** that measure **all economic units and workers** - including their earnings + contribution to GDP
  - **analysis and dissemination of these data** to policy-makers, advocates of informal workers, and organizations of working poor in informal economy