ONLINE LEARNING ALLIANCE ON INFORMALITY AND INCLUSIVE GROWTH

Rethinking Informality: Addressing Different Types of Informality to Achieve Inclusive Growth

An exploration of the different types of economic informality, and a discussion on the impact of informality on inclusive growth, reviewing successful practices and policy examples from Latin America and Africa, leading to possible policy conclusions.

The ELLA Learning Alliances bring together peers from across the global South from government, civil society, the private sector, the academic community and the wider development community to learn from each other, drawing on rigorous, evidence-based research.

Participants of the Online Learning Alliance on Informality and Inclusive Growth came from 31 different countries across five continents. The Learning Alliance explored concrete ways to address informality in different contexts, taking account of the structure of the labour market in each particular country. Led by the moderators, participants shared and discussed alternative ways to deal with different types of informality (i.e. voluntary informality, induced informality and subsistence informality), and discussed how specific policies impact on informal workers. Different policy recommendations can be adapted to each country’s context and the structure of its labour market, and so the policies covered varied from payroll tax reforms, to regulation reforms, to social programmes; each designed to tackle informality. Comparative analysis between the two regions, facilitated by the moderators, supported this inter-regional lesson learning.

This Online Learning Alliance was designed and moderated jointly by Fedesarrollo, based in Colombia, and the Development Policy Research at the University of Cape Town, based in South Africa. Fedesarrollo (Fundación para la Educación Superior y el Desarrollo) is a private non-profit research institution, committed to research in subjects of economic policy and social issues. Its purpose is to contribute to the design and improvement of public policies. Fedesarrollo encourages the economic and social development of Colombia through studies, publications and debates in different fields of public policy. For more than 35 years, Fedesarrollo has been conducting research on labour markets and particularly informality, studying its impact in different areas such as tax collection, productivity, distribution of income, and much more.

1The lead moderator for Fedesarrollo was Cristina Fernandez with the support of Francisco Fernandez. The lead moderator for DPRU was Morne Oosthuizen with the support of Kezia Lilenstein.
The Development Policy Research Unit (DPRU) within the School of Economics at the University of Cape Town has been actively engaged in socio-economic policy-relevant research since 1990, establishing itself as one of South Africa's premier research institutions in the fields of labour markets, poverty and inequality. The Unit's research is particularly relevant where there is likely to be an impact on employment creation or destruction, as in this case where there are different views about the role and optimal levels that the informal sector should have within the context of inclusive growth in the South African economy.

The Online Learning Alliance discussions were based on and drew from both existing literature and new research conducted by the research centres for the ELLA Programme:

- **Informality and Inclusive Growth in sub-Saharan Africa**, authored by the DPRU (2015).

### Content

The Learning Alliance ran from May until September 2016 and covered 6 topics:

- Understanding informality and inclusive growth
- Types of informality and their impact on inclusive growth
- Context is key: How do different contexts explain differences in the size of unemployment and informality?
- Types of informality: Subsistence informality
- Types of informality: Voluntary informality
- Types of informality: Induced informality

### Key conclusions

- The impact of informality on inclusive growth varies significantly among different types of informal workers. It is useful to have a taxonomy of informality, not only to understand the relationship between informality and inclusive growth, but also to formulate more accurate policy recommendations to face informality in both regions. According to our taxonomy, informality can be grouped into three categories according to the reasons why the worker is informal: voluntary informality where informality is a choice; subsistence informality where informality is a default option due to very low levels of productivity; and induced informality where informality is caused by excessive labour protection or by discrimination.
- As per the comments received in the Learning Alliance, it seems that the taxonomy of informality developed in the ELLA project can be easily applied to most Latin American and sub-Saharan African countries. However, the shares of each type of informality vary significantly between regions. In fact, most African countries show strong signs of
subsistence informality. For induced informality, regulatory issues are more of a concern in Latin America, whereas discrimination was an important issue in both regions, but particularly in sub-Saharan African countries. Finally, voluntary informality is a new concept, particularly in the sub-Saharan African region. However, the Learning Alliance revealed that although voluntary informality is not the prevalent type of informality among most developing countries, it is not an insignificant portion of the informal population that is included in this group.

- Participants concluded that effective public policies for dealing with voluntary informality include: enforcement, correction of failures in social benefits programmes, the single tax policy, and increasing flexibility of work and pension schemes. Regarding induced informality, the recipe for reducing this type of informality in Latin America is more related to reducing payroll taxes and controlling the setting of and increases in the minimum wage. Meanwhile, in sub-Saharan Africa, and also to a certain degree in Latin America, it is very important to increase awareness surrounding discrimination against women and induce behavioral changes.
Topic 1: Understanding informality and inclusive growth

Focus of the Topic

What exactly is ‘informality’? How is the informal economy measured? What is inclusive growth? The focus of this topic was to un-pack the often difficult to pin down concepts of ‘informality’and ‘inclusive growth’.

Informality is a complex phenomenon:

- Are we talking about firms or workers? 
- Should we include domestic workers but exclude government? 
- What are the international comparisons? (Different countries are likely to have different forms of informality).

Part of the discussion around the definition of informality also hinges on the trade-off between comparability and applicability to local contexts: a single standard definition might ensure a high degree of comparability, but it might not be able to properly reflect the exact nature of informality in a particular country.

In the case of inclusive growth, a key challenge is taking this abstract concept and linking it to appropriate economic and social indicators. Since the concept is so broad, though, different people will often choose different sets of indicators. What this means is that there is not a single standard definition of inclusive growth in the same way that there is of, say, unemployment or economic growth.

Through the materials and the discussions held, participants reached a common understanding of the central concept of this Learning Alliance.

The discussion was supported by these main reference materials:

- DPRU and Fedesarrollo. 2016. *Defining Informality* (extract from a Comparative Evidence Paper, authored by DPRU and Fedesarrollo as part of the ELLA programme). In this note, the authors present definitions of informality as well as some international estimates of informality, and explore some of the definitional issues that result when the definition is tailored to different local contexts.
- Fedesarrollo. 2016 *Informality Definitions in the Case of Colombia*. This document focuses on defining informality in Colombia.
- DPRU 2016. *Informality Around the World*. This infographic presents some estimates of informality by geographic region and by sex.
World Bank. 2009. *What is Inclusive Growth?* This note provides another viewpoint on thinking about the concept of inclusive growth.

World Economic Forum. 2015. *The Inclusive Growth and Development Report* This report discusses how countries use a diverse spectrum of policy incentives and institutional mechanisms to make economic growth more socially inclusive, without dampening incentives to work, save and invest.

To guide the discussion and exchange, the following questions were posted:

- Does your country have an official definition of informality?
- In what way has this definition been adapted to the local context?
- How strong do you think “whether an enterprise is registered with a government institution” is as a definition for informal firms? And could that definition of a formal firm be strong enough to determine the productivity levels between formal and informal firms or their contribution to communal expenses?
- The World Economic Forum (WEF) uses the leaf image to portray its seven pillars of inclusive growth (education, employment, asset building, financial intermediation, corruption/rents, basic services and fiscal transfers). Do you think that, in your country, some of these pillars are perhaps more important or less important than others?

**Discussion**

**Definitions and the size of informality**

The topic started discussing how estimates of the size of the informal labour market change depending on the definition of informality used. It was found that even within a country, defining informality can be tricky. Often, there are multiple definitions of informality used by different organisations within a country, which can be problematic. Gabriel Espi Sanchis (South Africa) made the point that that even if informality cannot be compared between countries, a salient definition of informality is needed within a country to understand changes to the informal labor market over time. Otherwise, jumps in informality rates over time cannot be examined, as it is not known whether they are caused by a change in definition or (for example) a change in policy.

**Can informality be compared between countries?**

The discussion about comparisons of informality between countries led to the general consensus that inter-country comparison is very difficult. The context of informality differs so much between countries that even a single definition of informality may not allow for a successful comparison between countries, even within regions. Both Ana Vera (Colombia) and Olusegun Ogunleye (South Africa) argued that comparative research should focus
instead on the drivers of informality within different contexts, rather than size comparisons between countries.

"While measuring the size of informality has its usefulness, it is futile comparing the size of the informal economy in different countries... A comparative should focus on understanding the drivers and nature of informality in different contexts."

Olusegun Ogunleye, South Africa

**Heterogeneity of informality**

An important discussion that came up was that the informal labor market is heterogeneous – it is made up of different people, in different circumstances, with different reasons for being informally employed. Diana Sanchez Betancourt (South Africa) reasoned that a proportion of the informally self-employed may choose this form of employment out of a wish for independence from the regulation of a formal job. This is particularly important in the context of increasing dissatisfaction with the inflexibility of formal work, as well as the rise of ICT use (which may aid entrepreneurship). Diana Balderrama Durán (Bolivia) agreed by stating that in Latin America, the idea of the young entrepreneur is only now becoming fashionable. She made the significant point that we need to distinguish between those who are informal out of necessity and those who are informal voluntarily.

**Inclusive growth**

Overall, the discussion on inclusive growth made it apparent that the term is often used without a clear definition of what it means. Olusegun Ogunleye (South Africa) argued that the term "inclusive growth" is at risk of becoming a catch-all phrase for anything and everything. Similarly, Terry Davies (South Africa) mentioned that many key stakeholders use the term inclusive growth without having a clear definition of what it means. This means that the term "inclusive growth" is being used intuitively and loosely, rather than as an analytical tool. What was clear from the discussion is that inclusive growth, for many, has a strong connotation of equality or equal opportunity.

On a definitional note, Shankar Chatterjee (India) highlighted that awareness - specifically broad-based awareness of public programmes - is an important requirement for inclusive growth. Even if social protection programmes are available, many of the poor and marginalised are not aware enough of these programmes in order to utilise them. An increase in awareness would therefore translate into an increase in inclusivity in certain contexts.

"My perception is that many stakeholders work without a clear understanding of the meaning of inclusive growth... This World Bank definition resonated with me: Inclusive growth is about raising the pace of growth and enlarging the size of the economy, while levelling the playing field for investment and increasing productive employment opportunities."

Terry Davies, South Africa
Is informality negative or positive for inclusive growth?

While this is the focus of Topic 2, the relationship between informality and inclusive growth did come up in the discussion. Many participants mentioned examples of informality having both a positive and negative relationship with inclusivity. Overall, participants cited a lack of social benefits as a reason for the negative effects of informality on inclusive growth. However, it was mentioned that informality is seen as a positive tool for including the unemployed in the labour market in places like South Africa and Uganda. Mishawka Maboshe (South Africa) made the point that governments can support the informal economy as a way of targeting poverty, inequality and high dependence on social grants. We also discussed the idea that informality is ‘bad’ because of a loss of tax revenue for the government. Ekanath Khatiwada (Nepal) mentioned that even if informal businesses in Zambia were to be accessed for taxation, only a very small proportion would be eligible to be taxed due to their small size. This provides an important caveat for governments wishing to push formalisation for taxation purposes.

Overall, the point made by Olusegun Ogunleye (South Africa) summed up the discussion. He argued that comparing the extent of informality often directs our attention towards reducing informality and that, instead, informality should not be presumed to be negative or positive, but should be analysed within the country-specific context.

Overall: Context is key

The main take-home from the Topic 1 discussion was that context is of utmost importance, both when defining informality and when putting policies in place in order to increase its inclusivity.
Topic 2: Types of informality and their impact on inclusive growth

Focus of the Topic

This topic centred on the linkages between informality and inclusive growth, specifically whether informality serves to promote or constrain inclusive growth. In answering this question, careful thought needs to be put on the nature of informality, as the informally employed may differ considerably both between and within countries. Informality may also be good or bad for inclusive growth depending on the type of informality in question. For the purposes of this Learning Alliance, the moderators used the alternatives to informality as the basis on which to differentiate the informal. In other words, whether informality is good or bad for inclusive growth depends on the individuals' alternative to informal employment, which may be unemployment or formal employment. This is used as the basis for the three types of informality theorised in the summary note shared in the platform (see below): "Types of Informality and their Impact on Inclusive Growth" Alternatives to this method were given in the other materials provided.

The discussion was supported by these main reference materials:

- DPRU and Fedesarrollo. 2016. *Types of Informality and their Impact on Inclusive Growth*. This document, produced by the moderators, reviews one way of framing the heterogeneity of the informal labour market. The various ways in which informality may affect inclusive growth are viewed, based on this formulation.
- DPRU and Fedesarrollo. 2016. *Informality and Inclusive Growth*. This video provides a discussion of the South African and Colombian contexts, which led to the formalisation of the types of informality discussed in the summary note.
- WIEGO IE. Extracted 2016 *Informal Economy Debates - Dominant Schools of Thought*. This note provides an overview of alternative ways of framing the informal labour market.
- IDRC. 2012. *Informality, Inclusiveness and Economic Growth: An Overview of Key Issues*. This working paper by James Heintz examines the concept of informality and proposes ways of linking informality to inclusive growth.

To guide the discussion and exchange, the following questions were posted:

- How do these materials align with your thoughts on appropriate ways to formulate the structure of the informal labour market in your country?
• Is the “subsistence”, “induced” and “voluntary” formulation of informality from the resource material (“Types of Informality and their Impact on Inclusive Growth”), an appropriate way of differentiating the informal labour market in your country?

• From your own country perspective, to what extent are the informal and formal sectors linked? What do these linkages look like? Do these linkages promote inclusive growth in your country?

Discussion

This topic began with a discussion about the different types of informality which may be present in each country. It is important to note that there are numerous ways in which we can categorise different types of informality, and the reasons for workers being engaged in informal employment. Some of the main takeaways from this topic were:

**Linkages between the informal and formal labour markets**

The informal sector cannot be discussed in isolation. Thabani T Madlala (South Africa) argued that there is a high level of interaction between informal and formal economic activities. Further, the relationship between the two may be exploitative, with formal sector firms utilising the cheap, unorganized labour of the informal sector. Indeed, Florencia Bohl (Argentina) mentioned that in Argentina the relationship between the formal and informal sectors is an exploitative one, with the informal sector providing raw materials and a cheap labour force to the formal sector. Conversely, Morne Oosthuizen (moderator) mentioned that in South Africa there is very little evidence of informal forms existing upstream of formal firms, i.e. supplying goods or services to formal firms. Therefore, policies to promote such linkages may serve to strengthen the informal economy, promoting employment in that sector. On the other hand, the fact that the informal sector is unregulated (and therefore does not face the costs associated with regulation) may be a source of unfair competition to the formal labour market.

Overall, strengthening the regulatory framework for the relationship between the formal and informal labour markets may serve to promote inclusive growth. Diana Balderrama Durán (Bolivia) highlighted this by mentioning that in Bolivia there is a distinct lack of regulatory frameworks allowing the coexistence of the formal and informal labour markets. This is likely to be true for many countries.

“There is an embedded relationship between the informal and the formal sector in Bolivia. For example, enterprises in the formal sector buy inputs from the informal market in order to reduce transaction costs and have more profits.”

Eduardo Lopez, Bolivia
Countries do not operate in isolation

The linkages between countries also impacts on informality within a country. This point was introduced by Olusegun Ogunleye (South Africa), who noted that the links between globalisation and informality were not highlighted in the discussion materials. Florencia Bohl (Argentina) expanded on this, mentioning that globalisation may promote the competitiveness of global informal labour markets by decreasing local productivity.

“Perhaps expanding informality is the most realistic means of linking poor economies into the global trading system.”

Martin Luther Munu, Uganda

Porosity and fluidity of the informal labour market

Martin Luther Munu (Uganda) made the excellent point that it is often not even possible to distinguish between formality and informality. Many individuals work in both the formal and informal sectors, benefiting from the relative stability of their formal jobs as well as the additional income earned in their informal work.

The fluidity of informality was emphasised by Florencia Bohl (Argentina), who discussed the changing structure of the informal labour market in Argentina. In the 1990s, induced and subsistence informality were prevalent. However, with the recovery from financial crises during 2002-2011, voluntary informality began to flourish as a way to elude elevated tax costs. This highlights the importance of the dynamic nature of this sector.

Job creation as a major constraint to formalisation

While many countries espouse the notion of “decent work” major constraints to this are low labour supply and the inability of countries to create sufficient numbers of formal jobs. Given the saturation of the formal labour market, it is vulnerable groups of workers (women and young people) who are often unable to find decent work opportunities. Olusegun Ogunleye (South Africa) mentioned that is important to focus on the structural issues faced by informal workers, rather than to tout increased informality as a promoter of inclusive growth. While it is true that the focus should be on the structural issues underlying unemployment, it may be argued that in a country like South Africa, the informal labour market is of a small enough size that there is scope to include individuals in the labour market while the structural problems are resolved (a very lengthy process!). This once again highlights the importance of country specific context.

Overall: Can informality be good and bad for inclusive growth?

There are different viewpoints with respect to the relationship between informality and inclusive growth. For example, Shankar Chatterjee (India) said that from an Indian
perspective, he does not see informality as good or bad, but rather as only good as it provides livelihoods. Muhammad Usman (Nigeria) and Eduardo Lopez (Bolivia) felt similarly for Nigeria and the city of Cochabamba (Bolivia), respectively. In relation to this, Lanre Rotimi (Nigeria) makes a fair point that no country can honestly claim that all informality in its economy is either bad or good.

Overall, whether informality is good or bad for inclusive growth depends on country context. While in India we may be able to argue that informality is overwhelmingly a good thing, this may not be the case in every country. Further, this may not even be the case for every informal worker in India. This is why the heterogeneity of the informal labour market must be taken into account. If there are informal workers who have the potential to work in the formal labour market (in terms of productivity, education level, etc.) but who are being excluded due to barriers to formality, inclusive growth would be promoted by a movement of these individuals into formal employment. In other words, informal employment is hampering inclusive growth (in this case) because the alternative to informality is formality and these workers have the skills to contribute to the formal labour market, where they would benefit from higher wages and increased benefits.
Topic 3: Context is key: How do different contexts explain differences in the size of unemployment and informality?

Focus of the Topic

In topic three, the different types of informality — voluntary, subsistence and induced informality — were discussed, as well as the relationship of each type of informality with inclusive growth. It was established that different types of informality have different relationships with inclusive growth — the informality of the highly educated professional who evades taxes cannot be treated in the same way as the informality of the street vendor who cannot get a formal job; and both types of informality relate in different ways to inclusive growth. Similarly, the policy recommendations to control informality are very different depending on the type of informality in question, which we are covered in topics four to six of this Learning Alliance.

Before addressing the policy recommendations for each type of informality, the moderators thought that it was important to establish what types of informality are prevalent in each country. This is a rather difficult task, since one person might face the three different reasons for being informal all at the same time, and there are multiple grey areas. However, the moderators, through the research carried out in the framework of the ELLA programme, identified some methodologies that have allowed them to identify the relative importance of each type of informality in the cases of Colombia and South Africa, expecting that these methodologies may be applicable to other countries. In order to do this, the moderators first described each type of informality in terms of the characteristics of the workers or the characteristics of the economies where each type of informality prevails; and then selected some indicators for identifying each characteristic.

The selected indicators are the following:

**Voluntary informality:** The best indicator for identifying voluntary informal workers is by asking workers about their preferences. Some surveys ask independent (or, self-employed) workers if they would accept a job in the formal market, or if the reason for being independent is that they did not find a job in the formal market. These two questions help to identify voluntary informality. Other useful ways to identify the relative size and importance of voluntary informality in the aggregate economy include checking how common transitions are from formality to informality, and to see whether informality is counter-cyclical or pro-cyclical, which may reveal if workers see informal jobs as another employment alternative (voluntary informality), or as a distant possibility, difficult to achieve.
**Subsistence informality**: This type of informality can be detected by establishing, for example, how far the productivity of informal workers is from the minimum cost of hiring labour in formal firms; and measuring productivity as the earnings of informal workers. Similarly, in a country where subsistence informality prevails, the workers with lower productivity tend to show higher informality rates.

**Induced informality**: Finally, induced informality can be detected by estimating if a country has excessive labour protection (using international comparisons), or signs of direct race or gender discrimination in informality (informality induced by discrimination).

The discussion was supported by these main reference materials:

- Fedesarrollo and DPRU. 2016. *Identifying the Prevailing Type of Informality Within a Country*. Extract from an empirical study (the draft version of the ELLA Comparative Evidence Paper) which estimates the different types of informality in Colombia and South Africa.
- Perry et al. 2007. *Informality: Exit and Inclusion*. Extract from a World Bank flagship report on three main types of informality, which also discusses the problem of identifying and measuring them.
- World Bank. 2007 *Informality: Exit and Exclusion* (chapter 2) This document presents informal worker preferences for informality in different Latin American countries, and makes some international comparisons.

To guide the discussion and exchange, the following questions were posted:

- What do you think of the ways in which informality has been categorised and measured by Fedesarrollo and DPRU?
- Does your country have alternative ways of disaggregating and measuring informality? And what are the merits of the different approaches?

**Discussion**

The focus of the topic was to discuss how different types of informality for each country could be measured, and what data was needed to implement this methodology. In the debate, it was clear that even if there is not a universal way to distinguish what the exact shares of each type of informality are within a country, there are some indicators that help us to consider and identify different signs that indicate the prevalent type of informality in each country.

**Induced informality**

One of the most discussed types of informality was induced informality. Even though data availability varies across countries, many useful indicators of barriers to formality were suggested. Shankar Chatterjee (India) discussed the problem of induced informality in India measured as the share of women in informal employment, as the share of formal employment, and as informality rates among castes. Muhammad Usman (Nigeria) noted
that there is a similar situation in Nigeria and some African countries, according to female labour participation data from the World Bank. According to the same data set, Latin American countries are showing progress, while African countries seem to be getting worse over time. Notwithstanding, labour discrimination in Latin America is far from being solved, as suggested by José Durant (Peru) and Diana Balderrama (Bolivia). As for informality caused by regulatory barriers, Shankar Chatterjee (India) explained that in India wages are set at a regional level. Florencia Bohl (Argentina) also pointed out the interesting relationship between labour unions and informality. These two approaches provided interesting issues for Topic 6: Policies to control induced informality.

“I think that the categories are very accurate and useful to analyse the general perspective of informality in many different countries.”
Florencia Bohl, Argentina

“From my own experience of the South African labour market, it made sense that you estimate larger numbers of subsistence and induced informality compared with voluntary informality here.”
Amy Thornton, South Africa.

Voluntary informality

Voluntary Informality does not seem to be prevalent in many countries. Using surveys for Uganda, Martin Luther Munu (Uganda) found that 36% of informal workers prefer informal jobs, and that transitions to formality are more common among young workers. For the case of Peru, Jose Durant (Peru) suggested using surveys to detect the different types of informality. He found that, according to the surveys, almost 40% of the informal entrepreneurs reported voluntary motives as the reason they began their business, making almost 12% of all informal jobs in Peru voluntary. One of the questions that arose from the discussion is how many indicators of voluntary informality among independent workers can be applied to other informal workers, where less information is available. The conversation also analysed how accurate counter and pro-cyclicality are as indicators of voluntary informality, given that growth seems to be a more volatile variable, and that informality tends to be persistent.

Subsistence informality

Some countries such as Peru, Nigeria and South Africa seem to exhibit larger proportions of subsistence informality among informal workers. Muhammad Usman (Nigeria) argued that one factor that could indicate subsistence informality, which is prevalent in Nigeria, is that the formal labour market cannot absorb many workers due to the lack of skills and knowledge among a large proportion of the population. As mentioned before, Amy Thornton (South Africa) indicated that for South Africa, subsistence informality and induced informality could be the more prevalent types.
**Mixed informality**

Leonardo Villar (Fedesarrollo researcher) explained how in Colombia about 13% of voluntary informal workers are, at the same time, subsistence informal workers. Most of the workers in this category are women, young and older workers, suggesting that the reason behind this type of informality can be related to erroneous incentives created by social benefit policies. Notwithstanding, lack of child care facilities and geographical reasons might also explain this type of informality. He suggests including this type of worker as a fourth category.

**Additional points of view to be added in the analysis**

Adaiah Lilenstein (South Africa) and Florencia Bohl (Argentina) noted that the different types of informality not only vary within a country, but in different industries, showing that policies aimed at reducing informality can target specific groups of informal workers. Kezia Lilenstein (DPRU researcher) supported this claim, showing that in South Africa voluntary informality varies over industries, hence she supports the notion that policy should targeted different groups of workers in different industries. Similarly, as suggested by Shankar Chatterjee (India), it is wise to analyse informality across regions within the same country.

For the specific case of El Salvador, Jose Andrés Oliva (El Salvador) noted that transitions between formality and informality could be one of the key ways of identifying how to design policies made for workers that remained informal. In fact, if transition data is available it would be very useful for analysing who moves into and out of formality, and why.

**Summing up**

Even if Topic 3 was not centered on policies targeting specific types of informality, the debate touched many issues around the complications of certain policies for specific types of informality. According to the comments, most African countries show strong signs of subsistence informality. For induced informality, discrimination was an important issue, and, in general, participants insisted that there should be more awareness of discrimination against vulnerable groups. Finally, some but not all countries showed some signs of voluntary informality. This framework gave a general overview of the three types of informality at a global level, and particularly in Africa and Latin America, preparing the ground for the policy recommendations for each type of informality that were analysed in the following 3 topics.
Topic 4: Subsistence informality

Focus of the Topic

This topic focused on policies which serve to increase the inclusivity of those working in subsistence informality. The subsistence informal market is typified by workers who do not possess the necessary skills in order to produce at the level required by the formal labour market, and they therefore turn to the informal labour market as the only alternative to unemployment.

There are lessons to be learned from Latin America where organisation of informal workers has led to informal workers being legally and successfully integrated into formal systems of production. In Topic 4, we aimed to learn from these success stories and discuss the extent to which these lessons can be applied within other countries. Attention was also paid to the differences in the challenges faced by workers in subsistence informality in urban and rural areas. Policies aimed at increasing inclusivity for urban workers may be inappropriate for workers in rural areas, who face their own set of challenges in the workplace. Once again, this highlighted the heterogeneity of informal workers, and the need to create policies that are well-targeted at those they are intended to help.

The discussion was supported by materials that introduced some of the challenges involved in increasing inclusivity among subsistence workers, as well as some of the success stories mentioned previously:

- Hausmann, 2013. *Logic of the Informal Economy*. This article discusses the role of transport in overcoming the disconnect between the informal sector and modern production networks.
- Amin, 2010. *Necessity vs Opportunity Entrepreneurs in the Informal Sector*. This paper discusses industry-level differences between firms which operate out of opportunity and those which operate out of necessity.
- WIEGO, 2011. *Policy Brief No.4: “God is my Alarm Clock”*. This brief tells the story of a Brazilian waste picker who gained security through her work with the ASMARE waste pickers collective. The policy brief discusses how informal waste collectors in Belo Horizonte, Brazil have been integrated into formal recycling systems.
- WIEGO, 2016. *Organizing for Change: Workers in the Informal Economy*. This video discusses the importance of organisation for increasing the social protection of informal workers.
- ILO, 2015. *Transitioning to Formality in the Rural Informal Economy*. This document highlights the need for decent work opportunities for the rural informal, and discusses what has been done to promote social protection and formalisation in rural areas.
To guide the discussion and exchange, the following questions were posted:

1. Are you aware of any policies in your own country which have successfully increased inclusivity among the subsistence informal?
2. What are the challenges for increasing inclusivity of rural informal workers as opposed to those living in urban areas?

Discussion

Some of the main takeaways from this topic were:

Recyclers in Colombia

Federico Parra (Colombia) shared how the government in Colombia privatised public services in the 1990s, thereby introducing severe restrictions on informal recyclers. These restrictions included the eradication of animal-drawn vehicles and a ban on the separation of waste in public spaces. In 2002, recycling organisations launched a struggle for rights for informal sector workers. They turned to the judiciary and between 2003 and 2011 defended their rights at the constitutional court. They gained the right to provide garbage collection services in any municipality in the country, reversed the law eradicating the use of animal-drawn vehicles, linked payment for recycling services to the amount paid by users for the service, and ensured special state protection of recyclers, including the use of affirmative action in favour of recyclers.

However, tension remains today, with many rules in place still serving to punish recyclers. The path to formalisation is complex, and there are still areas where the inclusivity of these workers could be increased. This story serves as a lesson for other countries where informal waste collection is severely restricted or even criminalised.

Necessity vs opportunity

Diana Balderrama Durán (Bolivia) made the point that the business environment, including support networks, is very important for start-up businesses to thrive. For example, Shankar Chatterjee (India) shared that in India, the government has set up a new institution called the Micro Units Development and Refinance Agency Bank (MUDRA Bank) for the development and finance of non-corporate small businesses.

Karen Moore (Canada) mentioned the likelihood of subsistence informality being a necessity or opportunity, and that entrepreneurs may differ by age, sector, education level or gender. In addition, she questioned the outcome of skills development programmes aimed at informal workers. Furthermore, she asked to what extent skills development programmes are available for informal workers.
The role of the public sector and organisation of informal workers

Federico Parra (Colombia) made the important point that many of the activities in which informal workers are involved are for the provision of public goods and services. This means that the role of the state is vital in incorporating informal workers into these economic spaces. For example, Florencia Bohl (Argentina) mentioned that in Argentina it was common for business owners to abandon their factories to avoid bankruptcy, and for the workers to take over production during the economic crisis of 2001. This led to the inclusion of these cases into the bankruptcy code, as well as the allowance of tax benefits in order to ease their transition into the formal labour market.

Muhammad Usman (Nigeria) mentioned that in Nigeria the government is using Tax Identification Numbers (TINs) in order to recognise the existence of informal firms, even if these firms are not taxable. This also enhances revenue generation for the government, thereby counteracting (at least some of) the erosion of the tax based caused by a proliferation of informal work.

In the story of the waste pickers in Brazil, it is clear that organisation and lobbying by informal workers was a key driver of the legislative change that resulted in greater inclusivity for these workers. However, cooperation on the part of the government is vital. Eduardo Lopez (Bolivia) gave the example of informal pet traders in Bolivia, who cooperated with the municipality and were allocated a better space for their operations.

Furthermore, Diana Balderrama Durán (Bolivia) mentioned that in Bolivia even informal sectors are mostly unionised. This is certainly not the case in many countries, where informal workers are mostly excluded from unions and therefore the benefits which formal organisation brings.

The unique challenges faced by rural informal workers

Informal workers in rural areas face the challenge of being spatially separated from major hubs of economic activity. Furthermore, individuals in these areas face poor infrastructure and limited social service provision. Martin Luther Munu (Uganda) suggested that it is through the agricultural sector that these individuals can be integrated into the value chain, thereby providing them with more inclusive work.
Topic 5: Voluntary informality

Focus of the Topic

Voluntary informality is categorised as workers who decide to be informal, given that the benefits of being informal are much bigger than the costs of formal jobs (for example, taxation or sacrificing job flexibility).

The relationship between voluntary informality and inclusive growth is complex, because at an individual level the informal worker may benefit from tax evasion, but at an aggregate level this kind of informality erodes the government’s income, lowers productivity, increases corruption and acts as unfair competition to formal firms. The worker may not perceive the costs of informality in the long run or at the aggregate level, so he often does not consider the negative impact that his decision to remain informal has on his own welfare, via the negative impact at a social level.

One of the most effective policies to tackle this type of informality is labour law monitoring and control. However, this policy should not be implemented indiscriminately, since it can have negative social implications if applied to workers who suffer from subsistence informality.

Another policy for tackling this type of informality is making formal work more flexible, and particularly, promoting part-time jobs. In the case of Colombia, the labour contributions are the same if a worker is employed half- or full-time, making part-time jobs relatively more expensive and almost non-existent.

Finally, it is important to note that a percentage of voluntary informal workers are at the same time voluntary subsistence workers, as they may want to have a formal job but are low productivity workers at the same time. In this case is important to revise negative incentives created by social policies as such the competition between general and contributive pension schemes.

The discussion was supported by these main reference materials:

- World Bank, *Labour Regulations (extract)*. Regulation of informal voluntary workers may be difficult for many reasons. The World Bank prepared an international survey of policies to reduce informal employment, exploring difficulties and offering some international evidence.
- Bromley, R. 2000. *Street Vending and Public Policy: A Global Review*. Street vending is one of the most controversial topics when discussing voluntary informality. In this article, Bromley discusses the major issues of regulating street...
vending, and the controversy between street vending as a survival strategy and the negative outcomes of regulation.

- Government of Colombia, 2016. *Colombian Government Programme – BEPS: What is the BEPS Programme?* One of the key policies that can alter informality rates could be making formal jobs more flexible. Recently, the Colombian Government has developed a program called BEPS. The idea is to enable poor workers to contribute to pensions and gain access to the benefits of formality at very low rates.

- Levy, S. 2015. *Social Policy and Informality.* This video discusses the fact that voluntary informality can also be found among low income workers and that social policy can act as a perverse incentive. It is therefore necessary to focus policy carefully to avoid this scenario.

To guide the discussion and exchange, the following question was posted:

- How should voluntary informality be managed?

**Discussion**

Voluntary informality is understood as those workers who decide to be informal, given that the costs and benefits of being informal outweigh those of formality. Some undesirable costs to formality include taxation and job inflexibility.

*It is very true that women are always the victims of voluntary informality due to household work like taking care of children and work to keep the house safe and intact, yet some policies can help reverse these notions and integrate women more into formal work so that they contribute their own quota for the development of the local economy, especially those in rural areas.*

Muhammad Usman, Nigeria

*As I have seen on the streets of Cochabamba city, voluntary informality is a livelihood strategy in order to generate unique or complementary incomes. Ñformales as we describe them, must endure municipal regulations, the harassment of police and climatic conditions. For example, last night when I finished my shift I went to the San Martin street market (a principal avenue occupied by the informal sector) and I found products from Peru that do not have a registration number for our market. This shows, that "Informales" know about our work schedules and they appear when we have left the streets and locate themselves near this principal avenue... Very clever...*

Eduardo López, Bolivia

Some of the takeaways of the discussion were the following:

One of the greatest concerns of the participants was that voluntary informality was not a matter of concern in their own countries. This was particularly the point of view of our participants from South Africa and India. However, as the participants engaged in the discussion they discovered that there are some signs, though not strong, of voluntary
informality in most countries. For example, several participants recognised that women often choose to be informal in order to gain greater flexibility in their jobs. Other participants, such as Diana Balderama (Bolivia), noted that failures in social policy also incentivise voluntary informality in their countries, particularly among low-income workers. Finally, Eduardo Lopez (Bolivia) raised the point that there is a high incidence of voluntary informality among those who have second jobs.

Regarding how to tackle voluntary informality, on top of increasing job flexibility and correcting failures of social benefits programmes, enforcement was widely discussed. Florencia Bohl (Argentina) explained the single tax policy in Argentina, which can be understood as a way of controlling both subsistence and non-subistence voluntary informality, since it includes several categories according to annual declared income. The most discussed policy was the importance of making pension and health schemes more flexible to reduce voluntary informality. The Colombian BEPS, the NPS-Swavalamban (NPS-S) and the Atal Pension schemes in India (detailed by Shankar Chatterjee), and the Colombian weekly contributions scheme, were included as examples that can be applied to other countries in both regions. We discussed whether these schemes increase voluntary formalisation since they can be understood as a savings programme rather than a pension scheme (although they are a step towards formalisation and greater inclusiveness), and since they are oriented towards subsistence informality rather than towards voluntary informality (but there is a high incidence of both voluntary and subsistence workers). It was left for further thinking whether a version of these types of policies might be used to tackle voluntary nonsubsistence informality.

In sum, this Learning Alliance discussion showed that although voluntary informality is not the prevalent type of informality among most developing countries, it is not an insignificant portion of the informal population. Some of the policies discussed to reduce this type of informality were: enforcement, correction of failures in social benefits programmes, the single tax policy, and increasing work and pension scheme flexibility.
Topic 6: Induced informality

Focus of the Topic

The previous two topics focused on the policies that could be used to handle voluntary and subsistence informality and this final topic focused on induced informality. This type of informality includes those workers willing to work in the formal market, but who are segregated from it by excessive regulation or by implicit rules in society (such as discrimination), rather than by low productivity. Accordingly, policies for dealing with this type of informality can be divided in two: policies to reduce excessive labour regulation and policies to reduce discrimination in the labour market.

The first group of policies relates to excessive regulation on labour markets which restricts the capacity of firms to hire workers formally. Here the line is diffuse because when a policy is excessive is a hotly contested debate. It seems clear that workers should have some kind of protection, and that this protection should improve income distribution and the likelihood of decent work; yet too much protection can make formal hiring too expensive, thereby increasing unemployment and informality.

The second group of policies is oriented towards reducing labour market discrimination. It is important to note that discrimination in this context should be understood as those workers who show preferences for formality, and have similar education and experience as formal workers, but are segregated from the formal market by implicit discriminatory rules of society. In this context, women who voluntarily decide to be informal cannot be identified as suffering from discrimination.

The discussion was supported by these main reference materials:

- Fedesarrollo, 2016. Impact of Reducing the Payroll Taxes in Colombia. An exercise performed to estimate the impact of the 2012 Colombian tax reform, which reduced payroll taxes.
- Other Materials of Interest.
Discussion

“The ILO report is interesting. Women constitute the largest share of informal workers and therefore addressing discrimination in the labour force would greatly impact on growth.”
Martin Luther Munu, Uganda

The discussion regarding the types of barriers experienced by workers facing induced informality was very interesting. Most of the comments regarding regulatory barriers came from participants in South America, and most of the comments regarding discrimination against women came from African participants. Though there were some clear exceptions, such as Martin Luther Munu (Uganda) who told us that in Uganda the minimum wage is being debated (where the Colombian example might be of interest); and Hannah Lindiwe Diaz (South Africa) who said that South Africa is a good example of a country with a minimum wage fixed at sectoral/regional level. The distribution of comments by region suggests that regulatory barriers are more of a problem in Latin America, while discrimination against women is more of a problem in sub-Saharan Africa.

In the discussion about regulatory issues, the contribution from José Andrés Oliva (El Salvador) was also important. He told us that in El Salvador, there are four minimum wages that change according to the sector, and it has been proposed that they be homogenised into two minimum wages: one rural and one urban. José Andrés also mentioned that a 10% increase in the minimum wage decreases the probability of contributing to social security, or being informal, by 27.4%, which is a huge effect compared to the Colombian case where studies show that a similar change in hiring cost only reduces informality by 3 to 5 percentage points. Related to this result, Ana Vera (Colombia) brought two articles to the discussion, according to which the reduction in payroll taxes is important but of limited scope (by Eduardo Lora), and offset in magnitude by the increase in cash transfers (by Stefano Farné). Finally, José Durant (Peru) explained that according to the Peruvian Central Bank, the employment elasticity of the minimum wage in Peru is nearly -0.13, indicating the loss of formal employment to an increase in the minimum wage.

The Learning Alliance also widely discussed the issue of discrimination as a cause for high informality among vulnerable groups. However, there was some difficulty in understanding that the discrimination that matters for induced informality is labour discrimination. This can be understood as a situation where there are relatively fewer formal job opportunities for women or ethnical minorities with the same education, experience and skills, than other groups who have higher probabilities of being hired into the formal market. This type of discrimination is different from discrimination in education that can be the source of subsistence informality. However, it is very difficult to separate both types of discrimination without information about preferences for informality. As an example, Muhammad Usman (Nigeria) showed us that in only 16.2% of firms in Nigeria females have shares in
ownership, while in Kenya this figure is 48.7, in Liberia 53.0 and Mali 58.3. However, it is difficult to tell if this is the result of education discrimination or labour discrimination.

On race discrimination, Muhammad Usman shared two interesting cases: a document that denied the people of northern Nigeria access to western education (discrimination in education), and said "the younger generations from the northern Hausa tribe region have enough qualifications but because those selecting who employs who are the Yorubas and Igbos southerners, then the Hausas (find) it difficult to get the jobs to help (break) the vicious cycle of poverty in the region" (labour discrimination).

In the case of Latin America, Eduardo López (Bolivia) claimed that in Bolivia, discrimination occurs mainly in education since labour discrimination is controlled by the Defensoría del Pueblo. Finally, Adodo Adih-Nuviaadenu (Netherlands), introduced the concept of disability discrimination, a problem faced in many countries, but understudied maybe because of a lack of data or because of a lack of awareness.

In sum, regulatory barriers seem to be more of a problem in Latin America, whereas discrimination against women seems to be more of a problem in sub-Saharan Africa. Correspondingly, the recipe for reducing induced informality in Latin America is more related to reducing payroll taxes and controlling the increase of the minimum wage and what it is set. Meanwhile in sub-Saharan Africa, but also to a certain degree in Latin America, it is very important to factor in increasing awareness around discrimination against women and inducing behavioral changes.
Conclusion

As per the comments received throughout the Learning Alliance, it appears that the taxonomy of informality that was developed in the ELLA project can easily be implemented in most Latin American and sub-Saharan countries. However, the shares of each type of informality vary significantly between regions. In fact, most African countries show strong signs of subsistence informality. For induced informality, regulatory issues are more of a concern in Latin America, whereas discrimination was an important issue in both regions, but particularly in sub-Saharan countries. Finally, voluntary informality is a new concept, particularly in the sub-Saharan region. However, the Learning Alliance revealed that although voluntary informality is not the prevalent type of informality among most developing countries, it is not an insignificant portion of the informal population that are involved.

The participants concluded that effective public policies for dealing with voluntary informality include: enforcement, correction of failures in social benefits programmes, the single tax policy, and increasing flexibility of work and pension schemes. Regarding induced informality, the recipe for reducing this type of informality in Latin America is more related to reducing payroll taxes and controlling the increase of the minimum wage and how it is set. Meanwhile in sub-Saharan Africa, but also to a certain degree in Latin America, it is very important to factor in increasing awareness of discrimination against women, and inducing behavioral changes.