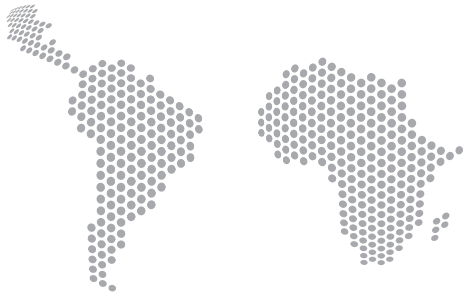
ELLA
Evidence and lessons from Latin America



SPOTLIGHT ON KNOWLEDGE: INFORMALITY AND INCLUSIVE GROWTH

Ali, I., Son, H. H. 2007. Measuring Inclusive Growth. *Asian Development Review* **24(1) 11-31.**

Ali and Son (2007) developed a methodology for analysing improvement in inclusive growth that is very much related to a welfare analysis. It maximises the availability of opportunities (defined as access to services and to job opportunities in the labour market) and how well these opportunities are distributed in the population, but including a penalty whenever opportunities are transferred from poor to rich people.

Bargain, O., Kwenda, P. 2010 *Is Informality Bad? Evidence from Brazil, Mexico and South Africa* **IZA Discussion Paper No. 4711. Institute for the Study of Labor, Bonn, Germany**

Bargain & Kwneda (2010) conducted an analysis on formal and informal earnings in Brazil, Mexico and South Africa, using quantile regressions. He found that for low earnings, informal and independent workers could expect lower earnings than their partners in the formal sector, whereas in the high-tier segment, self-employed workers receive a significant high earnings premium that may compensate formal sector benefits.

Cárdenas, M., Mejía, C. 2007. *Informalidad en Colombia: nueva evidencia (Informality in Colombia: New Evidence)*. **Documentos de Trabajo 35, Fedesarrollo, Bogota, Colombia.**

Cárdenas and Mejía (2007) used a matching scores method to estimate the differences in productivity, assets per worker and other microenterprise characteristics, between formal and informal firms that are not explained by observable variables, in Colombia.

Docquier, F., Müller, T., Naval, J. 2014. *Informality and Long-Run Growth.* **IZA Discussion Papers No. 7883. Institute for the Study of Labor, Bonn, Germany**

Docquier et al (2010), in a long-run model, found that "low-skilled workers may obtain a higher salary with the existence of an informal sector than in its absence, because there is an alternative sector where they can supply their working hours. However the existence of the informal sector also increases child labour and reduces the incentives to education. In the long run, the informal sector prevents the economy from developing as it would in the absence of informality. " Nevertheless, he also found that a sudden elimination of informality would induce severe welfare losses for poor people.

Kingdon, G., Knight, J. 2004. Unemployment in South Africa: The Nature of the Beast. *World Development* **32(3) 391-408.**

Kingdon and Knight (2004) examine why the unemployed in South Africa do not enter the informal sector. They find that the unemployed would have higher income, and be better off, in self-employment. Subsequently, they consider possible barriers that might prevent them from entering the informal sector.

Kingdon, G. Knight, J. 2007. Unemployment in South Africa, 1995-2003: Causes, Problems and Policies. *Journal of African Economies*, **16(5) 813-848.**

Kingdom and Knight (2007) explore for South Africa the evolution and transition of unemployment and informality. For this they consider a range of related indicators such as the adult population, the labour force, labour force participation, employment, distinguishing here between formal and informal employment, or between wage- and self-employment, and real wages and incomes. An important conclusion of this research is to pursue a set of policies that promote South Africa's rate of economic growth.

Levy, S. (2008). Good Intentions, Bad Outcomes: Social Policy, *Informality, and Economic Growth in Mexico*. **Brookings Institution Press. Washington, DC.**

Levy (2008), tries to explain why informality is big in Mexico, in spite of economic stability. He argues that incoherent programme design is partially responsible for this fact. For example, benefit programmes for informal workers embody good intentions but they end up encouraging informality, reducing productivity and diminishing government funds for social programmes.

Loayza, N. 1997. *The Economics of the Informal Sector: A Simple Model and Some Empirical Evidence from Latin America.* **Policy Research Working Paper 1727. World Bank, Washington D.C.**

Loayza (1997), based on an endogenous growth model, presents the view that the informal economy arises when excessive taxes and regulations are imposed by governments that lack the capability to enforce compliance. The model concludes that in economies where the statutory tax burden is larger than optimal and where the enforcement system is too weak, the relative size of the informal sector is negatively correlated with the rate of economic growth. He also uses data for some Latin American countries to test his hypothesis.

Lund, F. 1998. *Women Street Traders in Urban South Africa: A Synthesis of Selected Research Findings.* **CSDS Research Report No. 15. University of Natal, Durban.**

Lund (1998) draws on existing research findings about the informal economy, particularly women in the informal economy, and the working conditions of street traders. This aims to provide preliminary material for the study of traders' organisations that will be the third WIEGO study. She finds that the informal economy is more likely to absorb these women than the formal economy.

Maloney, W. F. 2004 Informality Revisited. *World development* **32(7), 1159-1178.**

Maloney (2004) tries to answer some questions about the nature of informality based on empirical analysis for some Latin American countries. A central argument of this paper is that, as a first approximation, the urban informal microenterprise should be viewed as part of a voluntary small firm sector similar to those in advanced countries that, due to the laxity of enforcement of labour and other codes, is able to choose the optimal degree of participation in formal institutions.

Maurizio, R. 2015. The Informal Economy in Developing Countries:In: Cling, J.P., Lagrée, S., Razafindrakoto, M., and Roubaud, F., (eds) *Labour Economy in Latin America. The Case of Argentina, Brazil, Chile and Peru.* **Routledge Studies in Development Economies, London and New York**

Maurizio (2014), in a study that involves Argentina, Brazil, Chile and Mexico, estimates the relationship between informality and quality jobs, and the cost, in terms of poverty, of informality (using propensity score techniques).

McKinley, T. 2010. ***Inclusive Growth Criteria and Indicators: An Inclusive Growth Index for Diagnosis of Country Progress.*** **Sustainable Development Working Paper 14. Asian Development Bank, Metro Manila, Philippines.**

McKinley, T. (2010) constructs a composite inclusive growth index at a country level. This index is based on a large number of factors like economic growth, factor productivity, poverty, indexes of inequality and indexes of education, health and governance. The countries analysed with this methodology are Bangladesh, Cambodia, India, Indonesia, Philippines and Uzbekistan.

Ramos, R., Ranieri, R., Lammes, J.W. 2013, Mapping Inclusive Growth, Working Paper No. 105, International Policy Centre for Inclusive Growth. Brasilia, DF – Brazil.

Almeida Ramos et al (2013) design a methodology to measure inclusiveness. This methodology includes three dimensions: poverty, equality and employment. When applied to Colombia and South Africa from 1996 to 2006, this index shows a small increase in the index of inclusiveness (not growth) in Colombia and a small decrease in South Africa, with both countries having similar increases in per capita income. This index also includes absolute values for 2006, according to which Colombia has a medium to low degree of inclusiveness whereas South Africa has a low level, mostly explained by high levels of inequality in both countries and low levels of employment in South Africa.

Ulyssea, G. 2013. ***Firms, Informality and Welfare*****. University of Chicago, Chicago.**

Ulyssea (2013), from a welfare analysis including the coexistence of segmented and integrated markets, shows that it is possible to reduce informality by reducing entry costs and payroll taxes. However, the first improves welfare and the second does not. The results of enforcing policies vary depending on it being on firms or individuals.

Villar, P. (2013), Formalización: Motor de Cambio Estructural Positivo. El Caso Colombiano entre 2002 y 2011(Formalisation: The Engine of Positive Structural Change. The Colombian Case between 2002 and 2011). Documentos Cede, Universidad de los Andes-cede, Bogotá, Colombia.

Villar (2013) looks into the relationship between sectoral distribution of labour and wage differences in Colombia and between formality/informality work and wage differentials (also interpreted as a proxy for productivity differentials). He finds that according to household surveys, after filtering by other determinants, like education and experience, 40% of growth in real wages in Colombia between 2002 and 2011 was explained by the process of employment formalisation.

Verdera, F. 2015. Do Limits Exist to Informality Growth in South America. A Preliminary Exploration. In: Cling, J.P., Lagrée, S., Razafindrakoto, M., Roubaud, F. (eds) *The Informal Economy in Developing Countries.* **Routledge Studies in Development Economies, London and New York.**

Verdera (2015) analyses employment dynamics in the informal sector in South America (ten countries) between 1970 and 2008. The analysis highlights the large progression of the share of employment in the informal sector during the 1990s. The econometric estimations show negative correlation between employment in the informal sector and GDP growth, and positive correlation between the growth of the working population, the activity rate and productivity.

Ydrovo, C. 2010. *Informalidad Empresarial en Colombia: Un Obstáculo a la Destrucción Creativa*. **Mimeo, Banco de la República, Colombia.**

Yvodro (2010), using matching propensity score techniques, finds that informal firms hire fewer salary workers, mainly because they face restrictions to growth. As a result aggregate productivity is lower.

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