Including the informal economy in Inclusive Growth – Evidence from the Informal Economy Monitoring Study

Informal Employment

- Where most of the population in developing countries earn their livelihoods
- Accounts for more than half of total non-agric employment
- Account for 66% of non-agric employment in sub-Saharan Africa

But, IE features very little in the African growth story

- Most of the focus is on commodities, exports, and the growth in services
- Focus on social policy, social protection, poverty, gender
- Very little focus on the informal economy
- Why so? Economic models typically:
  - ignore the informal economy
  - capture the informal economy in ways that are not illuminating
- The economy that policymakers see ignores developments where the vast majority earn their livelihoods

- How is the labour market characterised?
  - Multi-sector models, which disaggregate labour market into formal and informal - dualism
  - What is the difference between formal and informal labour market i.e. why does the IS have to be separately captured
    - ‘Traditional’ vs modern – product dualism
    - barriers to entry vs no barriers to entry
    - Regulated vs unregulated
    - Traded vs non-traded
    - High levels of competition vs low-levels of competition
    - High levels of productivity vs low levels of productivity

Myths about the informal economy, which inform models

- Myth #1: The informal economy is not part of the modern economy
- Myth #2: The informal economy is not linked to the formal economy
- Myth #3: Economic agents in the informal economy are hiding from the regulations to avoid the costs of formalization (eg taxes)
- Myth #4: The informal economy is not a source of dynamism and growth

Our concern with current macro models

- Approach is to add informal and stir
  - The models may be elegant and parsimonious but do they sufficiently capture the key economic characteristics in the informal economy

	Sector(s)	Local Partner
Africa		
Accra, Ghana	Street Vending	Institute of Statistical, Social and Economic Research (ISSER) and StreetNet Ghana Alliance
Durban, South Africa	Street Vending, Waste Picking	Asiye Etafuleni
Nakuru, Kenya	Street Vending, Waste Picking	Kenya National Alliance of Street Vendors and Informal Traders (KENASVIT)
Asia		
Ahmedabad, India	Home-Based Work, Street Vending	Self-Employed Women's Association (SEWA)
Bangkok, Thailand	Home-Based Work	HomeNet Thailand
Lahore, Pakistan	Home-Based Work	HomeNet Pakistan
Pune, India	Waste Picking	Kagad Kach Patra Kashtakari Panchayat (KKPKP)
Latin America		
Belo Horizonte, Brazil	Waste Picking	Instituto Nenuca de Desenvolvimento Sustentável de Belo Horizonte
Bogotá, Colombia	Waste Picking	Asociación de Recicladores de Bogotá (ARB)
Lima, Perú	Street Vending	Federación Departamental de Vendedores Ambulantes de Lima y Callao (FEDEVAL)

Intermediary Factors

Institutions
Social Services (access)
Credit (access)
Infrastructure Provision
Collective Bargaining
Legal-Regulatory Framework

Actors
Collective
City Government
Urban Planning Body
Local Business Elite
Foreign / International Elite
MBOs
Civil Society Stakeholders
Aggregate
Supply Chain Stakeholders
Formal Business Owners / Operators
Formal Workers

Frameworks & Practices
Social Norms
Policy Practices

State of the Urban Informal Workforce

Individual / Household Level
Livelihood Portfolio
Wages & earnings
Asset Profile
Risk Profile
Social Protection Profile

MBO Level
Resources & Strengths
Responses to Driving Forces

Key Drivers

Economic Models
* Economic policies
* Infrastructure Investment (utilities, transport, services)
* Sector Policies

Urban Planning Models
* Spatial planning trends
* Use of public space
* Security / counter-terrorism

Sub-sector / Value Chain Dynamics

Methods

- 15 x 5 focus groups (FGs) per city per sector
  - 9 participatory appraisal tools probe
    - Driving forces and responses
    - Sector characteristics
    - Institutional environment
    - Economic contribution
- 150 questionnaires – 75 FGs + 75
  - Household and income sources
  - Assets
  - Enterprise
  - Linkages
- 2 rounds, longitudinal
  - 2012
  - 2014

What are the linkages between formal and informal?

Focus on 3 issues related to the Myths

- Linkages
- Microeconomic conditions
- Contribution to the economy (taxes, etc)

Employment linkages in the household

- Livelihoods a combination of formal and informal employment

	Yes		**No**	
	N	%	N	%
Another formal worker	340	45.03	415	54.97
Another informal worker	134	17.75	621	82.25

Main source of HH income

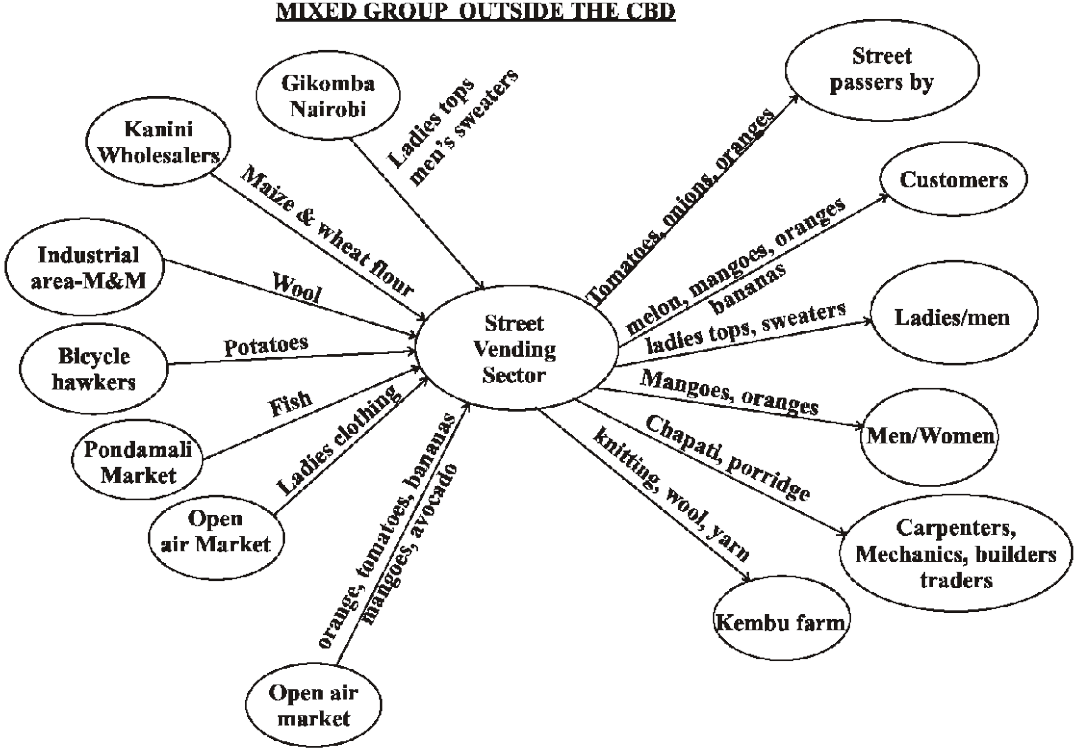
- While most workers report informal earnings as main HH income, 7% report formal earnings as main income

Main source of HH income	N	%	Cum %
Your informal business	541	72.83	72.83
Earnings from informal work by other household member	65	8.68	80.91
Formal sector wage employment by respondent or other HH member	51	6.81	87.72
Social Assistance	70	9.35	97.07
Other	22	2.93	100.00

How do you acquire your goods?

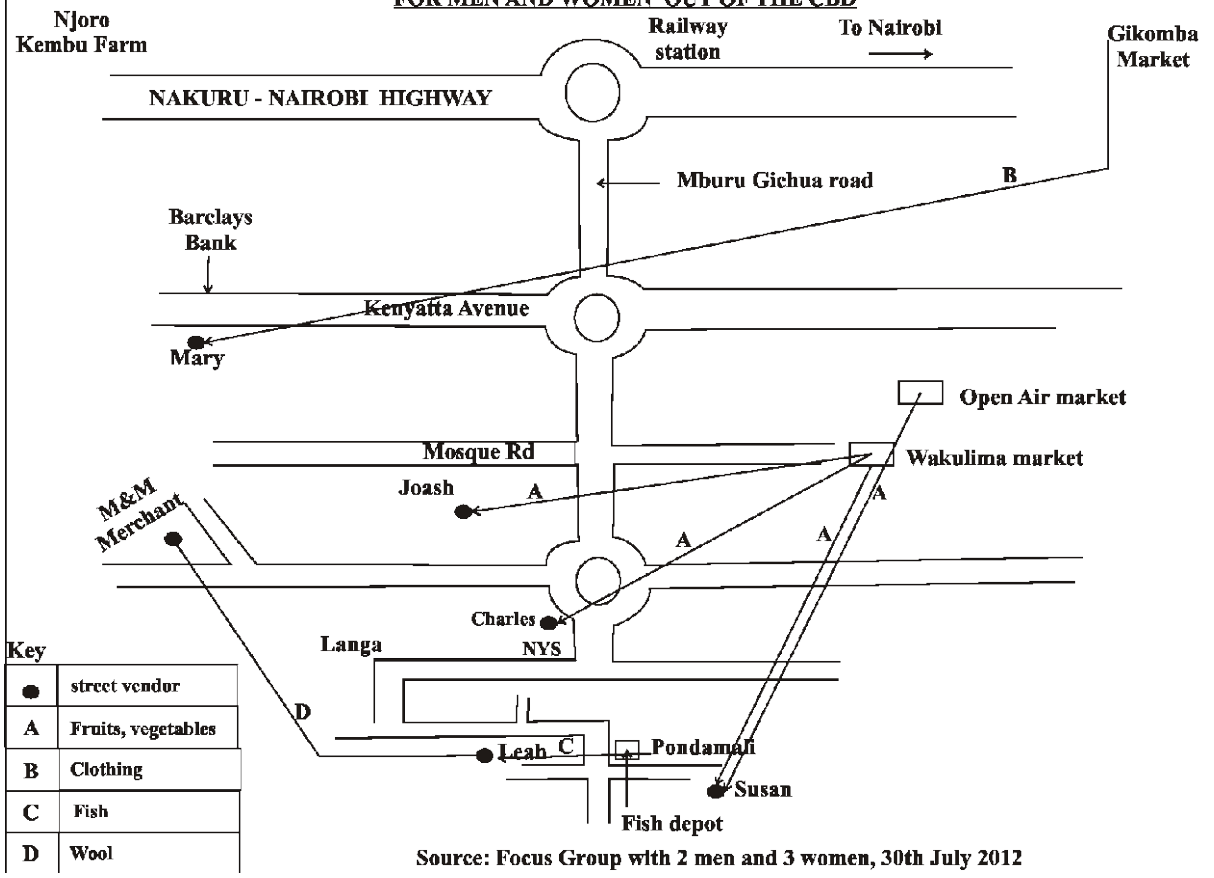
How do you acquire your goods	Frequency	Percent
Make or grow them myself	107	24.60
Acquire from nature	12	2.76
Buy from another street vendor	18	4.14
Buy from an informal enterprise other than a street vendor	160	36.78
Buy from a formal enterprise	121	27.82
Other	17	3.90
		100.00

BACKWARD - FORWARD LINKAGES FOR STREET VENDORS
MIXED GROUP OUTSIDE THE CBD



Source: Focus Group with 2men and 3 women, on 30th July 2012

MAP SHOWING WHERE STREET VENDORS WORK AND BUY THEIR PRODUCT FOR MEN AND WOMEN OUT OF THE CBD



Source: Focus Group with 2 men and 3 women, 30th July 2012

Spatial Linkages

- 59% of street vendors in our African countries trade in close proximity to a formal retailer
- Question:
  - Does formal retailing crowd in informal retail?
  - Does formal retailing displace informal retail?

Economic Drivers

A diverse growth context

	2010	2011	2012
Ghana	8.0	15.0	7.9
India	6.2	6.5	6.2
South Africa	3.1	3.5	2.5
Peru	8.8	6.9	6.3
Kenya	5.8	4.4	4.3

Among all street vendors

Table 2.1. Focus Group Rankings of Economic Forces by City

	Accra	Ahmedabad	Durban	Lima	Nakuru	Total
Negative						
Currency depreciation	8	0	0	0	0	**8**
High / rising prices	7	1	1	5	4	**18**
Bad economy / low demand / slow sales	2	0	0	3	3	**8**
High interest rates	1	0	0	0	0	**1**
Unemployment	1	0	0	0	0	**1**
Supply shortages	1	0	0	0	0	**1**
Increased competition	0	2	3	1	0	**6**
Electricity blackouts	0	0	0	0	1	**1**
strikes / demonstrations	0	0	0	0	1	**1**
High taxes	0	0	0	0	1	**1**
Positive						
Availability of loans	3	0	0	0	0	**3**
Good economy / demand / enough for livelihood	2	7	0	0	0	**9**
Development projects	2	0	0	0	0	**2**
Falling prices of inputs	1	0	0	0	0	**1**
Total	28	10	4	9	10	**61**

Inflation

- In general, across all cities, a concern with rising prices
  - In Accra 87% of survey respondents concerned about rising prices
  - Especially a concern for traders that sold non-durables
  - Increase in prices of critical inputs such as transport and storage

From a FG in Accra and Nakuru

- "People don't buy when the price goes up. Those who buy from us negotiate and buy at lower prices. If we don't sell we lose because the good [banana] is perishable. If we sell at the prices they want to buy, we are unable to get our money back. We therefore find it difficult to make profit from this business." [Female vendor, Accra FG 12, August 13, 2012 as reported in Anyidoho (2012)
- "If I was selling sweets at one shilling for a sweet, so when transport costs go up and I have to sell the sweet at two shillings, I will lose my customers. Therefore, we have fewer customers." [Female vendor, FG , July 20, 2012 as reported in Nyonyintono Lubaale and Nyang'oro (2012)]

Margin Squeeze

- Increase in prices not a problem if vendors can pass on price increases to end users
  - Street vendors in highly contested markets where it may be difficult to pass on high prices
    - One third of vendors who report higher input prices are unable to pass on rising costs
    - 11% are actually selling at lower prices

Currency Depreciation

- In Accra, traders who largely sold imported goods from China, Niger, Togo reported severe drop in profits resulting from the depreciation of the cedi
- “People hear more about the way the cedi is falling against the dollar because this affects the bank people who sit in offices. No one is talking about the way the cedi is falling against the CFA”. [Male vendor, Accra FG 9, August 2, 2012]

In cities with lower growth rate, demand a key constraint

Table 2.3. Significance of Low Demand as a Problem by City (%)

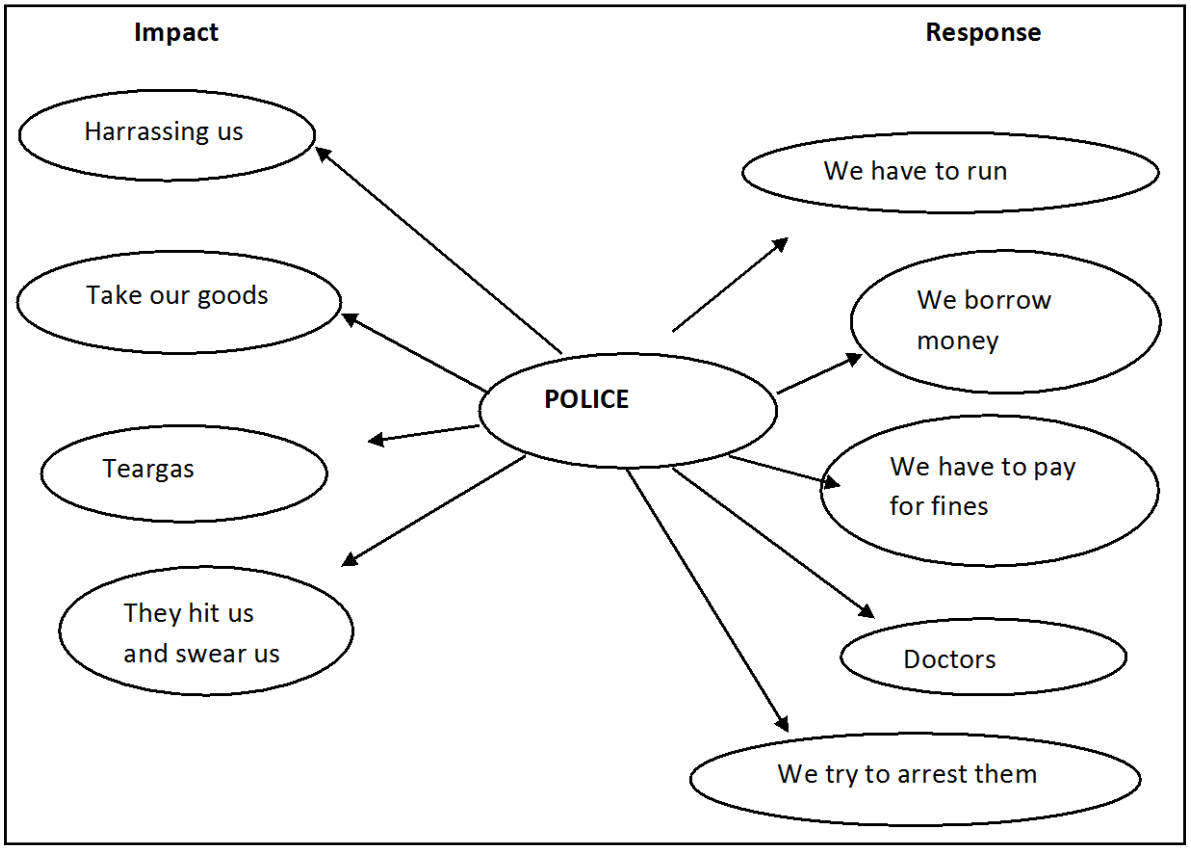
	Accra	Ahmedabad	Durban	Lima	Nakuru	Total
Major problem	12.75	53.62	85.23	42.28	75.52	53.71
Moderate problem	24.16	30.43	10.74	34.90	18.88	23.76
Not a problem	63.09	15.94	4.03	22.82	5.59	22.53
N	**149**	**138**	**149**	**149**	**143**	**728**

***Statistically significant at the .001 level (χ^2). Source: IEMS survey data (2012).

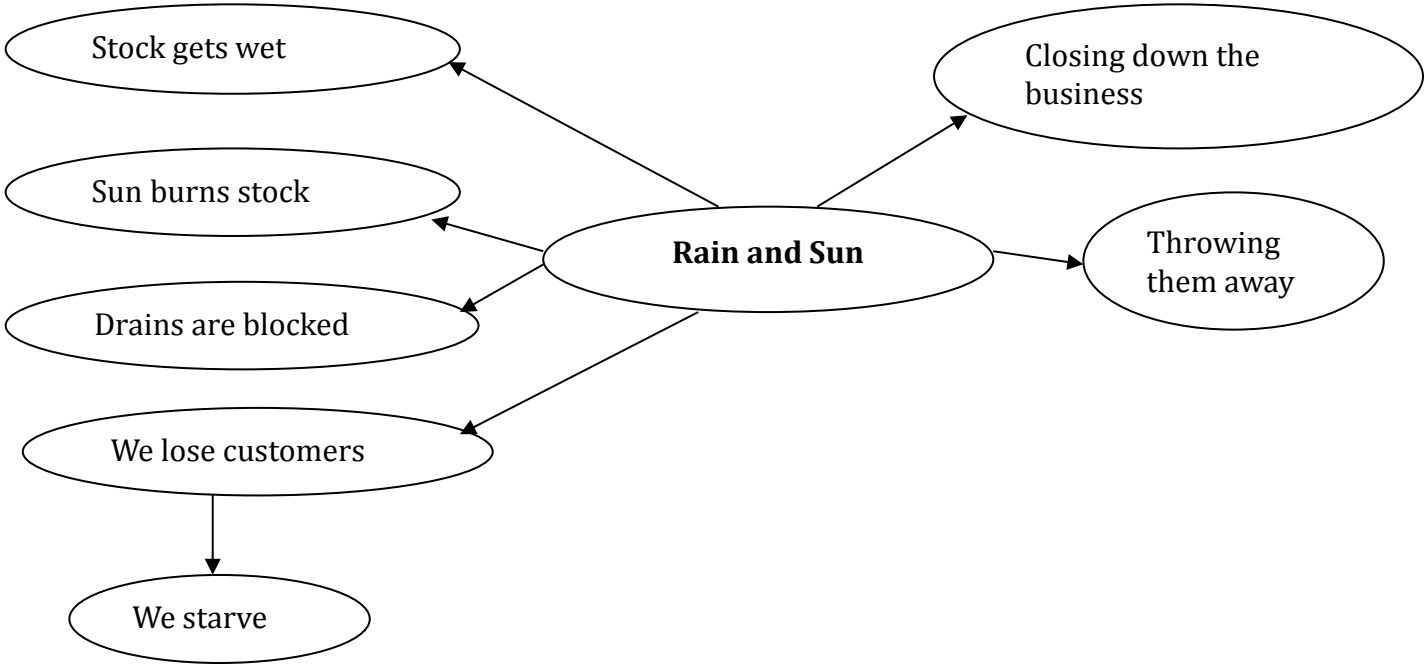
The city

	Accra	Ahmedabad	Durban	Lima	Nakuru	All
	Total top 3	Total top 3	Total top 3	Total top 3	Total top 3	Total top 3
Negative						
Police or urban authority abuse / harassment	2	10	7	4	8	31
No fixed / secure / adequate work space	0	14	2	0	3	22
Evictions / demolitions	1	7	0	5	0	13
Lack of shelter / weather impact / bad roads or drains	4	0	3	0	3	10
Urban renewal projects	0	2	0	6	0	8
Licenses, fees, tolls	1	0	3	3	1	8
Regulatory restrictions	0	0	1	7	0	8
Poor relations with municipal authorities	2	0	3	1	1	7
Lack of toilets / water / electricity / waste removal	3	0	3	0	1	6
Inadequate storage facilities	0	0	6	0	0	6
Insecurity / crime	0	1	3	0	0	4
Lack of / poor transport / hi cost	1	1	0	0	0	2
Inadequate services	0	0	0	0	2	2
Positive						
Urban growth / infrastructure	4	0	0	3	0	7
Permits/ID card program/fixed work space	0	1	0	3	4	6
Wholesale mkt proximity	0	5	0	0	0	5
Current policy environment	0	0	0	4	0	4
Safety	0	1	0	0	0	1
Total	18	42	31	36	23	150

TOOL 7 : CAUSAL FLOW DIAGRAM-NEGATIVE FORCE 2



Inadequate local planning and infrastructure in Durban



Contribution to the Economy

TOOL 10: ZOPP

Bringing items closer to traveller's

We increase the economy

We help in fighting crime

Our presence stop thieves

We are not included in the budget

We feed our famillies

We make profits for the government

If we are not there economy will go down

We prevent crime

We keep the road clean

Taxation in Acca

Mean Monthly Expenditure on Licenses, Permit, Other Taxes in Cedis				
	Central Market	Non-Central	Men	Women
Formal permit to operate	14.4	7.4	10.8	12.3
License Fees	3.2	9.4	6.7	3.5
Fee to Secure Space for trading	18.7	41.8	23.6	27.1
Income Tax	19.6	4.8	32.9	3.9
Other taxes	2.5	4.2	2.2	3.9

Implications

- Formal and informal economy inextricably linked in poor households
  - Policy needs better to understand these linkages
- There is a disjuncture between micro of the informal and the macro models
  - Macro models do not capture the key characteristics of the informal economy
- Urban and economic planning in cities vital for livelihoods in the informal economy