



Concept note

# Transforming informal work and livelihoods

Prepared by Michael Danquah, Simone Schotte and Kunal Sen, UNU-WIDER

## 1 Background

In classical accounts of economic development, economic growth is seen to be accompanied by a decline in informal employment.<sup>1</sup> Yet, in most developing countries – particularly in sub-Saharan Africa and South Asia, and less so in East Asia and Latin America – informal forms of economic activity remain a persistent phenomenon in spite of rapid economic growth in recent decades (Kanbur, 2017).

Given these trends, informal employment now constitutes more than 60 per cent of total global employment (ILO, 2018). In Africa, for instance, every 8 out of 10 work informally (ILO, 2018). Micro, small, informal and mostly household-run enterprises employ a large share of the workforce and provide livelihoods for the poor (La Porta and Shleifer, 2014). Women are more likely to engage in precarious forms of informal work, such as contributing family/unpaid workers in the enterprises headed by the males in their households, or in poorly paid casual jobs in the informal sector.

However, it is important to note that informal economic activity takes many different forms and plays different roles. In low and middle-income countries, it is often a place of residual employment for impoverished, marginalized and vulnerable workers, particularly at times of economic stress and crisis. It can though also act as a staging ground for household enterprises in their initial stage of growth. And it can be a hotbed of entrepreneurial talent. Accordingly, there is an increasing consensus in the existing literature that the analysis of informality cannot be performed without recognizing the extent of heterogeneity in informal work (see, *inter alia*, Chen, 2012; De Vreyer and Roubaud, 2013; Kanbur, 2017; Nordman et al., 2016). Informal workers range from multi-dimensionally deprived individuals in subsistence activities, including own account workers who are either single person operators or heads of family units, and contributing family workers, at the lower end (**lower tier** informal workers and enterprises), to entrepreneurs and technical workers or professionals with high potential, who voluntarily choose to remain informal (non-registered), at the upper end (**upper tier** informal workers and enterprises).<sup>2</sup>

1 Following the ILO Thesaurus definition, we understand **informal employment** as a **job-based concept** comprising 'all remunerative work (i.e. both self-employment and wage employment) that is not registered, regulated or protected by existing legal or regulatory framework, as well as non-remunerative work undertaken in an income-producing enterprise'. As such, it comprises all informal jobs, whether carried out in formal sector enterprises, informal sector enterprises, or households.

2 Informal workers working in formal enterprises without the benefit of employment-related social security would also be attributed to the upper tier of informality, since their employment environment is clearly distinct (e.g. in terms of capital and technology) to the one faced by those working in the informal sector.

## 2 Project objective and research questions

With ‘premature deindustrialization’ and the growth of the informal service sector, it seems likely that the trajectory towards informalization in low- and middle-income countries may be intensified in the future. The challenge for policy makers is then to find ways to encourage the movement of workers from the relatively unproductive lower informal sector to the more productive formal sector and at the same time, provide opportunities for more dynamic informal firms to grow, and for those working in these firms to achieve decent and remunerative work, even while remaining informal. However, in this effort, policy makers are constrained by the lack of available evidence on the causes of informality and the most effective mechanisms to reduce informality and strengthen decent work in the sector.

This research project aims to address this gap. First, it attempts to characterize the livelihoods of workers in different segments of informal work and provide a better understanding of the drivers that cause workers to engage in these activities, exploring elements choice and compulsion as well as context factors. Second, it intends to detect the main challenges and constraints that prevent workers in each segment from transitioning to a higher earning and more stable livelihood stream. Third, it seeks to provide guidance on how to foster these transitions and enhance the livelihoods of those in informal work.

Given these overarching research objectives, **six** key research questions can be formulated:

- 1 What do we know about the legal and policy constraints that hinder the enhancement of informal livelihoods? What policy interventions that can contribute to livelihood enhancement for informal workers and households?
- 2 How frequent is the movement of workers from informal wage or self-employment to formal work, and vice-versa? What explains such a movement? What are the livelihood implications of such movements?
- 3 What is the likelihood of lower tier informal workers moving to the upper tier of the informal sector? How transformative is this move with respect to livelihood enhancement and reduction in vulnerability?
- 4 What kind of policies and institutional environments hinder or favour movements from lower tier to upper tier informal work? How can urban planning processes provide a more enabling environment for the growth of the more dynamic informal enterprises?
- 5 What is the likelihood of lower tier informal firms and households making a transition to the formal sector, and what kind of policies are more likely to help in this transition?
- 6 How can women workers in informal wage employment increase the returns to their labour and move to better paid jobs in the formal sector? How can women in self-employment grow their businesses and increase productivity?

## 3 Research methods

Through its network and collaborations, UNU-WIDER has the capacity and resources to bring together researchers with different disciplinary backgrounds and different country and regional expertise, providing an inter-disciplinary comparative perspective.

While there is a clear need for a major research effort to understand the causes and consequences of the displayed transitions paths, the limited availability of data – particularly longitudinal datasets that allow investigating workers’ employment and livelihood transitions – puts significant constraints on this type of analysis in low and middle-income countries. With the increasing availability of better-quality panel data on the informal sector, including UNU-WIDER’s own efforts of data collection in collaboration with Southern governments (such as the panel data that is available from UNU-WIDER’s collaboration with the various government agencies in Vietnam and Mozambique), UNU-WIDER is well positioned to lead this research effort. Nonetheless, researchers in this project will need to explore creative and innovative ways of combining existing datasets and try to exploit quasi-experimental settings in order to allow for any causal inferences. In addition, qualitative research methods – such as life- and work-history

interviews, focus-group discussion, key informant interviews, and institutional mapping – can complement quantitative analyses and provide important insights on the contextual factors conditioning transitions.

Beyond these micro-level approaches focusing on the individual, household or firm, to understand the observed lack of (formal) employment opportunities, it is indispensable to investigate and understand the macro-economic drivers that determine the nature and quality of growth.

## 4 Expected outputs

UNU-WIDER seeks to publish the project's research outputs in two different formats:

- A themed special issue in a peer-reviewed scientific journal (open-access)
- A thematic edited book volume.

All commissioned papers will first be published as UNU-WIDER working papers.

The UNU-WIDER communications team will further provide support to increase the research results' visibility and impact. Possible formats may include policy briefs, blog articles, and social media posts.

## 5 Team

UNU-WIDER: Kunal Sen, Michael Danquah, Simone Schotte

## References

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