

Assessing Informality in Labor Markets of Developing Countries

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Informalization vs. Deregulation

- Pressure for increased LM flexibility is increasing in both developed and developing countries
- Flexibilization is occurring in a number of ways in developed countries:
 - outsourcing, part-time employment, functional flexibility, flexible work contracts, performance-based contracts, and changes in job security regulations
- In developing countries, **informalization** is a major strategy to achieve LM flexibilization
 - Growth of non-standard forms of employment to which labor regulations don't apply
 - tacit agreement on the parts of governments to erode enforcement of labor market regulations without explicit deregulation

Informalization at the margin

- Informalization occurs at the margin, with new entrants not obtaining legal and social protections of already employed workers
- Informalization is easier to implement politically than deregulation
 - Avoids dealing with opposition of organized labor
 - Erodes political pressure for deregulation on the part of employers
 - especially if it involves undesirable quid pro quos like greater freedom of organizing
- Informalization at the margin is effective in flexibilizing LM when there is fairly rapid growth in the LF

Main Questions

- Is there evidence of greater informalization of employment?
- Is such informalization primarily occurring at the margins (i.e. for new entrants)?
- Is wage employment in formal enterprises increasingly informalized?
- Is informal employment a stepping stone to formal employment?

Definition of Informal Employment

- 1993 international statistical definition of “informal sector” seen as too narrow to capture certain types of informal employment
- “Informal Economy” as a broader definition of informality of employment arrangements, which includes informal sector but also **informal employment** (employment without secure contracts, worker benefits, and social protection)
 - Inside informal enterprises
 - Outside informal enterprises
 - Unregistered or undeclared workers in formal enterprises
 - Workers in households
 - Workers outside fixed establishments

Definition of Informal Employment (Contn'd)

- All remunerative work (self-employment and wage work) that is not recognized, regulated, or protected by existing legal or regulatory frameworks and non-remunerative work undertaken in an income producing enterprise.
- Does not include:
 - Work in criminal activities
 - Unpaid domestic work or care activities

Need to Improve Statistics on Formality and Vulnerability of Employment

- International Expert Group on Informal Sector Statistics (Delhi Group) formed by UN Statistics Commission in 1997.
- Measurement of informal economy still in its infancy around the world, especially with regard to informal workers outside informal enterprises
- Most international estimates are based on some kind of residual method combining household survey data and establishment survey data on formal establishments
 - This is not adequate to carry out detailed analyses on informal employment.
 - Need to identify informal workers directly in household survey data

Estimating informal employment in household surveys

- Need to include questions on presence of legal contract and social insurance protection to identify informal workers
 - Questions should not apply just to current job, but to entire job history to capture labor mobility between institutional sectors
- Need to see informality as one elements of a vector of employment characteristics to be collected at multiple points in time. These include:
 - Employment status, occupation, economic activity
 - Sector of ownership, regularity, in/out of fixed establishment, presence of legal contract, social insurance coverage
- Other possible variables to be measured at least for current employment include:
 - establishment size, paid vacations, health insurance, underemployment and volatility (esp. for irregular workers)

Different measures of informality of employment produce fairly similar trends

Egypt: Employment Informality in 1990 & 1998,
Ages 18-64 (%)

	All Workers	Non-Agricultural Workers
<i>No Contracts</i>		
1990	52.0	39.0
1998	54.4	44.3
<i>No Social Security</i>		
1990	44.2	30.0
1998	47.1	35.9
<i>No Contracts and No Social Security</i>		
1990	43.3	28.9
1998	45.4	34.0

Source: Egypt Labor Market Survey 1998 (ELMS 98)*

Note: Age limit (18- to 64-years-old) applies in both 1990 and 1998.

The majority of informal workers (18-64) are wage workers and the proportion of wage workers is increasing

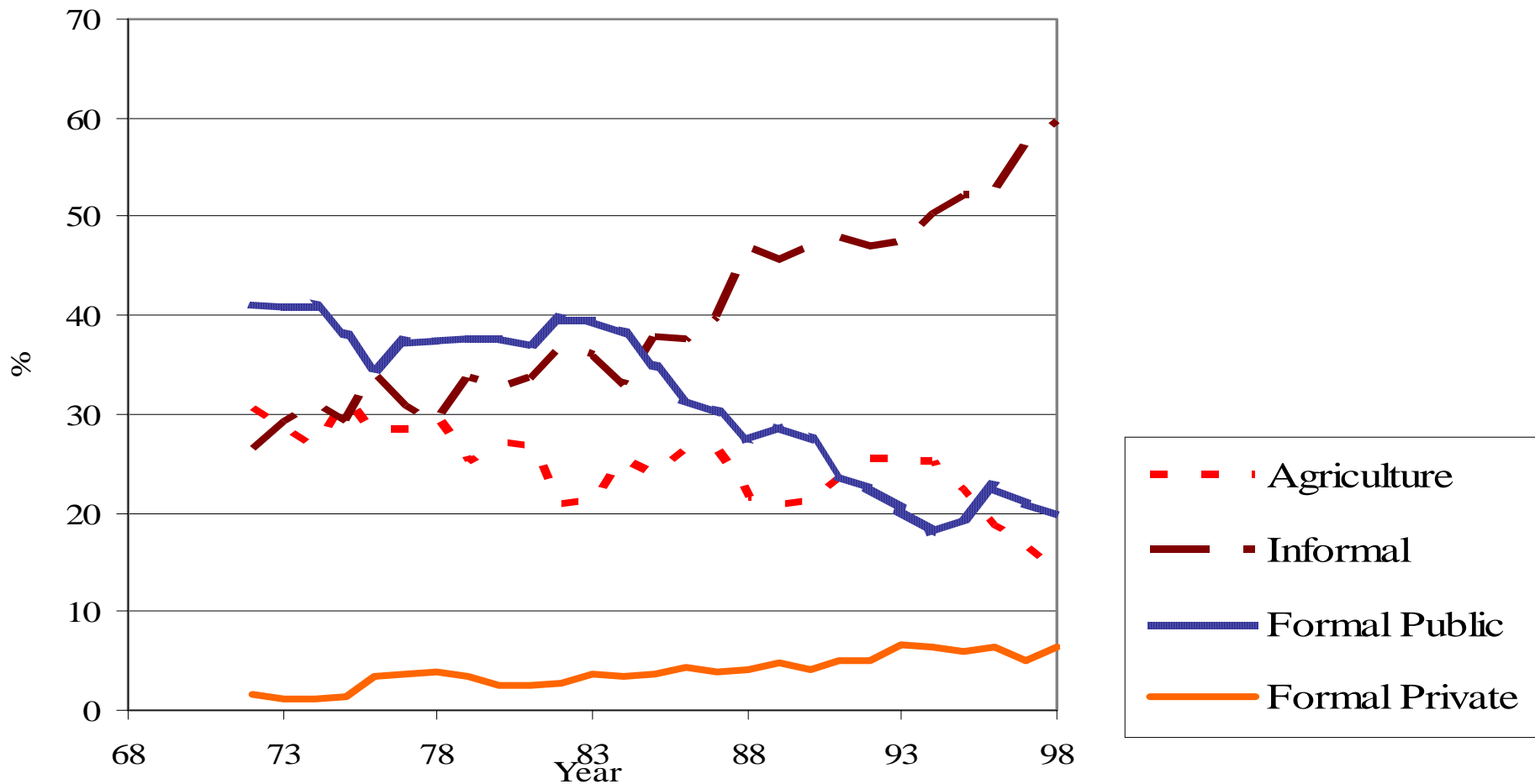
Egypt: Employment Status of Informal Workers (%)

	No Contract		No Social Security Coverage	
	1990	1998	1990	1998
Wageworker	53.8	56.3	61.7	65.3
Employer	16.8	15.6	10.0	8.4
Self-Employed	24.2	21.3	22.6	18.8
Unpaid Family Worker	5.1	6.8	5.8	7.5
Total	100.0	100.00	100.0	100.0

Source: ELMS 1998

Informalization is essentially occurring at the margins ...

EGYPT: Distribution of New Entrants by Type of Employment in First Job (4-year Moving Average), 1969-98



Source: Wahba and Mokhtar (2002)

With few informal workers able to eventually “ascend” to formal employment...

Egypt: Transitions of Non-Agricultural Workers Between Contract Statuses, 1990–1998

		Contract Status in 98		
		Contract 98	No Contract 98	Total 98
Contract Status in 90	Contract 90	<i>2049</i> 96%	<i>75</i> 4%	<i>2124</i> 100%
	No Contract 90	<i>145</i> 11%	<i>1188</i> 89%	<i>1333</i> 100%
	Total 90	<i>2194</i> 63%	<i>1263</i> 37%	<i>3457</i> 100%

Source: ELMS 1998

Note: In each entry, the top italicized figure gives the absolute number; the second figure is the % of the row.

Questions for further research?

- What are the gender dimensions of informalization?
- How much does informal employment increase precarity and insecurity of employment?
- Is informalization associated with greater openness to trade?
- Does the introduction of more flexible labor codes lead to a reversal of the informalization trend?
- How can the need for greater flexibility be reconciled with enhanced income security and social protection?