



2528-9705

Örgütsel Davranış Araştırmaları Dergisi

Journal Of Organizational Behavior Research

Cilt / Vol.: 8, Sayı / Is.: S, Yıl/Year: 2023, Kod/ID: 23S0-955



Informal Economy and Labour Market in Developing Countries

Maryam Ahangarian, Ph.D.

Ph.D. of Economics Development
Pune University, Department of Economics
Researcher
Infohafez86@yahoo.com

ABSTRACT

Informal economy has a vital role in the economy of developing countries in the terms of income generating and contribution in production. In the early literature about informality, informal sector was consider as residual sector and the informal labour considered as surplus labour which will be absorb by formal sector after growth in the economy but informal employment after decades still has increasing pace in some regions or persisted in some others and though there was a widespread assumption that the informal economy is counter cyclical, that is, it expands during economic down turns and shrinks during periods of economic growth. However, study of available data of different developing countries suggests a more complex and dynamic picture, it indicates that no matter what, informal economy persists even in the times of economic growths. Informal economy is so vast and encompasses heterogeneous kind of activities, due to the importance of the informal employment in the economy of developing countries, hence the purpose of this paper is to provide a conceptual definition of the informal economy and its size and contribution to the GDP. Also, to explore the linkage between poverty & informal economy as well as investigating the reasons for the expansion of the informal economy.

Keywords: *Informal sector, Informal economy, Labour Market, Developing Countries, Informality, Informal Employment, Informal Jobs*

Introduction

The informal economy contributes significantly to production, consumption, employment and income generation in developing countries. It is a source of livelihood to a majority of the poor, unskilled, socially marginalized and female population and is an important means of survival for people in countries lacking proper social safety nets and unemployment insurance especially those lacking skills for formal sector jobs. The traditional sector, the survival sector, the unregulated sector are all terms that use to describe informal sector based on its nature. The volume of people in informal employment in non– agricultural activities is high in most of the developing countries. In more than half of the countries, this share exceeds 50 per cent and in about one-third informal employment accounts for at least 67 per cent of non-agricultural employment. Informal employment accounts for a substantial portion of employment today. The informal sector is today no longer considered a marginal or transitional phenomenon limited to developing countries, it is now recognizes as the major creator of job. It encircles persons in employment who, by law or in practice, are not subject to national labour legislation and income tax or entitled to social protection and employment benefits. Informal employment can exist in both the informal and the formal sector of the economy. In most developing countries informal



employment is a larger portion of the workforce than formal employment. Estimates show that it comprises more than half of non-agricultural employment in most developing countries: 82 per cent in South Asia, 66 per cent in sub-Saharan Africa, 65 per cent in East and Southeast Asia and 51 per cent in Latin America. In the Middle East and North Africa, while the average is 45 per cent, the range is from 31 per cent in Turkey to 57 per cent in the West Bank and Gaza. If informal employment in agriculture were included, the proportion of the workforce in informal employment would increase largely in many countries, especially in South Asia, sub-Saharan Africa and East and Southeast Asia, where informal employment is already large. In developed countries an increasing share of the workforce works under part-time, temporary work and own account employment arrangements that offer limited benefits or social protection. Many though not all people working under such arrangements in developing countries would most likely be identified as having informal jobs. The informal economy referred to as the non-observed economy. It should be noted that the informal economy is only a part of the non-observed economy and needs to be distinguished from underground and illegal production activities. Underground production activities are legally not forbidden but are intentionally hidden from public authorities with the objective of evading tax and social security payments as well as to avoid bureaucratic procedures and regulatory compliance. Illegal production activities are those that are forbidden by law or become illegal when undertaken by unauthorized individuals. For example, drugs and narcotic production tend trafficking, production of certain explosives, production and distribution of faked goods and services such as unlicensed medical practice. Underground production is illegal as it involves non-compliance with administrative rules, while illegal production is associated with criminal behavior. Informal sector operations pertain to activities where a legal counterpart exists and are not always performed with the deliberate intention of evading taxes and infringing labour and other regulations, hence departing from the concepts of illegal and underground production. Therefore, most informal sector activities in developing countries are not underground and not illegal as these are undertaken as measures for survival.

Literature Review & Conceptual Definition: In the early 1970's economic anthropologist Keith hart observed from his research on Ghana that the informal sector had not just persisted but expanded. The terminology of Informal sector gained acceptance after the ILO used it to analyses economic activities in Kenya for one of ILO employment mission in 1972 conducted by a number of specialists. The ILO team systematically analyzed these activities, discovering that they were unrecognized, unrecorded, unprotected and unregulated; they found that the informal sector included a range of activities from marginal survivalist work to profitable enterprises. Though discussion of informality can be traced back to economic theories in the 1950's of the traditional sector. Many economist such as Arthur Lewis and others believed that this sector comprised of the vast pool of surplus labour in developing countries and including petty traders, small holders and casual wage workers would gradually become absorbed into the modern industrial sector as economies grew. It was also believed that this sector was marginal and not linked to the formal economy or to modern capitalist development. It was widely assumed during the 1950s and 1960s that, with the right mix of economic policies and resources, low-income traditional economies could be transformed into dynamic modern economies. In the process, the traditional sector comprised of petty trade, small scale production, and a range of casual jobs would be



absorbed into the modern capitalist or formal economy and by that disappear. This viewpoint was reflected in the prediction by Arthur Lewis in the 1954 paper for which he received a Nobel Prize in Economics, that economic development in developing countries would in the long-term generate enough modern jobs to absorb surplus labour from the traditional economy. This would lead to a turning point when wages would begin to rise above the subsistence level, what is referred to even today as the Lewis Turning Point . This prospect was strengthened by the successful rebuilding of Europe and Japan after World War II and the expansion of mass production in Europe and North America during the 1950s and 1960s. By the mid-1960s however the optimism about the prospects for economic growth in developing countries began to give way to concerns about persistent widespread unemployment. This led development economists argue in 1970 that they saw no sign of the Lewis Turning Point in developing countries. In opposition with the historical experience in developed countries, unemployment and underemployment of different kinds were on the rise in developing countries. However this tend to an imbalance resulting from technological advances, an imbalance between limited creation of jobs due to the extensive use of capital-intensive technology and significant growth in the population and labour force due to technological progress in health and disease control. Reflecting this concern, the International Labour Office Organization send an employment mission to Kenya . The Kenya Mission discovered that the traditional sector in Kenya, which they called the informal sector, comprised profitable and efficient enterprises as well as marginal activities . The term informal sector had been coined the year before by a British anthropologist, Keith Hart, in his 1971 study of low-income activities among unskilled migrants from Northern Ghana to the capital city, Accra, who could not find wage employment .Both Keith Hart and the Kenya Mission were largely positive about the informal sector. Hart concluded that informal activities that had autonomous capacity for generating incomes . The Kenya Mission stressed the potential of the informal sector to create employment and reduce poverty . But the informal sector as an economic reality received a mixed review in development circles. Many viewers considered the informal sector to be marginal or peripheral and not linked to the formal sector or to modern capitalist development. Some of these viewers believed that the informal sector in Ghana, Kenya, and other developing countries would disappear once these countries achieved sufficient levels of economic growth or modern industrial development. Others argued that industrial development might take a different pattern in developing countries including the expansion of informal economic activities than it had in developed countries. By the 1980s, the terms of the informal sector debate expanded to include changes that were occurring in advanced capitalist economies. Increasingly, in both North America and Europe, production was being reorganized into small-scale, decentralized, and more flexible economic units. Mass production was giving way to flexible specialization or in some contexts reverting to sweatshop production . These changes were associated with the informalizing of employment relations. Standard jobs were being turned into non-standard or atypical jobs with hourly wages but few benefits or into piece-rate jobs with no benefits, production of goods and services was being subcontracted to small-scale informal units and industrial outworkers. In the process, the informal economy had become a permanent, but dependent feature of capitalist development . On the other hand the economic crisis in Latin America in the 1980s highlighted another feature of the informal sector, in other words employment in the informal sector instead unemployment increased in many countries during periods of economic crisis . During the Asian economic crisis



of the 1990s, millions of people who lost formal jobs in the former East Asian Tiger countries tried to find jobs or create work in the informal economy. At the same time structural adjustment in Africa and economic transition in the former Soviet Union and in Central and Eastern Europe were also associated with an expansion of employment in the informal economy. As mentioned before employment in the informal economy expands during periods of economic crisis, When enterprises are downsized or shut down the workers who are laid off and cannot find alternative formal jobs often end up working in the informal economy. This is particularly true of those who cannot afford to be unemployed, more so in countries without unemployment insurance or compensation. If hard economic times are accompanied by rising inflation or cutbacks in public services, households often need to supplement formal sector incomes with informal earnings. During the 1990s, globalization of the economy contributed to the informalizing of the workforce in many industries and countries. While globalization can generate new jobs and open new markets, many of the jobs are not good jobs and many of the new markets are inaccessible to small-scale or disadvantaged producers. This is because, in response to global competition, formal firms tend to hire all but a few core workers under informal arrangements or to outsource the production of goods and services to other firms and countries. moreover informal firms and small producers often lack the market knowledge and skills to compete with formal firms for export markets and often face competition from imported goods in domestic markets. At present, there is renewed interest in the informal economy worldwide. partly this is because the informal economy has grown worldwide and also emerged in new appearances and in unexpected places. And partly this is due to the fact that informal employment expanded significantly during the recent great recession. Today, *informal employment is more than half of non-agricultural employment in most developing regions*. There are now more than 50 years that the first attempts of definitions and data collection on informal sector and informal employment. as mentioned already the notion of the informal sector came into international use in 1972 when it was defined in the International Labour Organization (ILO) Report of a Comprehensive Employment Mission to Kenya as a way of doing things characterized by various factors such as small scale, low resource base, family ownership, labour intensive methods of production and adapted technology, skills acquired outside the formal sector and unregulated and competitive markets, which highlighted the fact that rural depopulation and resultant urban growth did not give rise to high open unemployment but rather to the development of small scale activities providing rural migrants and urban dwellers who were unable to gain employment in the modern sector with a means of living and surviving. It was only in January 1993 during the 15th International Conference of Labour Statisticians (ICLS) that the informal sector acquired a proper definition based on production units, both in conceptual and statistical terms. This definition, largely intact in its original form, is used even today along with some added recommendations from the UN Expert Group on Informal Sector Statistics. Also the term informal sector had come into the economic literature by an ILO mission to Africa in the early 1970s. Today after five decades informal sector persisted and in other word, better to say, informal sector grew in the world and in fact during 50 years trend of informality, there is a evolution for informal from sector to economy in the other word, it is not a homogeneous but is has become so heterogeneous, very vast and common phenomena of the economy worldwide. Since it was first coined in the early 1970s, the term informal has been used with different



meanings for different purposes. The concept of informal sector has itself evolved over the years, at first it referred to a concept for analysis and policy-making, today it is sometimes used in a much broader sense, to refer to a concept that defines activities not covered by the existing conventional sources of statistics. The following will provide as an easy reference for the terminology associated with informality and its definitions:

Employment in the informal sector All persons who, during a given reference period, were employed in at least one of the informal sector enterprises, irrespective of their status in employment and whether it was their main or a secondary job.

Informal job any job which has following criterias: Non-standard, atypical, irregular, precarious, unprotected. Not covered by existing regulations (social protection, benefits)

Informal employment consists of a large and diverse category of workers which can be divided in to heterogeneous categories according to the status of the employment:

Informal self-employment employers in informal enterprises, own account workers in informal enterprises, contributing family workers (in informal and formal enterprises), members of informal producers cooperatives (where these exist)

Informal wage employment employees hired without formal contracts contributions by formal or informal enterprises or as paid domestic workers by households. Certain types of wage work are more likely than others to be informal. Employees of informal enterprises, Casual or day labourers with no fix employer, Temporary or part-time workers, Paid domestic workers, Unregistered or undeclared workers, Industrial outworkers (also called home workers)

Hence, with all mentioned above **the Informal economy** refers to all economic activities by workers and economic units that are not covered or insufficiently covered by formal arrangements, the informal economy comprises informal employment (without secure contracts, worker benefits or social protection] of two kinds: Self employment in informal enterprises (small unregistered or unincorporated enterprises) including employers, own account operators and unpaid contributing family workers. Wage employment in informal jobs (for informal enterprises, formal enterprises, households, or no fixed employer), including casual or day labourers, industrial outworkers, unregistered or undeclared workers, and unprotected contract, temporary and part-time workers.

The expansion of informal economy: In the early literature about informality, informal sector was consider as residual sector and the informal labour considered as surplus labour which will be absorb by formal sector after growth in the economy but informal employment after decades still has increasing pace in some regions or persisted in some others, while analyzing causes of informality economic growth is one of key factors. Some countries have experienced little or no growth in recent decades, while others have concentrated on capital intensive growth, resulting in jobless growth. In both cases, there have been not enough jobs created for all those seeking work, forcing people to find employment or to create their own work in the informal economy. Economic crisis also is one of main factor to emerging informality. Generally it considers that informal sector expands during economic crisis and shrinks when economy growth, cross-country comparisons reveals a negative correlation between measured rates of informalizing and the level of per capital GDP that is, informal employment as a fraction of total employment is smaller for more advanced industrial economics than for developing countries. Demographic factors also has impact on growth of the informal economy especially in developing countries, the growth or the informal economy is linked to issues of surplus labour, it is therefore important



to have back-ground information on the size and growth of the labour force, the education and skills of those entering the labour market, rural-urban migration and the rate of urbanization. Female labour force participation has been increasing faster than men in almost all parts of the world in recent decades. In many countries an important factor is growing rural urban migration. migrants in search of formal jobs often end up in the informal economy. Another factor which leads people to informal jobs is legal obstacles, regulations governing the establishment and operation of enterprises. Formal regulations have mostly been designed for larger enterprises and are therefore often inadequate for the needs and conditions of the growing sector of micro-enterprises. There are multiple factors causing informality , foremost is the issue of poverty and the limited livelihood opportunities and jobs for the working poor, though not everyone in the informal economy is poor , studies show that there is a significant overlap between working in the informal economy and being poor, therefore poverty has positive impact on increasing informality. Being poor means not being able to afford to be openly unemployed and almost any job may seem to be better than no job. Hence increasing poverty is one of the fundamental reasons for the growth of the informal economy. However the links between working informality and being poor are not always simple, poverty is that forces most people to take up unattractive jobs in the informal economy and the low income that such jobs yield creates a vicious cycle of poverty. The working poor are concentrated in the informal economy and especially in the rural areas. The link between working in the informal economy and being poor is stronger for women than for men. Not only do a higher percentage of women than men work in the informal economy, women are concentrated in the low-income segments, working in survival activities or as casual wage workers or home workers. Globalization has often named as a major reason of growth in informal economy. Global trade and investment patterns tend to privilege capital especially companies that can move quickly and easily across borders and to disadvantage labour especially low-skilled workers that cannot migrate to increase their global competitiveness, more and more investors are moving to countries that have low labour costs or shifting to informal employment arrangement. The impact of global competition also encourages formal firm to shift formal wage workers to informal employment arrangement without minimum wage globalization also often leads to shifts form secure self-employment to more precarious self-employed .Global trade and investment patterns are having a dramatic impact on employment relations and work arrangements around the world. Globalization has often been named as a major reason for the generation of the informal economy. The inference tends to be negative that globalization is to blame. However this can be misleading and is not helpful, especially for policy purposes. What is more useful is to determine how the different globalization processes affect employment opportunities and the welfare of workers there can be both positive and negative impacts and much will depend on domestic and international policies. Firstly the various globalization processes should be distinguished, trade and the expansion in the volume and variety of cross border transactions in goods and services, foreign direct investment (FDI) and a dramatic increase in international capital flows, the rapid and widespread diffusion of technology and international labour migration. as the matter of fact these globalization processes have changed the boundaries of markets, increased global integration and heightened competitive pressures. On the positive side globalization has led to new opportunities in terms of new jobs for wage workers and new markets for the self-



employed. In some developing countries, the share of transnational corporations affiliates in host country employment is very large; for example, affiliate-based employment in the manufacturing sector exceeded 40 per cent in countries such as Malaysia, Singapore and Sri Lanka. The anti-globalization movement has focused attention on the downsides to globalization, which have been borne mainly by those in the informal economy. Anti-globalization groups point out for instance that globalization tends to work in favour of capital especially companies, that can move quickly and easily across borders and to disadvantage workers, especially lower-skilled workers who cannot migrate easily or at all. Globalization also tends to benefit large companies which can have access to new technologies and capture new markets quickly and easily to the disadvantage of micro- and small entrepreneurs. The impact of global competition also encourages formal firms to shift formal wage workers to informal employment arrangements without minimum wages, assured work or benefits, and to encourage informal units to switch from semi-permanent contracts with their workers to piece-rate or casual work arrangements also without assured work, minimum wages or benefits. Globalization also often leads to shifts from secure self-employment to more precarious self-employment, as producers and traders lose their market niche. With these shifts, as more and more men enter the informal economy, women tend to be pushed to the lowest-income end of the informal economy, often as industrial outworkers or petty traders. Whether in fact globalization leads to decent work or to decent work gaps in the informal economy depends very much on government policies. For example many governments provide incentives to attract foreign investor, but unless the policy mix is correct, capital-intensive investments may not create new jobs resulting in jobless growth and may even lead to downsizing or cut downs (i.e. job loss). Investors looking for cheap rather than skilled and productive labour would tend to increase informality. Supply-side support provided by the government to enhance competitiveness in global markets, for example through incentives or subsidies for export promotion, technology upgrading, tax holidays and so on, are normally biased in favour of larger industrial enterprises and may not only prevent smaller enterprises from developing their potential or gaining access to global markets, but may also lead to the displacement of informal operators and workers. In Sri Lanka, export promotion policies in favour of the coir industry led to a shift in the supply of coconut husks to mechanized units owned by men with access to credit, away from manual units owned by women with little access to credit. In South Africa, where the Government has used supply side measures as policy instruments to promote the country's international competitiveness, restructuring of labour-intensive industries, such as the clothing industry, led to massive formal job losses for women, many of whom had to find alternative work as home workers in the clothing industry or had to go into other types of informal work. According to studies neoliberal policies in developing countries is another factor to growth informal sector. basically neoliberal policies in developing countries led to decline in average rate of economic growth, the most important is that economic growth does encourage a decline in the rate at which informal forms of employment expand. But economic growth does not, by itself, produce an absolute decline in the proportion of people working in informal jobs. The rise in informalizing the labour market has coincided not only with the decline in government regulations of labor markets but also with a broader transformation of the economic policy environment in developing countries. Economic strategies moved away from the developmental state policies that were dominant in the 1950s and 1960s, in favor of what has been termed neoliberalism. Neoliberalism is a variant of classical liberalism,



the political philosophy that embraces the virtues of free market capitalism and the corresponding minimal role for government intervention. In developing countries, neoliberalism has involved privatization, sharp cuts in government spending and barriers to international trade, and a decline in the regulation of financial markets as well as labour markets. The reason why the informal economy continued to expand and grow must say that there is no simple answer to this. However some or mix of all reasons is identifying in this paper would explain the causes for the persistence or expansion of the informal economy in most countries. economic growth is named as the main reason for expanding the informal employment in developing countries, In this contexts, not enough jobs are created for all those seeking work many frustrated formal job seekers find employment or create their own work in the informal economy. Another pattern of economic growth high tech growth tends to create more high-skill service sector jobs than lower-skill manufacturing jobs. In other words those without the skills to compete for high-tech formal jobs find work or continue to work in the informal economy. There is another, more optimistic, scenario: namely, growth from below. In some regions, countries, or industries, the small business and sectors are more dynamic and create more jobs than the formal sector. another reason has to do with economic restructuring and economic crisis. Available evidence suggests that during periods of economic adjustment, whether due to economic reforms or economic crises, the informal economy tends to expand. This is because lay out workers move into the informal economy when public enterprises are closed or the public sector is downsized. This is also because households need to supplement formal sector incomes with informal earnings in response to inflation or cutbacks in public services. Globalization as other reason for the expansion of informal economy, meaning inclusion for some into the wealth-creating global process and exclusion of others who are not capable of participation in the gratification of wealth-production. Global trade and investment patterns tend to privilege capital, especially companies that can move quickly and easily across borders and to disadvantage labour, especially lower – skilled workers that cannot migrate easily or at all. To increase their global competitiveness, more and more investors are moving to countries that have low labour costs or shifting to informal employment arrangements. Further there has been a radical restructuring of production and distribution in many key industries characterized by outsourcing or subcontracting through global commodity chains. The net result is that more and more workers are being paid very low wages and many of them have to absorb the non-wage costs of production. Globalization also tends to privilege large companies who can capture new markets quickly and easily to the disadvantage of small and micro entrepreneurs who face difficulties gaining knowledge of - much less access to - emerging markets. In sum, globalization puts pressure on low-skilled workers and petty producers by weakening their bargaining power and subjecting them to increasing competition.

Informal economy and poverty: There is a link between working in the informal economy and being poor. Average incomes are lower in the informal economy than in the formal sector. As a result, a higher percentage of people working in the informal economy, relative to the formal sector, are poor. informal employment is paired with low income per capita and high poverty rates. There are many possible interpretations. People in extreme poverty may have no other option than informal employment. Also, they may not be aware of their rights to certain legal and social protections and worker benefits, or how to access such protections and benefits.



However there is no simple relationship between working in the informal economy and being poor or working in the formal sector and escaping poverty. The relationship between informal employment and poverty appears only when informal workers are classified by employment status and by industry or trade. Informal incomes worldwide tend to decline as one moves across the following types of employment: from employer to self-employed to informal and casual wagers to industrial outworker. Available evidence suggests that globalization of the economy tends to strengthen the links between poverty, informality, and gender. This is because global competition tends to encourage formal firms to shift formal wagers to informal employment arrangements without minimum wages, assured work, or benefits and to encourage informal units to shift workers from semi-permanent contracts without minimum wages or benefits to piece-rate or casual work arrangements without either assured work, minimum wages, or benefits. This is also because globalization often leads to shifts from secure self-employment to more precarious self-employment, as producers and traders lose their market niche. With these shifts, and as more and more men enter the informal economy, women tend to be pushed to the lowest income end of the informal economy: for example, as petty traders or as industrial outworkers.

The size of informal economy: The informal sector represents an important part of the economy particularly in labour market in many countries in the world and plays a crucial role in employment creation and income generating, hence the statistics measurement of informal economy is very important for many reasons. One of the main purposes of measuring of informal sector is to provide information for implementing, monitoring and analyzing macro-economic and related development policies. Statics on the informal sector offer more exhaustive and accurate estimates of the size of the informal sector within the gross domestic product (GDP). They also serve to analyze the sources of GDP growth and the relative susceptibility of the informal sector to economic policies. For developing countries, measurement of informal employment and the informal sector are especially relevant to an understanding of the structure of the labour market and the quality of employment. Informal economy has a vital role in the economy of developing countries in the terms of income generating and contribution in production .as mentioned earlier the size of informal sector is quite large in developing countries and according to definition informal economy is consists of employment in informal sector and informal employment jobs in the formal sector as well.To know the size of informal sector, this paper attempts to explain it from two different aspects: size of informal economy as the share in employment and size of informal economy as its contribution in the GDP . the size of informal economy can reach to 80 percent in some of the African countries. In Latin America, the informal sector's contribution to nonagricultural GDP varies from a low of 16 percent in Venezuela to a high of 30 percent in Colombia and Guatemala. The relatively small economic significance of the agricultural sector in most of these countries (compared with Sub-Saharan Africa) implies that the informal sector's contribution to GDP does not change much whether the agricultural sector is included or excluded from it. An exception is Honduras, where about one-third of the informal sector's output comes from agriculture; excluding the agricultural sector reduces the informal sector's contribution to GDP from 24.3 percent to 16.0 percent. In Sub-Saharan Africa, the contribution of the informal sector to nonagricultural GDP varies from a low of 22 percent in Burkina Faso to a high of 36 percent in Cameroon. In this region, the agricultural sector accounts for a much larger share of total GDP therefore the share of informal sector GDP from



agriculture is relatively large in all countries .A 2011 ILO report provided statistics on informal employment from 47 low and medium income countries It found that in 15 countries, informal employment accounted for more than two third of total nonagricultural employment , central and eastern European countries featured the lowest proportion of informal employment; in all but two countries, the bulk of informal employment was concentrated in the informal sector.Informality exists in all labour markets, in both high and low income countries, although it is more prevalent in developing countries. The informal economy comprises diverse workers and entrepreneurs who are not often recognized or protected under national legal and regulatory frameworks. The informal economy can be seen such as limited access to social protection, denial of labour rights, and lack of organization and representation. On average, informal workers earn far less than formal workers. In other words, most informal workers suffer from significant decent work deficits. In most developing countries, the informal sector plays a significant role in employment and income generation, and in economic and social development. Knowledge about the informal sector's size and scope is indispensable for national policy makers, since this may help them design and monitor specific support policies and assistance programs for the informal sector to increase the productive potential and employment and income generating capacity of informal sector units; improve the working conditions and social and legal protection of informal sector workers ; develop an appropriate regulatory framework and promote the organization of informal sector producers and workers; and analyze the economic and social situation of particular groups of informal sector workers, such as women, children, rural-urban migrants, and immigrants. In 30 of the 41 countries the share of women in informal Employment in non agricultural activities outnumbered than of men. However, when looking at informal sector employment, the picture is different. The majority of the countries registered higher shares of men in informal sector employment as a share of non-agricultural employment as compared with women. When looking at informal employment by sector in the largest developing countries, the share of women in informal employment in manufacturing activities is usually much higher than that of men. For example, in Brazil, 48.6% of women have an informal job in the manufacturing sector, as compared to 31.7% of men. In India, the share of women with an informal job in the manufacturing sector even reaches 94%. . The lowest percentages of informal employment are observed in central and eastern European countries.

Conclusions and Recommendations: The informal sector plays an important role in the economy especially in developing countries. It provides jobs and reduces unemployment and under - employment, but in many cases the jobs are low-paid and the job security is poor. More people have been going in to informal sector because they cannot find jobs or unable to start businesses in the formal sector .in the last 50 years different groups have been termed informal because they share one important characteristic. They are not recognized or protected under the legal and regulations. Informal workers are not recognized under the law and therefore receive little or no legal protection. The informal economy is an economic activity that is neither taxed nor monitored by government; these activities are rarely reflected in official statistics on economic activity. The contribution of the informal sector not only its size, is quite large. Contrary to earlier predictions, the informal economy has been growing rapidly in almost every corner of the globe, including industrialized countries; it can no longer be considered a temporary or residual



phenomenon. The volume of new employment in recent years, particularly in developing countries, has been in the informal sector. The informal sector, in whatever way one defines it, is quite large, particularly in terms of its contribution to employment in the country. It is not homogeneous and all the main subsectors of the economy have a component of it. As far as its linkages with poverty are concerned, there are two views. The informal sector consists of marginal and subsistence activities, where the productivity and earnings of its participants remain low. Informal workers have access to little or no social protection, and working conditions are very poor. Therefore, the informal sector perpetuates poverty. Though not everyone working in the informal sector is poor, the vast majority of its participants have low incomes and live below the poverty line. However, due to a lack of employment opportunities in the informal sector, people are forced to join the informal sector to earn their livelihood. Without the informal sector, the intensity of poverty, if not its extent, would be much higher. Therefore, it is necessary to enhance the productivity and earnings of the informal sector. It may not be possible to formalize all informal employers and employees. Therefore, the ultimate objective should be to gradually reduce the share and size of the informal sector so that the formal sector grows and the incomes, standards of living and working conditions of the informal labourers in general improved. The informal sector is extremely heterogeneous, and there is a need for a careful analysis of different options for different categories of workers in specific sectors. Where participants in the informal sectors are organized, the private insurance industries and the government can negotiate with them a cost-sharing arrangement for social insurance schemes. It is important that government subsidizes the social insurance schemes and that most of the responsibilities for risk cover is not placed on the poor labourers in the informal sector themselves. Government can make major contribution through the social securities programmes for informal workers and poverty reduction programmes. Furthermore, effectively identifying informality needs to start by discovering the costs and benefits for those employed within different segments of the informal economy. Benefits should be linked to social contribution levels, while administrative procedures such as business and workers registrations should be simplified. Apart from positive incentives, reducing informal employment also implies strengthening enforcement mechanisms. However, policies also need to adequately address those who have no choice but to work informally. Such people need a different approach from those who voluntarily opt out of the formal sector. Poverty-alleviation programmes can tide over people whose options for entering the labour market are limited. A better understanding of the complexity of informal employment and a positive approach to identifying the specific needs of informal workers are really needed.



Acknowledgment: None

Conflict of Interest: None

Funding: None

Ethical statements : None

References:

- 1) Jacques Charms, informality after 40 years of debates: origins, development and ambiguities of a successful concept, 2013, Institute of Development
- 2) Decent work and the informal economy, ILO, 2002, 90th session – report

3)Marilyn carr and Martha chen, globalization and the informal economy: how global trade and investment impact on the working poor, 2002, ILO and WIEGO,2004

4)Kingdom & Knight J. 2000. The incidence of unemployment in South Africa. University of Oxford, Center for the Study of African Economics.

5) Charms, J. (2012) The Informal economy worldwide: Trends and Characteristics. Margin-The Journal of Applied Economic Research, 6:2 (2012: 103-132.

6)Tim Ruffer, John Knight. Informal sector labour markets in Developing countries. University of Oxford (2007)

7)Johannes Schmidt ,flexicurity, casulisation and informalization of global labour markets ,2011,DIR and institute for history ,international and social studies ,alborg university

8)M. farhanulenan, globalization process and informalization ,2012,WIEGO

9)Measuring the informality : a statistical manual , 2013 , ILO

10)Field, G.S. (2005) “A guide to multi sector labour market models, world bank social protection unit Discussion paper No.505

11)ILO, Measuring informality: A statistical manual on the informal sector and informal employment, Geneva, 2013.

12)Ricardo Bitran, Universal Health Coverage and the challenge of Informal employment, HNP, Discussion paper, 2013.

13)Altman, M (2004) ‘The state of employment’. In J. Daniel, R. Southall & J. Lutchmann (eds) state of Nation 2004-2005. Cape Town: Human Sciences’ Research Council Publishers.

14)Kanbur, R. 2009. “Conceptualizing Informality: Regulation and Enforcement”. Indian Journal of labour Economics, February

15)Globalization and informal jobs in developing countries A joint study by WTO (World Trade Organization) and ILO,2012.

