

Promoting Equality: An inter-regional perspective

Informality in the Arab region: Another facet of Inequality

Santiago, 27-28 June 2018

Economic and Social Commission for Western Asia



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Introduction



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Linkages between informality and inequality

- In the Arab region, the rich have become richer and the poor struggle to make significant gains in income.

=> Inequality constitutes one of the main social, economic and political challenges faced by this region

- 55% of the region's income goes to the top 10% compared to 48% in the US, 36% in Western Europe, and 54% in South Africa.
- Top 1% receive more than 25% of the region's income compared to 20% in the US, 11% in Western Europe, and 17% in South Africa.
- In the Arab region, there is a need to adopt sound and coherent policies supported by political will to empower the lowest income earners

Linkages between informality and inequality

- Informal employment is a major cause of instability at the global and regional levels.
- It represents between half and three quarters of the non-agricultural workforce in developing countries and is mainly the result of policies of 'Openness', neo-liberal globalization, youth boom, rural and other forms migration.
- At least two thirds of young Arab women (ages 15 – 29) do not participate in the labor market and labor force participation of Arab youth is estimated at 30%, which is much lower than the rest of the world (46)

Linkages between informality and inequality

- Heavy costs of entering the formal sector (business registration fees, financial and legal conditions) influences people's occupational choices and pushes them to opt for the informal sector.
- But Salaries are contingent upon the number of entrepreneurs who establish formal businesses = > a causal relationship between inequality and informality:
 - ⇒ higher levels of inequality reduce participation in the formal sector →
lower salaries due to low market competition → pushes people to join the informal sector.
- Interplay between informality and inequality:
 - Inequalities impact the accumulation of human and physical capital negatively thus increasing informal activities. The implementation of policies aiming at limiting informal activities may also result in an increase in inequality.
 - In transition and emerging countries, informality-reducing policies based on tax reduction and tight regulations may augment inequality, slash economic growth and prolong periods of high unemployment.

Linkages between informality and inequality

- Low-skilled workers enter into the informal economy, accept lower wages and inadequate working conditions => loss in tax and social revenues => increases inequality due to insufficient funds to implement welfare programs and adjust income distribution.
- Trade competitiveness is another factor that reduces labour costs and wages for unskilled workers.
- Inequality triggers a sizeable informal sector as those trapped in poverty find themselves searching for less expensive commodities produced in the informal sector.
- Higher inequality implies higher informality, and a larger middle class implies lower informality. Thus, redistribution towards a larger middle class reduces informality and increases the ability of fiscal instruments to reduce informality.

Linkages between informality and inequality

- Income distribution has a role in determining the size of the informal sector and vice versa.
 - Income distribution affects the way the market (aggregate demand) behaves => the larger the demand, the more a firm benefits from operating in the formal economy.
 - Informality can also impact income distribution by deteriorating the redistribution of income, concentrating income in the hands of the top earners => weakens economic growth and increases the size of the informal sector.
- Conclusion: There exists a strong tripartite relationship between the structure of an economy, the informal sector and inequality.

Difficulties in Measurement and Data on Inequality

➤ Limited, up-to-date and comprehensive data on inequality and informality

inability to interpret constitution and complexity of informality and the different dynamics that shape it

the relationship between informality and inequality has not been systematically and fully examined in the Arab region.

The prevalence of Informality



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A Global Outlook

- Little agreement on the outcomes of informality, i.e. whether it:
 - reduces productivity: informal employment reduces the competitiveness of the economy which leads to lowering productivity; OR
 - Spurs growth: in emerging economies (China) informal employment was considered a driver of growth and a trigger of job creation.
- Informality reduces tax revenues and thus limits contributions to social security systems and hence social protection.
- Informal employment = deficient and dysfunctional social contract between the state and citizens =>
 - state is not providing adequate public goods in terms of quality and quantity desired by citizens;
 - citizens are evading taxes and other social security contributions thus undermining the ability of the state to deliver those goods.

A Global Outlook

- Informality is a pervasive and multi-dimensional phenomenon manifested in all economies in different magnitudes and dimensions.
- Its size and determinants are strongly associated with underdevelopment=> a characteristic of developing countries where it represents more than half of all non-agricultural employment.
- Informality is shaped by numerous socio-economic variables and approaches, government policies, regulations, legalities, and taxation.
- But informal activities operate outside the formal reach of the law= > difficulties in measurement as the share of informal sector.

The dynamics of informality: A regional glance

- In some Arab countries, workers are absorbed by the informal economy not by choice but out of a need to survive.
- Informal jobs are easier to enter (less demanding pre-requisites for education, skills, technology and capital), but they fail to meet the criteria of decent work.
- By providing goods and services at low prices, the informal economy contributes to meeting the needs of the poor.
- The Arab informal workforce confronts tremendous challenges:
 - low and precarious income, instability, insecurity, marginalization, daunting working conditions, unfavorable regulatory environment, lack of legal and social protection, absence of health benefits, exclusion from supportive public policies and services, stigmatization and low social standing.

The dynamics of informality: A regional glance

The growth of informality in the Arab region

- Causes for the growth of informality:
 - relationship between the informal economy and corruption and high-income inequalities;
 - unjust competition between formal and informal workers;
 - inappropriate, ineffective, misguided or badly implemented macroeconomic and social policies, frequently developed without tripartite consultation;
 - excessive regulation by the state, which creates incentives for economic activity to take place outside the purview of regulations;
 - lack of appropriate legal and institutional frameworks, lack of good governance for the proper and effective implementation of policies and laws;
 - lack of trust in institutions and administrative procedures;
 - Jobless growth and failure of macroeconomic policies to target unemployment and to create sufficient new jobs in the formal economy.

The dynamics of informality: A regional glance

The demographic dividend: A missed opportunity for reducing informal employment

The Arab region suffers from the following challenges that stall any potential for growth, job creation and economic stability:

- ✓ socio-economic crises and political challenges, coupled with relapses and fragile recovery;
- ✓ protracted conflict and political unrest with spill-over effects;
- ✓ variations in natural resources;
- ✓ lack of economic diversification and dependence on oil;
- ✓ a large public sector;
- ✓ high youth unemployment;
- ✓ fragile private sectors;
- ✓ rapidly growing but highly distorted educational attainment;
- ✓ low and stagnant youth & female labor force participation.

The dynamics of informality: A regional glance

The demographic dividend: A missed opportunity for reducing informal employment

- ✓ Fertility and mortality levels and international migration shape the age structure of the Arab countries: it varies from one country to another.
- ✓ Shift from high to low rates of mortality and fertility => working-age population (age 15-64) grows faster than either the population of children or older persons
- ✓ Arab countries have a “window of opportunity” to benefit from a “demographic dividend” => increased economic productivity, savings and human capital development.

The dynamics of informality: A regional glance

The demographic dividend: A missed opportunity for reducing informal employment

The informal sector will continue to foster inequalities and exert pressure on Arab economies unless governments in the region:

- ✓ adopt inclusive and integrated economic and social policies that ensure high-quality education for new entrants to the labour market and enable them to become economically productive;
- ✓ create five million jobs annually to accommodate the increase in workforce and productivity rates and absorb them into the formal economy;
- ✓ Adopt adequate labour market policies that ensure equal opportunities for the workforce into formal and secure jobs.

The dynamics of informality: A regional glance

What can be done?

- Is Transitioning to the Formal Economy the solution?
 - ✓ different views exist about what is meant by formalization and how it can be achieved => There is no one-size-fits-all solution to the problem of informality.
- But what is transitioning to formality about? Opinions also differ:
 - ✓ expanding the capacity and outreach of institutions to address the situation of wage employment in the formal sector;
 - ✓ registration and sanctions for non-compliance with the law;
 - ✓ rethinking policy frameworks, instruments and the culture of outreach to suit the specific conditions of the informal economy.

The dynamics of informality: A regional glance

What can be done?

- To design effective interventions to reduce informality or to facilitate transitions to formality, we need to start by recognizing the:
 - ✓ heterogeneity of the informal economy (i.e. implementing multidimensional and harmonized strategies adapted to specific characteristics and needs of different groups, and taking into consideration the different national contexts)
 - ✓ different categories of work involved;
 - ✓ various drivers that are leading to the growth of the informal economy and the informalization of the formal economy.

The dynamics of informality: A regional glance

What can be done?

- A single comprehensive approach is limited => it is more feasible to combine a range of multidimensional approaches into integrated policy frameworks and adapt them to each specific national context.

These could include:

- ✓ promoting formal employment through macroeconomic and sectoral policies focusing MSMEs;
- ✓ harnessing an enabling policy and regulatory environment that reduces informal employment by lowering the cost of transitions to formality and reducing barriers to formalization;
- ✓ increasing decent work in the informal economy (national social protection floor for all), implementing minimum wage and health and safety incentives, organizing informal workers and encouraging informal enterprises to merge.

The dynamics of informality: A regional glance

What can be done?

- Arab region => high dependency on natural resources, low levels of industrialization, sizeable informal economy, combined with a rigid segmentation of the labour market => serious challenges to policymakers to find the right balance of incentives for formality and disincentives for remaining informal.
- But what does formalization actually entail?

Recommendation 204 put forward by the ILO calls upon governments to:

- ✓ assess and diagnose the factors, characteristics, causes and circumstances of informality in their national contexts;
- ✓ establish the appropriate legislative and regulatory frameworks;
- ✓ formulate the adequate sustainable and inclusive strategies, policies and measures.

The dynamics of informality: A regional glance

What can be done?

- Governments facilitate transitions to formality: requires determination at the macro, institutional and sectoral levels, political will and commitment, and endorsing adequate structures and mechanisms for proper governance.
- To do so, governments should:
 - Develop policy frameworks that recognize the informal economy and rights of workers;
 - Regulate informal economy when necessary;
 - Increase its productivity and improve the working conditions of its workers;
 - Facilitate transitions to formality and to reduce vast inequalities between formal and informal sector workers;
 - Make informal activities part of a growing formal economy, offering decent jobs, productivity gains and economic growth.

The dynamics of informality: A regional glance

What can be done?

- What approaches should they use?
 - Promoting just, participatory and inclusive development;
 - Fostering social dialogue;
 - Reducing injustices;
 - Forging partnerships with stakeholders;
 - Building capacities;
 - Opening up access to a full range of resources;
 - Tailoring taxation, financing and social security systems.

The dynamics of informality: A regional glance

What can be done?

- Variations in the size and dimension of the informal sector in Arab countries necessitate multi-dimensional national assessments of the determinants and characteristics of informality.
- Each country needs to find its own formula for regulating the informal sector and devising the requisite mechanisms and monetary and financial initiatives based on its national specificities and complexities.

Thank you



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