

INFORMALITY AND GENDER INEQUALITY IN COMOROS¹

The informal economy is a key feature of most sub-Saharan African (SSA) economies, contributing between 25 and 65 percent of GDP with most economies likely to have large informal sectors for many years to come (SSA Regional Economic Outlook, May 2017). This chapter investigates the links between the informal sector and gender inequality in Comoros, and compares with experience in other SSA countries. Findings suggest that informal employment constitutes the bulk of female employment in SSA and Comoros and that reducing gender inequality is a key step toward development. In addition, the analysis of informal production units in Comoros suggests that informality is associated with lack of awareness of tax and social security procedures and the burden of complex and costly tax rules. These results present both opportunities and challenges for policymakers: increasing incentives for informal units to formalize could enhance gender equality and income equality. Empowering and improving women's activities could reduce gender inequality and boost growth.

A. Introduction

1. Informal employment is a broad concept that has evolved over time. As a result, its comparability over time and between countries is subject to accounting for country specifics, differences in employment regulation, and the continuous changes in the definition of informal sector in response to international standards.² In general, informal employment includes all persons whose employment does not comply with national labor legislation, is not subject to income taxation, and is not eligible for social protection or the right to certain benefits such as dismissal indemnity, and sick leave or paid leave amongst others. In this regard, concept of informal employment is defined by the employment conditions for employees both in their main and secondary activities.

2. The challenge is to create an economic environment in which the formal sector can thrive while creating opportunities for the informal sector to maintain or improve living standards. The informal sector provides employment, which is particularly important in countries where the demographics are such that there is a large and growing working-age population that outstrips the pace of job creation in the formal sector. However, the informal employment tends to be concentrated among women and in low productivity activities. Increasing the share of the formal sector through the movement of informal sector entities into the formal sector would increase productivity in the economy, and provide resources (through an expansion of the tax base and revenue mobilization) to finance public investment and promote sustained and inclusive growth.

¹ Prepared by Mokhtar Benlamine and Mounir Bari. This chapter has benefited from comments from several IMF colleagues.

² The XVII International Conference of Labor Statisticians (ICLS) established the distinction between (i) employment in the informal economy; (ii) informal employment; (iii) employment in the informal sector; and (iv) informal employment outside the informal sector (ILO (2004)).

3. A growing economic literature has associated inequality with lower economic growth.

While the female labor participation ratio in SSA is among the highest in the world, Comoros' female labor participation ratio remains one of the lowest in the region. Nevertheless, female workers play a vital role in the informal economy in Comoros, and empowering female workers could be a key step toward their transition to the formal economy.

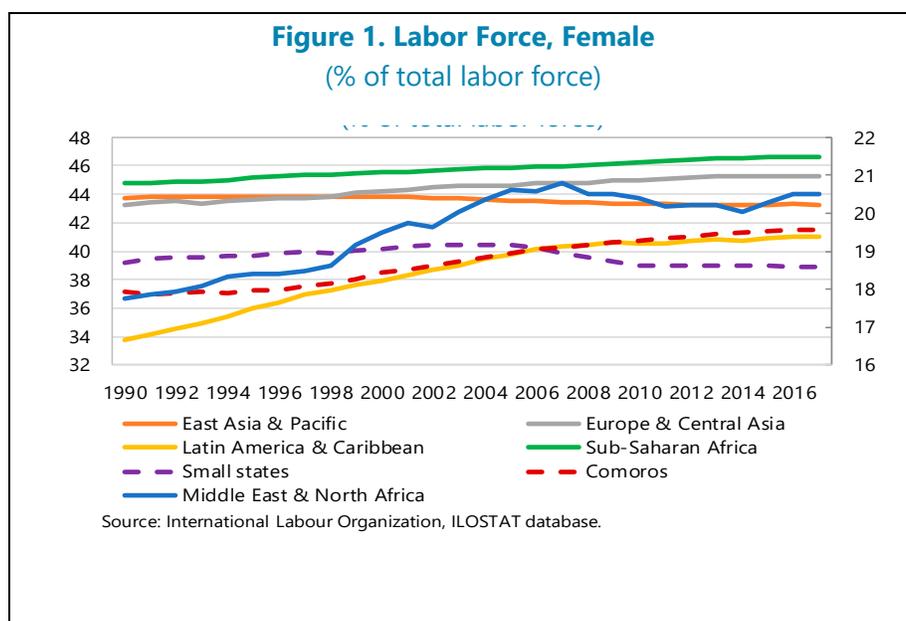
4. For Comoros, a better understanding of the informal sector is also important to tackle structural fiscal imbalances. To this end, policies aimed at addressing gender inequality in the labor market and improving female access to formal employment could help boost economic growth and unleash the potential of the informal production units (IPUs). The ratio of tax revenues to GDP in Comoros is one of the lowest among Small States (defined as countries with population under 1.5 million) and reflects an important concentration on customs and a set of public companies (see Selected Issues chapter on Weak Domestic Revenue and Volatile Windfall Revenues).

5. Against this background, this chapter highlights key features of informality, the significance of gender inequality in formal employment, and the key drivers of informality in Comoros and compares with SSA experience. The rest of the chapter is divided into four sections. Section B describes stylized facts about informal employment in total and nonagricultural employment for Comoros and a set of SSA countries. Section C investigates the relationship between gender, informal employment and income inequality. Section D discusses the role of informal production units in Comoros, their key features and their role in public finances. The last section concludes with some policy recommendations.

B. Informal Employment in Comoros and SSA

6. Female participation in total labor force is low in Comoros compared to SSA (Figure 1).

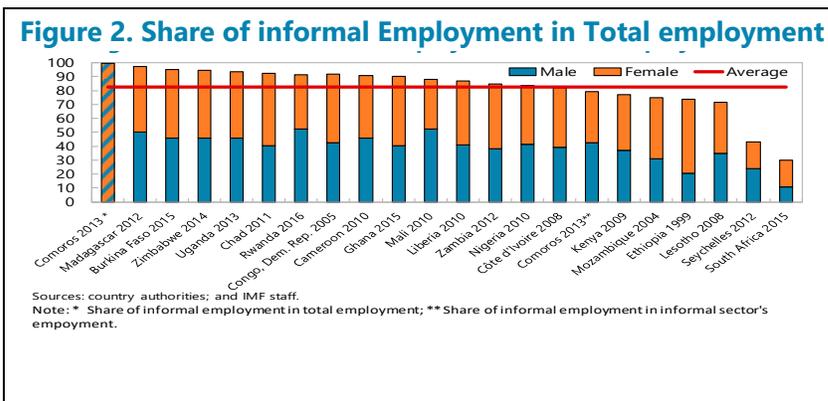
Comoros' female participation in the labor force increased from 37.2 percent in 1990 to 41.5 percent in 2017. Even though this increase is among the highest in SSA, it remains low compared to the SSA experience. Considering these results, we focus on the quality of employment by analyzing the access to formal and informal employment.



7. Data collected from a sample of 21 SSA countries indicates that informal employment constitutes the lion’s share of total employment and particularly in Comoros (Figure 2). Using a

constructed database based on ILO data and the most recent available data from national surveys on informal sector and/or employment in individual countries, we find that, on average, informal employment constitutes 82.4 percent of total employment. This share varies across countries from a minimum of 30 percent in South

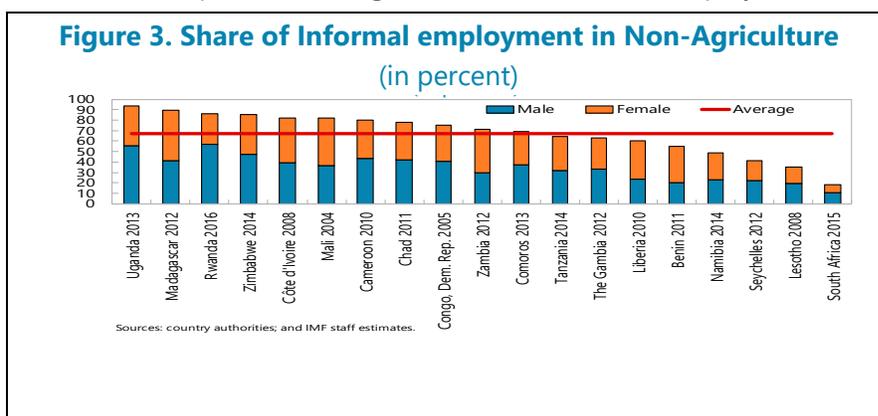
Africa (2015) to a maximum of 99.5 percent in Comoros (2013). In Comoros and likely in some other countries, civil servants do not comply with social protection requirement and as a result are registered as informal employees. The sample median hovers around 88 percent reflecting the importance of informality in creating jobs.



8. Informal employment is more concentrated among females in Comoros and SSA. While

a first lecture of the previous chart of informal employment distribution among the population of male and female reveals some parity, a closer look suggests that the share of informal employment to total employment among females is much higher than for males. In fact, the sample average for female employment in formal sector represents 86.5 percent, much higher than respective share for male (76.8 percent). Excluding both Seychelles and South Africa, these shares reach 91.3 percent for female and 81.4 percent for male. Given that data on informal employment by gender is not available for total employment in Comoros, the analyses are conducted using the available structure of informal employment by gender in the informal sector.³ This implies that gender disparity is greater in Comoros with a concentration of 97.2 percent among females with informal employment (the highest after Madagascar) and 68.2 percent for male.

9. Informal employment in the non-agriculture sector is relatively lower in Comoros and SSA. On average, informal employment constitutes 67.5 percent of non-agricultural employment



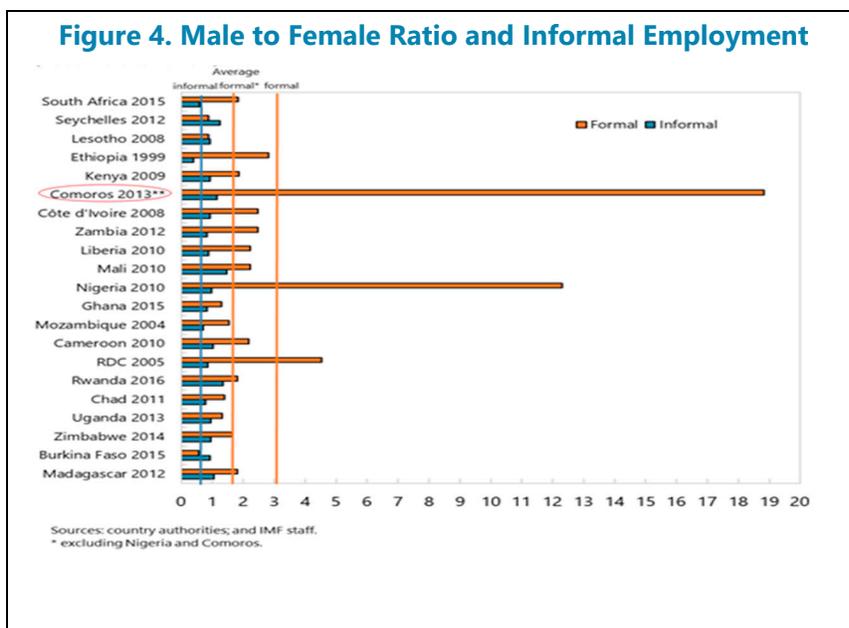
³ In addition, IPU's represent all the units of production of goods and/or services held by an employer or a self-employed worker operating in Comoros and who does not possess a tax identification number and/or maintain accounting records. IPU's could provide both formal and informal employment.

in 19 SSA countries (Figure 3). This average varies from 17.8 percent (South Africa 2015) to 93.2 percent (Uganda 2013). With a proportion of 69 percent, Comoros level of informal employment in the non-agriculture sector remains higher than the sample average.

10. In non-agriculture, the informal employment is more concentrated among females.

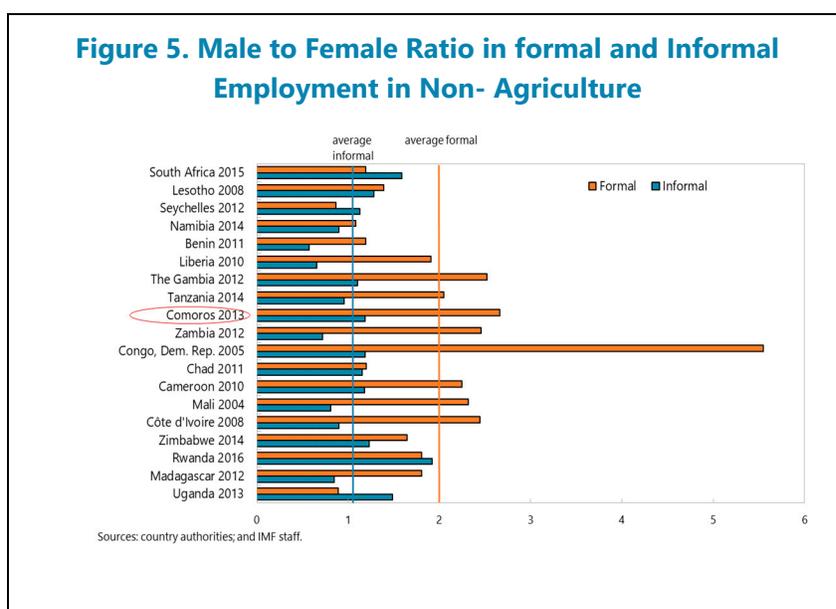
The share of informal employment in non-agricultural employment among female constitutes on average 77.9 percent, compared to 66.8 percent for male. Excluding Seychelles (2012), Lesotho (2008) and South Africa (2015) where these shares averaged 29.9 percent for females and 32.9 percent for males, the share of informal employment in non-agricultural employment

constitutes 80.3 percent of females and 68.2 percent of males. In Comoros, 78.8 percent of female (62.4 percent of males) working in the non-agriculture are informal. Non-agricultural employment seems to be driven by informal employment with a higher concentration among females. In addition, for each woman with formal employment, there are two men with formal employment.



11. Informal employment is more gender equal than formal employment (Figures 4 and 5).

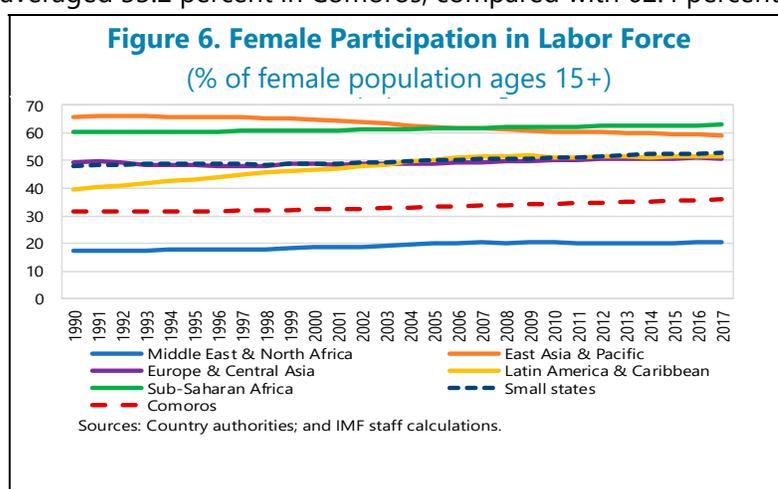
Informal employment represents the bulk of total employment in SSA and the main driver of employment among women. Constituting on average 20.4 percent of male employment and only 11.4 percent of female employment, formal employment is more important among males. For each female with formal employment, there are 3.2 males with formal employment, with a maximum of 18 in the Comoros.



Conversely, for each female with informal employment, there are 0.9 male with informal employment. This suggests that gender parity is more important in informal employment than in formal employment, given that females in SSA are more likely to find informal employment than formal employment. Excluding agriculture, these results remain unchanged, with a ratio of 2 males with formal employment for each female with formal employment and 1.1 male for each female with informal employment.

C. Gender, Informal Employment and Income Inequality: Preliminary Findings

12. Female participation in the Comorian labor force is the lowest among SSA countries (Figure 6). Female labor participation in Comoros is the lowest in Sub-Saharan Africa. Between 1990 and 2017, female labor participation averaged 33.2 percent in Comoros, compared with 62.4 percent on average for SSA countries. In addition, the annual increase of this indicator over the period 1990-2017 in Comoros was 0.16 percentage point (pp) per year, much lower compared with other countries with same levels of female participation in the labor force at the beginning of the nineties, including Senegal (0.43 pp), Mali (0.91 pp), Gabon (0.23 pp), Swaziland (0.18 pp) and Mauritius (0.24 pp).



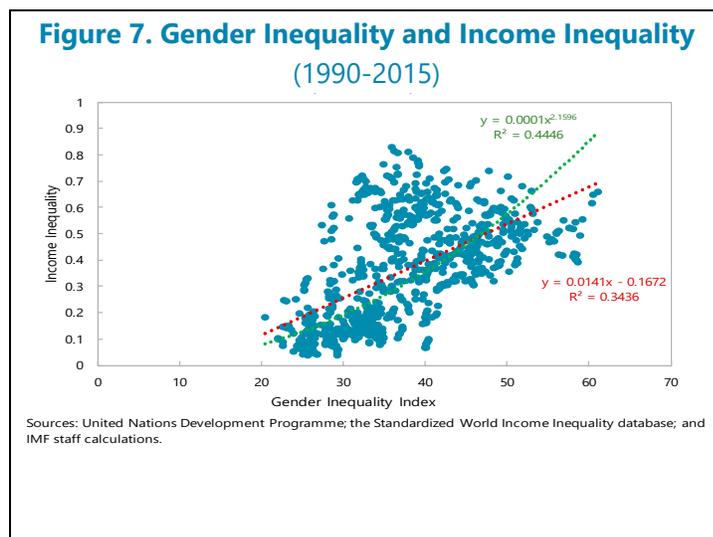
13. Gender inequality remains widespread in SSA. The gender inequality index shows a declining trend and lower level of gender inequality in Sub-Saharan Africa in comparison with other regions, such as the Middle East and North Africa, and Latin America and the Caribbean. In Comoros, 50.6 percent of the working-age population is female, while only 29.6 percent of female workers are employed compared with 53.2 percent of males. Also, according to the Comorian statistical agency INSEED survey, 67.1 percent of female employees have precarious jobs compared with 47.3 percent of males. These results highlight the sizeable gender gap in employment access and quality in Comoros. Regarding education, the gender parity index (GPI) has increased in Comoros from 0.46 to 0.98 during the period 1971-2014.⁴ For SSA countries, this index improved from 0.71 to 0.92 during the same period, highlighting the remarkable progress reached by Comoros. In addition, maternal mortality ratio remains lower in Comoros (335 per 100,000 live births) in comparison with SSA countries (547 per 100,000 live births) in 2015. However, inequality is more pronounced in Comoros with respect to bank account ownership, with 26 percent of men owning an account and only 18

⁴ The GPI stands for the gender parity index for gross enrollment ratio in primary and secondary education. It reflects the ratio of girls to boys enrolled at primary and secondary levels in public and private schools.

percent for women in 2011. This represents one of the largest gaps in SSA countries.

14. Reducing gender inequality can reduce income inequality and boost growth.⁵

During the period 1995-2015, simple correlations calculations indicated a positive correlation of 58.6 percent between gender inequality and income inequality (Figure 7).⁶ These results are in line with the findings of Gonzales et al. (2015), indicating that gender inequality in general is an important source of income inequality. Moreover, an analysis of the relationship between growth and inequality and redistribution by Ostry et al. (2014) indicates that low levels of net income inequality have been closely associated with faster growth and longer periods of strong growth for a large number of advanced and developing countries.



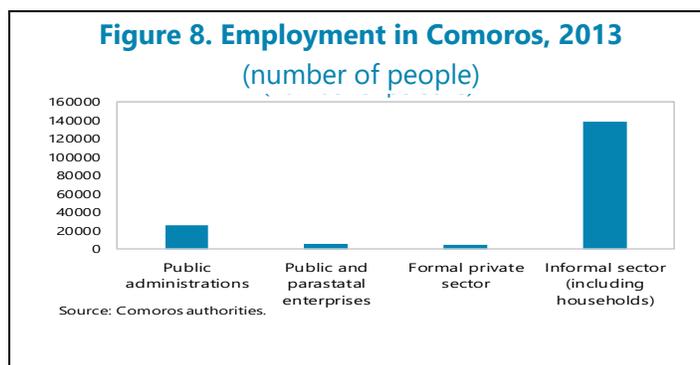
15. Gender inequality impacts growth through channels other than income inequality.

Reducing gender inequality can boost economic growth. Hakura et al. (2016) finds a negative effect of gender inequality on growth, estimating that annual GDP per capita growth in Sub-Saharan Africa could be 0.9 percentage points higher, on average, if income and gender inequality were reduced to the levels observed in the fast-growing Association of South East Asian Nations (ASEAN). In addition, they find that gender inequality impacts growth through channels other than income inequality. For fragile states, the authors estimate that reducing gender inequality could boost annual per capita GDP growth by two-thirds percentage points.

D. The Role of Informal Production Units in Comoros

Characteristics and features

16. Informal production units are the main driver of employment in Comoros (Figure 8). Informal production units (IPUs) represent all the units of production of goods and/or services held by an employer or a self-employed worker operating in Comoros



⁵ Gender inequality is examined using the United Nations gender inequality index, which measures gender inequality in three key aspects of human development: reproductive health, empowerment and economic status.

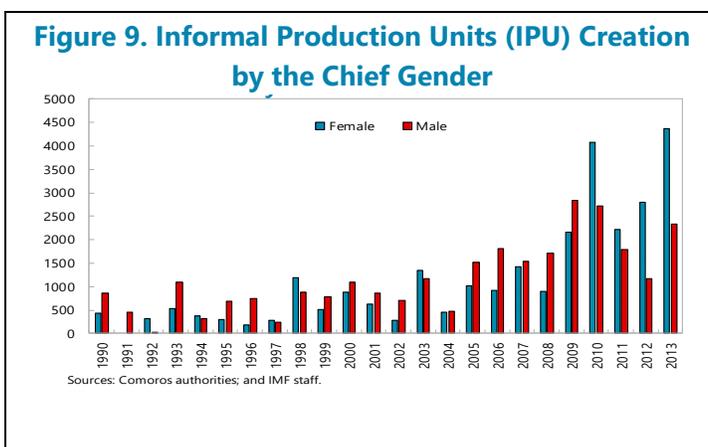
⁶ Gender inequality is measured by the Standardized World Income Inequality Database (SWIID) using the estimate of Gini index of inequality in equivalized (square root scale) household disposable (post-tax, post-transfer) income.

and who does not possess a tax identification number and/or maintain accounting records. According to a survey conducted by the Comorian statistical agency INSEED with the assistance of AFRISTAT, the IPUs contribute 79.2 percent to employment in Comoros and 97.4 percent of workers in formal production units have informal employment.

17. The creation of informal production units is primarily led by women (Figure 9). During the period 1990-2013, the total number of informal production units increased from 9,557 to 64,975 units. More specifically, and between 2009 and 2013, 40.8 percent of the IPUs were created, while 51 percent of those were concentrated in the trade sector. On average, women headed 47.6 percent of the informal units created during the period 1990- 2013. During the same period, the share of informal units created by females were even larger, with an average of 62.7 percent.

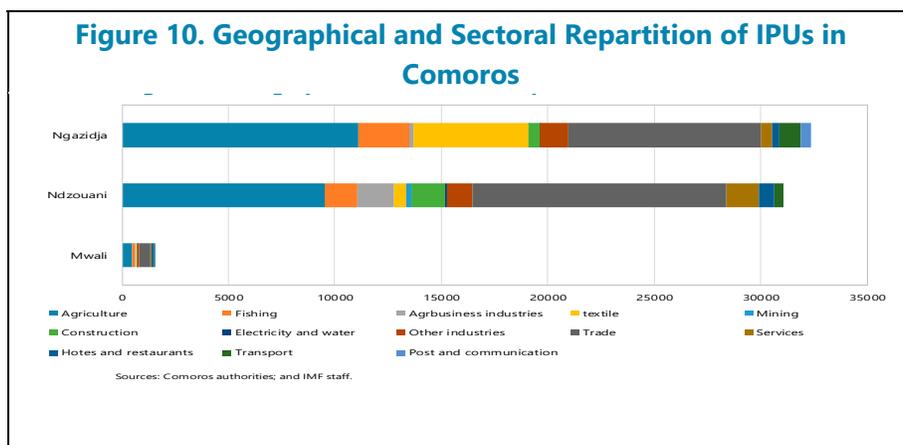
18. The geographical distribution of IPUs reflects the importance of these units in the three islands of Comoros.

The geographical distribution of the IPU's was as follows: 49.8 percent of those units are in Ngazidja, including 12.5 percent in the capital Moroni, 47.3 percent in Ndzhouani, and 2.4 percent in Mwali. At the beginning of their activities, 83.3 percent of the IPU promoters in Comoros created their own unit and 68 percent of the IPUs had only one person as labor (22.7 percent had 2 employees). The age of the production units ranges from one year - as it is widely the case in the hotel and restaurants sector as well as the energy sector - to 36 years in the forestry sector in Ndzhouani. The average age of informal production units is 11 years.



19. IPUs are concentrated in the agriculture and trade sectors (Figure 10).

IPUs operating in the primary sector constitute 38.7 percent of the total, while 33.1 percent operate in trade and 20.1 percent in industrial activities. The agriculture and trade sectors represent the lion's share of IPUs employment in the three islands, with an average of 37.5 and 15.7 percent, respectively.



IPUs and Public Administrations in Comoros

20. Most of IPUs operate outside the tax system (Table 1). In 2013, only 5.7 percent of the IPUs complied with trade registration requirements. Regarding the tax ID registration requirement, only 1.2 percent of the IPUs complied in 2013, with a maximal of 4.2 percent in wholesale trade.

Table 1. Comoros: Compliance with Regulations (in percent)

| | Trade registration | Tax ID |
|------------------------|--------------------|------------|
| Comoros | 5.7 | 1.2 |
| Moroni | 9.0 | 5.7 |
| Ngazidja (exc. Moroni) | 1.2 | 0.1 |
| Ndzouani | 7.8 | 0.8 |
| Mwali | 16.9 | 4.3 |

Source: National authorities.

21. Regulatory compliance appears not to be correlated with IPU's subsector age, the availability of workplace or the combination of the two. Available data on the age of the IPUs by subsectors and their compliance rate indicates that there is no correlation between the two. For example, the forestry sector composed of 329 units located exclusively in Ndzouani, are the oldest among all the units, with an average age of 36 years. However, no unit complied with the trade registration and the tax ID requirements. In general, 14 percent of the units are in subsectors with no compliance at all with the trade registry requirement while their average age is 14.2 years. For the tax identification number, 50 percent of these units are in subsectors without tax IDs with an average age of 14.7 years.

22. The lack of regulatory awareness, high costs related to formality, and a complex tax system are key drivers of informality associated with IPUs in Comoros (Figure 11). Using the INSEED survey, we examine the reason of noncompliance with the three rules, namely, trade registration, tax ID and social security requirement. Results suggest that IPUs do not use public services in Comoros: 76.4 percent of the informal units claim not to use basic public services, and more than 80 percent of respondents cited the lack of awareness and the burden of complex and costly tax procedures as the main reasons behind informality and noncompliance. For trade registration, 57.7 percent of the respondents indicate that they were either not aware of the obligation to register for the trade activity or that it was not necessary to comply with it.⁷ In addition, 26 percent of respondents indicated that the

Figure 11. Reasons for IPU Non-Compliance in Comoros



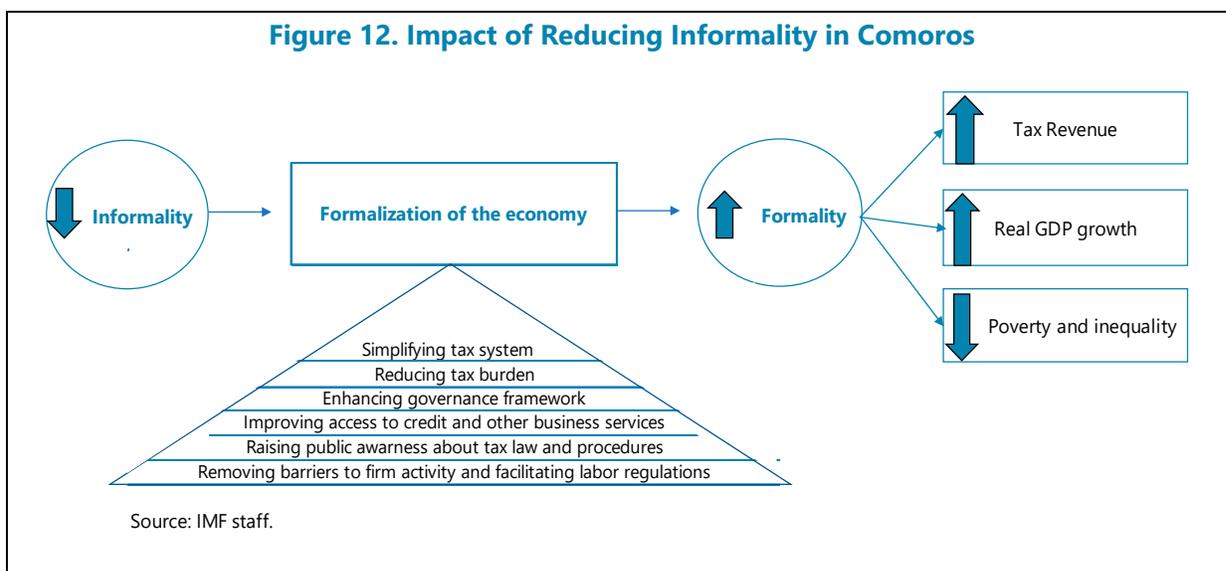
⁷ In Comoros, it is mandatory for a production unit to acquire a Tax Identification Number (TIN).

cost and complexity of the procedures was another reason for noncompliance. For tax ID, the results suggest that lack of awareness explains 62.8 percent of noncompliance in Comoros, and 24.1 percent of the respondents mentioned the significant cost and the complexity of procedures. Similar results are observed when compliance with the social security requirement is examined.

E. Conclusions and Policy Recommendations

23. Informal employment is the bulk of employment in SSA countries. One of the main challenges in SSA countries is not only to create formal jobs, but also to increase the productivity of most of the workforce operating in the informal sector and to facilitate the process toward formality. The legalist school of thoughts led by De Soto (1989 and 2000) consider the informal sector as a group of brave micro-entrepreneurs choosing informality to avoid cumbersome procedures. This theory states that the regulations imposed by governments exclude and block a large fraction of entrepreneurs to move to formality.

24. Reducing gender inequality is a key step toward development (Figure 12). This study highlights the importance of informal employment within females. It brings also evidence that's the informal employment is more gender equal than formal employment. In this sense, facilitating the process of formalization could increase gender equality in formal employment, through increasing the access to formal jobs. Considering the positive correlation between gender inequality and income inequality, this could also lead to an increase of income equality. The growing literature on the effects of both gender inequality and income inequality on growth, advocates for a sizeable and durable increase of economic growth when inequality is addressed. While Comoros is struggling in a low path of growth, with a negative evolution of GDP per capita on average over the last ten years, tackling gender inequality could boost economic development in the country. Since 1990, Comoros has the lowest female participation in the labor force compared with Sub-Saharan African countries. This constitutes a major impediment to the development of the country.



25. The lack of procedures awareness and the burden of complex and costly tax procedures are the key factors driving informality in Comoros.

Considering the importance of informal employment and the informal sector in Comoros and SSA countries, these results advocate for the importance of increasing tax obligation awareness. In this sense, enhancing the quality of the tax administration services in parallel with reducing the cost of formality and compliance by adopting an adequate and friendly legislative framework with micro-and-small enterprises could support the process of formalization. Streamlining labor regulations is also a key element in the expansion of the formal sector. Finally, alleviating financial constraints by increasing the access and reducing the cost of financial services could improve the efficiency of the informal sector and bring more incentives to formalize. Experience from fragile and conflict-affected economies has shown that adopting modern technologies such as mobile banking can play an important role in promoting financial inclusion and reducing the cost of financial access (Findex 2017).

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