



Do Employment Agreements Favour the Informal Activities' Dynamic in Togo?

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Outlines

- 1. Motivation and contributions
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1.1 Motivation (1/2)

- 1.1 billion people worldwide work on their own account in subsistence activities mainly because of the lack of job opportunities in the formal sector (ILO, 2018)
- Informality (as a share of total employment) increases from 70% to 86% in Africa between 2000 and 2018 (ILO, 2019)
- The informal employment rate in Togo increases by 57.8% in less than 5 years (1980-1984) (ILO, 2013; DISO, 2014)
- In the present decade, the informal sector expected to have reach up to 90% of the labor force in Togo

1.1 Motivation (2/2)

Debates		Authors	Results
Theories	<i>Exclusionism and dualism</i>	Di Porto et al. (2017); Quintin (2008)	Firms have the possibility to hire people who accept poor working conditions, and receive few benefits
Empirics	Developed countries	Ibid	Contractual imperfections generate large sizes of informality in USA, Japan, France
	Developing economies	Gutierrez et al. (2019); Mahmud et al. (2017)	Changes in workforce benefits, such as written contract and termination notice, favor transition from informal to formal activities in Bangladesh
		ILO (2017)	Transition from informal to formal activities reduce wage gaps in Cameroon

1.2 Contributions

- Fill the gap on the lack of studies answering essential questions on the informality dynamic on the Togolese labor market
- Use accurate and very informative micro data on ‘*School to Work Transition*’ survey collected by the ILO
- Go beyond considering the informal sector as a *black box* to include the informality’s heterogeneity in an analysis on Togo
- Consider employment agreements as drivers of transitions inside tiers of the informal sector and potentially from informality to formality in Togo

2.1 Data

- *School to Work Transition Survey* (SWTS) of Togo conducted in 2012 by the International Labor Organization (ILO)
- 2,033 individuals aged between 15 and 29;

2.2 Definitions: Employment agreement (1/2)

- Employment agreement: contract in which the length and other benefit related to a job are indicated: temporary (including oral contracts) or permanent
- In this study the *Contract Length* equals:

{
1 if less than 12 months,
2 if between 12 and 36 months, and
3 if more than 36 months
}

2.2 Definitions: Informality (2/2)

Informality includes workers (Sen et al., 2019, p. 21; ILO, 2018b; ILO, 2019):

- (i) Not registered to the fiscal regulation,
- (ii) Not subject to national labor legislation and
- (iii) Not affiliated to social security/not entitled to certain employment benefits

Distinguish:

- **Upper-tier informality:** better paid jobs that require some professional training,
- **Lower-tier informality:** unskilled and poorly paid jobs.

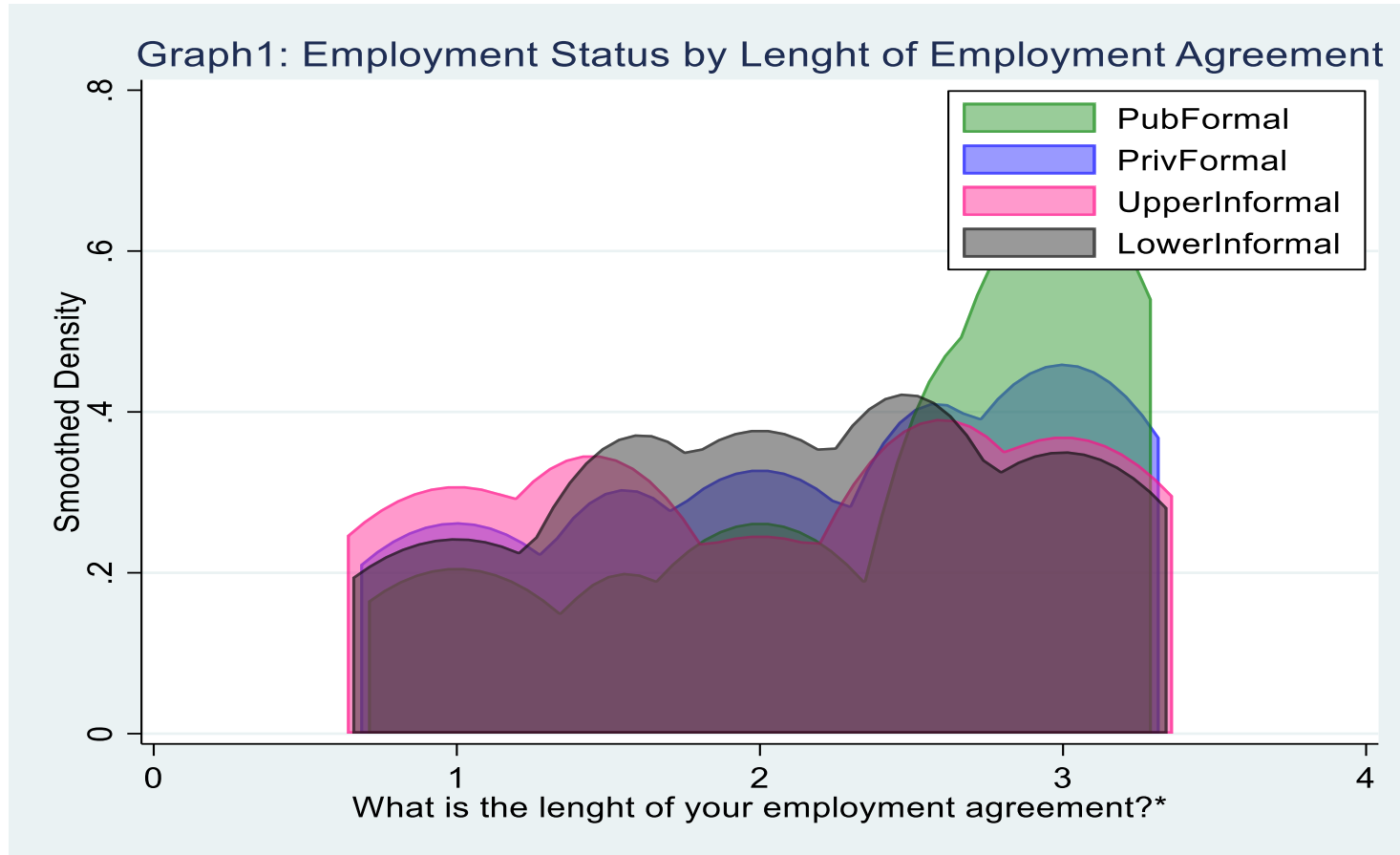
3. Descriptive statistics (1/2)

Table 1: Socio demographic characteristics of workers

	Observations	Mean	Std. Dev.	Min.	Max.
Age (in years)	2,033	21	4.22	15	29
Number of children	697	2	1.17	0	7
Women	1,493				
Rural area	2,033	0.60	0.50	0	1
<u>Education: None</u>	2,033	0.10	0.10	0	1
Primary	2,033	0.22	0.41	0	1
Secondary	2,033	0.19	0.40	0	1
University	2,033	0.02	0.13	0	1

Source: Authors' calculation using SWTS, 2012

3. Descriptive statistics (2/2)



**]0,1 [daily and oral;*

[1,2[less than 12 months;

[2,3[between 12 and 36 months;

[3,4] more than 36 months

Source: Authors' calculation using SWTS, 2012

4. Results

Table 2: Ordered Logit of employment agreement effects on employment status in Togo (margins)

Variables	Coef.	Private Formal	Public Formal	Upper-tier Informality	Lower-tier Informality
Temporary contract	3.480** (1.690)	-0.045** (0.023)	-0.034** (0.018)	0.488** (0.238)	0.132*** (0.022)
Permanent contract	1.284*** (0.22)	-0.016*** (0.004)	-0.013*** (0.003)	0.18*** (0.031)	0.358** (0.175)
<u>Contract length:</u>					
< 12 months	-2.267 (1.708)	-0.0343 (0.037)	-0.012 (0.02)	-0.336** (0.166)	-0.113** (0.042)
Btw. 12 and 36	-0.981 (1.709)	-0.001 (0.025)	0.003 (0.007)	-0.161 (0.288)	-0.075 (0.095)
More than 36	-0.161 (1.675)	0.002 (0.019)	0.002 (0.015)	-0.022 (0.243)	-0.017 (0.166)
<u>Controls: individual and household</u>	Yes	Yes	Yes	Yes	Yes
Observations	2,033	2,033	2,033	2,033	2,033

Source: Authors' calculation using SWTS, 2012

4. Sensitive analyses (1/2)

Table 3: Control Function

Variables	Coef.	Private Formal	Public Formal	Upper-tier Informality	Lower-tier Informality
Temporary contract	3.882** (1.716)	-0.05** (0.024)	-0.038** (0.018)	0.544** (0.242)	0.4*** (0.178)
Permanent contract	1.215*** (0.276)	-0.016*** (0.004)	-0.012*** (0.003)	0.17*** (0.04)	0.125** (0.03)
<u>Contract length:</u>					
Less than 12 months	-2.437 (1.723)	-0.038 (0.035)	-0.014 (0.019)	-0.351** (0.151)	-0.12** (0.039)
Btw. 12 and 36	-1.07 (1.721)	-0.002 (0.027)	0.003 (0.008)	-0.173 (0.287)	-0.08 (0.091)
More than 36	-0.242 (1.688)	0.003 (0.015)	0.002 (0.014)	-0.034 (0.255)	-0.025 (0.16)
<u>Controls: individual and household</u>	Yes	Yes	Yes	Yes	Yes
Observations	2,033	2,033	2,033	2,033	2,033

Source: Authors' calculation using SWTS, 2012

4. Sensitive analyses (2/2)

Table 3: IV estimates

Variables	Coef. IV 2SLS (Two Stage Least Squared)	Std. dev.
IVs	0.234**	0.0787
Age	-0.303	0.188
Age squared	0.006	0.004
Women	0.558***	0.124
Constance	5.735***	1.987
Observations	205	
Sargan statistic of weak instrument	0.504	
Cragg-Donald Wald F statistic	22.30	
Stock-Yogo weak ID test	13.91	

Source: Authors' calculation using SWTS, 2012

5. Policy implications

- ✓ Length of employment agreements decreases transitions outside informality
 - Set-up strategies obliging informal employers to progressively move to written contracts with all employees after a given period
- ✓ Educational attainment increases likelihood to leave the informal sector
 - Increase investments in the human capital accumulation (scholarships)
- ✓ The rural area matters in the informal activities dynamic in Togo
 - Encourage more programs in favour of villages' development



Thank you
