Measuring innovation in the informal sector

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Outline

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Introduction (1)

Figure 3 – Innovation Framework / Ecosystem

Source: Measuring Innovation for National Prosperity
Innovation Framework Report
January 2004, Version 3.0
Introduction (2)

Innovation Ecosystem

Input
- Knowledge Creation
- Basic and Long-term Researches

Proof of Concept

“Interaction Fields”
- Education/Human Resources
- Human Networks
- Networks of Funds
- Regional Clusters
- University-Industry Collaborations
- IP Strategies

Output
- New Products/Services
- New Markets

Profit and Growth
Introduction (3)

- **Innovation**:  
  - more than R&D  
  - about business  
  - connected to market  
  - Create jobs  
  - contribute to the economic growth,  
  - Create wealth  
  - ....................

**Question**: why an inclusive innovation?
About the informal sector (1)

- Concept initially developed in an African context
  - First idea of the term "informal sector" appeared in 1971 in a study of Ghana made by Keith Hart;
  - In 1972, in a report on Kenya's World Employment Program sponsored by the International Labor Office (ILO) the term was examined. One chapter devoted to the concept.

- Since these dates, lot of works have been done (by economists, sociologist, statisticians, etc.) to give a statistical and common definition of the concept
About the informal sector (2)

- **Current definition is based in the following criteria:**
  - "informal sector are defined as “all unregistered or unincorporated enterprises are owned by individuals or households that are not constituted as separate legal entities independently of their owners, and for which no complete accounts are available that would permit a financial separation of the production activities of the enterprise from the other activities of its owner(s).“

- **For statistical purposes,**
  - the informal sector is regarded as a **group of production units** which **form part of the household sector** as household enterprises or, equivalently, unincorporated enterprises owned by households.
Methodologies for measuring the informal sector (1)

1. Indirect measurement methods
2. The labour input method
3. Direct method of measuring the informal sector
Indirect measurement methods

• It consists in making assumptions about the relationship between economic activity and a few variables in order to make projections.

• The difference between the projections and the value observed represents an entity (considered wrongly as the informal sector, but which is more specifically the non-observed economy) whose weighting has been omitted from official accounts.
Indirect measurement methods

- There are different indirect methods for measuring the informal sector, including:
  1. **Differential method**, which simply allocates the difference between expenditure and income to the informal sector. It is based on the comparison of aggregates and account balances (by analyzing the input-output table);
  2. **Goods influx method**, which is based on the same principle but at a disaggregated level;
  3. **Labor input approach**, which assumes a stable relationship between the potential labor force (based on age) not incorporated in the informal sector and production by the informal sector;
  4. **Different monetary approaches** that assume stable relationships between economic activity and a few monetary variables.
The labour input method

- An extension of the indirect method used by national accountants. Developed by ISTAT, the Italian National Statistics Institute

- The thrust of the method is that a country’s production should not be estimated solely from classical information sources (measuring production of branches from surveys), but also on the basis of employment data.

- Given their diversity, data on employment and population (population census, employment and labor surveys) are considered to be better indicators of economic reality than information on production.

- Production can be estimated by allocating productivity by branch and sector to these employment data. It is systematically more significant than estimates based on surveys, a difference that is attributable to the non-observed economy.
Direct method

For the direct method based on sample surveys, there are two possibilities:

1. Household surveys or
2. Establishment surveys.
Methodologies for measuring the informal sector in Africa

- **1-2-3 survey** developed by the French research group GIS-DIAL
  Applied by AFRISTAT
  
  **Used by:** Benin, Burkina Faso, Cameroon, Côte d’Ivoire, Democratic Republic of Congo, Mali, Madagascar, Morocco, Senegal and Togo, but also in Guatemala, Peru, Mexico, Bangladesh and China;

- **The household survey** that is part of the Living Standards Measurement Study of the World Bank
  
  **Used by:** Côte d’Ivoire, Ghana, Malawi, Madagascar, Morocco and Tanzania, but also in more than 40 countries around the world, including Bosnia Herzegovina, Kosovo, Viet-Nam and Jamaica.
Measuring innovation in the informal sector (Case study)

Case study: The informal ICT sector and the innovation processes in Senegal

- Ref1.: UNU-Merit working papers series #2012-009

Why this study: help to develop indicators for better understanding of the innovation process in the informal sector in Senegal

Methodology: Three combined approach: Littérature review + Survey + Life story (success story)
Measuring innovation in the informal sector (Case study)

1. Literature review
   - Name of the production units: Informal production units (IPU)
   - Definition of the informal sector used in the study (from national statistic and demography agency):
     • “All the production units with no statistical number and/or no formal, written accounting”

2. Survey: Exploratory phase
   - Identify our parent population based on some significant criteria
   - Identify sites where the IPU working in the field of ICT are more representative in Dakar
   - Use of snowball technique. (people are used as a source of identification of additional units).

3. Life story (success story)
   - Interviews with entrepreneurs that evolved in the sector
Measuring innovation in the informal sector (Case study)

Structure of the questionnaire of the survey:
1. Information on the respondent
2. Socio demographic information on the owner/creator/manager of the IPU
3. Nature and structure of the IPU and activities
4. Organization of the work
5. Commerce and Marketing
6. Partnership and Collaboration
Measuring innovation in the informal sector (Case study)

Description of the informal sector

- Actors (IPU, modern sector, Government, Social group)
- Activities (nature, type, etc.)
- Relations
- Funding
- Organization
- Marketing strategy
- Sources of informations
- Barriers
Informal sector in the framework of innovation systems (1)

- IPUs originate from the social groups (family, religious affiliation, social network).

- They are the primary locations that express the distributive logic of the informal sector, based on social values, such as solidarity, hospitality, dialogue.

⇒ Importance of the social dimension

-- Social potential (Innovation is a means used to gain a competitive advantage)

&

-- Social demand (The goals of innovation and the needs of society have always been perceived as having a link).
Informal sector in the framework of innovation systems (2)

1a- Innovation is connected to market

1b- Informal sector respond very quickly to market demand, supply and to the social demand (adaptation to consumer’s preferences and income) – at local level
Informal sector in the framework of innovation systems (3)

2a- Innovation can drive growth and create jobs.

2b- Contribution of the Informal sector to the GDP and job creations is very important in Sub-Saharan Africa.

> 97% of the jobs created in Senegal from 1995 to 2004 (World Bank Report) by the informal economy
Informal sector in the framework of innovation systems (4)

3a- Learning process as basis for innovation: conversion of knowledge to value through learning and innovation process

3b- Low level of education in the informal sector
   → Skills and competences to be improved
      - Need more data and information in the sector for identifying source of competences and knowledge generation
Informal sector in the framework of innovation systems (5)

4a. Innovation occurs within clearly defined set of rules and norms

4b- Small limited business, isolated but a social capital (trust, social and cultural values and norms)
Policy implications

- Types of innovations to identify and support;
- Stimulate innovations in the informal sector
- Training
- Regulations
- Create a framework for integrating the informal units in the development policies;
- Maintain the dynamic equilibrium of relations between the informal sector and the customers

- An Innovation policy taking into account of local conditions, economic inequities, demographic challenges and informal economic activity

*(ref: Innovation and the development agenda)*

→ Inclusive innovation policy
Thank you
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