

EconWorld2016@Barcelona

Heterogeneity in the Informal Sector and Income Inequality Evidence from the Democratic Republic of Congo

DJeneba Doumbia¹, Franck M. Adoho²¹Paris School of Economics, USA²World Bank, USA

ABSTRACT

This paper uses 1-2-3 survey data on the Democratic Republic of Congo to analyze the heterogeneity in the informal sector and its implications for income inequality and firms' performance. This paper empirically identifies three types of entrepreneurs – top-performers, survivalists and a third group “constrained gazelles”. The first group of entrepreneurs (top-performers) is growth-oriented and enjoys a higher level of capital. The second group (constrained gazelles) includes entrepreneurs who share many characteristics especially management skills with the top-performers but operate with lower levels of capital. The third group (survivalists) comprises informal firms, which struggle to grow. The results show that poverty and income inequality are more present among constrained gazelles and survivalists, the latter is mainly explained by educational disparities and lack of credit access. In addition, results from the Blinder-Oaxaca decomposition show that firms' performance is a key factor in explaining differences in entrepreneurs' income and that reducing performance gap could decrease poverty and income inequality. The paper concludes by examining the performance drivers, and found that entrepreneurs' individual characteristics such as age and education and managerial skills are important drivers of firms' performance.

KEYWORDS Informal Sector; Performance; Entrepreneurship; Income inequality

JEL O17, O12, D21