

The Remains of Informality: Social Networks and Wages in Senegal's Formal Sector

Nicoletta Berardi

Toulouse School of Economics, France

Abstract

We develop a theoretical framework that considers the role played by moral hazard and the diversity of networks and cultures in the choice of hiring channel. Our model explains why either informal or formal hiring channels are preferred and either positive or negative wage differentials emerge for workers hired through informal channels, depending on circumstances. It accounts for several stylized facts, such as the even more extensive use of informal hiring channels in developing countries than in industrialized ones, and for filling non-qualified vacancies rather than qualified jobs. Estimating an endogenous switching model for the case of Senegal, we find that informal hiring channels are preferred to fill non-qualified vacancies and are associated with a wage penalty. Moreover, the probability of having been hired through a social network and the absolute value of wage penalties are increasing in the strength of ties.