Development Centre Studies

Tackling Vulnerability in the Informal Economy

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Foreword

Today, two billion people are in informal employment. This comes with risks and vulnerabilities that constitute an important policy challenge, particularly in the Global South, where most people depend, directly or indirectly, on the informal economy.

Tackling Vulnerability in the Informal Economy reviews approaches taken so far to protect informal economy workers. It explores new ideas to improve the lives of women and men in the informal economy and facilitate their transition to formality. The report draws on two unique databases on informality recently developed by the International Labour Organization (ILO) and the Development Centre of the Organisation for Economic Co-operation and Development (OECD).

Our analysis enriches the discourse on the vulnerability challenge in the informal economy in several ways. It includes the household dimension in the portraits of informality for the first time, revealing how informality is often more complex than usually captured through traditional indicators based on individual workers or firms. The report also identifies substantial variations in the patterns of informality across and within countries, while finding that long-standing descriptions of informality often hide a more complex reality. It shows how large poverty and occupational risks, combined with lack of access to social protection and risk management instruments, render many informal economy workers – especially women, and their families – particularly vulnerable. The analysis concludes by suggesting priority areas for policy makers to tackle vulnerability in the informal economy.

This body of work is the outcome of a joint effort by the ILO and the OECD Development Centre to help countries find innovative solutions to current social challenges and build more cohesive societies. Particular attention is drawn to supporting the transition from the informal to the formal economy while implementing appropriate social protection measures, including social protection floors. This report was undertaken as part of the EU Social Protection Systems Programme, co-funded by the European Union and implemented by the OECD Development Centre and the Government of Finland to support developing countries.

We aim to propose new ways in which social policy, together with other measures to raise productivity and labour income, can address informality at large, reduce the vulnerability of those working in the informal economy and can become pillars of decent work, inclusive development and social justice.

Angel Gurría

Secretary-General
Organisation for Economic Co-operation
and Development

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Abbreviations and acronyms

AFD	Agence Française de Développement
AMA	Accra Metropolitan Assembly, Ethiopia
BRAC	Building Resources Across Communities, Bangladesh
CCT	Conditional cash transfers
CEREST	Workers Health Reference Centre, Brazil
CFPR-TUP	Challenging the Frontiers of Poverty Reduction-Targeting the Ultra Poor, Bangladesh
CIT	Corporate income tax
CONLACTRAHO	Confederación Latinoamericana y del Caribe de Trabajadoras del Hogar
CSMBS	Civil Servant Medical Benefit Scheme, Thailand
ECA	Europe and Central Asia
EGS	Employment guarantee scheme
FSP	Formal social protection
GSC	Global supply chain
HDI	Human Development Index
HIV/AIDS	Human immunodeficiency virus/Acquired immune deficiency syndrome
ICLS	International Conference of Labour Statisticians
IEMS	Informal Economy Monitoring Study, WIEGO
ILO	International Labour Organization
ISP	Informal social protection
IUF	International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers' Associations
IYF	International Youth Foundation
KIIbIH	Key Indicators of Informality based on Individuals and their Household
MHT	Mahila Housing Trust, India
NHIS	National Health Insurance Scheme, Ghana
NIDS	National Income Dynamics Survey, South Africa

NRGS	National Rural Guarantee Scheme, India
OECD	Organisation for Economic Co-operation and Development
OSH	Occupational safety and health
PCU	Primary care unit
PIT	Personal income tax
PWP	Public works programme
RNSF	Research, Network and Support Facility, European Commission
SEWA	Self-Employed Women's Association, India
SIGI	Social Institutions and Gender Index
SISF	Informal Sector Fund, Ghana
SSNI	Social Security and National Insurance Trust, Ghana
SSO	Social Security Health Insurance, Thailand
TVET	Technical and vocational education training
UCT	Unconditional cash transfer
UIF	Unemployment Insurance Fund, South Africa
UNDP	United Nations Development Programme
VAT	Value-added tax
WDI	World Development Indicators, World Bank
WHO	World Health Organization
WIEGO	Women in Informal Employment: Globalizing and Organizing
WIND	Work Improvement in Neighbourhood Development
WISE	Work Improvement in Small Enterprises
WISH	Work Improvement for Safety Home
ZUPS	Zanzibar Universal Pension Scheme, Zanzibar

Executive summary

The vast majority of people in the Global South depend on the informal economy for their livelihoods. Informal workers and economic units contribute to economic and social development through market and non-market activities that are not protected, regulated, well recognised or valued. This leaves a majority of informal economy workers and their families outside the benefit of public policy, and raises the question for policy makers of how to improve the security and livelihoods of workers and their dependents who rely on the informal economy.

This study reviews some of the approaches taken thus far and explores new ideas to improve the lives of men and women in the informal economy and facilitate their transition to the formal economy. Detailed investigations develop new portraits of informal workers and economic units that take into account the broader context of their households, and identify the complex links between informality and the development process, the diversity of risks and vulnerabilities in the informal economy, and the gender-sensitive policy measures to protect informal economy workers and their families and support their transition to formality. The study is based on analysis of micro and macro data, including the recent set of ILO indicators of informality measured at the individual level and the new *OECD Key Indicators of Informality based on Individuals and their Household (KIIbIH)*.

Key findings

The report contributes to the global debate on the transition from the informal to the formal economy in six important ways. First, it constitutes an unprecedented examination of the diverse reality and multiple faces of informality in a large sample of countries representing diverse conditions, locations and stages of development. These comprehensive portraits of informality, covering individuals, households and economic units, expand upon existing knowledge about the well-being of informal workers and their households and provide new information that is not captured by traditional individual- or firm-level indicators. There are also distinct patterns across and within countries and tackling vulnerability in the informal economy will need to take these differences into account.

Second, the study presents new empirical evidence on the links between informality and the development process. A complex and dynamic picture emerges, with substantial variations in patterns of informality and informalisation across and within countries. The analysis also sheds light on informal workers' positive contribution to society, supporting investment in the protection of workers, including entrepreneurs and their families who depend on the informal economy.

Third, the report assesses risks and vulnerabilities in the informal economy. Informal workers face large poverty and occupational risks due to a combination of factors. Lack of access to social protection and appropriate risk management instruments thus pushes

many informal economy workers into income insecurity or vulnerability to income poverty. Moreover, risks and vulnerabilities are higher for women in the informal economy. In the absence of effective, gender-sensitive policies to manage risks, men and women informal workers will remain particularly vulnerable, and vulnerability will continue to be passed on to other segments of the population, particularly children and older individuals, who disproportionately live in households relying fully on the informal economy in developing countries.

Fourth, the report shows that the transition to formality of workers and economic units is a complex issue that touches on a wide range of policy domains. Laws, regulations and policies may promote the registration and licensing of enterprises with national, provincial and municipal authorities, the creation of enabling business environments, and the enhancement of compliance with legal frameworks, such as tax, social security and labour laws.

Fifth, not all workers and economic units are in a position to formalise in the short or medium term. For many, improvement of working and living conditions is a necessary first step in a gradual transition. Support should focus on removing obstacles and creating an environment that facilitates and encourages their transition and ultimate formalisation.

Sixth, based on recent country examples and information from new indicators of informality, the study suggests priority areas for policy makers. Tackling vulnerability in the informal economy and facilitating transitions to formality requires actions on five broad fronts: 1) extending social protection to informal economy workers; 2) improving occupational safety and health (OSH); 3) raising productivity and labour income in the informal economy; 4) creating a policy mix to incentivise formalisation of enterprises and workers, remove barriers to formalisation and encourage legal compliance; and 5) empowering informal economy workers and employers through their organisation, representation and engagement in social dialogue, including collective bargaining.

Key recommendations

- Extend coverage of contributory social protection schemes, namely social insurance, to informal economy workers by 1) combining measures to support the formalisation of enterprises with access to social protection, extending statutory coverage; 2) adapting benefits, contributions and administrative procedures to the needs and constraints of informal economy workers; and 3) subsidising contributions for workers with low income.
- Ensure continued social protection coverage during labour market transitions, including by ensuring coverage for workers in all types of employment and by facilitating portability of entitlements between schemes.
- Create a social protection floor to protect living standards: guarantee at least universal access to essential health care and basic income security throughout the lifecycle, ensuring sustainable and equitable financing from general taxation, contributions or a combination.
- Ensure that the extension of social protection takes into account gender-related risks and is conducted in a gender-sensitive way.
- Reduce costs and complexities to register enterprises and declare workers, and put in place a systemic strategy for a virtuous alignment of policies, regulations and institutions aimed at 1) enhancing productivity growth 2) strengthening

compliance and enforcement of legal requirements; and 3) generating incentives for formalisation, making formalisation easier, less costly, more feasible and more attractive.

- Increase awareness of the benefits of formalisation, the costs of informality, and informal economy workers' positive contributions to society and non-negligible contributions to tax collection to make the case for investing in tax-financed protection instruments as an enabling condition for a gradual transition to formality.
- Address tax avoidance and tax evasion through 1) implementing effective preventative and corrective measures, 2) reinforcing the progressivity of taxation, while expanding the tax base; 3) facilitating social insurance coverage; 4) addressing employment status misclassification and contribution evasion in the case of disguised employment relationships; 5) increasing tax revenues through non-regressive taxes; and 6) fighting tax evasion and tax avoidance by transnational firms.
- Improve the evidence base on vulnerability in the informal economy by supporting the improvement of survey questionnaires, notably on social protection coverage, and by monitoring vulnerability in the informal economy through an improved set of informality indicators measured at the individual, household and enterprise levels.
- Promote an integrated approach to the formalisation of workers and economic units that combines extending social protection, improving OSH, raising productivity and labour income and empowering informal economy workers with other measures to formalise the informal enterprises that employ 85% of all informal economy workers.
- Promote freedom of association and the right to collective bargaining in the informal economy through initiatives to support the organisation and representation of informal economy employers and workers, and their engagement in social dialogue, as an integral part of efforts to support transition to the formal economy.

Assessment and recommendations

People have different perceptions of the informal economy. Some focus on the survivalist aspects – and there are many – believing informal workers have no choice but to run unproductive small businesses or work in jobs characterised by lack of social benefits, poor working conditions and lower rates of remuneration and productivity. Others consider informality a drag on economic and social development associated with tax evasion, disrespect for the rule of law and unfair competition between formal and informal enterprises. Others recognise its potential to support the livelihoods of workers willing to trade formalisation for informal employment. The reality of informality is often less obvious than it seems. Two things are certain: informality is part of the daily lives of most workers in the world, and it often comes with risks and vulnerabilities that constitute a formidable policy challenge.

In recent years, a number of steps have been taken to recognise the reality of the informal economy and address some of its adverse effects on well-being. The adoption in June 2015 of the ILO Recommendation No. 204 concerning the transition from the informal economy to the formal economy, the inclusion of a direct reference to formalisation in Target 8.3 of the UN Sustainable Development Goals, and the global commitment to implement nationally appropriate social protection systems and measures for all, including floors as set out in Target 1.3, are the most recent examples. In-depth information on the distinct patterns of informality and its contribution to the development process is needed to convince governments and taxpayers to invest in the protection of informal economy workers and help inform policy guidance on formalisation.

Tackling Vulnerability in the Informal Economy reviews approaches taken so far and explores new ideas to improve the lives of men and women in the informal economy and support their transition to formality. It places human well-being at the forefront of the analysis and asks what public policies are needed to secure the livelihoods of workers and families who rely on the informal economy – the vast majority in developing and emerging countries. The report shows that the human experience of informality is more diverse than usually captured through traditional individual or firm indicators of informality. Informality has very different meanings and faces, depending on whether it is portrayed at the individual, firm or household level.

The report pursues a path of policy-oriented research that, until now, has been little investigated in informality studies. Reflection on the vulnerability challenge in the informal economy is enriched in three important ways. First, by highlighting informal economy workers' positive contributions to indirect taxes and society at large through skills provision and economic output, the study makes the case for investing in the protection of informal economy workers and supporting their transition to formality. Second, it adds the household dimension to the profiling of informal workers for the first time. This sheds new light on both the way workers' vulnerability in the informal economy affects household members, particularly children and older individuals, and the various channels through which social protection can reach informal workers. Third, the

study's unique cross-country comparative dimension identifies a number of common trends, as well as regional and country specificities, using of a broad set of micro and macro data, particularly recent ILO individual-based indicators of informality, available for 119 developing and developed countries, and the new OECD Key Indicators of Informality based on Individuals and their Household (KIIbIH), available for 27 developing countries.

Portraits of informality

More than ever, there is a need for comprehensive portraits of informality that capture the heterogeneity of informal economy workers and take into account the broader context of their households. Profiles derive from ILO and OECD indicators of informality and refer 1) to the ILO's broad concept of the informal economy, which encompasses all economic activities by workers and economic units that are, in law or in practice, not covered or insufficiently covered by formal arrangements; and 2) to the ILO's definitions of informal employment and informal sector. The informal sector is a subset of household enterprises (not constituted as separate legal entities independently of their owners) that produce for sale in the market, even if partly, and that do not have a complete set of accounts and/or are not registered under national legislation. Employment in the informal economy includes all workers in the informal sector and workers in informal employment outside the informal sector (i.e. in the formal sector and in households).

Informality affects most workers in the world

Most of the world's employed population is in informal employment: 2 billion workers, representing about 61% of all workers including agriculture and 50% excluding agriculture. Informality occurs in all types of employment and, globally, includes above 4 of 5 own-account workers, 1 of 2 employers, 2 of 5 employees and all contributing family workers (by definition considered informal). Informality has a strong rural dimension, with about 3 of 5 informal workers living in rural areas. The agriculture and industry sectors are the most exposed to informality: nearly 94% of agriculture workers and 57% of industry workers are informal. Informal jobs also have specific characteristics. Workers in temporary or part-time employment and in micro and small enterprises are particularly exposed to informality, although informal employment still constitutes a significant share of employment in large formal enterprises.

Informality is the norm in developing and emerging countries

Informality represents 70% of all employment in developing and emerging countries, compared with about 18% in developed countries. There is also substantial variation across regions, from 86% in Africa to around 68% in the Arab States and Asia and the Pacific, 40% in the Americas and 25% in Europe and Central Asia. Globally, 81% of all enterprises is informal.

Some demographics are more exposed to informality

The informal economy refers to an extremely diverse group of workers and enterprises operating informally. Globally, informal employment is a greater source of employment for men, but in a small majority of countries, the share of women is higher. The level of informal employment also varies substantially over the lifecycle, with youth and older workers more exposed. Informal employment absorbs less-educated workers: globally,

about 94% of workers with no education are in informal employment, compared with 52% of those with secondary education and 24% of those with tertiary education.

A majority of working households rely solely on informal employment

Within households, working individuals may be informally or formally employed. Households with more than one employed member may therefore have varying levels of informality. A majority of households are completely informal (all working members in informal employment) in a majority of countries for which data are available. There are also large disparities in completely informal households across countries and regions, from 3% in Chile to 92% in Burkina Faso. Mixed household estimates range from 5% in the United Republic of Tanzania to 46% in Argentina.

Most children and older individuals live in completely informal households

A large number of children and older individuals are indirectly exposed to informality: on average, around 60% of all children (under age 15) and older individuals (over age 60) in developing and emerging countries live in completely informal households. The figure is 80% or above in some African countries.

Informality in the development process

The heterogeneity of the informal economy triggers various, sometimes opposing views, on its drivers and its role in the development process. Contrasting interpretations suggest that the interrelation between informality and development deserves more attention.

Links between informality and development are complex

Macro data analysis sheds light on the links between informality and development. Controlling for a number of factors, the prevalence of informality across countries correlates with key development outcomes. Econometric analysis finds a negative association between level of informal employment and gross domestic product (GDP), the Human Development Index and labour productivity, and a positive correlation with poverty. Some of these associations disappear over time within countries. Moreover, although a reduction in informality is generally associated with a decline in poverty, such is not always the case. Some countries, including Honduras and South Africa, have seen a concomitant decline in informality and rise in poverty. In other countries, such as Egypt and Pakistan, informal employment expanded while poverty declined. In many countries, long-term GDP growth did not necessarily lead to a reduction in informality and this has led some countries to develop formalisation strategies. South Africa, for instance, in addition to economic growth, implemented several formalisation policies, including the National Informal Business Upliftment Strategy, increased enforcement measures, recognition of prior learning and increased access to social security. Such measures contributed to the overall decline in informality, together with the effect of other factors, such as urbanisation, unemployment, taxes, costs of compliance associated with formality, enforcement power of government regulations, corruption, education level and flexible work hours.

Informality mirrors various development patterns

The type of growth seems a great determinant of trends in informality. Multivariate analysis of the relationship between informal employment and the sectoral composition of

GDP shows a positive partial correlation with the share of agriculture in value added, a negative association with the share of services and no association with the share of industry. In other words, in countries where the growth performance is largely driven by manufacturing and agriculture, informality may persist or even increase.

Drivers of informality are diverse and vary across countries, periods, types of firms and segments of the informal economy

There are many drivers of informality, from structural to institutional and behavioural. Cross-country analysis reveals that the pressure exerted by the surplus of low-skilled young labour market entrants was and is a major driver in many developing countries. Another factor relates to new business practices that, in the context of global trade, investment liberalisation and increased global competition, have sought to establish more-flexible production systems. Institutional factors, such as regulatory complexity, high taxes and weak law enforcement, matter as well, as they influence both the costs and benefits of informality. Besides variation across countries, the relative importance of these factors may also vary across periods, types of firms and types of informal economic activity.

The informal sector is less productive and absorbs more unskilled workers in most countries

New analysis undertaken for this report confirms that, in developing and emerging countries, the informal sector exhibits low productivity and largely absorbs low-skilled workers, relative to the formal sector. It is estimated that, globally, two workers in the informal sector are needed to reach the same output as one worker in the formal sector. Yet, this global average hides important disparities across levels of development. The particularly low productivity in the informal sector in developing and emerging countries does not hold in more advanced countries, where it may even exceed that of the formal sector. In all parts of the world and across all comparable employment statuses, the informal economy absorbs more unskilled labour; however, the formal-informal economy education or skills gap is much less pronounced in more advanced countries.

Negative connotations of low tax revenue from informality seem weakly justified empirically

Taxation of the informal economy has received increased attention in recent years. Often, the focus is on perceived large-scale tax evasion and a corrosive effect on tax morale. However, cross-country analysis shows that the assumed negative relationship between informal employment and tax revenue is not verified empirically when controlling for level of development and other factors. One explanation is that, contrary to common belief, informal workers and firms contribute to tax collection efforts both directly, through indirect taxes and presumptive taxes, and indirectly, through the links between formal and informal outputs. With regard to direct tax, it is assumed that the formalisation of enterprises and jobs will lead to an increase of the tax collected. Nevertheless, it should be kept in mind that most concerned enterprises and individuals will be of low income, at least in the short term, and their contribution to tax payment will remain limited. Besides formal taxes, there is also evidence that, in developing countries, informal economy workers often support other taxes outside the formal tax system that contribute to the provision and maintenance of local public goods. Such contributions to tax collection are not well recognised or understood.

Informal economy workers contribute to skills acquisition and GDP growth

In many developing countries, where formal vocational training systems cater to the minority of workers in formal employment, a very high proportion of people working in informal enterprises, and a proportion working outside it, are trained within the sector. This is particularly the case for the majority of low-educated young people. The informal economy also contributes to economic growth in several direct and indirect ways that go unrecognised, including the systematic transfer of hidden subsidies to the formal economy. Recent estimates point to a large contribution by the informal sector to GDP: as high as 30% with agriculture and 17% without agriculture.

Risks and vulnerabilities in the informal economy

Risks and vulnerabilities faced by workers and their families appear in proportion to level of informal employment and availability and breadth of risk management systems. The gender dimension is particularly important. Risks and vulnerabilities in the informal economy must be understood before steps can be taken to address them.

Informal economy workers face high risks of poverty

Worldwide, informal economy workers often face a greater range of general and occupational risks than formal economy workers, reflecting their largely unprotected status and, in many instances, inferior working conditions. In developing and emerging countries, in-work poverty risk is twice as high among informal economy workers. In countries for which data are available, nearly 42% of informal workers including agriculture and 31% of workers excluding agriculture live in poverty. Workers in completely informal households are most at risk. Employment status also matters: contributing family workers and own-account workers face the highest risk of in-work poverty. The importance of low productivity agricultural activities in informal employment, a large informal-formal wage gap among employees and a higher percentage of low-paid informal wage employees relative to formal ones help explain the higher incidence of poverty among informal economy workers.

There is no simple link between changes in income poverty and movements into and out of informality

Examining how labour market transitions associate with changes in living conditions is crucial to forecasting the benefits of the formalisation agenda. While as indicated before, informal employment is often associated with a higher level of poverty, new empirical evidence from Indonesia, South Africa and Peru using panel data suggests no simple relationship between income poverty dynamics and formalisation. With the necessary caution related to the limited number of cases considered, getting a formal job is not associated with the strongest reduction in poverty in any of the countries studied, even though formal jobs are systematically associated with lower poverty levels in the three countries. Indeed in these three countries, the decline in poverty is more pronounced for those who remain in the informal economy than for those who transition to or remain in formal jobs. From an income poverty perspective, the lack of a simple relationship between poverty dynamics and transitions into and out of informality suggests that the full benefit of formalisation requires a medium-term perspective, including with possible costs in the short run (e.g. paying pension scheme contributions). This also suggests that factors beyond formalisation such as level of labour productivity and wages in both

formal and informal jobs, employment status, sector of activity and existence of specific programmes for informal workers, matter.

Informal economy workers face high occupational risks

Monitoring OSH in developing countries is often a challenge. OSH registers are usually absent or incomplete in the informal economy, where most workers operate. The knowledge base on OSH outcomes (occupational injuries and illnesses) and causes (unsafe and unhealthy working conditions) is therefore limited. Available evidence nonetheless shows that poor OSH conditions prevail in the informal economy and come with high social and economic costs.

Inferior working conditions are reflected in a large informal-formal job satisfaction gap

Indicators of job satisfaction are increasingly used when assessing vulnerability in employment. Self-reported measures of job satisfaction are closely tied to overall working conditions. Their main advantage is that they capture multi-faceted aspects of the working environment that are often not well reported, especially in the informal economy, where occupational accidents and diseases are hardly registered. New evidence on Colombia, Costa Rica, Ghana and the United Republic of Tanzania points to a lower level of job satisfaction among informal economy workers. Detailed econometric analysis of the determinants of job satisfaction further shows that the predicted probability of job satisfaction in the informal economy is significantly lower for employees and even more so for contributing family workers, compared with other employment statuses.

Absence of adequate risk management instruments makes informal economy workers and their families particularly vulnerable

Informal economy workers and their families face high exposure to risks but lack access to appropriate risk-management instruments. Two sets of inter-related factors usually explain the difficulty for informal workers to benefit from prevention and protection measures against general and work-related risks: their largely unorganised status and their *de facto* exclusion from regulations and benefit from public policy, particularly in relation to social protection, OSH, skills policies and social dialogue. New indicators of informality reveal that, in the absence of effective policies to manage risks in the informal economy, the vulnerability of informal economy workers will continue to be passed on to large segments of the population, particularly children and older individuals, who disproportionately live in informal households in developing countries.

Risks and vulnerabilities are particularly high for women in the informal economy

Informality affects men and women differently. While more men work in the informal economy globally, in a majority of countries women are more exposed. In most countries, moreover, women are more often found in the most vulnerable forms of informal employment, such as contributing family workers, which affects their employment outcomes. Women in the informal economy are more exposed to short hours of paid work, and in most countries, they face an even more pronounced gender pay gap than in the formal economy. Several factors affect gender disparities and the gender pattern of informal employment outcomes. Some are explicitly based on gender (e.g. the role of gender-based discriminatory institutions, as measured by the Social Institutions and

Gender Index, which correlates positively with the share of women in informal employment). Others apply to both women and men but are more accentuated for women.

Protecting informal economy workers and their families

For most developing countries, tackling vulnerability in the informal economy and facilitating transitions to formality remain formidable policy challenges. Yet lessons from recent country examples and information from new indicators of informality show that policy solutions exist. In addition to the respect of human rights and the fundamental principles and rights at work, they require an integrated approach, including actions on five broad fronts: 1) extending social protection to informal economy workers; 2) improving OSH; 3) raising labour productivity and therefore earnings and wages among informal workers; 4) creating a balanced policy mix to incentivise formalisation of enterprises and workers, remove barriers to formalisation and enforce compliance; and 5) empowering informal economy workers and economic units, including by extending worker and employer organisations' services and promoting participation in social dialogue and collective bargaining following ILO Recommendation 204.

Extending social protection to informal economy workers is key for inclusive development

Much can be learned from the experience of some developing countries in extending coverage of contributory social protection schemes to informal economy workers. Reasons for success include a number of measures governments should consider, such as combining measures to support the formalisation of enterprises with access to social protection; extending statutory coverage to previously uncovered workers; adapting benefits, contributions and administrative procedures to reflect the needs of informal workers; and subsidising contributions for those with very low incomes. In addition, several countries expanded the fiscal space needed to scale up social protection programmes financed through government revenue. These efforts have significantly contributed to building social protection floors that guarantee universal health coverage and at least basic income security throughout the lifecycle, for instance through tax-financed pensions, disability benefits, child benefits, maternity benefits or employment guarantee schemes.

Extending social protection should be done through a gender lens

As countries consider measures to tackle vulnerability in the informal economy, especially through the extension of social protection to informal economy workers, it is critical that they address gender-related risks. The needs of women workers in the informal economy are often neglected in the design and implementation of social protection strategies. Often, the role of women as workers is not adequately recognised in social assistance programmes, which tend to target female recipients and reinforce their role as caregivers. Gender inequalities in employment, such as possible interruptions in paid employment, longer periods devoted to caring for others, lower labour market participation, more part-time work and persistent gender wage gaps tend to be reflected in contributory schemes, unless specific measures are taken to close gender gaps, e.g. through care credits in pension schemes. More attention is needed to better adapt social insurance schemes to women's needs and work patterns, especially when it comes to pension and maternity benefits. While in some countries, the extension of pension, care services and maternity coverage has been instrumental in better protecting women

workers, much remains to be done to make the extension of social protection to the informal economy fully beneficial to women.

Extending the coverage of social protection systems should take into account informal support mechanisms

With persistent social protection coverage gaps, the critical role that informal support mechanisms play for informal workers and their households should be better recognised and taken into account in extension strategies. This most matters because research shows that social protection systems and informal support mechanisms can reinforce each other.

Equity and sustainability in financing the extension of social protection require careful assessment

Recent trends show that the extension of social protection coverage often occurs through the development of both contributory and non-contributory schemes. Many countries rely largely on public resources and donor funds, including for subsidising contributions, which puts growing pressure on government budgets. In most developing countries, the funding gap to extend social protection to informal economy workers remains particularly pronounced. Expanding fiscal space to finance extension requires careful assessment to avoid the regressive forms of taxation (e.g. regressive consumption taxes) in many of these countries that reduce the redistributive impact of social protection.

A number of policy options exist to address the equity and sustainability dimensions of financing

Several measures can address equity and sustainability issues related to financing the extension of social protection. Reinforcing the progressivity of taxation while expanding the tax base has the potential to expand social insurance coverage, promote fiscal equity and generate higher revenues. There is also significant potential to improve taxation of natural resources, fight tax evasion and tax avoidance including by transnational firms and, in the case of disguised employment relationships, re-emphasise the line of responsibility between employer and worker so that *de facto* employers honour their obligation to contribute to financing the social protection of their workers.

Social insurance needs to adapt to the situation of workers in different types of employment and facilitate labour market transitions

Efforts to extend social protection to informal workers need to take their large heterogeneity into account, especially when it comes to variation in work-related risks, potential eligibility for social protection programmes, capacity to build up entitlements and the existence of disguised employment relationships. Robust social protection systems must also recognise frequent movements among various forms of employment and ensure continued coverage. This can be achieved through better co-ordination of social insurance schemes and efforts to facilitate portability of entitlements between schemes.

The household dimension is essential in identifying the right mix of interventions and developing an integrated policy package

As countries look to extend social protection to informal economy workers, it is essential to take into account their household contexts and monitor informality at both the

individual and household levels. The KIIbIH, currently available for 27 developing countries, shows that an average of 33% of informal workers live in poor households and could be *a priori* covered by social assistance extended to all eligible households. Another 40% live in food secure households and could *a priori* afford to enrol in contributory social protection schemes, while 24% live in mixed households and could *a priori* have access to health insurance as dependants of formally employed household members.

Extending social protection needs to be complemented with measures to tackle OSH in the informal economy

Improving OSH in the informal economy is a huge challenge for developing countries, but it is not impossible and should be addressed as a matter of priority.[1] Most occupational injuries and illnesses could be avoided through effective implementation of prevention, reporting and labour inspection mechanisms, combined with investments in basic infrastructure services. One common approach, to inform effective prevention strategies, is to encourage reporting of occupational accidents and diseases that include uncovered workers. Another important area is working with local authorities to overcome the lack of awareness of work-related hazards in the informal economy. Labour inspections and other authorities such as public health providers could go beyond their traditional role to provide the advisory, support and training services most needed in the informal economy. Greater compliance and accountability in global value chains are also essential to protect workers, including through the application of guidance derived from international instruments of Responsible Business Conduct/Corporate Social Responsibility, such as the OECD Guidelines for Multinational Enterprises and ILO's Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy.

Extending social protection should be complemented with measures to raise productivity and labour income and empower informal workers

In recent years, initiatives have been undertaken to raise the productivity, earnings and wages of informal economy workers and firms, both to improve working and living conditions and to facilitate sustainable transition to formality. This is all the more important since formalisation may not necessarily provide a way out of poverty. One way to increase wages of informal workers is through an increase of the minimum wage that should take into account workers' needs and economic factors. Skills upgrading through training schemes is another effective policy option. Several countries have also developed programmes to increase access to capital, infrastructure and technology, and to support cross-border trade by informal entrepreneurs to improve the situation of the self-employed. Other important steps have been initiatives to promote and implement core labour standards, such as the enhanced implementation of laws with regard to freedom of association and the right to collective bargaining, and the elimination of child labour, forced labour and discrimination in employment. The effective representation of informal economy workers and economic units in strong, independent organisations is crucial for asserting their labour rights and making the transition to formality. Recent evidence shows that autonomous membership-based organisations of informal workers are expanding at the local, regional and global levels and that some employers' and workers' organisations are expanding their membership and services provision to workers and economic units in the informal economy, in line with ILO Recommendation No. 204 concerning transition to the formal economy. Moreover, to advocate for their rights at the

global level and engage in international fora, several transnational networks of informal economy workers have been formed or consolidated.

An integrated policy mix should seek to reduce the cost and time to register businesses and comply with regulations

Many governments have introduced measures to reduce the administrative bureaucracy and costs of registering a business and declaring workers. These include streamlined procedures, one-stop shops to bring registration offices under one roof, online registration systems and simplified legal formats for micro and small entrepreneurs. The objectives are to make it easier for small enterprises to register and to reduce the administrative burden. Such reforms are more effective when complemented with initiatives that reduce compliance costs of operating in the formal economy. As the formalisation of workers and economic units touches on a wide range of policy domains, it is important to co-ordinate efforts among them and foster an integrated approach to formalisation.

Policies should encourage formalisation of enterprises and their workers

As entrepreneurs compare the expected costs of becoming and remaining formal with the benefits of operating in the formal economy, measures to simplify registration should be complemented with incentives to make formalisation more attractive. When there is no business case for formalisation, many entrepreneurs choose to operate below the radar. Incentives may include increasing access to social security for business owners and their workers and to business services and public procurement for formalised micro and small enterprises. Micro and small enterprises may also formalise when they are integrated into the supply chains of large companies or when they gain access to financial or non-financial services on condition of being (at least partly) formalised.

Productivity enhancement is important to foster enterprise and worker formalisation

Not all enterprises are in a position to formalise. For enterprises with low levels of productivity that generate limited revenues, the benefits of formalisation may not outweigh the costs. Enterprise formalisation initiatives should therefore aim to improve productivity, value addition and revenues so that enterprises are encouraged to formalise and able to cover the related costs and contribution to social security for their employees and reap the benefits of operating in the formal economy. More broadly, creating decent and productive employment requires to incorporate productivity growth as a cross-cutting objective at the forefront of national development strategies. As formalisation of workers and economic units touches on a wide range of policy domains, it is important to co-ordinate efforts among them and foster an integrated approach to formalisation.

Notes

[1] ILO Recommendation No. 204 sets out that countries should "(a) take immediate measures to address the unsafe and unhealthy working conditions that often characterize work in the informal economy; and (b) promote and extend occupational safety and health to employers and workers in the informal economy".

Chapter 1. Portraits of informality

Many of us may think we know what informality really is. Yet, the reality it captures is often less obvious than it seems. This chapter presents the informality profile of individuals and households across countries and regions. It relies on International Labour Organization (ILO) individual-based data on informal employment for 119 developing and developed countries, and the new Organisation for Economic Co-operation and Development (OECD) Key Indicators of Informality based on Individuals and their Household (KIIbIH) database, available for 27 developing and emerging countries. Both refer to the ILO definition of informal employment, which includes employment in the informal sector, informal employment in the formal sector and informal employment in households. The resulting comprehensive portrait of informally employed individuals and their dependents shows distinct patterns that policy makers must take into account to effectively tackle the challenge of vulnerability in the informal economy.

Informality is a global phenomenon, but manifests itself in unique ways across countries and regions

The informal economy is likely to conjure different meanings and connotations around the world. Yet, whatever images come to mind, the informal economy undeniably encompasses a wide range of unregistered, unprotected and unregulated activities (Box 1.1), and affects the daily lives of most workers.

Informal employment is the reality for the majority of the world's employed population

Most of the world's employed population is in informal employment: 2 billion workers, representing 61.2% including agriculture and 50% excluding agriculture[1] (ICLS, 1993[1]; ICLS, 2003[2]; ILO, 2018[3]). The majority – 1.7 billion, or 85% of informal workers – work in informal sector economic units.

Box 1.1. Differentiating between the informal economy and informal employment

The informal economy refers to all economic activities, excluding illicit activities, by workers and economic units that are, in law or in practice, not covered or insufficiently covered by formal arrangements (ILO, 2015[4]).

Informal employment refers to working arrangements that are *de facto* or *de jure* not subject to national labour legislation, income taxation or entitlement to social protection or certain other employment benefits (advance notice of dismissal, severance pay, paid annual or sick leave, etc.).

The definition of informal employment used in the report differentiates three groups of workers: (i) employees, (ii) employers and own account workers, and (iii) contributing family members.

i. An employee is considered informally employed if his/her employer does not contribute to social security on his/her behalf or, in the case of a missing answer, if he/she does not benefit from paid annual leave or sick leave.

ii. An employer (with hired workers) and an own-account worker (without hired workers) is considered informally employed if he or she runs an economic unit[2] in the informal sector (a non-incorporated private enterprise without a formal bookkeeping system or not registered with relevant national authorities). In the case of the question not asked or a missing answer, the enterprise is considered part of the informal sector if there is no fixed place of work or it employs five employees or fewer. This threshold can vary, depending on the reporting structure of country questionnaires.

iii. Contributing family workers are informally employed by definition, regardless of whether they work in formal or informal sector enterprises.

For detailed information, see methodology in Annex A.

Recent evidence also shows that informality occurs across employment statuses. Globally, informal employment accounts for more than four of five own-account workers, one of two employers,[3] two of five employees and the totality of contributing family workers. Such aggregate figures point to a very diverse set of actors, encompassing street

vendors, waste collectors, daily wage workers, seasonal farm labourers, domestic workers and home-based workers subcontracted by formal firms.

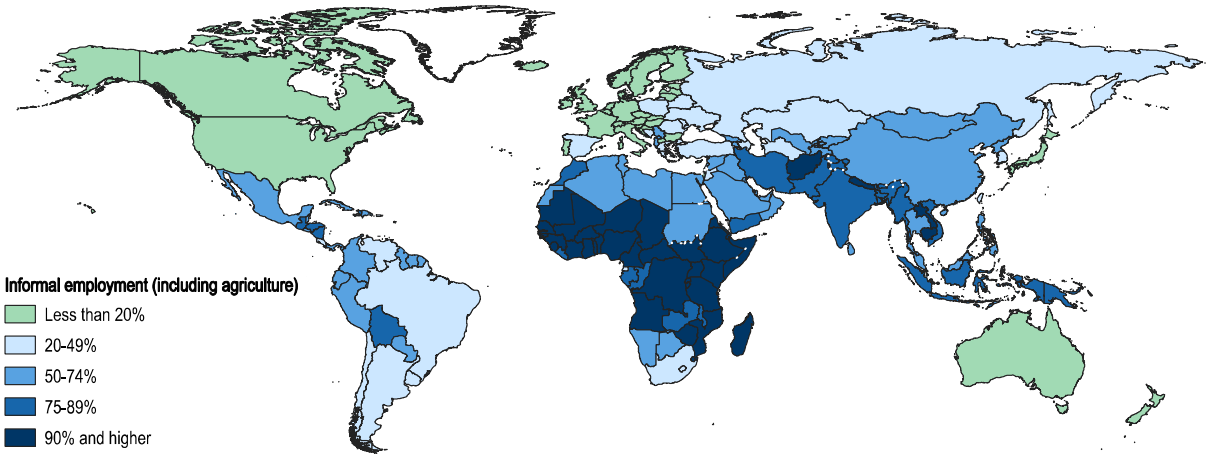
This reality of the world of work also comes with substantial labour rights challenges. Informality can undermine workers' rights and unions' role in collective bargaining and social dialogue. For employees, it implies lack of access to employment-based insurance schemes, such as old-age pension insurance. For independent workers (employers and own-account workers), it implies that their economic units are not legally recognised and are non-compliant with fiscal and social security obligations. Independent workers also face serious difficulties engaging in commercial contracts, accessing formal finance, markets and property, and, for many, accessing and affording social security.

Informality is the norm in the Global South

There are large disparities in the distribution of informal employment across regions and levels of development. Emerging and developing countries have substantially higher rates of informality: the share ranges from 18.3% in developed countries to 67.4% in emerging countries and 89.8% in developing countries (ILO, 2018[5]).

Figure 1.1. Informal employment dominates in the Global South

Share of informal employment in total employment including agriculture (2016)



Notes: A common set of operational criteria is systematically used to identify workers in informal employment and those employed in the informal sector. Own-account workers and employers are in informal employment if they run informal sector economic units (non-incorporated private enterprises without formal bookkeeping systems or not registered with relevant national authorities). Employees are in informal employment if their employers do not contribute to social security on their behalf or, in the case of missing answers, if they do not benefit from paid annual leave and paid sick leave. Contributing family workers are in informal employment by definition (ICLS, 2003[2]). See methodology in Annex A.
Source: ILO (2018[3]), *Women and Men in the Informal Economy: A Statistical Picture*, https://www.ilo.org/global/publications/books/WCMS_626831/lang--en/index.htm.

The vast majority of workers in Africa rely on the informal economy: 85.8% in Africa and 89.2% in sub-Saharan Africa (Figures 1.1 and 1.2). The share of informal employment ranges from 34% in South Africa[4] to above 90.0% in most African countries for which data are available.[5] Southern Africa has a lower level of informality (40.2%) due to a combination of relatively higher levels of socio-economic development, higher proportions of wage employment in total employment, below-average employment-to-

population ratios and above-average shares of social protection expenditure in percentage of gross domestic product (GDP) (ILO, 2017[6]).

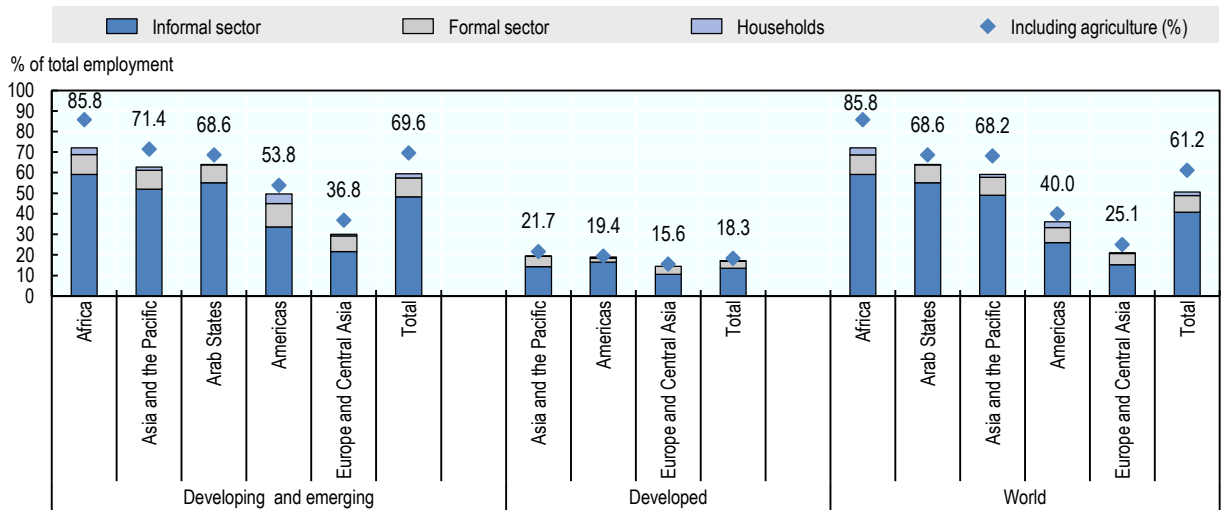
Asia and the Pacific has the second-highest level on average (68.2%), ranging from 21.7% in developed countries to 71.4% in developing and emerging countries: below 20.0% in Japan, just above 30.0% in the Republic of Korea and 90.0% and above in Bangladesh, Cambodia, India, Lao People's Democratic Republic and Nepal.

The Arab States have the third-highest level on average (above 68.0%); the Americas have the fourth-highest level on average (18.1% in Northern America and 53.1% in Latin America and the Caribbean). Again, there is significant variation across the region, ranging from 24.5% in Uruguay to 30-40% in Costa Rica and Chile, close to 80% in Guatemala, Honduras and Nicaragua, and above 80.0% in the Plurinational State of Bolivia.

In Europe and Central Asia, the level on average is about 25.0%: 15.6% in developed countries and 36.8% in emerging countries. Half or more workers in Albania, Armenia, Kyrgyzstan and Tajikistan hold informal jobs.

Figure 1.2. Informal employment varies by level of development

Extent and composition of informal employment (2016)



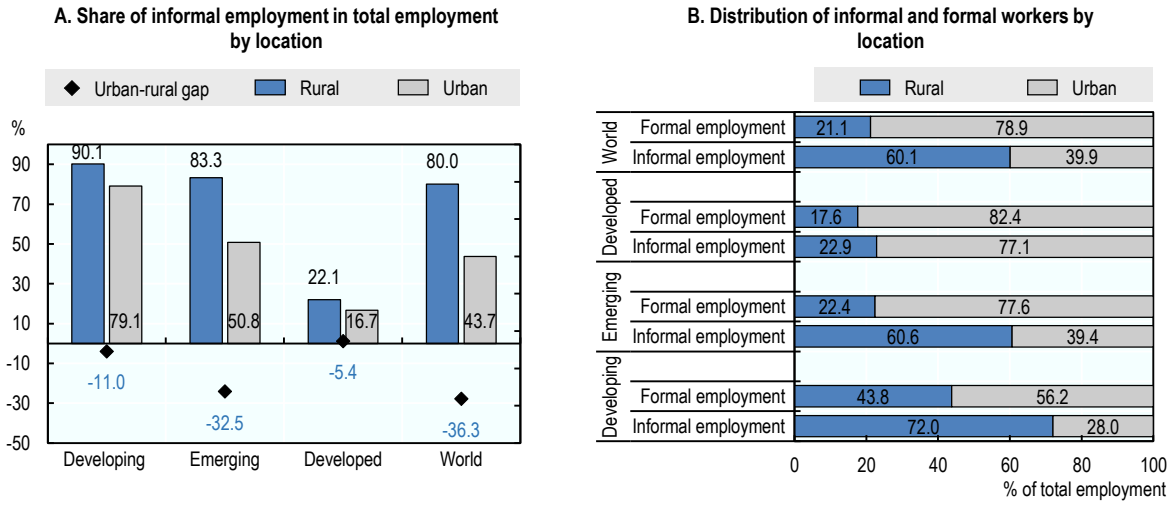
Source: ILO (2018[3]), *Women and Men in the Informal Economy: A Statistical Picture*, https://www.ilo.org/global/publications/books/WCMS_626831/lang--en/index.htm.

Informality has a strong rural dimension

People in rural areas are almost twice as likely as those in urban areas to be in informal employment: 80% vs. 43.7% (Figure 1.3A). Moreover, 60.1% of workers in informal employment live in rural areas, while 78.9% of those in formal employment live in urban areas (Figure 1.3B). Workers in agriculture represent more than half of rural informal employment.

Figure 1.3. Informality has a strong rural dimension

Distribution of informal employment, by rural/urban location (2016)



Source: ILO (2018[3]), *Women and Men in the Informal Economy: A Statistical Picture,* https://www.ilo.org/global/publications/books/WCMS_626831/lang--en/index.htm.

Informality dominates in agriculture and industry

Independently of area of residence, the agriculture sector presents the highest level of informality worldwide (93.6%), followed by the industry sector (57.2%) and service sector (47.2%) (ILO, 2018[3]). Nevertheless, the high exposure of agricultural workers to informality only partially explains the urban-rural differences in informality rates. Other factors include the institutional and economic environment (e.g. limited access to public infrastructure and services, and differences in quality of services and local governance); personal and employment characteristics of the rural population (including higher incidence of poverty, lower education levels or over-representation of employment status the most at risk of informality); or traditions and rural actors' perceptions of laws and regulations and social norms (Jonasson, 2012[7]; Weng, 2015[8]).

Vulnerable groups are disparately exposed to informality

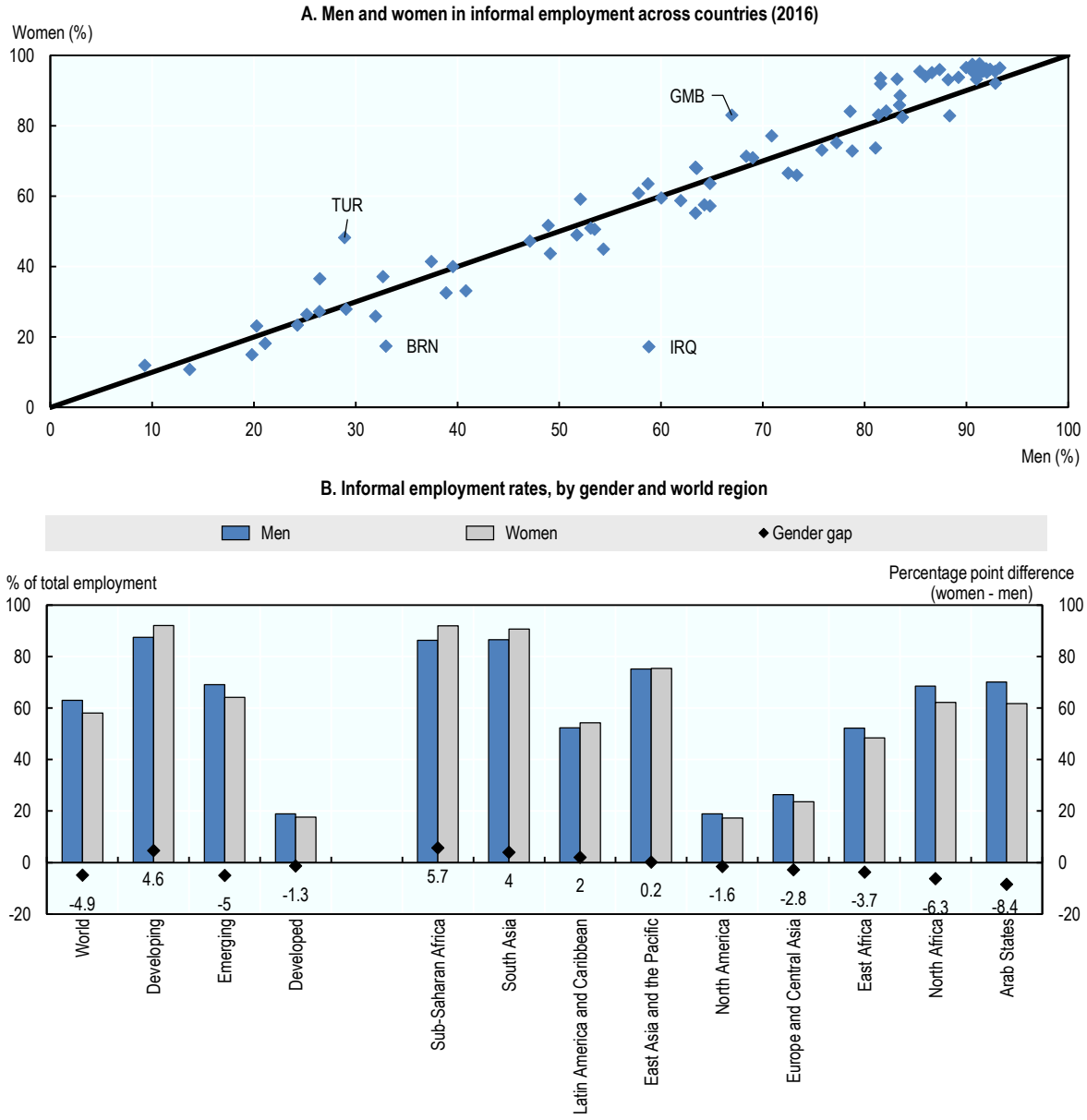
As stated in ILO Recommendation No. 204 (ILO, 2015[4]) concerning the transition from the informal to the formal economy, the informal economy is primarily characterised by a diversity of situations – among countries, groups of workers and types of economic units within countries – in terms of forms of informality, underlying causes, working conditions and level of exposure to vulnerability for workers and households (Chapter 3). Informality is not a consequence of misguided policy alone; personal characteristics can make access to formal employment difficult. These include low education level; discrimination based on gender, age, religion or ethnicity; poverty and productivity (both factors in and exacerbated by informality); and preferences.

Globally, informal employment is a greater source of employment for men, but there are large disparities across countries

Worldwide, informal employment is a greater source of employment for men (63.0%) than for women (58.1%) (Figure 1.4A). The large disparities in the gender dimension

across countries and regions reflect the influence of major countries, such as the People's Republic of China and the Russian Federation, where men face higher exposure to informality. It also results from structural effects associated with important gender gaps in employment-to-population ratios, which mitigate the influence of countries where women are more affected, as seen in India or Pakistan. However, in a small majority of countries for which data are available (55%), the share of women in informal employment exceeds that of men. Women are also more exposed in sub-Saharan Africa, Latin American countries and in most low- and lower-middle-income countries (Figure 1.4B).

Figure 1.4. There is a lot of variation across countries in the gender distribution of informal employment



Source: ILO (2018[3]), *Women and Men in the Informal Economy: A Statistical Picture*, https://www.ilo.org/global/publications/books/WCMS_626831/lang--en/index.htm.

By contrast, women are less exposed than men in the Arab States and North Africa, where women's employment-to-population ratios are much lower than men's. There, the minority of women employed tend to be over-represented in the public sector or at least occupations and types of enterprises that are more likely to be formal. In most regions, women in informal employment are more often found in the most vulnerable segments of the informal economy (Chapter 5).

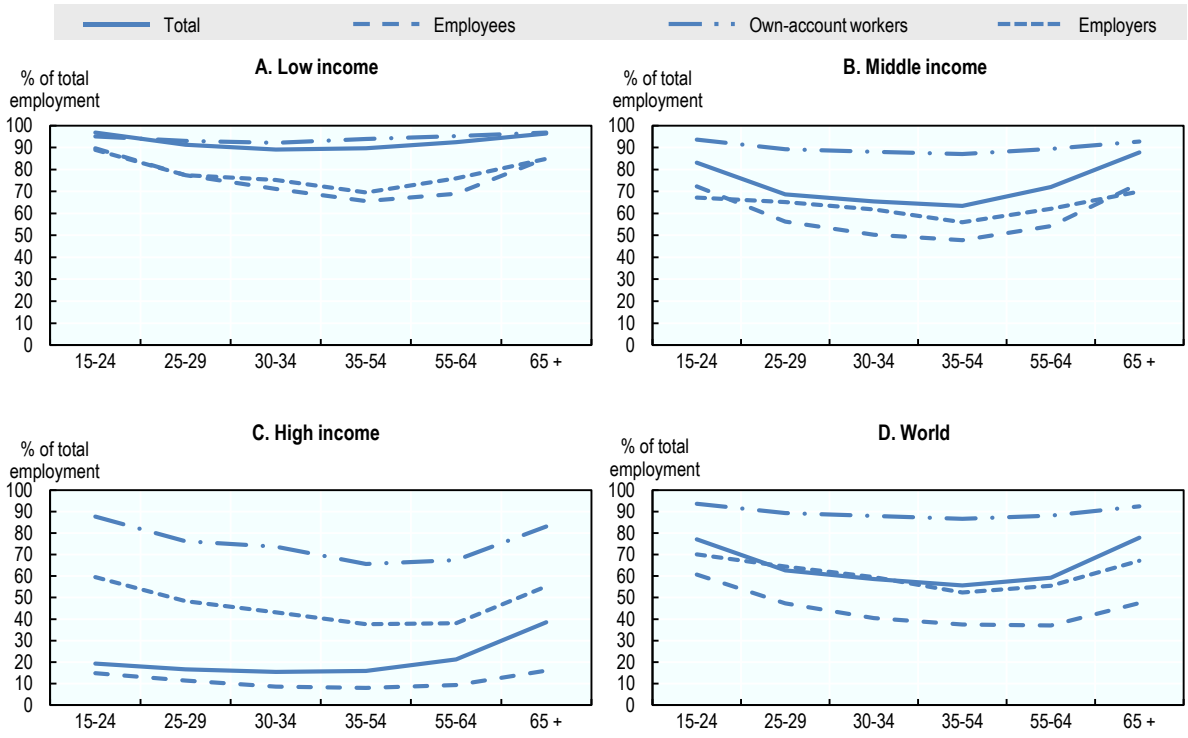
Youth and older workers are more exposed to informality

There is substantial variation in the level of informal employment over the lifecycle, with youth and older workers disproportionately affected. More than three-quarters of youth and older workers are in informal employment, compared with 57% of those aged 25-64 (Figure 1.5A). This implies some 362 million young people in informal employment worldwide, more than half living in sub-Saharan Africa or southern Asia. The overall share of informal employment and variation in the U shape over the lifecycle varies, depending on employment status. The share of informal employment decreases rapidly with age and reaches the lowest levels for employees and, to some extent, employers, but it remains almost flat and above 80% for own-account workers. There is an increase in the informal employment rate at older ages, notably after statutory retirement age (Figure 1.5A, 1.5B, 1.5C, 1.5D).

The various levels of exposure depending on employment status and the composition by status of total employment over the lifecycle partly explain the variation of informality with age (Figure 1.6). There is an over-representation of statuses at risk of informality at the early and latest life stages, such as higher proportions of contributing family workers at younger ages and own-account workers at age 65 and over. In developing countries, informality is largely driven by own-account employment, which represents the majority of employment and tends to offer limited opportunities for transition; employee and employer categories tend to have more opportunities for formalisation. In emerging countries, there are also more opportunities among employees and employers as age increases. By contrast, as in developing countries, the prospect of formalisation over the lifecycle for own-account workers, in the absence of dedicated interventions or changes in the macroeconomic context, is more limited. In developed countries, formality among employees is high overall. Among employers and own-account workers, there is a clear trend of transition to formality with increasing age and experience (at least until retirement age) (Chacaltana, Bonnet and Leung, forthcoming[9]).

Figure 1.5. Informal employment rates are highest for youth and older workers

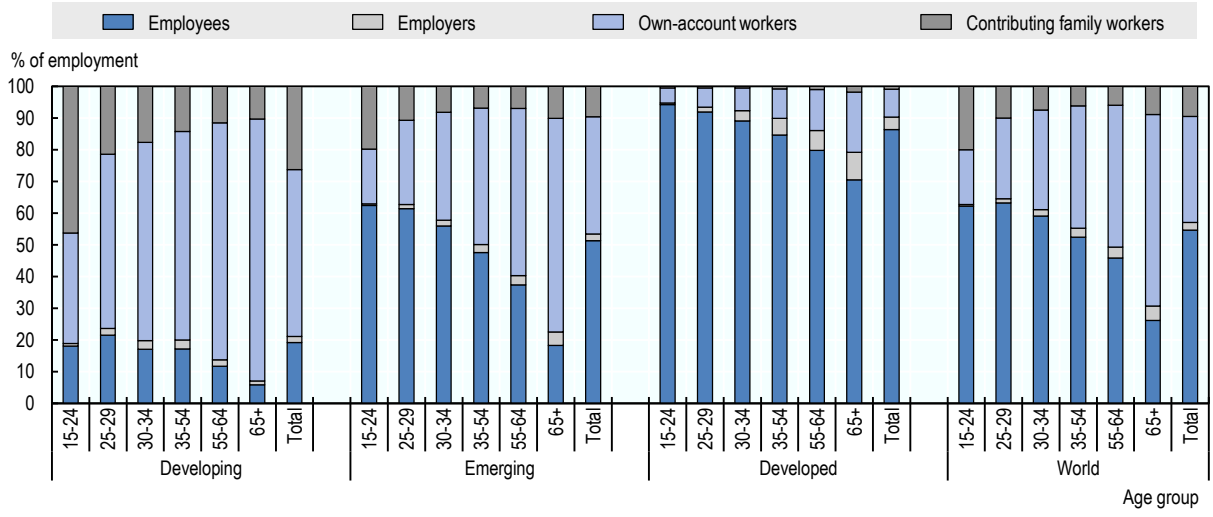
Informality age profile by employment status – world and country income groups (2016)



Notes: Global and regional estimates based on data for 110 countries representing 85% of the world's employed population and on country data for the latest available year. Contributing family workers are in informal employment by definition, independently of formal or informal nature of economic units and of age.
Source: ILO (2018[3]), *Women and Men in the Informal Economy: A Statistical Picture*, https://www.ilo.org/global/publications/books/WCMS_626831/lang--en/index.htm.

Figure 1.6. Distribution by employment status varies over the life cycle

Distribution of employment over the lifecycle, by status (circa 2010)



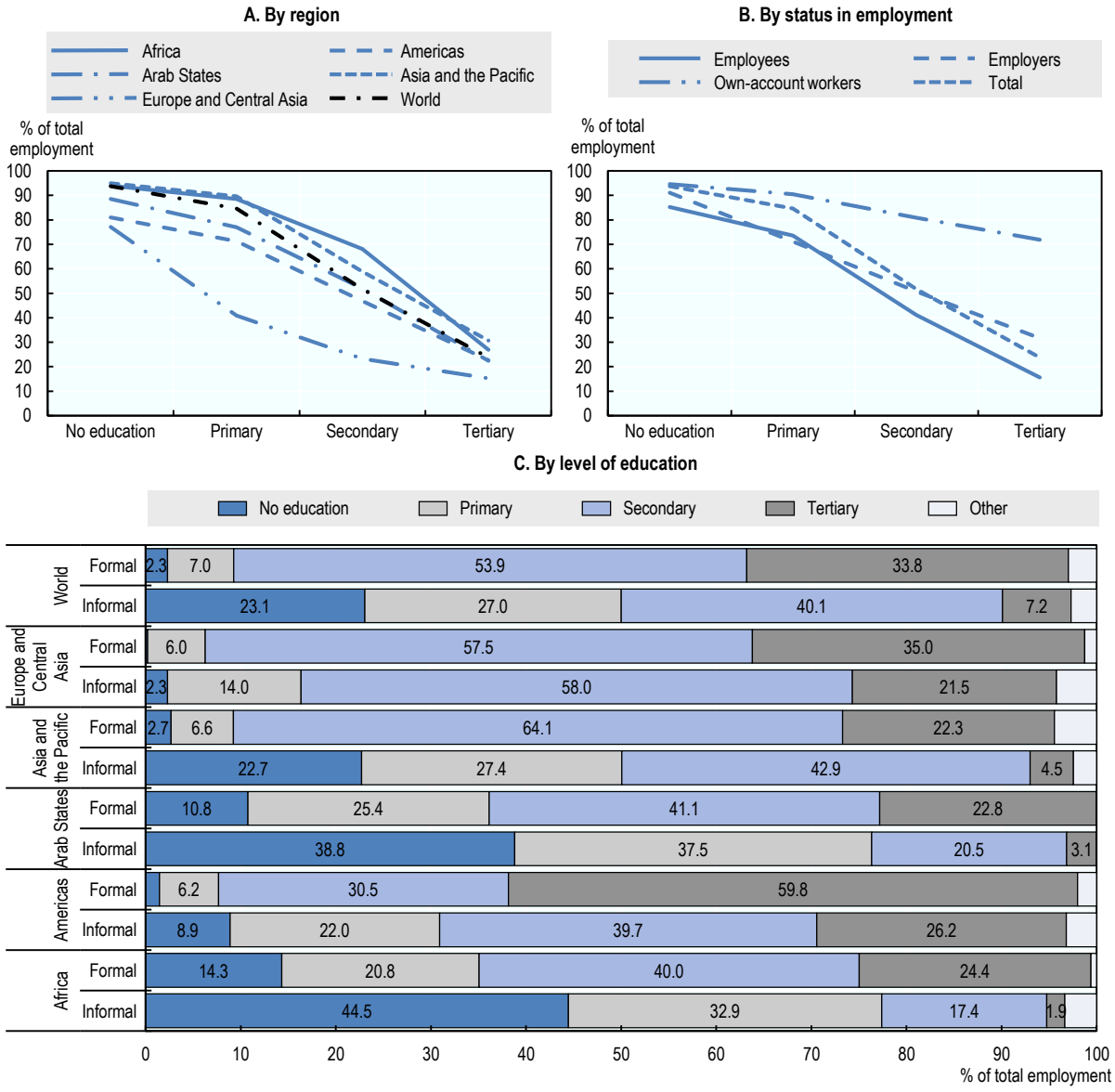
Notes: Global and regional estimates based on data for 110 countries representing 85% of the world's employed population and on country data for the latest available year. Contributing family workers are in informal employment by definition, independently of formal or informal nature of economic units and of age.
Source: ILO (2018[3]), *Women and Men in the Informal Economy: A Statistical Picture*, https://www.ilo.org/global/publications/books/WCMS_626831/lang--en/index.htm.

Informal employment absorbs less-educated workers

Higher levels of education do not guarantee access to formal employment but are an important factor. Low education levels can be among the personal and socio-economic characteristics that make access to formal employment difficult. The majority of workers with no education (93.8%) are in informal employment, declining to 84.6% with primary education, 51.7% with secondary education and 23.8% with tertiary education. The pattern is largely influenced by developing and emerging countries, where the highest share of workers in informal employment is concentrated (Figure 1.7A). The positive effect of higher education levels on access to formal employment is evident among employees and employers but far less clear among own-account workers, whose exposure to informal employment remains high (above 60%), regardless of education level (Figure 1.7B).

Figure 1.7. Informal employment absorbs less-educated workers

Informal employment and highest level of educational attainment (2016)



Notes: Global and regional estimates based on data for 107 countries representing 86% of the world's employed population. Harmonised definition of informal employment and employment in the informal sector.
Source: ILO (2018[3]), *Women and Men in the Informal Economy: A Statistical Picture*, https://www.ilo.org/global/publications/books/WCMS_626831/lang--en/index.htm.

Notably, workers in informal employment are less educated than formal workers in all but developed countries (Figure 1.7C). Half of all workers in informal employment have no or primary education. The proportion reaches above 80.0% in developing countries, more than three-quarters in Africa. Just above 7.0% of workers in informal employment have obtained a tertiary level of education. Among workers in formal employment, 9.3% have no or primary education, and 33.8% have tertiary education. In Europe and Central Asia, and in developed countries generally, secondary and tertiary educational attainment

is the norm, and a significant proportion of workers in informal employment (44.0%) or in informal sector units (41.4%) have tertiary education. However, those proportions are still lower than proportions among workers in formal employment or in formal economic units (above 50.0%).

Informal jobs have distinguishing characteristics

A number of job characteristics differentiate employment in the formal and informal economy. Employment status, full or part time, permanent or temporary and firm size influence the likelihood that a job will be informal.

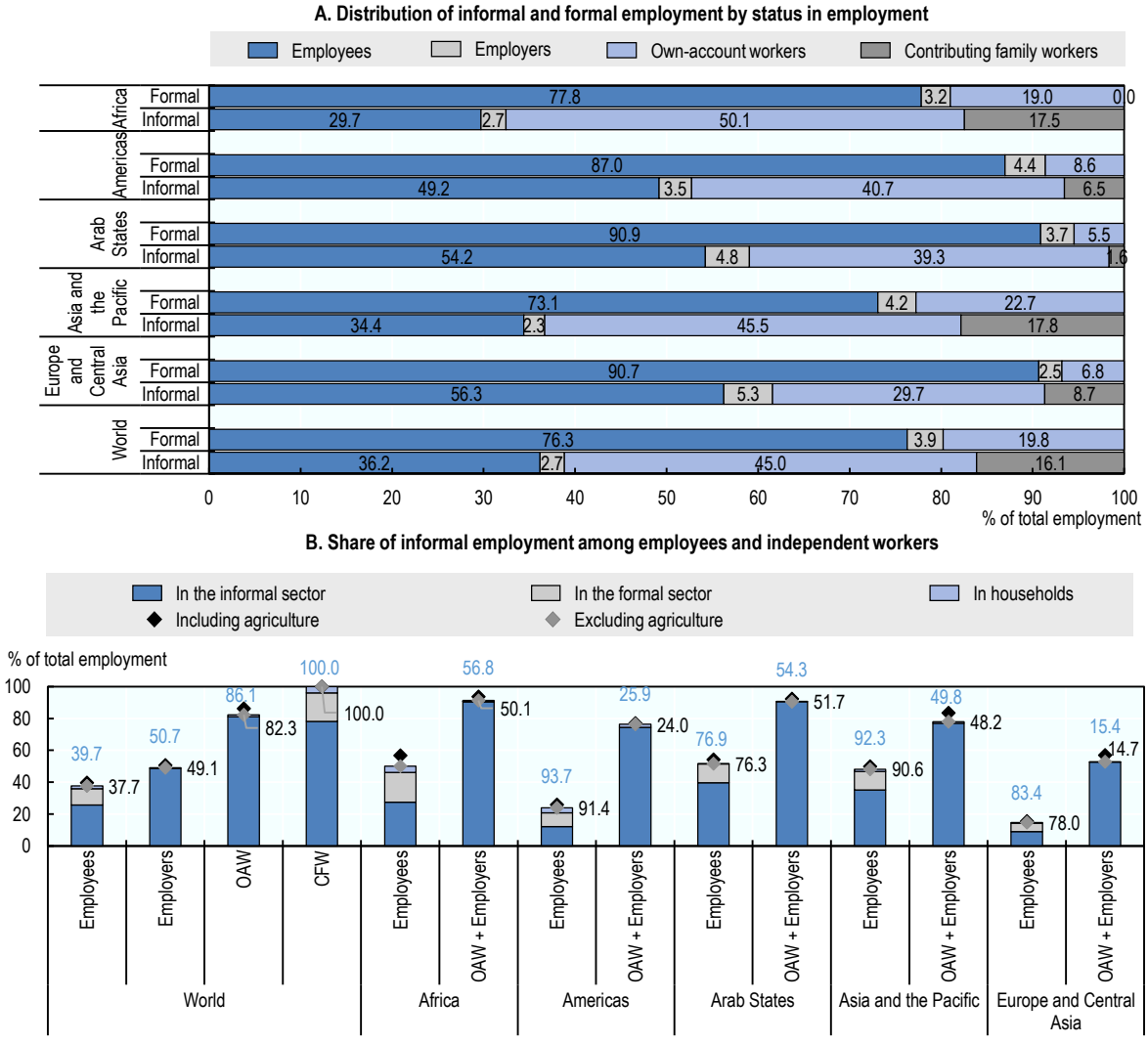
Own-account workers are most at risk of informality, but employees are most represented in informal employment in developed countries

Globally, own-account workers represent the majority of informal workers (45%), followed by employees (36%), contributing family workers (16%) and employers (below 3%) (Figure 1.8A). Taken together, own-account workers and contributing family workers, both vulnerable statuses, comprise 61% of informal employment and below 20% of formal employment worldwide. They represent above 75% of total informal employment in developing countries, 68% in Africa and 63% in Asia and the Pacific. The proportion decreases with increased country development to the benefit of employees, who represent the majority of those holding informal jobs in developed countries (51%).

In terms of the share of informal employment among employment statuses, nearly 40% of all employees are in informal employment (Figure 1.8B). The proportion of informal employees ranges from 15.4% in Europe and Central Asia to 56.8% in Africa. Among informal employees, 67.4% work in informal sector units, 27.3% work in fully formal enterprises and 5.3% are domestic workers. The vast majority (86.1%) of own-account workers and about half of all employers (50.7%) are in informal employment, operating as informal sector units. Out of all contributing family workers that are by definition in informal employment, almost 80% of contributing family workers are in informal sector units.

Figure 1.8. Own-account work and wage employment are the dominant forms of informal employment

Informality, by status in employment (2016)



Notes: OAW = own account workers. CFW = contributing family workers.
Source: ILO (2018[3]), *Women and Men in the Informal Economy: A Statistical Picture*, https://www.ilo.org/global/publications/books/WCMS_626831/lang--en/index.htm.

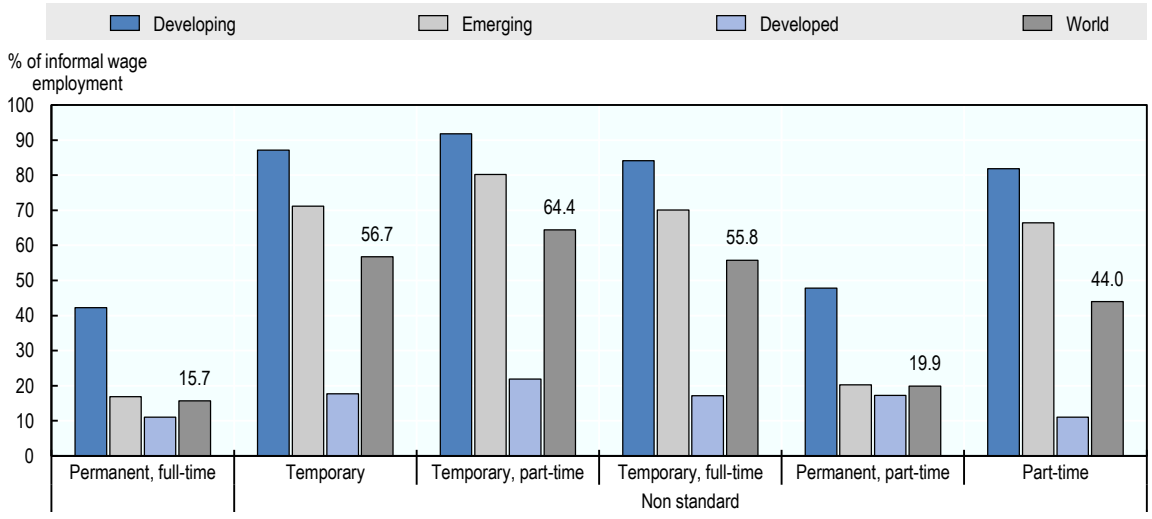
Workers in non-standard forms of employment are particularly exposed to informality

Not all employees in non-standard forms of employment[6] are in informal employment, but compared with workers in open-ended full-time employment, non-standard employment is significantly more likely to be informal, particularly regarding temporary employment (ILO, 2018[5]) (Figure 1.9). While below 16.0% of employees in permanent full-time jobs are informal, the proportion of informal wage employment is 44.0% among those in part-time employment, 56.7% among those in temporary employment and 64.4% among those in temporary part-time employment.

Temporary and part-time workers are sometimes explicitly excluded from legal social security or face indirect exclusions resulting from eligibility based on minimum weekly or monthly hours of work or earnings levels. Non-explicit indirect exclusions resulting from inability to meet minimum qualifying conditions are more numerous but not as widespread as ineffective implementation of legal coverage for reasons that include the lack of employment contracts, employer financial constraints, heavy or inappropriate compliance modalities, lack of awareness, or deliberate non-compliance (ILO, 2015[10]).

Figure 1.9. Informal employment is widespread in non-standard forms of employment in emerging and developing countries

Share of informal employment among employees, by type of employment (2016)



Notes: Estimates based on data for 96 countries representing above 78% of the world's employed population. Harmonised definition of informal employment and employment in the informal sector.
Source: ILO (2018[3]), *Women and Men in the Informal Economy: A Statistical Picture*, https://www.ilo.org/global/publications/books/WCMS_626831/lang--en/index.htm.

Most employment in small enterprises is informal, but informal employment in large formal enterprises is significant

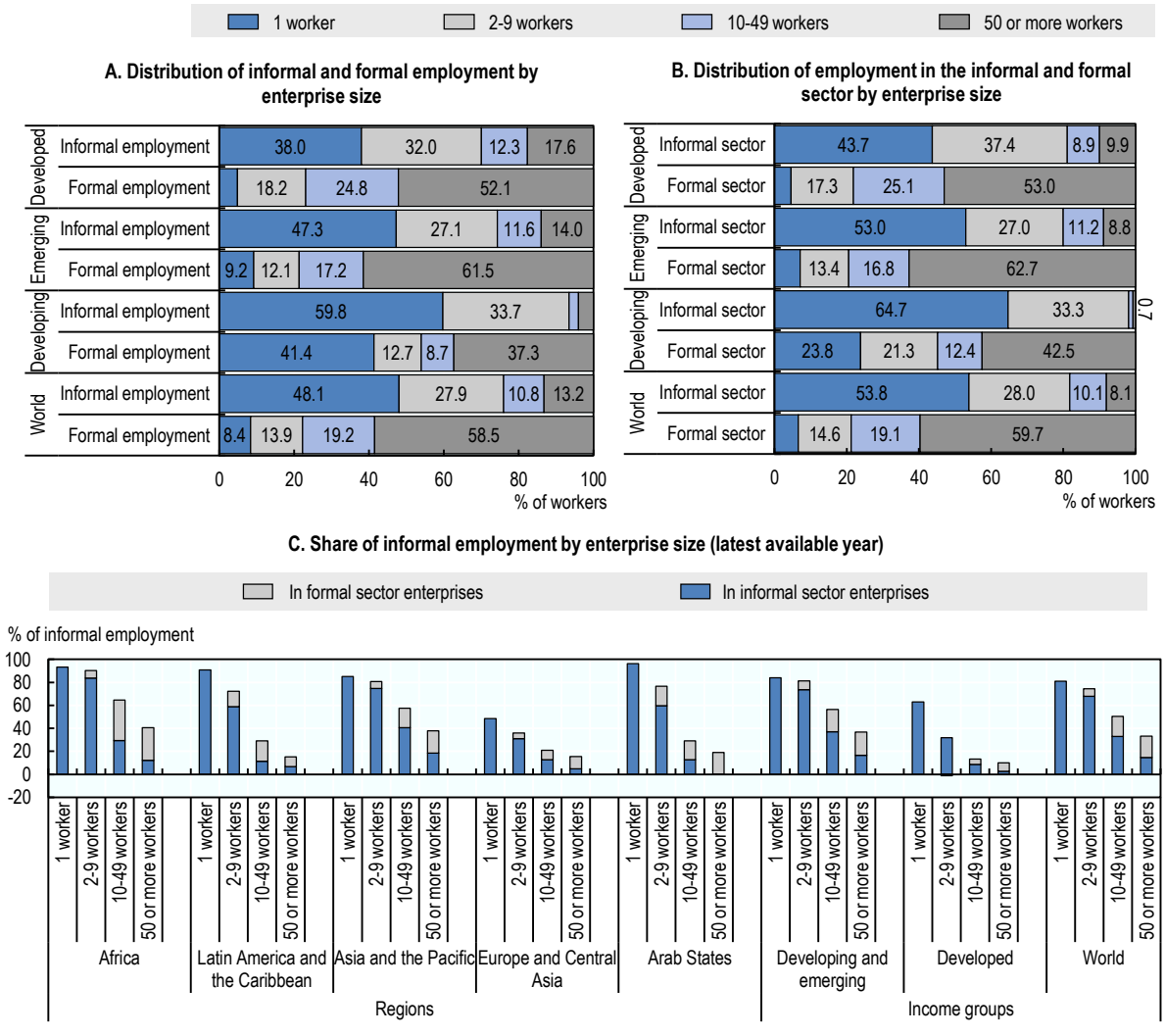
By and large, work in small economic units is informal across developing, emerging and developed countries. About 75% of informal employment and 80% of employment in the informal sector is concentrated in economic units of fewer than ten workers (Figure 1.10A, 1.10B), compared with 22% of formal employment.

The share and composition of informal employment by size of economic unit (Figure 1.10C) highlights three important results. First, employers of larger units are less likely to operate informally. The decrease in share of employment in informal sector units with an increase in the size of economic units is particularly pronounced: while above 80% of one-worker units are in the informal sector, the proportion reaches 15% among units of 50 or more workers. Second, the share of total informal employment decreases with increased size of enterprises, from 81.1% among own-account workers to 33.2% among enterprises of 50 or more workers. Third, there is a significant share of informal employment in medium-sized (10-49 workers) and large (50 or more workers) formal sector enterprises.

Despite the greater ability of large enterprises to cover formalisation costs and more easily interact with government administrations, including social security institutions, thanks to greater administrative capacities, the substantial share of informal employment in large formal enterprises may result from lack of recognition of the employment relationship or from contracts that provide no social protection and other benefits. These figures do not include the large number of informal economy workers with disguised employment relationships who are subcontracted by formal enterprises and misclassified as own-account workers (ILO, 2016[11]).

Figure 1.10. Most employment in small enterprises is informal, yet informal employment in large formal enterprises is significant

Informal employment and employment in the informal sector, by size of enterprise (2016)



Notes: Estimates based on data for 93 countries representing 71% of the world's employed population. Harmonised definition of informal employment and employment in the informal sector.
Source: ILO (2018[3]), *Women and Men in the Informal Economy: A Statistical Picture*, https://www.ilo.org/global/publications/books/WCMS_626831/lang--en/index.htm.

The household dimension is key to better understanding vulnerability in the informal economy

A thorough understanding of the well-being consequences of informality requires going beyond the individual perspective to include a household dimension. This has so far received surprisingly little attention. A household perspective on informality is needed to capture the level of income poverty and income insecurity among informal workers, measure the capacity to pay for social protection, identify the possibility of accessing social protection through household members working in the formal economy, and assess the extent to which informal workers' vulnerability is passed on to their dependants (Chapter 4).

Informality takes different forms at the household level

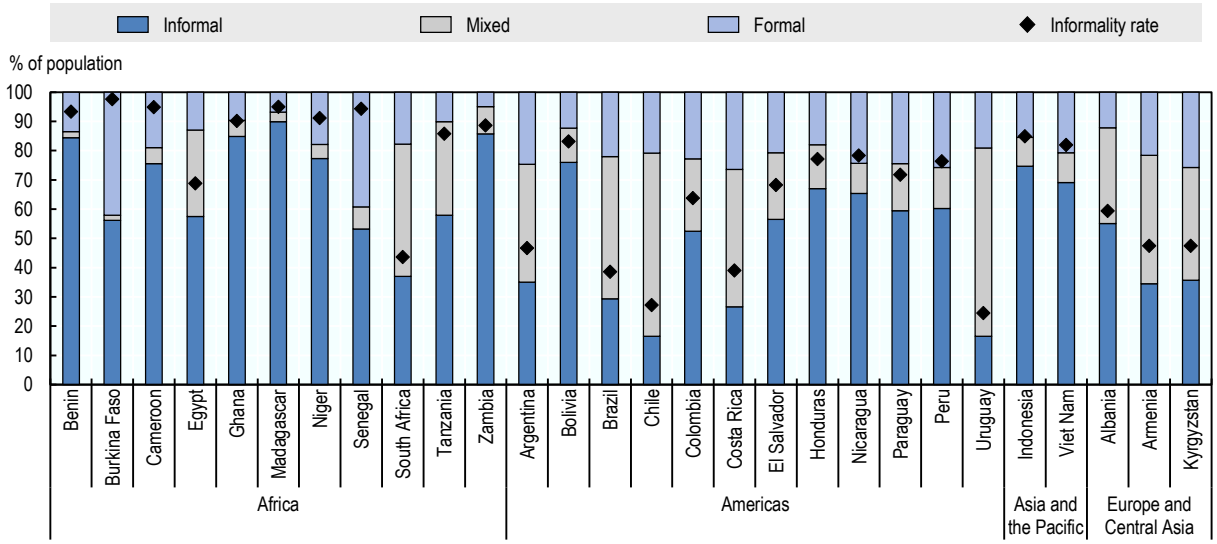
Working household members may be informally or formally employed; households with more than one employed member may therefore have varying levels of informality. Employees in formal employment are entitled to labour-based contributory social protection and/or have the right to employment-based benefits, such as paid sick and annual leave. For independent workers (employers and own-account workers), the legal recognition of their economic units and compliance with fiscal and social security obligations that define the formal nature of their economic unit and thus of their employment may or may not include social security coverage for themselves and their employees, depending on national legislation. Still, in a significant number of developing and emerging countries, independent workers are not included under social security laws or only on a voluntary basis. Independent workers in the formal sector are more likely to earn higher incomes and to contribute to social security. Social insurance benefits can protect dependents of formally employed household members (whether employee or independent worker), entitling them to, for instance, medical insurance. This is why it is critical to go beyond individual circumstances and propose new household-based monitoring indicators of informality.

The completely formal, completely informal or mixed households[7] sampled for this analysis include only those with workers,[8] which represent between 85% and 100% in most of the 27 countries covered (Figure 1.11, see Annex A for more information). Household-based indicators of informality reveal that, in 18 countries, the distribution is dominated by completely informal households, suggesting an incomplete form of informal-formal segmentation at the household level.

The degree of informality of households also varies across countries and regions. The share of completely informal households ranges from 3% in Chili to 92% in Burkina Faso; for mixed households, it ranges from 5% in the United Republic of Tanzania to 46% in Argentina. With the exception of South Africa, the vast majority of the population in African countries lives in completely informal households. Latin America is roughly divided between countries where a majority lives in completely formal or mixed households (e.g. Argentina, Bolivia, Chile, Costa Rica, Uruguay) and those where a majority lives in completely informal households (most in Central America, as well as Paraguay and Peru). In Asia, the proportion living in informal households ranges from 72% in Indonesia to 35% in Armenia.

Figure 1.11. Degree of informality of households varies across countries

Distribution of overall population, by degree of informality of households (circa 2015)



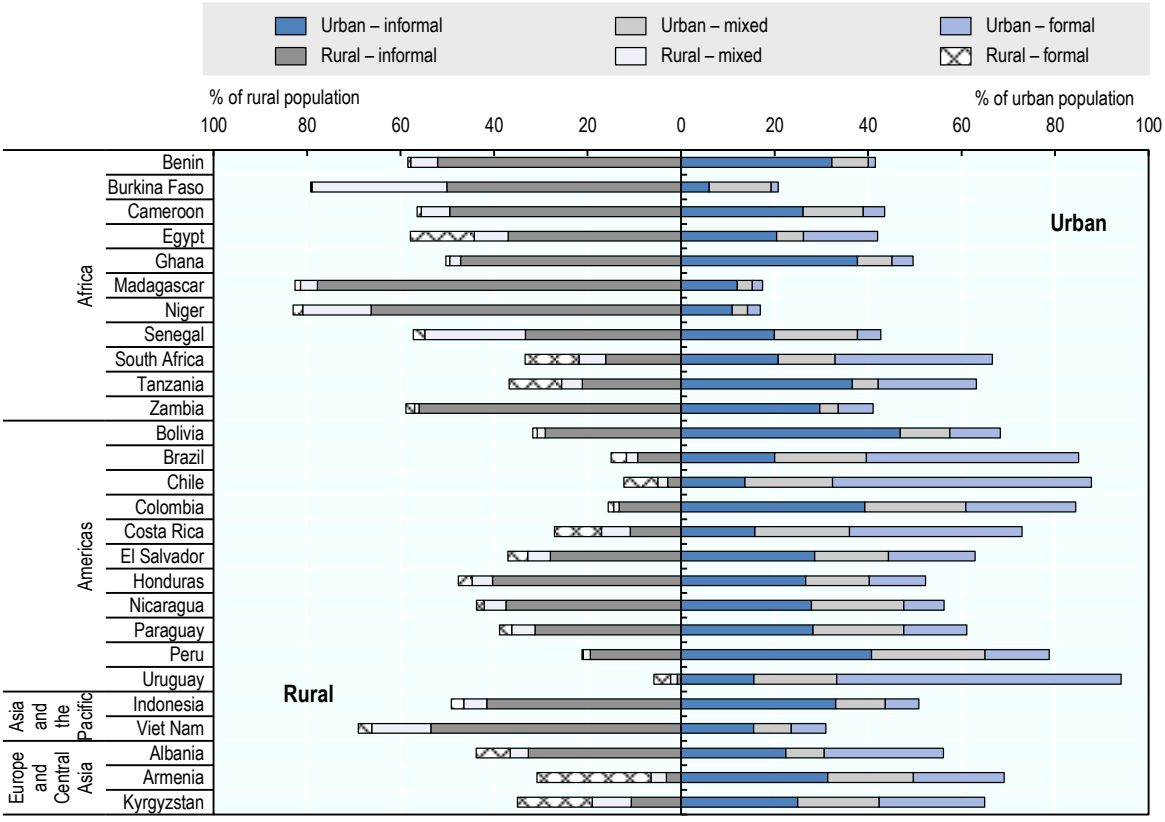
Notes: Includes all sampled households with at least one worker; as compared to informal or formal households, mixed households always have at least two workers. ◆ = overall rate of informality in total employment.
Source: OECD (2019), *Key Indicators of Informality based on Individuals and their Household* (database).

Distribution also varies disparately by location. With the exception of Armenia, rural households, which represent a much higher share of the overall population in Africa, are much more likely to be completely informal (Figure 1.12). Mixed households tend to be an urban phenomenon.

The location of informal workers and their households matters for social protection strategies. For instance, reduced public service infrastructure can be an important barrier to enrolment of rural populations, who may lack information or be unable to enrol due to isolation. At the same time, isolated but tight-knit rural communities may offer informal support mechanisms not available in urban areas. Urban households, however, exhibit greater diversity and may be an important entry point for the extension of social protection to informal economy workers.

Figure 1.12. Mixed households tend to be an urban phenomenon, while a vast majority of rural households are completely informal

Degree of informality of households, by rural/urban location (year)

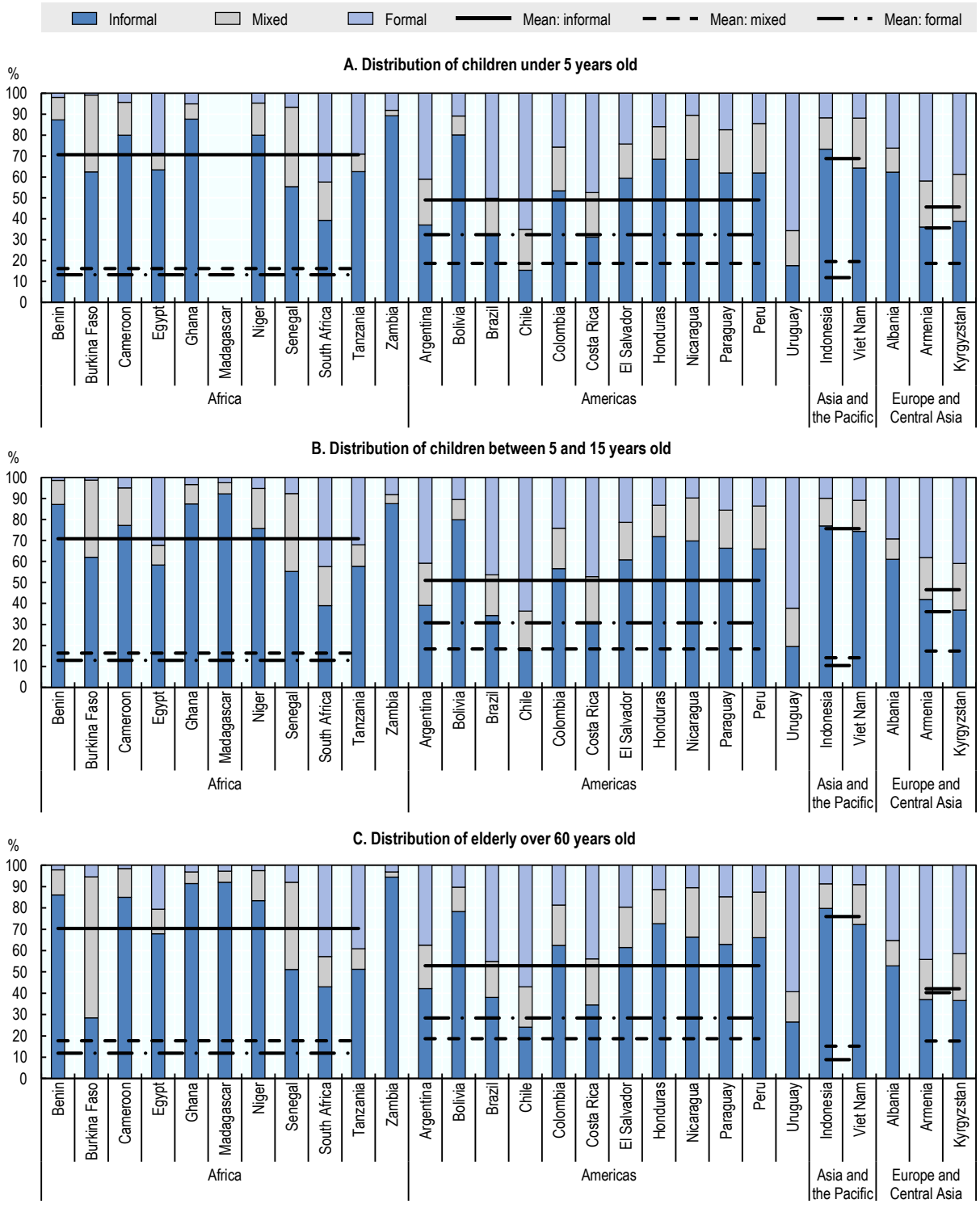


Note: Argentina excluded from figure as survey data only representative for urban areas.
Source: OECD (2019), *Key Indicators of Informality based on Individuals and their Household* (database).

Children and older individuals disproportionately live in informal households

The distribution of dependents in different types of households informs the extent to which adverse well-being implications of informality are passed on to other segments of the population. In most countries, a majority of children (below age 5 and aged 5-15) and of individuals age 60 and over live in completely informal households (Figure 1.13A, 1.13B, 1.13C). In the more advanced countries sampled, the proportion of children and older individuals in formal households increases, but a majority of dependents still live in completely informal or mixed households.

Figure 1.13. Children and older individuals disproportionately live in completely informal households



Notes: Includes all sampled households with at least one worker; mixed households have at least two workers. Information on children under age 5 not available for Madagascar. Regional averages are unweighted average across sample countries.
Source: OECD (2019), *Key Indicators of Informality based on Individuals and their Household* (database).

Notes

[1] Data are related to the concept of informal employment and employment in the informal sector, as defined by the International Conference of Labour Statisticians (1993[1]; 2003[2]). In a recent effort to enhance comparability across countries, the ILO applied a common set of criteria to national labour force or household survey datasets from close to 120 countries. Details about the operational definitions of informal employment and employment in the informal sector are provided in Annex A.

[2] Operational definition of informal sector units is provided in Annex A.

[3] Independent workers (employers and own-account workers, also called "independent workers without employees") are considered to be informal when their economic units belong to the informal sector. The informal sector is a subset of household unincorporated enterprises (not constituted as separate legal entities independently of their owners) that produce for sale in the market, even if partly, and that do not have a complete set of accounts and/or are not registered under national legislation (ICLS, 1993[1]).

[4] Based on 2016 labour force survey data, applying the set of common criteria for the compilation of comparable estimates on informal employment. The result is slightly lower than obtained from the National Income Dynamics Study (NIDS) 2014/15 based on similar criteria. The joint analysis of informality and income level and distribution uses NIDS data.

[5] Share of informal employment including agriculture is above 90.0% in Benin, Burkina Faso, Cameroon, Ghana, Madagascar, Niger, Senegal, the United Republic of Tanzania (which stood at 90.6% based on 2014 labour force survey data and 86.0% based on 2012/13 National Panel Survey data) and Togo.

[6] Non-standard forms of employment comprise four employment arrangements that deviate from the "standard employment relationship" (i.e. other than full time, indefinite and part of a subordinate relationship between an employee and an employer) (ILO, 2016[11]).

[7] Households with at least one working member. Mixed households have at least two workers.

[8] See Annex A for share of households without any workers in each country.

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Chapter 2. Informality in the development process

The informal economy is a dominant feature of developing economies and encompasses a diverse group of workers and enterprises (Chapter 1). This heterogeneity prompts various perceptions of and stereotypes about the informal economy and has fuelled debate about its role in the development process. To inform policy debate and decision makers, this chapter reviews links between informality and the development process and, more importantly, provides new evidence on the less-studied drivers of informality. It shows that the long-standing negative connotation of informality is not always grounded in evidence and often masks the subtler reality. Fighting stereotypes and promoting an accurate picture of the informal economy's contribution to development is key to making the case for investing in the protection of workers.

The complex relationship between informality and development mirrors various development patterns

Macro-level data can shed light on the links between informality and development, including, importantly, how informality responds to economic and social development. The informal economy is often considered a sign of underdevelopment that goes hand-in-hand with poverty. It is thought to contract during economic growth and expand during economic crisis. The reality is more complex and dynamic, with substantial variation in patterns of informality across and within countries.

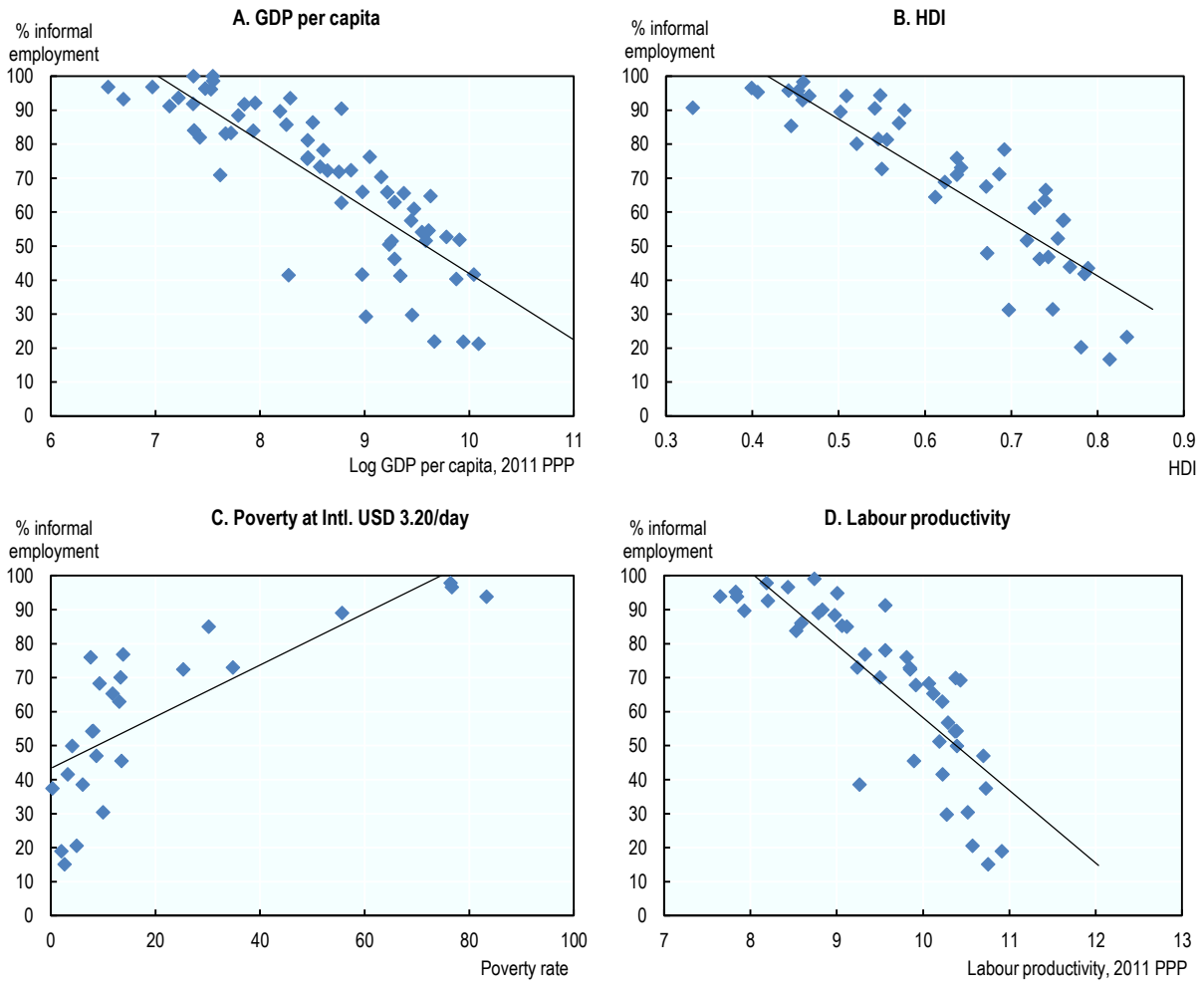
Informality correlates with key development outcomes across countries but no longer within countries

Across countries, the prevalence of informality tends to fall as measures of economic and social development rise. However, the impact of development on the informal economy is widely debated. Some studies associate greater informality with lower growth (Loayza, 1997[1]; Johnson, Kaufmann and Shleifer, 1997[2]). More recent analyses of panel data suggest a more complex and dynamic inverted-U relationship between the size of the informal sector and growth of gross domestic product (GDP) per capita (Elgin and Birinci, 2016[3]).

The relationship can be illustrated by plotting the level of informal employment and four measures of economic and social development: GDP per capita, Human Development Index (HDI), labour productivity and poverty (Figure 2.1A, 2.1B, 2.1C, 2.1D). In order not to confound the effects of differences in development indicators with the effects of other contemporaneous differences, predicted values of informal employment, obtained from multivariate analysis and controlling for other factors associated with informality, are reported instead of actual values. Levels of informality correlate negatively with GDP per capita, HDI and labour productivity, and positively with poverty. In other words, in countries where the level of development is higher, the share of the workforce working informally is lower. A more dynamic analysis shows that the relationship is more complex.

Figure 2.1. Informality correlates negatively with higher levels of economic and social development

Predicted values of informal employment from multivariate analysis



Note: Vector of control variables has been adjusted for each panel in order to reduce the effects of multi-collinearity on regression estimates. For all panels, controls include geography, labour productivity, SIGI 2014, 2017 Ease of doing business index, number of start-up procedures, share of youth (aged 15-24) and KOF Economic Globalisation Index. For HDI, they include composition of GDP and exclude GDP per capita. For GDP per capita (2011 PPP), they include infant mortality rate, life expectancy and education and exclude HDI.

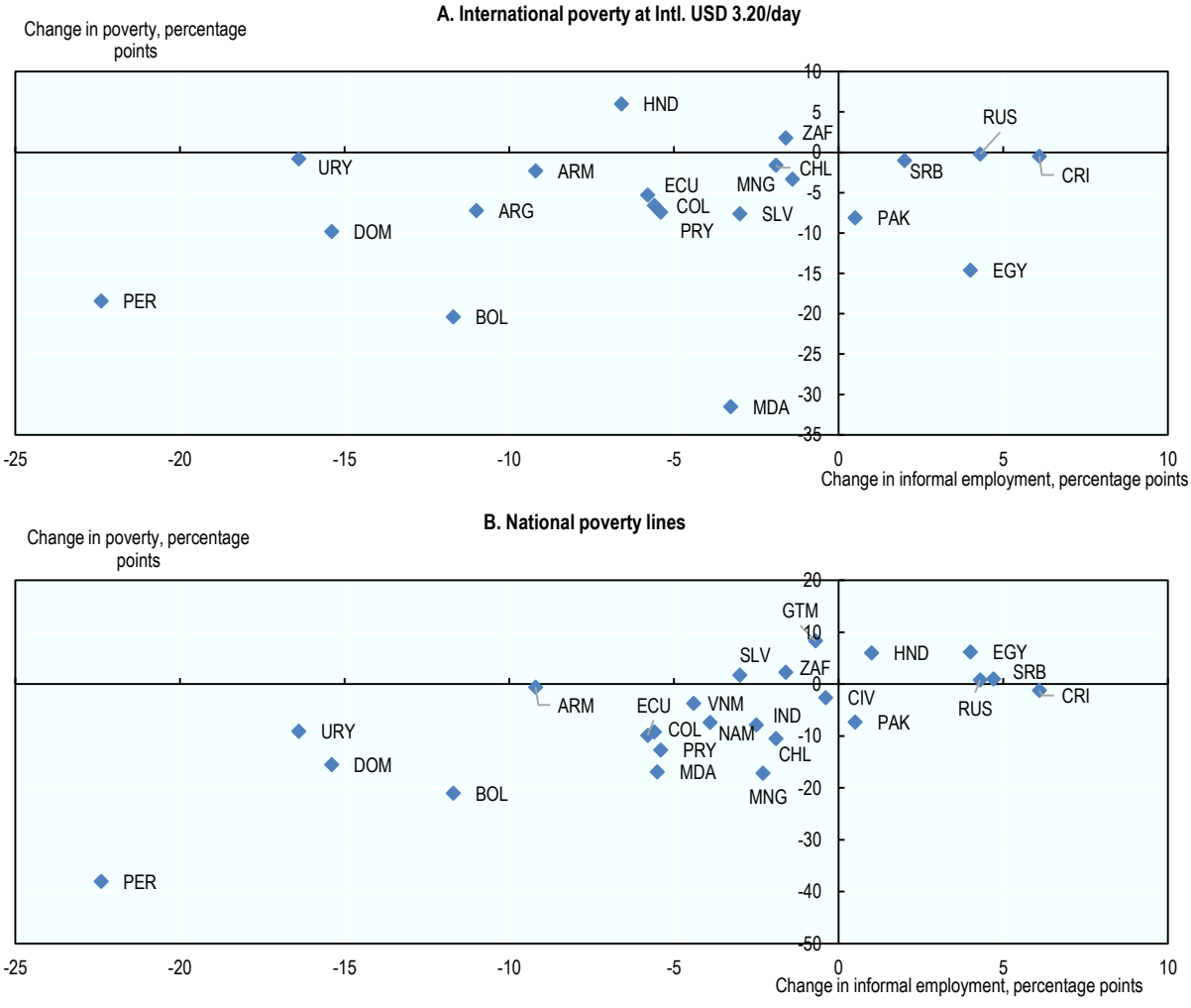
Sources: For informal employment, ILO (2018[4]), *Women and Men in the Informal Economy: A Statistical Picture*, www.ilo.org/global/publications/books/WCMS_626831/lang--en/index.htm; for labour productivity; ILO (2015[5]) *Key Indicators of the Labour Market (9th edition)*, www.ilo.org/kilm; for GDP per capita and international poverty rates, World Bank (2018[6]), *World Development Indicators* (database), data.worldbank.org/products/wdi; for HDI data, UNDP (2016[7]), *Human Development Index*, hdr.undp.org/en/data.

A reduction in informality is not always associated with a decline in poverty over time. Empirical evidence shows that there is no simple relationship between poverty reduction and formalisation within countries (Figure 2.2A, 2.2B). While, in recent years, many countries that saw a decline in informal employment also experienced a decline in poverty, in some countries, such as Honduras and South Africa, poverty increased

alongside a decline in informality. In other countries, such as Costa Rica, Egypt, Pakistan, the Russian Federation and Serbia, where the informal economy expanded, there was a coinciding stagnation in poverty (Costa Rica, the Russian Federation and Serbia) or a decline (Egypt and Pakistan). The lack of an obvious association between formalisation and poverty reduction may reflect a combination of factors, such as an increase in low-paid formal jobs.

Figure 2.2. There is no simple relationship between poverty reduction and formalisation

Changes in international poverty rates, national poverty rates and informal employment at the national level



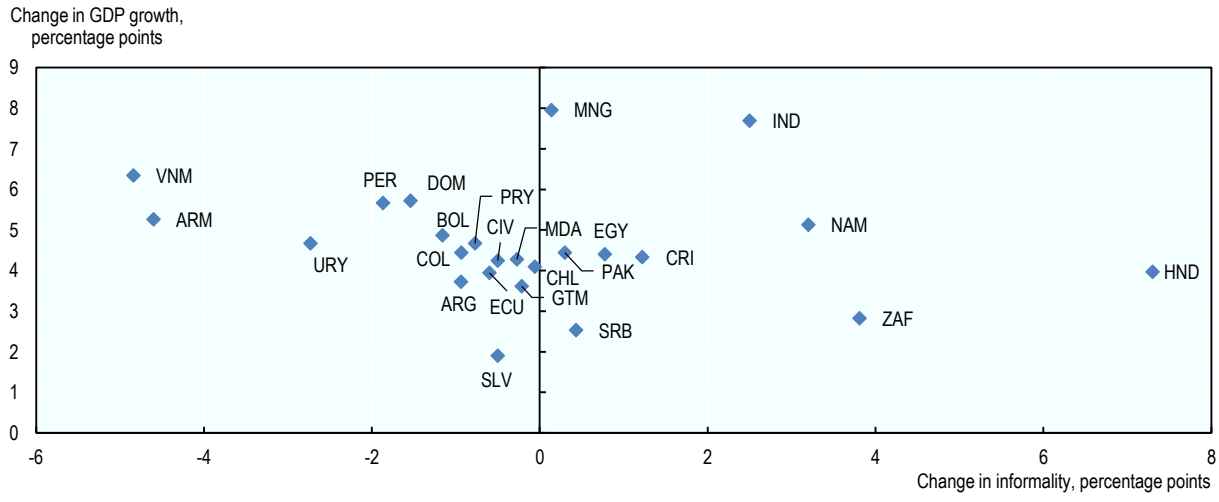
Notes: Differences for both headcount poverty ratios and informality rates calculated at the national level. Time periods used to calculate differences vary according to data availability: Moldova and Peru (2004-16); Argentina (2005-14); Bolivia and the Dominican Republic (2005-15); Honduras (2006-16); Egypt (2008-15); Paraguay (2009-16); Pakistan (2010-13); South Africa (2010-14); the Russian Fed. and Serbia (2010-15); Colombia, Ecuador, El Salvador, Mongolia and Uruguay (2010-16); Chile (2011-15); Costa Rica (2011-16); Armenia (2014-16). Informality rate includes agriculture, with the exception of Argentina and the Russian Fed., for which no data are available.

Sources: For informal employment; ILO (2018[8]), "ILOSTAT Informal employment and informal sector as a percent of employment by sex -- Harmonized series (%)", www.ilo.org/ilostat; for international and national poverty rates, World Bank (2018[6]) *World Development Indicators* (database), data.worldbank.org/products/wdi.

Long-term GDP growth does not necessarily lead to a reduction in informality. The informal economy is often thought to expand during economic downturns and contract during economic growth. Analysis of informal employment and GDP data between 2005 and 2015, however, suggests substantial variation in patterns across countries (Figure 2.3). In some countries, such as Colombia, Cote d'Ivoire and Peru, the incidence of informal employment has been persistent in recent years, responding only weakly to a long period of economic growth. In other countries, such as India and Uruguay, informality has increased, despite long-term economic growth. In still other countries, such as Bolivia, the strong period of growth during the 2000s is associated with a significant decline in informal employment.

Figure 2.3. There is no obvious pattern in changes in GDP growth and changes in informal employment

Change in GDP and change in informality (2005-15)



Note: Change in GDP growth measured as the mean of the period-to-period differences in GDP.
Sources: For informal employment, ILO (2018[8]), "ILOSTAT Informal employment and informal sector as a percent of employment by sex -- Harmonized series (%)", www.ilo.org/ilostat; for GDP growth, World Bank (2018[6]) *World Development Indicators* (database), data.worldbank.org/products/wdi.

Type of growth matters in informality trends

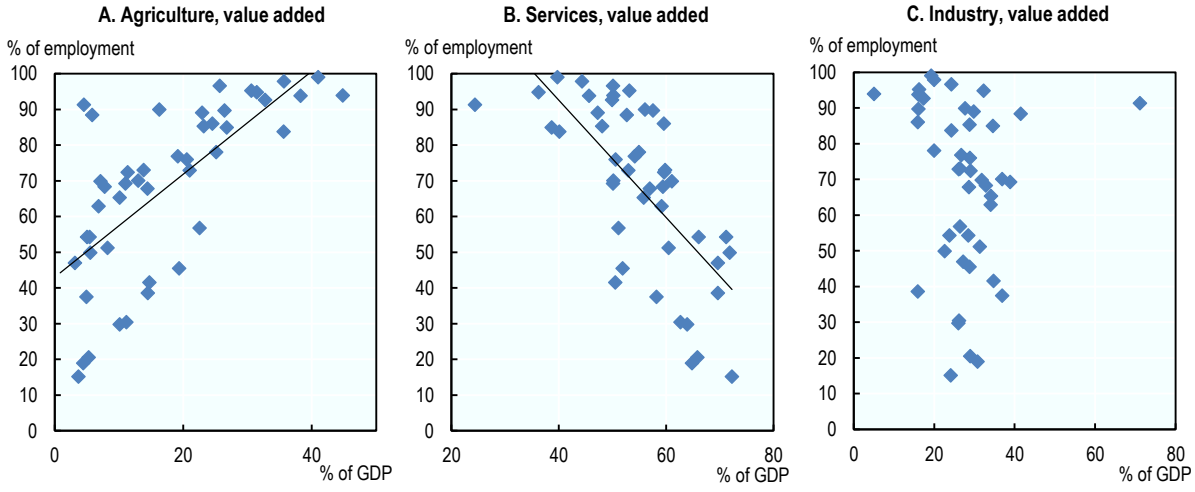
There is no simple answer as to why the informal economy expands in some countries and contracts in others in times of growth. While various drivers of informality may be at work in various contexts, the type of growth seems to be an important factor. The growth process in some countries may allow the formal sector to absorb a higher share of informal workers. Conversely, a reduction in the size of the informal economy – for instance, following stronger regulatory enforcement – may boost economic growth through efficiency gains. Informality may expand because of increased demand for informal jobs due to outsourcing or subcontracting through global commodity chains (Chen, 2012[9]) or because the growth process is more capital intensive and does not create enough formal jobs for all those seeking work: they have no choice but to join the informal economy.

In terms of the relationship between the sectoral composition of growth and informality, agriculture and services interact strongly with informality, but there is no obvious association in manufacturing (Figure 2.4A, 2.4B, 2.4C). That is, controlling for other

factors, the higher the share of agriculture and forestry in value added, the higher the informal employment; the higher the share of services, the lower the rate of informal employment. This may reflect the fact that, in agriculture and forestry, most backward linkages, such as production, collection and processing, are often carried out informally, while as high-value services expand and contribute more to GDP growth, informal activities tend to be substituted by formal activities. In manufacturing, informal activities, such as sweatshops, unlicensed factories and outsourced and subcontracted work linked to global value chains, may be proliferating alongside formal activities, in some cases making formal jobs informal. In countries where manufacturing and agriculture drive growth, informality may persist or even increase.

Figure 2.4. There is a relationship between informality and the sectoral composition of GDP

Predicted values of informal employment from multivariate analysis, by sectoral composition of GDP



Notes: Controls include geography, infant mortality rate, life expectancy, education, labour productivity, SIGI 2014, 2017 Ease of doing business index, number of start-up procedures, share of youth (aged 15-24) and KOF Economic Globalisation Index. Controls do not include GDP per capita in order to reduce the effect of multi-collinearity on regression results.
Sources: For informal employment, ILO (2018[4]), *Women and Men in the Informal Economy: A Statistical Picture*, www.ilo.org/global/publications/books/WCMS_626831/lang--en/index.htm.; for GDP growth, World Bank (2018[6]) *World Development Indicators* (database), data.worldbank.org/products/wdi.

Drivers of informality are diverse and vary across countries, time periods and segments of the informal economy

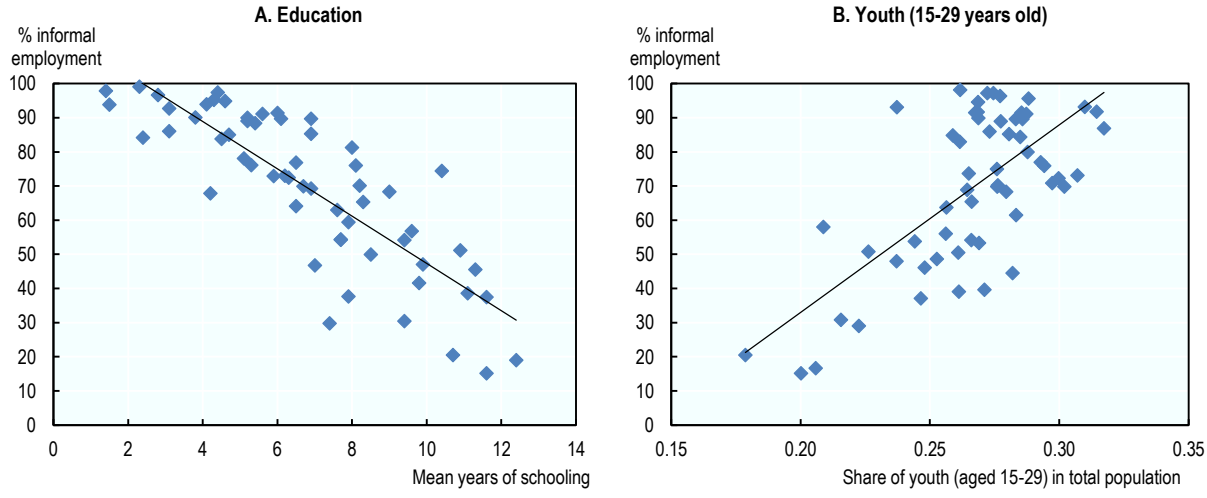
While informality is the norm in developing and, to some extent, emerging countries, the heterogeneity of informal activities elicits a variety of perspectives on the underlying causes and the policies states should pursue. Drivers of informality may be structural (e.g. pressure exerted by labour surplus and increased global competition), legal and institutional (e.g. regulations, taxes and weak law enforcement) or behavioural (typically, decisions to become informal/formal are based on workers', firms' and households' valuation of the net benefits of formality, awareness and trust). Research shows that these factors are important and can reinforce each other, yet their relative importance varies across countries, periods and types of informal activity.

Labour surplus and global competition are major drivers of informality

The pressure exerted by surplus low-skilled labour continues to be a major driver of informal employment in many developing countries. When good jobs (usually high-skilled jobs in the formal economy) are scarce, a large number of people – often the least educated, who cannot compete – engage in low-productive and informal jobs as part of a survival strategy (Lewis, 1954[10]; Harris and Todaro, 1970[11]; Rauch, 1991[12]). This segmentation in the labour market, which prevents low-skilled workers from taking formal jobs with state-mandated benefits, is illustrated by, respectively, a strong negative and positive correlation between the level of informal employment and the mean years of schooling (Figure 2.5A) and the share of youth aged 15-29 in the total population (Figure 2.5B). In other words, in countries with lower educational attainment and a large share of young labour market entrants, the share of the informally employed workforce is higher.

Figure 2.5. Informality correlates positively with a large surplus of low-skilled labour

Predicted values of informal employment from multivariate analysis, by educational attainment and share of youth population



Note: Controls include GDP per capita (2011 PPP), composition of GDP, geography, infant mortality rate, life expectancy, ILO estimates of labour productivity, SIGI 2014, 2017 Ease of doing business index, number of start-up procedures, share of youth (aged 15-24) and KOF Economic Globalisation Index.
Sources: For informal employment, ILO (2018[4]), *Women and Men in the Informal Economy: A Statistical Picture*, www.ilo.org/global/publications/books/WCMS_626831/lang--en/index.htm.; for education, UNDP (2016[7]), *Human Development Index*, hdr.undp.org/en/data; for share of the youth population, UNDESA (2017[13]), *World Population Prospects: 2017 Revision*, population.un.org/wpp/.

Global trade and investment patterns have dramatically affected employment relations and work arrangements. While economic globalisation can generate new opportunities for workers in the informal economy, in many instances, it produces a rise in informality (Portes, Castells and Benton, 1989[14]). To increase global competitiveness, investors are restructuring production and distribution to generate more flexible, productive systems and higher efficiency gains, including through outsourcing or subcontracting productive and labour processes within global value chains. This can trigger formal firms to shift formal wage workers to informal employment arrangements and creates a demand for goods and services from small production units that may operate in the informal economy and tend to outsource some of their work to isolated informal workers. As a result, a large

share of the workforce in key export industries may end up working in export processing zones, factories or from their homes, at risk of operating under informal employment arrangements (Carr and Alter Chen, 2002[15])

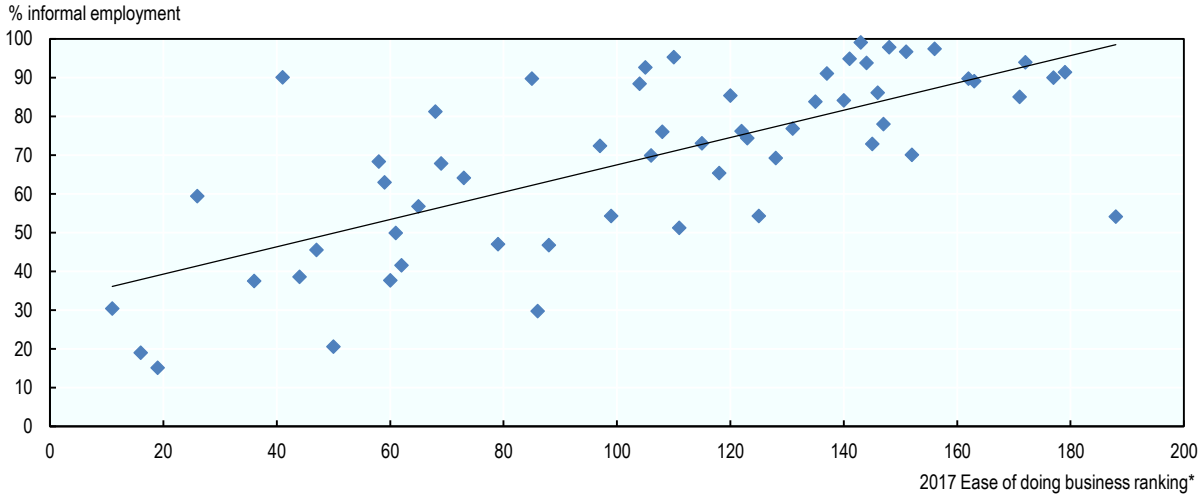
Legal and institutional factors affect informality, from regulatory inadequacies to excessive taxes to weak law enforcement

Another reason for a large informal economy can be the high cost of formality triggered by regulatory inadequacies, combined with low benefits of formalisation. In some countries, bringing informal actors in line with regulations can entail extensive and cumbersome administrative procedures, paperwork and bureaucracy that cost time and resources. These costs may be dissuasive when weighed against expected benefits (De Soto, 1989[16]), especially in countries with a poor track record of public service delivery. Levels of informality correlate negatively with ease of doing business (Figure 2.6). That is, in countries with simpler regulations and stronger property rights protections, the share of the workforce working informally is lower.

Several countries have introduced measures to incentivise formalisation of enterprises and regulations to simplify business registration. For instance, Brazil's *monotax* single tax payment system for micro and small enterprises extends access to social security and provides simplified taxation and accounting for formal operators (ILO, 2014[17]). In the same vein, Peru revised its Régimen Único Simplificado [RUS] for SMEs in 2016 and created a new simplified regime (OECD, 2016[18]).

Figure 2.6. Informality correlates positively with the difficulty of doing business

Predicted values of informal employment from multivariate analysis, by Ease of doing business index ranking (2017)

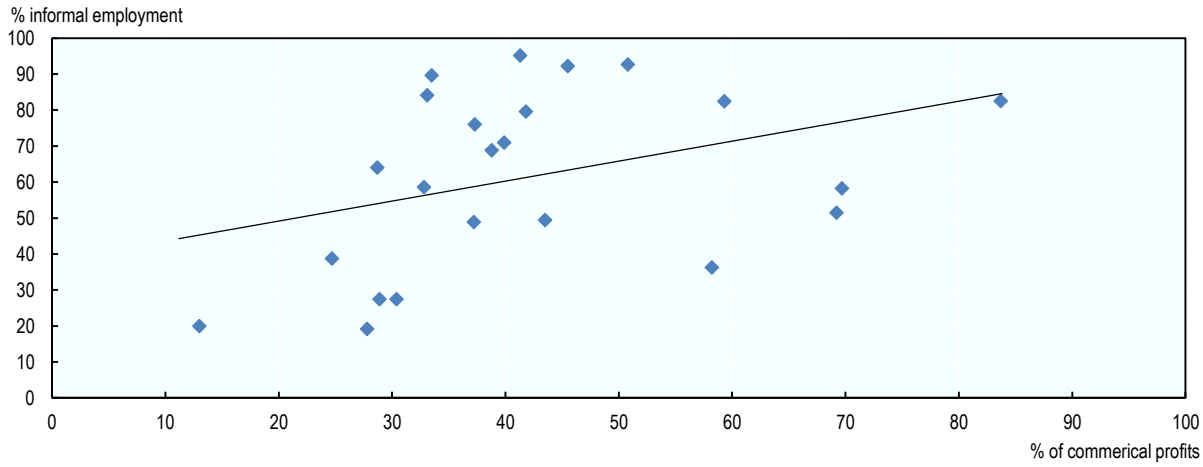


*0 = greatest ease of doing business.
Note: Controls include GDP per capita (2011 PPP), composition of GDP, geography, infant mortality rate, life expectancy, education, ILO estimates of labour productivity, SIGI 2014, share of youth (aged 15-24) and KOF Economic Globalisation Index.
Source: For informal employment, ILO (2018[4]), *Women and Men in the Informal Economy: A Statistical Picture*, www.ilo.org/global/publications/books/WCMS_626831/lang--en/index.htm.; for ease of doing business indicator, World Bank (2018[6]) *World Development Indicators* (database), data.worldbank.org/products/wdi.

Tax systems can also encourage informality. Where compliance is not strictly enforced, a rising tax burden can incentivise informality, expanding the informal economy and creating a vicious cycle by further inclining governments to push up taxes to keep up revenues. The total tax rate, measured as the amount of business taxes and mandatory contributions as a share of commercial profits, correlates positively with the predicted level of informal employment across countries (Figure 2.7). As the tax burden rises, informal employment increases.

Figure 2.7. The higher the total tax rate, the higher share of informal employment

Predicted values of informal employment, by business taxes and mandatory contributions as a share of commercial profits



Note: Controls include GDP per capita (2011 PPP), composition of GDP, SIGI 2014, 2017 Ease of doing business index, share of youth (aged 15-24), education, geography, KOF Economic Globalisation Index, life expectancy, infant mortality rate, poverty headcount ratio at Intl. USD 3.20 per day, World Justice Project Rule of Law Index, Regulatory Enforcement (Factor 6), number of start-up procedures and cost of starting a business.
Source: For informal employment, ILO (2018[4]), *Women and Men in the Informal Economy: A Statistical Picture*, www.ilo.org/global/publications/books/WCMS_626831/lang--en/index.htm.; for total tax rate, World Bank (2018[6]) *World Development Indicators* (database), data.worldbank.org/products/wdi.

Payroll taxes are one way taxes can have a distortionary effect on formal employment (Levy, 2008[19]). A small number of econometric studies have assessed this relationship using reliable identification methodologies. Evidence on the effects on formal employment is inconsistent for both developing and developed economies (Pagés, 2017[20]). Reducing payroll taxes has been associated with an increase in the share of formal jobs and reduced informal employment in Colombia (Fernández and Villar, 2016[21]; Kugler, Kugler and Prada, 2017[22]), France (Bunel and L'Horty, 2011[23]) and Turkey (Betcherman, Daysal and Pagés, 2010[24]). Other countries, such as Argentina (Cruces, Galiani and Kidyba, 2010[25]), Chile (Gruber, 1995[26]) and Sweden (Egebark and Kaunitz, 2013[27]), show no effect. A recent study on entrepreneurship in 142 countries rejects the hypothesis that informality is associated with high taxes and points to the importance of institutional factors (Williams and Kedir, 2018[28]). This evidence suggests that a narrow focus on reducing taxes may miss more important institutional factors that can facilitate the transition to the formal economy.

Some studies caution against a potentially distortionary effect of value-added tax (VAT) on formal employment (Emran and Stiglitz, 2005[29]). Results cast doubt on the indirect

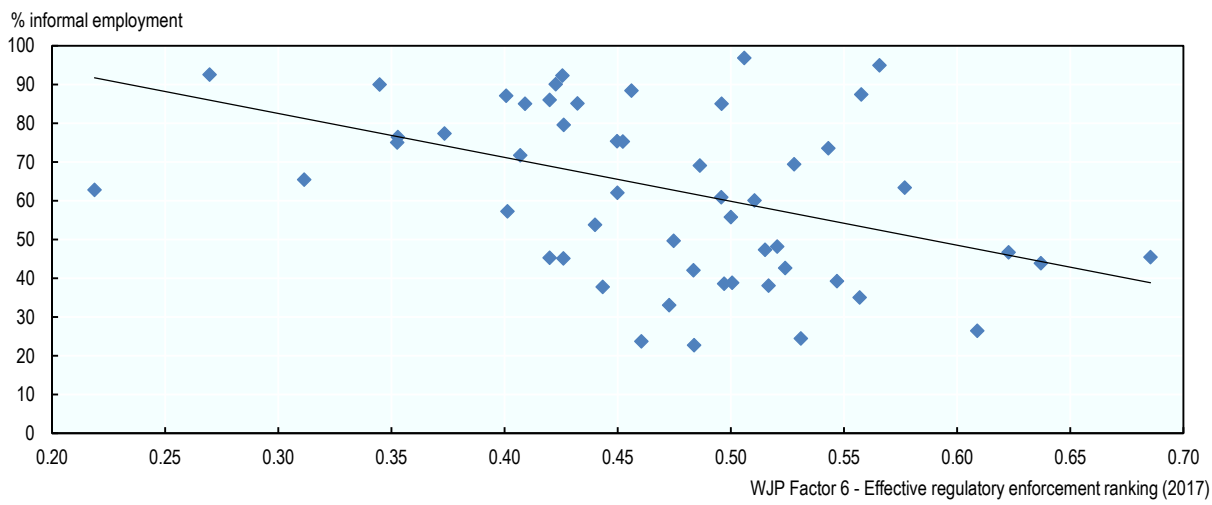
tax reform, pursued in many developing countries, that favours a reduction in trade taxes and an increase in VAT.

While some attribute the size of the informal economy to regulations and taxes, others argue that weak law enforcement allows it to flourish. The capacity to enforce regulations and the rule of law varies significantly across the developing world, but it is well established that enforcement, especially of labour regulations, is less than perfect (Kanbur, 2009[30]). Effective enforcement should make informal employment less attractive by making it more costly, instead of driving economic units and workers to informality by increasing the costs of formal labour. There is a strong correlation between the extent to which regulations are fairly and effectively implemented and enforced, as measured by the World Justice Project Regulatory Enforcement Index, and the level of informality across countries at various stages of development (Figure 2.8). As regulations and administrative provisions are enforced effectively and without improper influence by public officials or private interests, formal employment increases.

Detailed econometric studies on labour regulations suggest that the impact of labour inspections on informality depends on workers' valuation of the benefits being enforced. In Brazil, there is evidence that stricter enforcement leads to increased formal sector employment and non-employment and reduced informal sector employment (Almeida and Carneiro, 2012[31]), likely as labour inspectors enforce compliance with regulations highly valued by workers.

Figure 2.8. The higher the regulatory enforcement, the lower the level of informality

Predicted values of informal employment from multivariate analysis, by Regulatory Enforcement Index ranking



Notes: Controls include GDP per capita, composition of GDP, share of youth (aged 15-24), education, life expectancy, infant mortality, number of start-up procedures, KOF Economic Globalisation Index, geography and labour productivity.
Sources: For informal employment, ILO (2018[4]), *Women and Men in the Informal Economy: A Statistical Picture*, www.ilo.org/global/publications/books/WCMS_626831/lang--en/index.htm; for World Justice Project (2017[32]), *Regulatory Enforcement Index* (database), http://data.worldjusticeproject.org/.

While many factors influence the costs and benefits of informality, often it is their comparison that matters. As the costs and benefits of informality vary across countries, periods, firms and nature of informal activity, so too will the net benefits. It has been

argued that firms and individuals compare the costs of formalisation with the expected benefits to choose their optimal level of engagement in the formal economy, rather than refer to the absolute costs and benefits of formalisation (Hirschman, 1970[33]; Perry et al., 2007[34]). For instance, micro entrepreneurs with low productivity working in parallel with the formal sector may see low net benefits from complying with complex and often costly business and tax regulations. Larger firms may perceive insignificant net benefits of fully formalising when, as the result of weak enforcement, private gains from tax evasion outweigh the costs of non-compliance. Furthermore, low-paid workers may have little incentive to become formal when what they expect to get in formal jobs does not outweigh the reduction in formal wages from payroll taxes or the greater flexibility and wages they may get as informal workers, often underestimating the value of social protection from formal employment. Perceived low net benefits of formalisation may be particularly important when low-paid workers have access to informal support or non-contributory, tax-financed social protection programmes that partially substitute for contributory benefits, or when the quality of services individuals and firms receive in exchange for taxes and mandatory contributions is considered too low. It is essential that formalisation policy design takes such considerations into account in adjusting incentive structures to favour transition to the formal economy.

Besides incentives, the digital transformation is also likely to play a non-negligible role on formalisation, both as a challenge with the development of the gig economy and the spread of non-standard employment, and as an opportunity, by facilitating registration procedures.

The role of the informal economy in development is not well recognised or understood

The contribution of informality to economic and social development is an important question. Observers tend to focus on the survivalist aspects of the informal economy; its contribution to development beyond resilience draws less attention. It is often argued that, although the informal economy contributes to economic growth and provides livelihoods for billions of people in developing countries who may be unable or unwilling to formalise, it is a very unproductive sector, provides inferior working conditions and leads to domestic tax evasion and unfair competition between formal and informal firms. The reality is more complex and merits closer investigation.

The informal sector in many countries is less productive and absorbs more unskilled workers

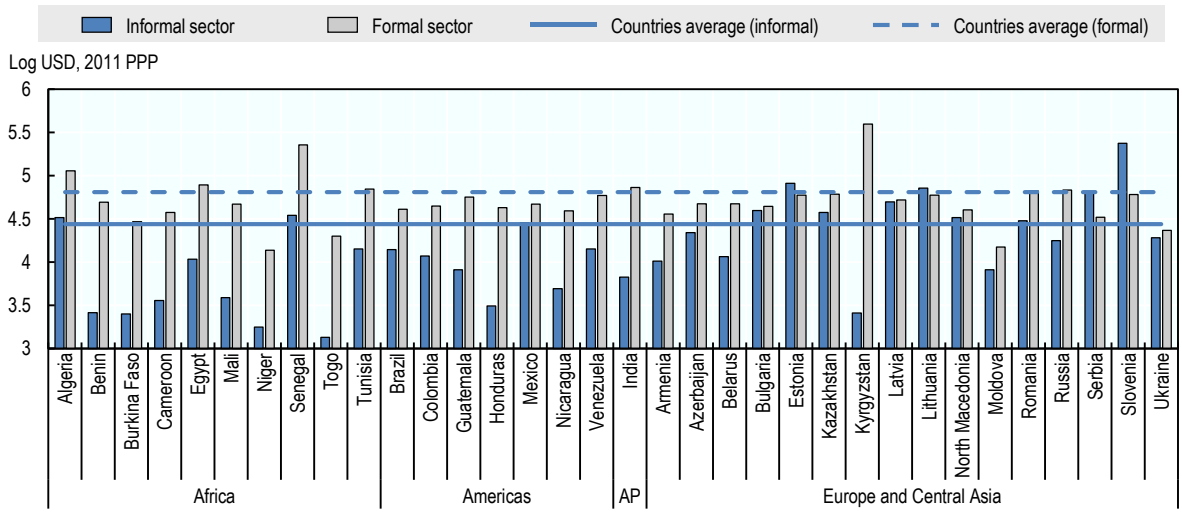
Labour productivity is much lower in the informal than in the formal sector in many countries. As labour productivity levels are highly heterogeneous across countries, logarithmic values instead of absolute numbers are reported to facilitate comparability (Figure 2.9). On average, labour productivity is more than two times lower in the informal sector relative to the formal sector: USD 27 527 (United States dollar; USD 2011 PPP [purchasing power parity]) vs. USD 64 715. That is, 2.4 informal sector workers reach the output level of one formal sector worker.

However, the global estimate masks remarkable disparities across countries and regions. Countries with the lowest informal labour productivity relative to formal labour productivity are mostly located in Africa: the ratio does not exceed 28.7% in Algeria and is as low as 5.2% in Benin, 6.7% in Togo, 8.2% in Mali, 8.6% in Burkina Faso and 9.5% in Cameroon. Other regions surpass ratios for Africa but contain the worst-performing

countries: 6.9 informal sector workers to 1 formal sector worker in Guatemala, 8 to 1 in Nicaragua, 11 to 1 in India, 14 to 1 in Honduras and up to 154 to 1 in Kyrgyzstan. Europe and Central Asia has the highest levels of informal sector productivity. In a number of countries, levels surpass the formal sector: 120.6% in Lithuania, 137.9% in Estonia, 194.7% in Serbia and 389.3% in Slovenia. These results point to the heterogeneity of the informal sector and show that, depending on the country, informality should not be viewed solely as subsistence-based activities of necessity and last resort.

Figure 2.9. Labour productivity is lower in the informal than in the formal sector

Log values of labour productivity in the informal and formal sectors (circa 2010)

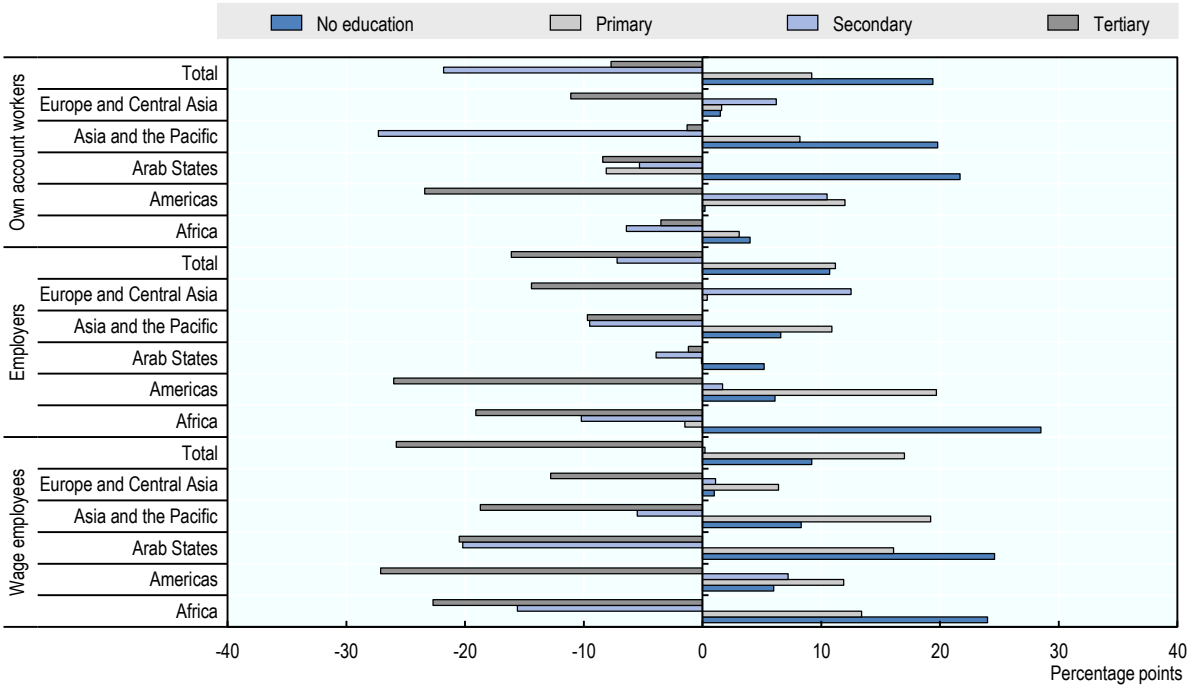


Notes: Log values are reported for readability. Labour productivity of informal and formal employment estimates refer to value of GDP from the informal or formal sector divided by total employment in the informal or formal sector. Labour productivity corresponds to GDP divided by total employment, expressed in Intl. USD, 2011 PPP. Informal contribution to GDP values are obtained by multiplying the percentage contribution to total GDP of each sector by total GDP in absolute terms. Agriculture is included in the calculation of labour productivity in both sectors, where available. Averages refer to simple arithmetic (unweighted) mean of all countries displayed. AP = Asia and the Pacific.
Source: Authors' calculations based on estimates of contribution of informal sector to GDP compiled by Charmes (2016[35]), "The Informal Economy: Definitions, size, contribution and main characteristics", *The informal economy in developing nations: hidden engine of innovation?*; for estimates of informal and formal employment, ILO (2018[4]), *Women and Men in the Informal Economy: A Statistical Picture*, www.ilo.org/global/publications/books/WCMS_626831/lang--en/index.htm.; for estimates of GDP, World Bank (2018[6]) *World Development Indicators* (database), data.worldbank.org/products/wdi.

A relatively low-educated workforce is a key driver of the low level of productivity in the informal economy. Human capital is an important source of the productivity gap that merits closer investigation. Around the world and across comparable employment statuses, the informal economy absorbs more unskilled labour (Figure 2.10). Regardless of location or employment status, the proportion of workers with tertiary education is much lower in the informal than in the formal economy, while the proportion with no education is much higher. The distribution of informal and formal wage employees and employers with secondary education shows some disparities across regions: in the Americas, a higher proportion work in the informal economy. The reverse is true in Africa, the Arab States and Asia and the Pacific, and the distribution is equal in Europe and Central Asia, regardless of employment status.

Figure 2.10. There are large education gaps between informal and formal workers

Difference in the distribution of informal and formal workers in various employment statuses, by educational attainment (2016)

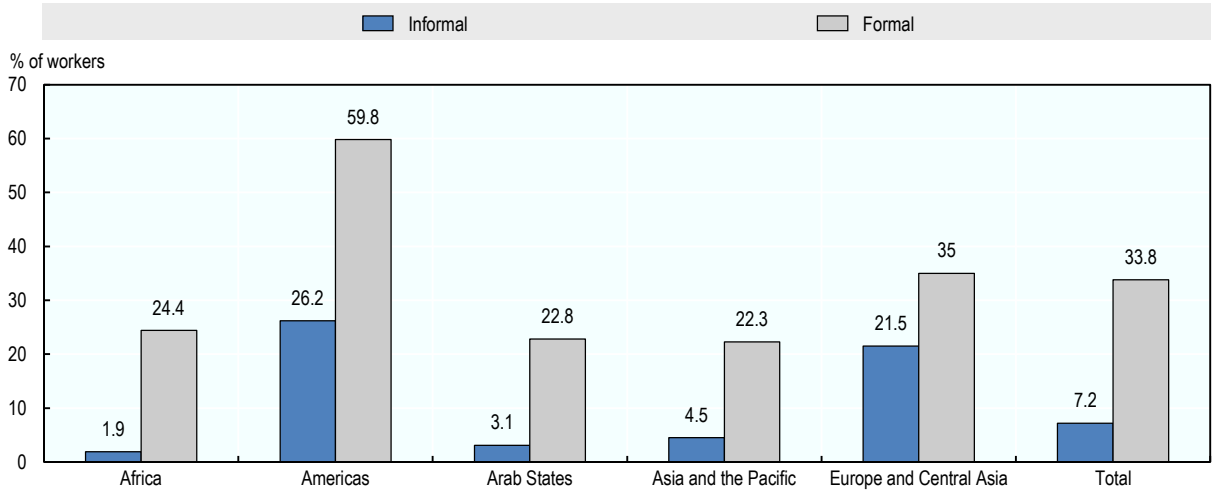


Notes: Contributing family workers not represented, as they are in the informal economy. Estimates based on data for 107 countries representing 86% of the world's employed population.
Source: ILO (2018[4]), *Women and Men in the Informal Economy: A Statistical Picture*, www.ilo.org/global/publications/books/WCMS_626831/lang--en/index.htm.

Still, a small portion of the informal economy absorbs and, in some cases, attracts highly educated workers. Around 2016, the average proportion of workers with tertiary education stood at 7%, compared with 34% in the formal economy (Figure 2.11). The capacity of the informal economy to absorb the highly educated varies substantially across regions and depends on countries' and regions' overall education profile. The proportion of workers in the informal economy with tertiary education is 26% in the Americas, 21% in Europe and Central Asia, from 3% to below 5% in the Arab States and Asia and the Pacific, and below 2% in Africa. While the informal economy includes a fairly significant and productive segment in some countries, it has a largely survivalist aspect in others.

Figure 2.11. A small proportion of the informal economy absorbs tertiary-educated workers

Percentage of workers with tertiary education (2016)



Note: Estimates based on data for 107 countries representing 86% of the world's employment.
Source: ILO (2018[4]), *Women and Men in the Informal Economy: A Statistical Picture*, www.ilo.org/global/publications/books/WCMS_626831/lang--en/index.htm.

The negative connotation of low tax revenues from the informal economy is weakly documented empirically

Taxation of the informal economy has received increased attention in recent years. Often, the focus is on perceived large tax evasion and a corrosive effect on tax morale. Generating revenues through direct taxation in the form of personal or corporate income tax is a challenge in the informal economy. According to some estimates, on average, direct taxation of households comprises 18% of total tax revenues in developing countries and 45% in developed countries (Olken and Singhal, 2011[36]; Gordon and Li, 2009[37]). It is often assumed that informal workers and firms contribute little to tax collection. Several studies attempting to estimate the tax gap in the informal sector[1] suggest that taxation of the informal economy could represent an important source of government revenue (Schneider and Klinglmair, 2004[38]; Schneider, Buehn and Montenegro, 2010[39]). However, several tax experts have been somewhat sceptical about the value of taxing directly the informal economy, given the limited revenue potential, high cost of collection and potentially adverse impact on small firms (Keen, 2012[40]). Much of the argument for taxation of the informal economy is therefore grounded in more indirect revenue benefits, in particular building a culture of fair competition and tax compliance among small and medium-sized enterprises (Joshi, Prichard and Heady, 2014[41]).

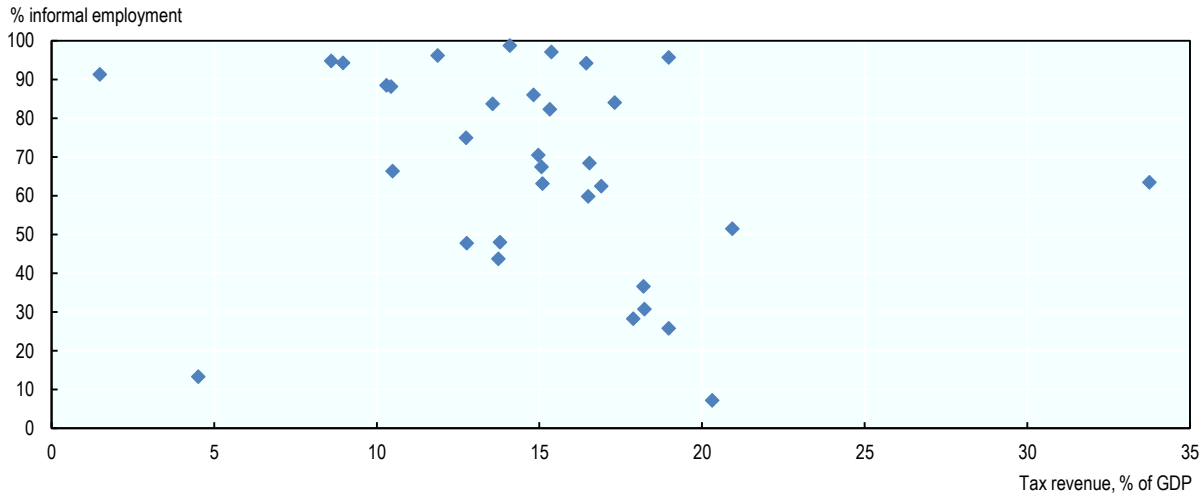
Although it is hard to assess the contribution of the informal sector and of workers informally employed outside of the informal sector, some evidence suggests that they contribute to direct and indirect tax collection. A study on more than 5 000 informal businesses in Ghana shows that about 35.0% of employers pay VAT, especially when buying from formal enterprises, while about 23.6% pay personal income tax (Anuwa-Amarh, 2015[42]). The difficulty of taxing the informal economy directly is why governments tend to rely on indirect taxes, such as VAT on consumption. The importance of the informal economy as a source of indirect taxation operates through the links between the formal and informal sectors. When the formal sector buys inputs from the

informal sector, it can lead to increased production, which in turn increases its tax contribution. Likewise, the informal sector buying goods and services from the formal sector increases VAT contributions (Abel, 2016[43]). This is why indirect taxation of the informal economy tends to represent a significant source of tax revenue in many developing countries, especially when the informal sector constitutes a large share of GDP. Small informal firms also contribute to tax collection through presumptive taxes, which are based on a simplified indicator of the tax base and are increasingly used in developing countries (Joshi, Prichard and Heady, 2014[41]).

Despite the negative relationship often assumed, there is no straightforward relationship between the share of informal employment and tax revenue across countries (Figure 2.12). These results are consistent with the findings of other recent econometric studies utilising large cross-section and panel datasets that show that the assumed negative relationship between tax revenues and informality vanishes when controlling, among other factors, for tax enforcement (Elgin and Solis-Garcia, 2015[44]).

Figure 2.12. There is no straightforward relationship between informality and tax revenue

Predicted values of informal employment from multivariate analysis, by tax revenue



Note: Controls include GDP per capita, composition of GDP, share of youth (aged 15-24), education, life expectancy, infant mortality, number of start-up procedures, KOF Economic Globalisation Index, geography and labour productivity.
Sources: For informal employment, ILO (2018[4]), *Women and Men in the Informal Economy: A Statistical Picture*, www.ilo.org/global/publications/books/WCMS_626831/lang--en/index.htm.; for tax revenue, World Bank (2018[6]) *World Development Indicators* (database), data.worldbank.org/products/wdi.

Estimates of formal taxes may also understate the true tax burden faced by households and firms in the informal economy. There is evidence that the informal economy supports other taxes through labour and monetary payments outside the formal tax system that contribute to the provision and maintenance of local public goods in developing countries. Such informal taxation systems are coordinated by public officials, although enforced socially rather than legally. Empirical evidence from ten developing countries shows that 20-50% of households make informal tax payments, often exceeding households' formal direct tax payments, and that informal taxation constitutes a substantial share of local revenue, especially in rural areas (Olken and Singhal, 2011[36]).

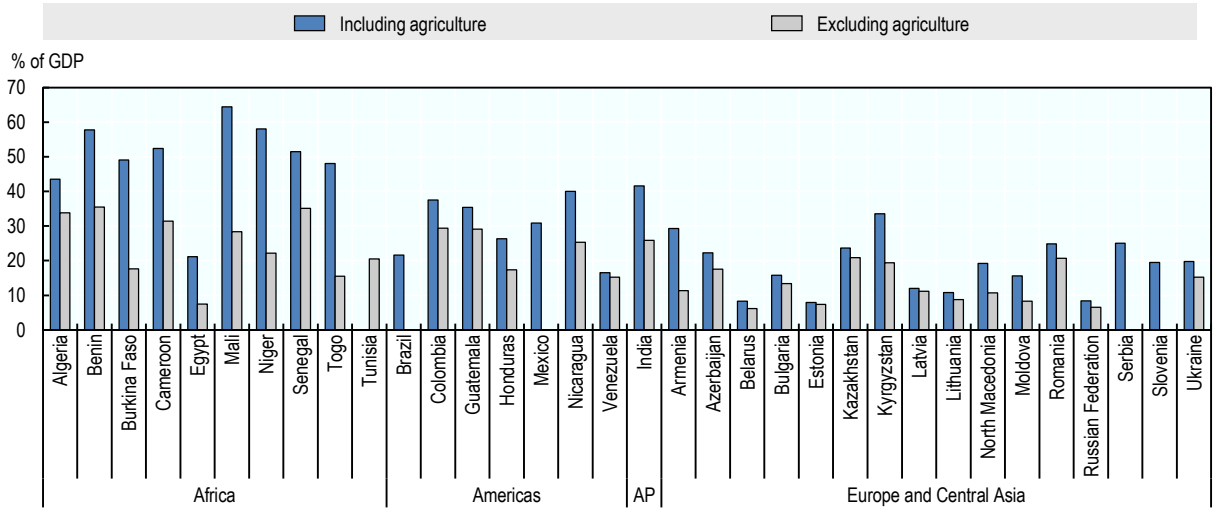
Informal economy workers contribute substantially to GDP growth and basic skills provision

The informal sector contributes to economic growth in several direct and indirect ways. First, traditional agriculture remains an important source of economic growth in many developing countries and is often carried out informally. Second, the output of informal enterprises outside the agriculture sector, often linked with the formal sector, represents a significant share of the value added of national trade in developing countries. Third, the informal economy, by allowing households to reconcile care burdens with limited labour income, entails a systemic transfer of hidden subsidies to the formal economy, largely through a high time tax on women.

Estimating the share of the informal sector in GDP is an important way to recognise the contribution of the informal economy to economic development. The literature suggests several ways to assess the informal economy or, at least, the informal sector. Estimates for 34 countries, reported by Charmes (2016[35]), measure the informal sector's contribution as a share of GDP including and excluding agriculture in the 2000s (Figure 2.13). However, as they exclude the output of informal employment outside the informal sector, they do not capture the total contribution of the informal economy. These estimates nonetheless show that, on average, the informal sector constitutes a significant share of GDP: about 30% including agriculture and 17% excluding agriculture. There are large disparities across countries, with the contribution ranging from 6.2% in Belarus to 64.4% in Mali including agriculture and 6.2% in Belarus to 35.5% in Benin excluding agriculture.

Figure 2.13. The informal sector contributes to a large share of GDP

GDP contribution of the informal sector (2000s)



Notes: AP = Asia and the Pacific. Latest data available: Estonia (2014); Algeria, Mali Niger, India, Belarus, Kazakhstan, Kyrgyzstan, Lithuania, Moldova, Romania, Russian Fed., Ukraine (2013); Armenia, Azerbaijan, Benin, Burkina Faso, Egypt, Guatemala, Latvia, Tunisia (2012); Bulgaria, Macedonia, Nicaragua, Togo (2011); Mexico, Cameroon (2009); Serbia (2008); Brazil, Colombia, Venezuela (2006); Slovenia (2005); Senegal (2000). Estimates of the share of the informal sector excluding agriculture as a percentage of GDP not available for Brazil, Mexico, Serbia and Slovenia; estimates including agriculture not available for Tunisia.

Source: Estimates compiled by Charmes (2016[35]), "The Informal Economy: Definitions, size, contribution and main characteristics", *The informal economy in developing nations: hidden engine of innovation?*.

Informality provides a training ground for many people, especially youth. In many developing countries, where access to formal vocational training systems is limited and often does not provide skills needed in the market, a very high proportion of workers in the informal sector are trained in the sector itself. Moreover, skills development provided by the sector extends beyond informal workers; for instance, many young people benefit from informal apprenticeships, particularly in Africa (ILO, 2012[45]; Walther, 2011[46]). According to a qualitative survey carried out by the Agence Française de Développement, 60% of 110 youth association leaders from Central Africa with a Bachelor's or Master's degree enter the labour market through on-the-job experience or an apprenticeship in the informal sector (Walther and Tamoifo, 2009[47]). Evidence further shows that skills acquisition in the informal economy occurs even in the absence of cultural traditions of informal apprenticeship (e.g. Kenya) (King, 1977[48]). Several countries, notably in Africa, have adopted approaches to assess, upgrade and expand existing informal apprenticeship systems (whether or not embedded in norms, customs and traditions) as a cost-effective way to make large-scale gains in enhancing the skills base. Thus, countries such as Benin or Tunisia have built on existing apprenticeship practices in the informal economy to address deficiencies without driving out existing good practices (ILO, 2012[45]; ILO, 2015[49]).

Notes

[1] See, for instance, Danquah and Osei-Assibey (2018[50]).

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Chapter 3. Risks and vulnerabilities in the informal economy

Risks and vulnerabilities are part of everyday life for many people in the world of work and their families, Often, these risks and vulnerabilities appear in proportion to the scale of informal employment and the breadth of public and private risk management systems. Despite representing the majority of the workforce and supporting a disproportionately large number of dependents (Chapter 1), the contribution of informal workers to society is not well recognised or understood, making their inclusion as beneficiaries of tax-financed government programmes difficult to argue in many places (Chapter 2). This chapter assesses the risks and vulnerabilities in the informal economy. It shows that informal workers face larger poverty and occupational risks that, combined with lack of access to appropriate risk management instruments, push many into income insecurity or make them vulnerable to poverty. Without effective policies to manage the risks – especially occupational safety and health (OSH) and social protection policies – informal economy workers will remain particularly vulnerable and continue to pass vulnerability on to others, particularly children and the elderly, who disproportionately live in informal households in developing countries.

Informal economy workers are exposed to many risks

Informal economy workers often face a greater range of risks, which largely reflect their working and living conditions. Assessing these risks is essential to appreciate the high costs to individuals and society of ignoring them, make the case for investing in protection of informal economy workers, and identify appropriate policy responses.

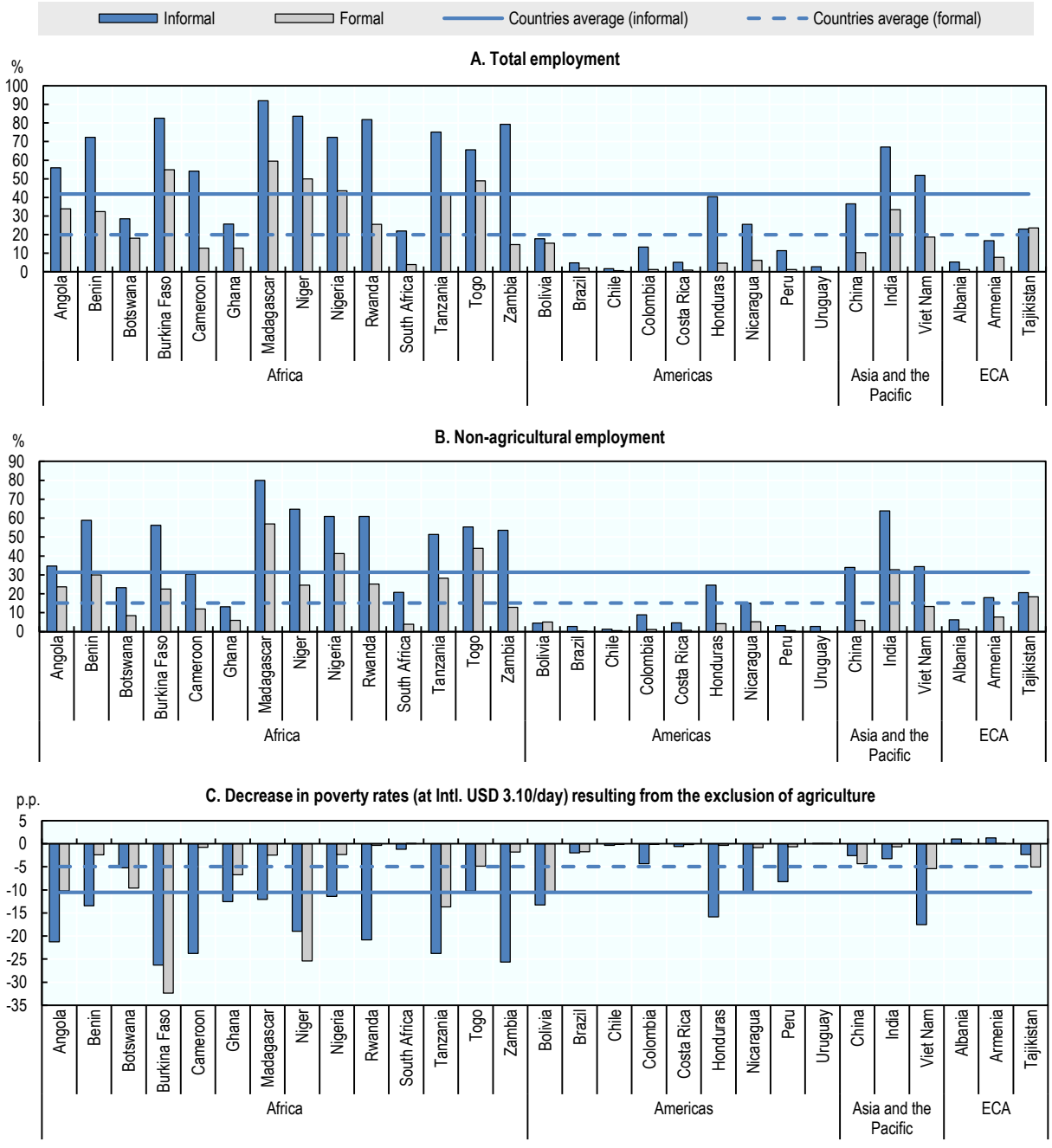
In-work poverty risks are particularly high among informal economy workers

Informal workers are twice as likely as formal workers to belong to poor households. Among the 29 countries for which comparable data are available, using the international poverty line of International USD 3.10 PPP (international United States dollar; purchasing power parity), the share of the working poor stands at about 20% for formal workers and nearly 42% for informal workers on average (Figure 3.1A). There are also large disparities across regions and countries. The Americas and Europe and Central Asia have the lowest in-work poverty rates among informal workers; Africa and Asia have the highest. Rates range from 1.6% in Chile to 92.0% in Madagascar for informal workers, and from 0.1% in Uruguay to 59.5% in Madagascar for formal workers. The gap in rates between formal and informal workers is particularly large in Benin, Cameroon, Madagascar and Zambia, where formal workers are much less likely to belong to poor households.

A high incidence of working poverty among informal workers largely, but not exclusively, captures the importance of low productive agricultural activities in informal employment. Poverty levels excluding agriculture fall to 15.1% in formal employment and 31.3% in informal employment (Figure 3.1B), representing declines of 4.9 and 10.5 percentage points from poverty levels for all employment sectors including agriculture (Figure 3.1C). Notwithstanding high heterogeneity across the countries under study, excluding agriculture almost systematically lowers working poverty levels, especially among informal workers, highlighting the intimate links between agricultural activities, informality and poverty. The percentage point decrease in informal employment poverty rates by excluding agriculture is largest in African countries, such as Rwanda (-20.9), Angola (-21.3), Cameroon (-23.8), the United Republic of Tanzania (-23.8), Zambia (-25.7) and Burkina Faso (-26.3). In Cameroon, Rwanda and Zambia in particular, this is not accompanied by a comparable decrease in formal employment poverty rates, which instead remain fairly unchanged, almost certainly because formal production units in the agriculture sector are uncommon. In fact, agricultural activities in many developing and emerging countries are still, to a large extent, informal and subsistence based.

Figure 3.1. Informal economy workers face greater in-work poverty risk than formal economy workers

Percentage of working poor (at Intl. USD 3.10/day) in formal and informal employment (circa 2010)



Notes: Poverty rates are measured at the international poverty line of Intl. USD 3.10/day. Averages refer to simple arithmetic (unweighted) mean of all countries displayed.

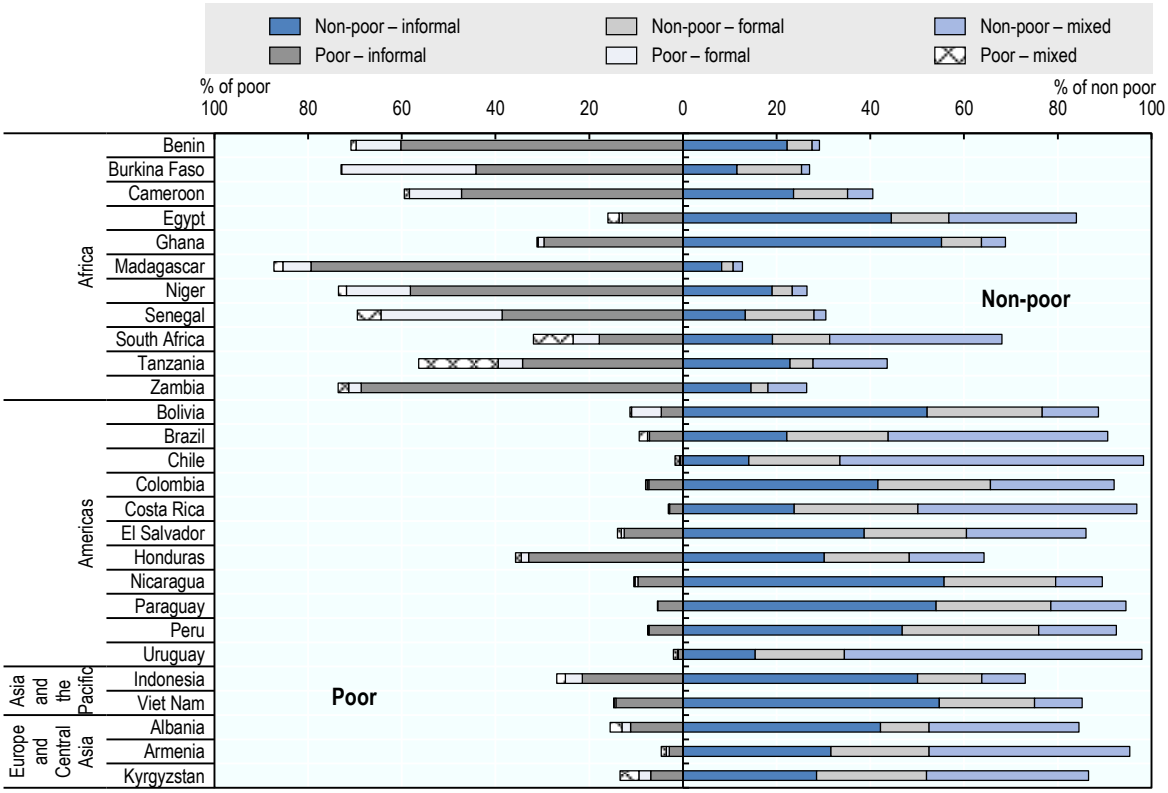
Source: ILO (2018[1]), *Women and men in the informal economy: A statistical picture, 3rd edition*, https://www.ilo.org/global/publications/books/WCMS_626831/lang--en/index.htm.

The higher the degree of informality of households, the higher the incidence of poverty and low income

Evidence from the OECD Key Indicators of Informality based on Individuals and their Household (KIIbIH) database shows a strong association between the degree of informality of households and incidence of income poverty. There are significant disparities in overall poverty rate across countries when using the Intl. USD 3.10 international poverty line (Figure 3.2): countries in Africa show much higher rates than countries in Latin America and Asia. Overall, poor households are much more likely to be completely informal; non-poor households are much more likely to be mixed (formal and informal workers) or completely formal.

Figure 3.2. The incidence of household poverty increases with the degree of informality of households

Proportion of households falling below the international poverty line of USD 3.10 PPP



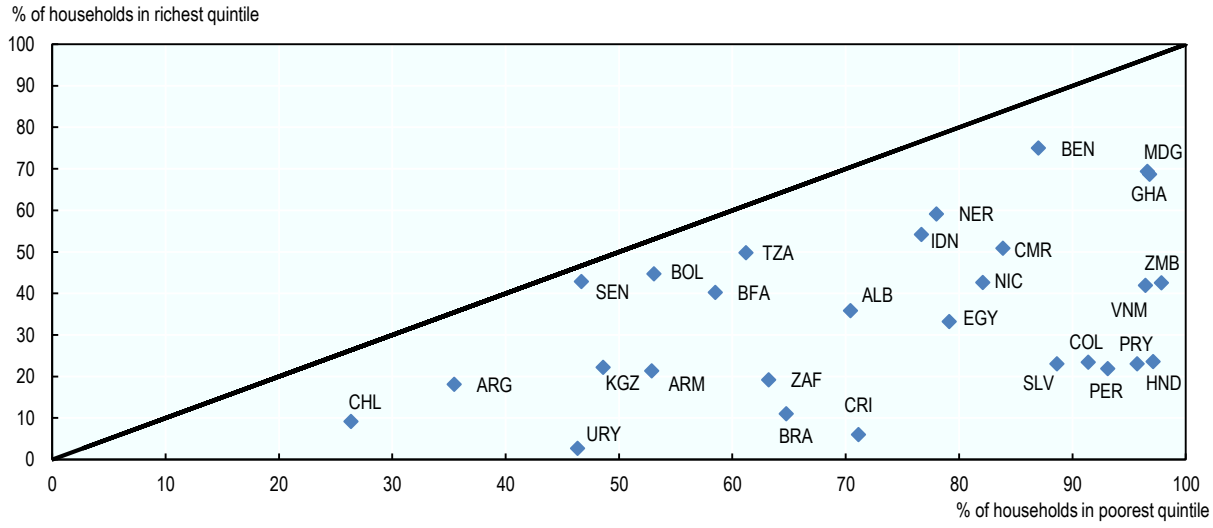
Notes: Includes all sampled households with at least one worker; mixed households have at least two workers. Argentina excluded due to a lack of data.
Source: OECD (2019), *Key Indicators of Informality based on Individuals and their Household* (database).

Low-income households also tend to be disproportionately completely informal (Figure 3.3). The share of completely informal households in the poorest and richest quintiles, compared with a perfectly equal distribution of informality across both (the 45° line), also reveals several clusters of countries: 1) countries with low and equal shares of completely informal households in both the poorest and richest quintiles (e.g. Argentina and Chile); 2) countries with large differences in the incidence of informal households, with poorer households more likely to be completely informal than those in the richest

decile (e.g. Brazil, Colombia, Costa Rica, El Salvador, Honduras, Paraguay, Peru); and 3) countries, many in Africa, with a more equal but also much higher proportion of informal households over the income distribution. In most countries, however, informal workers are over-represented in the poorest quintile.

Figure 3.3. Across countries, a disproportionate share of the poorest households are employed in the informal economy

Share of completely informal households in the poorest and richest quintiles

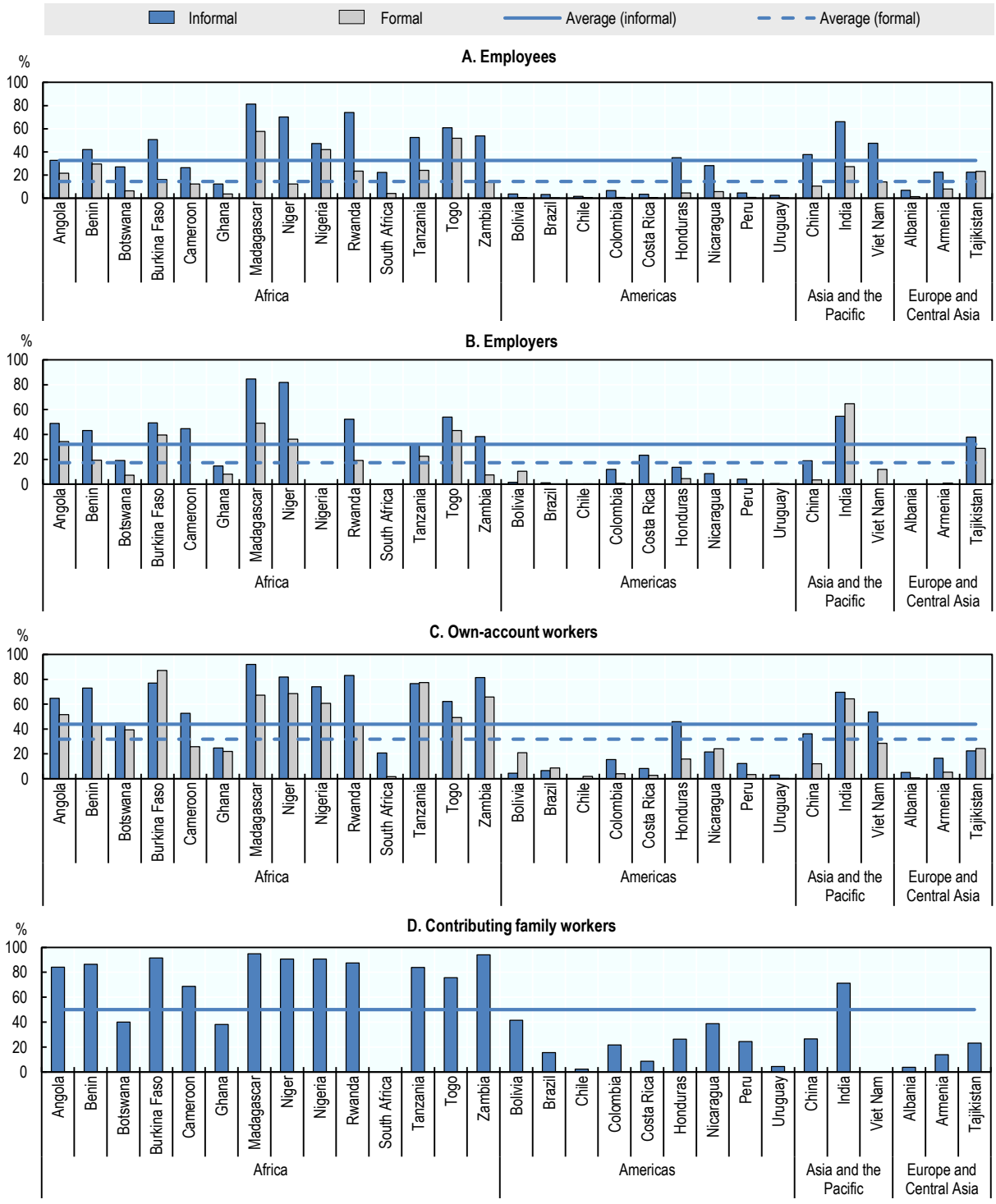


Note: Quintiles based on overall consumption distribution of all households.
Source: OECD (2019), *Key Indicators of Informality based on Individuals and their Household* (database).

In both the formal and informal economy, employment status is a key factor in workers' poverty risk. Although poverty systematically affects informal workers more than formal workers in the 29 countries for which comparable data are available, there are large disparities across employment statuses: on average, the poverty risk is around 14% among formal employees, 17% among formal employers, 32% among informal employees, informal employers and formal own-account workers, 44% among informal own-account workers, and as high as 50% among contributing family workers (informal workers by definition) (Figure 3.4A, Figure 3.4B, Figure 3.4C, Figure 3.4D). The risk of poverty for formal own-account workers is similar to that of informal employees/employers on average, suggesting that factors beyond informality, such as employment status, influence poverty status.

Figure 3.4. There are large disparities in the incidence of poverty across status in employment for both formal and informal economy workers

International poverty rates in formal and informal employment by employment status (circa 2010)

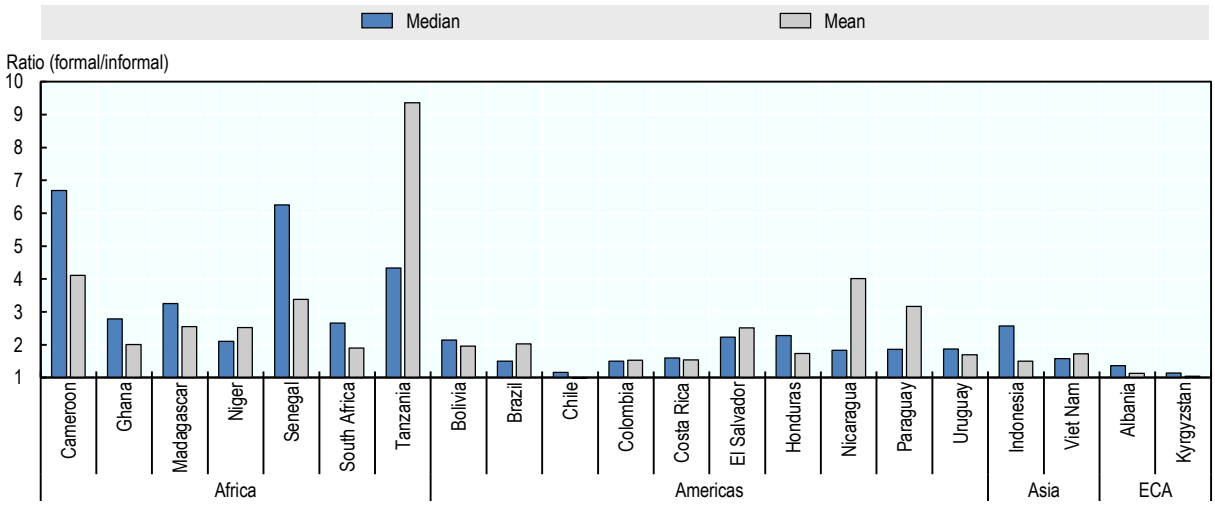


Notes: See notes to Figure 3.1. Based on total employment including agriculture. Employment statuses defined according to the "Resolution concerning the international classification of status in employment" adopted by the 15th International Conference of Labour Statisticians (ILO, 1993[2]). Contributing family workers, irrespective of whether working in formal or informal sector enterprises, are in informal employment by definition. 3.4B: missing data for Albania, Armenia (informal), Cameroon (formal), Chile (informal), Nicaragua (formal), Nigeria, South Africa and Viet Nam (informal). 3.4C: missing data for Chile (informal). 3.4D: missing data for South Africa and Viet Nam.
Source: ILO (2018[1]), *Women and men in the informal economy: A statistical picture, 3rd edition*, https://www.ilo.org/global/publications/books/WCMS_626831/lang--en/index.htm.

A large informal-formal wage gap among employees helps explain the higher incidence of poverty among informal employees. Globally, employees represent a large share of workers in both the formal and informal economy. On average, across the 25 countries for which data are available, the ratio of formal to informal hourly wages stands at around 51%, indicating a large wage penalty associated with informality (Figure 3.5). Lower education, lower productivity and over-representation in occupations or economic sectors with lower wages are among features that differentiate workers in informal and formal employment. There are also noticeable disparities across countries. The largest wage gaps occur in Africa, ranging from about 11% in Niger to 52% in Madagascar. In other words, on average, informal employees work approximately nine hours to earn what formal employees earn in one hour in Niger and in two hours in Madagascar. The wage gap is much lower in the Americas and Europe and Central Asia, the largest being in Honduras (48%) and Armenia (69%).

Figure 3.5. Globally, there is a large informal-formal wage gap

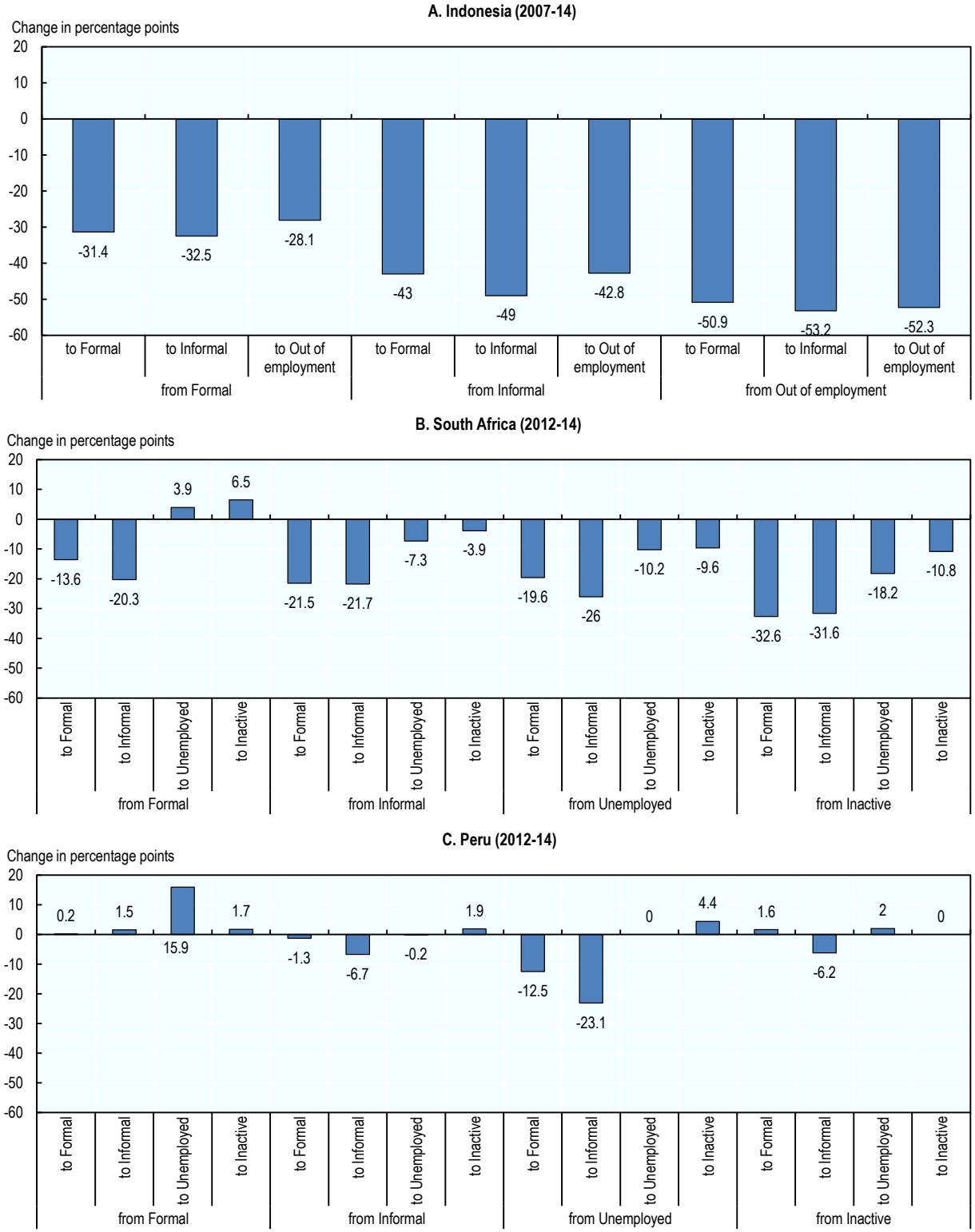
Ratio of formal to informal hourly wages (circa 2010)



Notes: Gross wage gap (as opposed to net wage gap) is reported, but varies depending on country data. Raw wage gap does not remove some major "composition effects" arising from features that may differentiate informal and formal workers. Only wages earned in the main occupation are considered, except for Senegal and South Africa, where hours worked by occupation are not available separately. Averages based on median and mean wages are almost equal (2.7 and 2.5, respectively). Sample excludes Argentina, Armenia, Egypt, Peru, and Zambia due to missing information.
Source: OECD (2019), *Key Indicators of Informality based on Individuals and their Household* (database).

Figure 3.6. There is no simple link between changes in poverty and movements into and out of informality

Poverty dynamics according to labour market transitions in Indonesia, Peru and South Africa (circa 2010)



Note: Poverty rates calculated only for the working-age population (age 15 and over) using the international poverty line of USD 3.10 2011 PPP. In Indonesia, notable gains in overall poverty reduction have been recorded between 2007 and 2014 in both *Budan Pusat Statistik* (Statistics Indonesia) data sources and in the RAND Institute's IFLS longitudinal data (OECD, 2019[3]; Statistics Indonesia, 2016[4]; RAND Institute, 2015[5]).
Source: OECD (2019), *Key Indicators of Informality based on Individuals and their Household* (database).

Recent evidence shows that there is no simple link between changes in poverty and movements into and out of informality. Examining how labour market transitions are associated with changes in living conditions is crucial, given the importance of informal economy workers among poor households. Empirical evidence from Indonesia, Peru and South Africa using panel data suggests that there is no simple relationship between poverty dynamics and formalisation, as formalisation does not guarantee faster movement out of poverty. Changes in labour market status between 2007 and 2014 in Indonesia and between 2012 and 2014 in Peru and South Africa show that, although formal jobs are systematically associated with lower poverty levels, getting a formal job is not associated with the strongest reduction in poverty (Figure 3.6A, Figure 3.6B, Figure 3.6C). This suggests that factors beyond level of formalisation influence poverty, e.g. household composition, employment status, sector of activity or access to social protection (Alter Chen, Jhabvala and Lund, 2002[6]).

Informal economy workers face high occupational risks

Poor safety and health working conditions prevail in the informal economy and carry high social and economic costs. Many who work informally, especially but not exclusively those in developing countries, are exposed to OSH risks. According to ILO estimates, 2.78 million people die each year from work-related accidents or diseases, and 317 million sustain occupational injuries, representing an estimated loss of 4% of global GDP (ILO, 2012[7]; 2013[8]).

Monitoring OSH in developing countries, however, is often a challenge. Public health systems can play an important role in collecting data on the health of both formal and informal workers, as shown by Santana et al. (2016[9]) in the case of Brazil. OSH registers are usually absent or incomplete in the informal economy, although it accounts for most workers in developing countries. The knowledge base on OSH outcomes (occupational injuries and illnesses) and causes (unsafe and unhealthy working conditions) is therefore still limited. This fuels a vicious circle whereby lack of reliable OSH data impedes evidencing the magnitude of the problem, which leads to public ignorance, lack of political interest and commitment, low resources allocated to labour inspection and reporting structures and, ultimately, poor access for workers to treatment and compensation, which in turn gives little incentive to report occupational injuries or illnesses (ILO, 2013[8]).

Some information on OSH issues in developing countries, especially in the informal economy, is available from a small number of specific survey data. One important data source is the Working Conditions and Health Survey, first conducted in 2011 in six Central American countries. Surveyed workers are exposed most of the working day to repetitive movements (46.2%), high temperatures (21.2%; a possible risk factor for chronic kidney disease) and noise (20.9%) (Merino-Salazar et al., 2015[10]). A significant share of workers also report physical risks related to dangerous tools and machines (18.4%), dangerous stairs, openings and slopes (18.3%), slippery and unstable surfaces (17.4%), humidity (16.2%) and breathing chemical substances (15.5%). The Informal Economy Monitoring Study (IEMS) looks at the working conditions of informal workers

involved in street vending, home-based work and waste picking in ten African, Asian and Latin American cities. OSH issues, such as illness, accidents and exposure to health risks at the workplace, are mentioned in 48% of all IEMS focus group discussions. Home-based workers are the most concerned (58%), and they identify hazardous raw materials and the work process as health risks causing respiratory illnesses, burns and other health impairments (Roever and Rogan, 2016[11]). A limited number of developing and emerging countries include as part of their labour force surveys questions about exposure to risks related to the working environment (fumes, dust, high temperature) and to the equipment, tools and products (chemicals, explosives) used to perform their work. In Bangladesh and Uganda, informal workers appear more likely to use dangerous tools or more likely to be exposed to dust, fumes, noise or vibrations (reported by nearly half of workers in informal employment in Uganda, compared with 42.0% of those in formal employment and 35.0% of formal employees; and by 12.6% of informal and 5.9% of formal wage workers in Bangladesh). However, use of chemicals or exposure to other dangerous products is less often reported by informal workers, possibly due to the nature of the acuities and/or to lack of awareness of the danger associated with the products they commonly use.

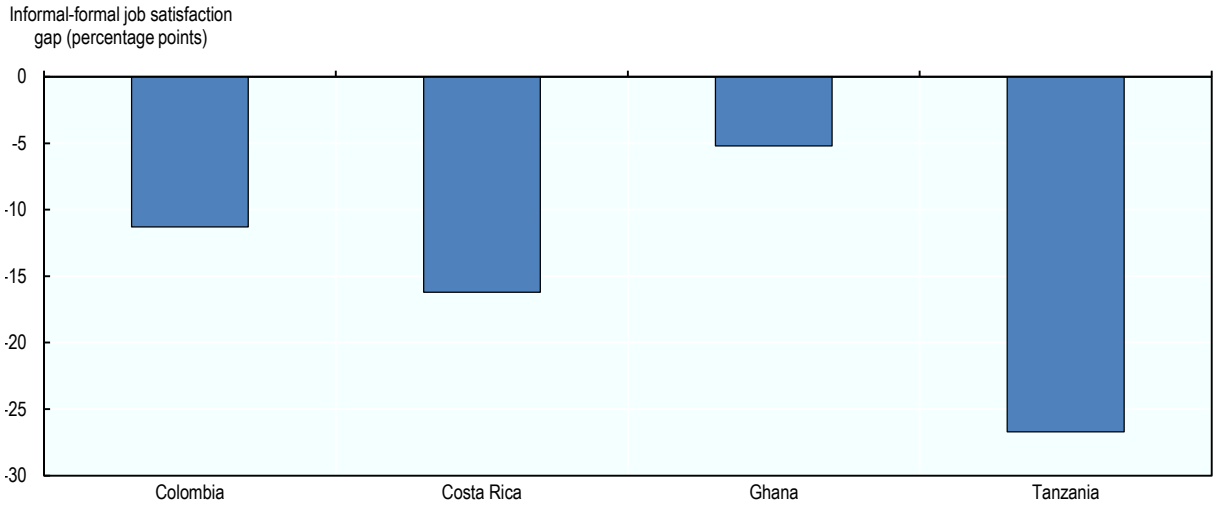
Inferior working conditions in the informal economy are reflected in a large informal-formal job satisfaction gap

Indicators of job satisfaction are increasingly used when assessing vulnerability in employment. Self-reported measures of job satisfaction are closely tied to overall working conditions. Their main advantage is to allow synthesising multi-faceted aspects of the working environment that are often not well reported, especially in the informal economy, where occupational accidents and diseases are hardly registered.

In four countries for which available and comparable information on job satisfaction are available (Colombia, Costa Rica, Ghana and the United Republic of Tanzania), there is an informal-formal job satisfaction gap, ranging from 5.2% in Ghana to 26.7% in the United Republic of Tanzania (Figure 3.7).

Figure 3.7. There is an informal-formal job satisfaction gap

Difference in job satisfaction rate between informal and formal workers (circa 2015)



Note: The job satisfaction gap corresponds to the difference in the job satisfaction rate between informal and formal workers. The job satisfaction rate is defined as the percentage share of workers who self-report being either somewhat or very satisfied with their main occupation (as opposed to being either somewhat or very unsatisfied).
Source: OECD (2019), *Key Indicators of Informality based on Individuals and their Household* (database).

An examination of the determinants of the job satisfaction confirms that informal workers systematically show a lower probability of job satisfaction, compared with formal workers. To single out determinants of the gap in job satisfaction between informal and formal economy workers and of job satisfaction within the informal economy, multivariate analysis, controlling for individual, household and job characteristics, as well as country fixed effects, was conducted in five countries.[1]

This result is in line with other studies looking at the informal-formal job satisfaction gap in Bosnia and Herzegovina (Krstic and Sanfey, 2007[12]), Colombia (Hurtado, Hessel and Avendano, 2017[13]), Mexico (Temkin, 2016[14]), Viet Nam (Demenet, Razafindrakoto and Roubaud, 2016[15]) and in eighteen Latin American and Caribbean countries (Aguilar, García Muñoz and Moro-Egido, 2013[16]). However, it contrasts with other results for Mexico (Rojas, 2013[17]) and Ghana (Falco et al., 2015[18]) that do not find a robust satisfaction premium for formal employment. Based on Chilean data, Cassar (2010[19]) suggests that these differences might be driven by the negative impact of a lack of valuable workplace facilities in comparison with the utility gains experienced by informal workers from being independent. Findings based on data from El Salvador, Guatemala and Honduras also reveal large heterogeneity in workers' valuations, within informal jobs and across formal and informal jobs; low-skilled workers in particular display a higher relative valuation of self-employment (Pagés and Madrigal, 2008[20]). In the five countries included in the multivariate analysis, the predicted informal-formal job satisfaction gap is larger for men, low-educated workers and the self-employed.

In terms of determinants of job satisfaction within the informal economy, results of the multivariate analysis confirm the importance of employment status and gender. The predicted probability of job satisfaction is significantly lower for employees and even more so for contributing family workers, compared with other employment statuses. Men

are also less likely than women to be satisfied with their jobs in the informal economy, and this effect appears to be stronger for contributing family workers and own-account workers.

People dependent on the informal economy are particularly vulnerable

High exposure to risks, combined with lack of access to appropriate risk management instruments, make most informal economy workers and their families particularly vulnerable. Two sets of interrelated factors usually explain the difficulty for informal workers to benefit from prevention and protection measures against general and work-related risks: their largely unorganised and unregulated status and their exclusion from regulations and public policy.

Informal economy workers need strong representation to improve working conditions, earn better wages and upgrade skills

While both trade unions and employers' organisations face multiple challenges in expanding their membership and offering support to workers and economic units in the informal economy, there is evidence of increasing efforts to this effect. The Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87) and the Right to Organise and Collective Bargaining Convention, 1949 (No. 98) provide that all workers, without distinction whatsoever, enjoy the fundamental rights which flow from freedom of association (Article 2 of Convention No. 87). Informal economy workers therefore have the right to organise and to engage in collective bargaining (where there is an employer), as do employers in the informal economy. They can freely establish or join organisations of their own choosing for the furtherance of their occupational interests and carry out their activities without interference from public authorities. They also have the right to represent their members in tripartite bodies and other social dialogue structures (ILO, 2015[21]).

In practice, however, despite progress in recent years, workers and employers in the informal economy are often under-represented in trade unions and employers' organisations. Weak representation and organisation of informal workers and employers is a strong impediment to the advancement of their interests and the resolution of the problems they face (ILO, 2013[22]). This is particularly true when it comes to their capacity to negotiate collective agreements around wages and working conditions. In addition, informal economy actors usually lack opportunities to voice their concerns, through social dialogue, directly to policy makers regarding the challenges they face in their daily business operations, with the consequence that formalisation policies may not correspond adequately to their real needs and priorities. However, some trade unions and employers' organisations have extended their services to include informal economy workers, such as the Trade Union Confederation in Ghana and the employers' organisation in Malawi (ILO, forthcoming[23]).

Preventive measures to reduce risks at work, in the form of OSH management systems and a general safety culture, often do not reach the informal economy. The necessary awareness, technical means and resources to implement OSH measures are usually lacking. Moreover, small businesses and workers in the informal economy motivated to improve safety and health conditions on their own initiative often lack practical support.

Lower levels of education and poor skills acquisition and development in the informal economy, stemming from lack of technical and vocational education and training (TVET)

opportunities is another factor holding informal workers in a vulnerability trap. Micro and small businesses, which overwhelmingly dominate the informal sector, cannot expect to move from subsistence to productive and profit-generating activities if employees and entrepreneurs are not equipped with opportunities to upgrade their skills and compensate for an overall low level of initial education. However, most of the skills acquired by informal workers come from self-training or informal apprenticeships with, still in many countries, little opportunity for innovation and upgrade, a situation that largely stems from the low availability of and lack of access to formal TVET opportunities (Walther, 2011[24]).

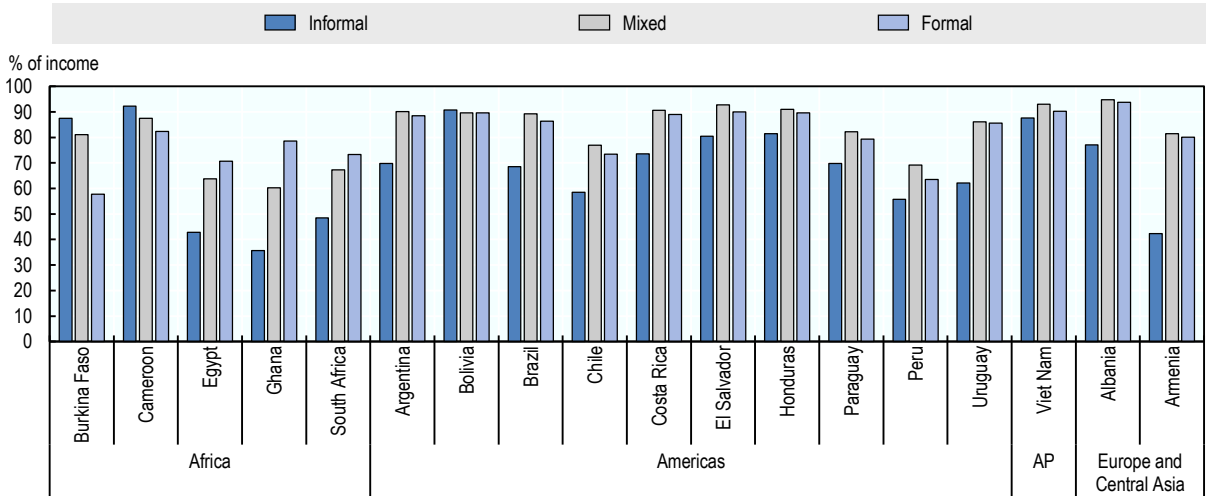
Absence of adequate social protection arrangements makes informal economy workers and their families particularly vulnerable

While significant progress has been made worldwide in building social protection systems, many informal workers remain excluded. According to the ILO (2017[25]), "[a]t present, most countries have in place social protection systems anchored in national legislation covering all or most policy areas of social protection". Yet, in many developing countries, large segments of the population are not covered. Despite their greater need for protection, informal workers often fall through the cracks of social protection systems, making many income insecure or vulnerable to income poverty and affecting their families.

One driver of vulnerability among informal workers is lack of access to social protection, making work the only option to survive. The vast majority of informal households rely mostly on labour income for their livelihoods. Around 2015, the average share of labour income in total household income per capita for 19 developing and emerging countries stood at 69% among informal households and 79% among mixed and formal households (Figure 3.8). In 17 of the 19 countries for which data are available, labour income is the main source of household income for households dependent on the informal economy. In only 2 of 16 countries (Armenia and Ghana) is the share of labour income below 50% among informal households. Considering that many informal workers have low job security and are not covered by any kind of unemployment protection or other benefits, they are very vulnerable to income poverty in case of a loss in earnings (income insecurity).

Figure 3.8. Employment is the main source of income for most households

Share of income from work as a percentage of household income per capita, by level of informality of households (2015)



Note: AP = Asia and the Pacific. Data refer to 2007 for Cameroon; 2012 for Albania; 2013 for Ghana; 2014 for Armenia, Burkina Faso, Egypt, Honduras and Viet Nam; 2016 for Argentina, Costa Rica, Paraguay, Peru and Uruguay.
Source: OECD (2019), *Key Indicators of Informality based on Individuals and their Household* (database).

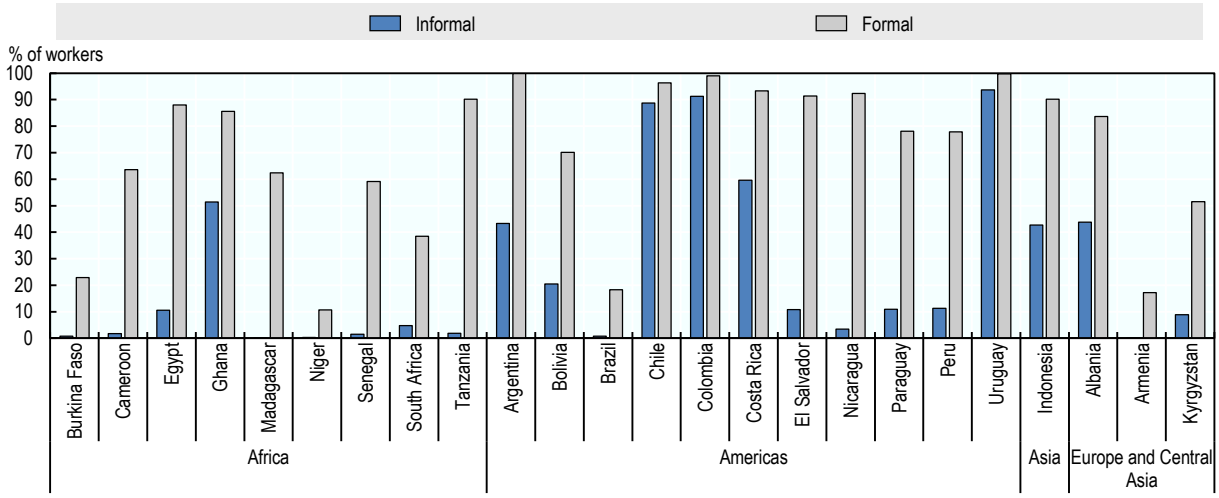
Lack of access to health protection is another driver of income insecurity and vulnerability to income poverty. Throughout the developing world, access to health care is one of the most important social protection areas that informal economy workers search for (ILO, 2017[25]). Despite some progress in the development of national health systems, at least half of the world's population still cannot obtain essential health services (WHO/World Bank, 2017[26]). People dependent on the informal economy are typically at risk of exclusion, notably because they have greater difficulties paying health insurance contributions or accessing health care.

Data confirm that, on average across 19 developing and emerging countries for which comparable data are available, formal workers enjoy a greater health insurance coverage rate (71%) than informal workers in mixed households (39%) or in completely informal households (33%) (Figure 3.9). The higher coverage of informal workers in mixed households likely reflects coverage through formal workers in the household. Overall results suggest that workers furthest from the formal economy are most at risk of not having access to health insurance. Disparities across countries are also significant: in general, there is high coverage of formal workers in Latin America, low coverage of informal workers in three of nine countries in that region, and particularly low coverage in sub-Saharan Africa.

One hypothesis is that informal workers can access health insurance benefits as dependents of a formal household member subscribed to a plan that allows for the possibility of covering other household members.

Figure 3.9. Informal workers are much less likely to be covered by health insurance than formal workers

Percentage of workers covered by health insurance, by informality status (2015)

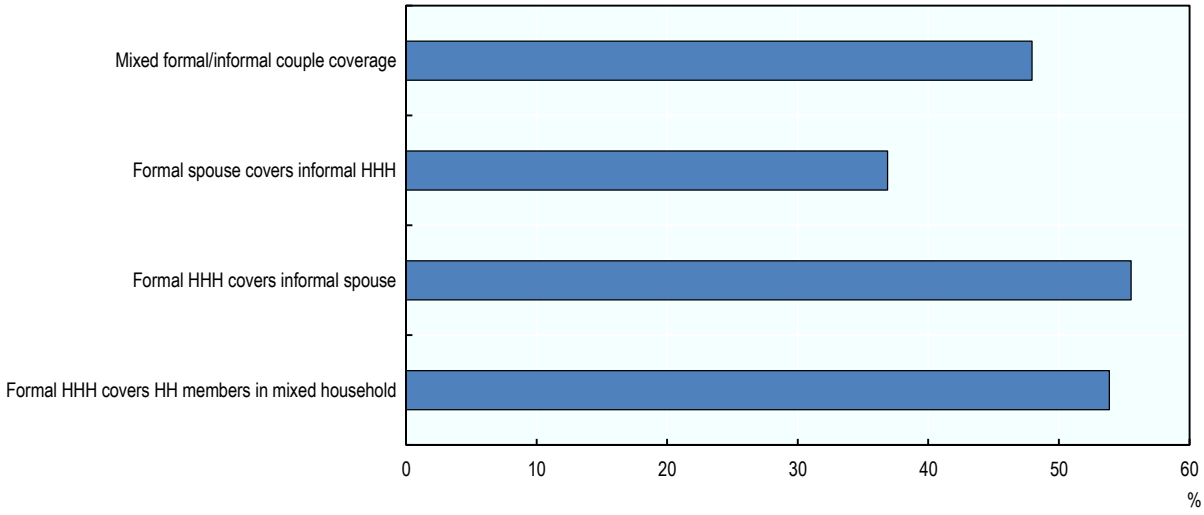


Notes: Households with at least one working-age adult. Data refer to 2007 for Cameroon; 2011 for Niger and Senegal; 2012 for Albania; 2013 for Ghana; 2014 for Armenia, Burkina Faso, Honduras, Nicaragua and Viet Nam; 2016 for Argentina, Costa Rica, Paraguay and Uruguay.
Source: OECD (2019), *Key Indicators of Informality based on Individuals and their Household* (database).

While it is impossible to distinguish the mechanisms through which informal workers may be covered by health insurance in all countries – that is, whether they subscribe to voluntary health insurance, benefit from a household member's insurance or benefit from a universal scheme – detailed data from the Indonesia Family Life Survey allow in-depth analysis of health insurance coverage. In particular, it asks in detail about the health insurance respondents are enrolled in and whether it covers their spouse and other household members. Focusing first on formally employed household heads enrolled in employment-based health insurance (PT ASKES for civil servants, retired military and police personnel; ASTEK Jamsostek for private sector workers; or other employer-provided health insurance or clinic), 54% report that their health insurance also covers other household members, and 55% report that it covers their informally employed spouse (Figure 3.10). An informally employed household head covered by a formally employed spouse occurs less frequently: about one-third of cases. Overall, among mixed informal/formal couples, about half of formal workers report that their spouse is covered by their health insurance. Further research could provide more insight into why formal spouses are less likely to cover informal household heads, taking into account potential gender dynamics, as about 83% of household heads in Indonesia are men.

Figure 3.10. Health insurance coverage of informal workers through formal dependents

Share of household members covered by health insurance through a formally employed household member (2014)



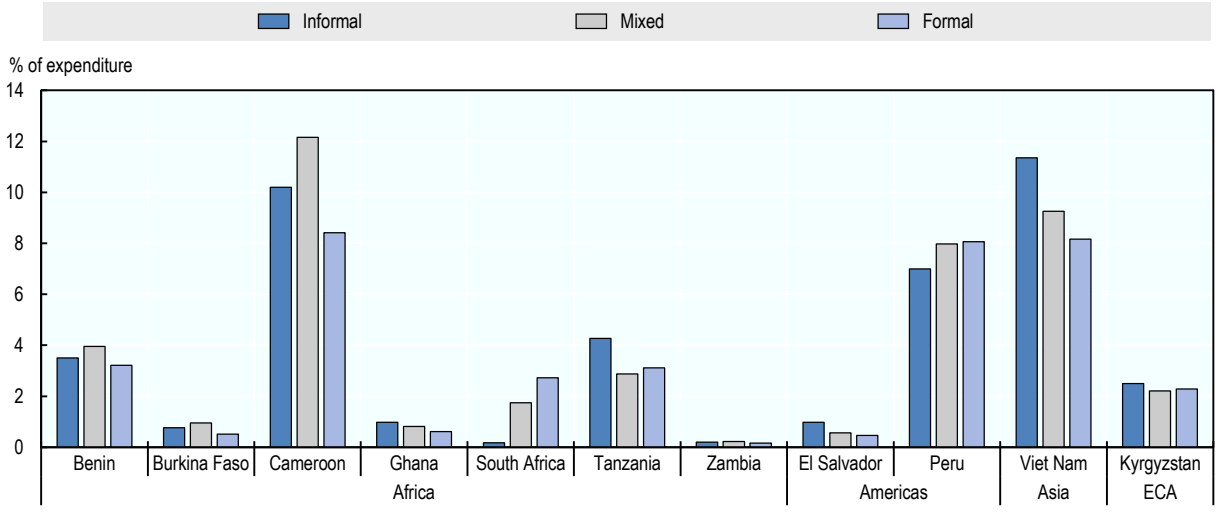
Note: HHH = head of household.
Source: Authors' calculations based on RAND Institute (2015[5]), Indonesia Family Life Survey 2014/15.

For many households dependent on the informal economy, lack of effective financial health risk protection often results in a significant health expense burden that can lead to substantial financial difficulties, such as reduced ability to pay for other basic needs. The percentage of household expenditure spent on health care is thus an important variable in vulnerability assessments. This figure is used to examine the direct burden of household health expenses on income.

Data on health-related expenses as a share of total household consumption for informal, mixed and formal households in ten developing and emerging countries show a high burden on informal households (Figure 3.11). The burden of health expenses on households is also likely to increase with the number of household members not covered by health insurance. In eight of ten countries (Armenia, Benin, Cameroon, El Salvador, Ghana, Kyrgyzstan, the United Republic of Tanzania and Viet Nam), informal households bear a higher financial burden than formal households. In six countries (Armenia, El Salvador, Ghana, Kyrgyzstan, the United Republic of Tanzania and Viet Nam), informal households also spend more on health than mixed households. In seven countries (Benin, Cameroon, El Salvador, Ghana, Indonesia, Kyrgyzstan and Viet Nam), mixed households bear a higher financial burden than formal households. The data also reveal large disparities across countries in share of health-related expenses among informal households, ranging from 2.5% in Kyrgyzstan to 26.0% in Benin.

Figure 3.11. In many countries, informality associates with a high burden of health expenses on households

Share of health-related expenses as a percentage of per-capita household consumption (2015)



Note: Data refer to 2007 for Cameroon; 2011 for Benin; 2013 for Ghana, Kyrgyzstan and U.R. Tanzania; 2014 for Armenia and Viet Nam; 2016 for Peru.
Source: OECD (2019), *Key Indicators of Informality based on Individuals and their Household* (database).

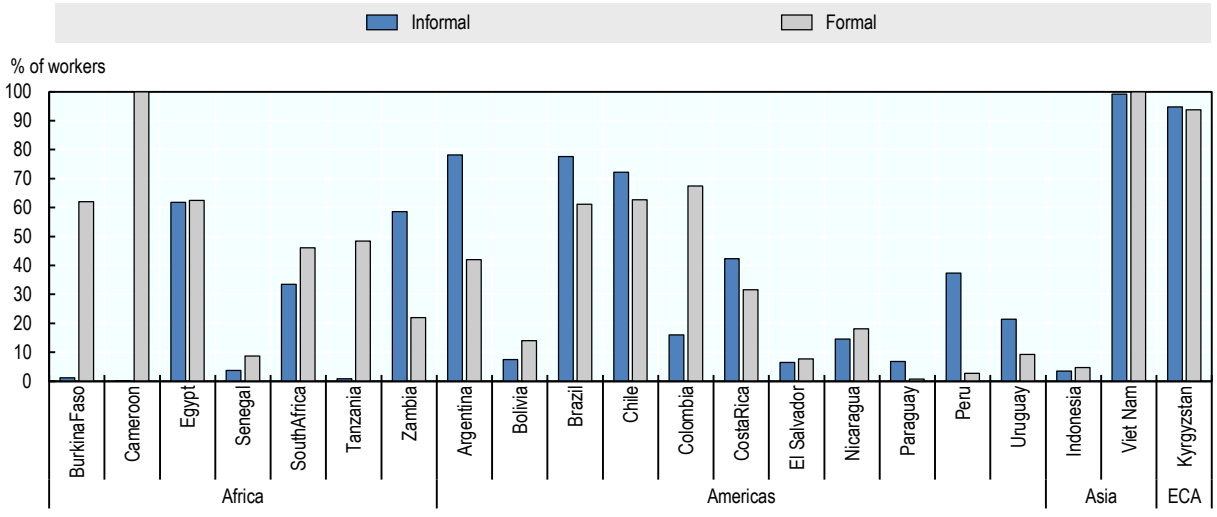
As a result of inadequate pension coverage, many informal workers experience income insecurity or become vulnerable to income poverty in old age. Pensions are essential to ensuring income security after one's working years. The ILO estimates that, worldwide, 68% of individuals over retirement age receive an old-age pension, reflecting a rapid expansion of both contributory and non-contributory, tax-financed social pensions in developing and emerging countries. However, one-third of all individuals over pensionable age do not receive a pension, and benefit levels for many are inadequate (ILO, 2017[25]). Informal workers are particularly vulnerable.

There are several reasons for which informal economy workers are disproportionately at risk of income insecurity and have limited options in old age. While old age is far off, the immediate priority tends to go to health care. Lack of familiarity with pension schemes or lack of trust may lead to reluctance to contribute to a retirement benefits scheme that does not meet immediate or priority needs. Existing contributory pension schemes may not be sufficiently adapted to the situation of informal workers. Where non-contributory pension schemes are established to guarantee basic income security, benefit levels may be too low.

In 21 developing and emerging countries, the average proportion of households with at least one member age 65 and over receiving some pension is 51% for informal households, 62% for mixed households and 69% for formal households (Figure 3.12). The distribution of coverage among informal households varies greatly across countries, from below 5% in Burkina Faso, Nicaragua, Niger and Zambia to above 95% in Albania and South Africa, which have large tax-financed schemes that provide a basic level of protection. Disparities across countries are also particularly pronounced in relative terms when comparing the gap in pension coverage within countries between formal and informal households. Burkina Faso, Cameroon, Colombia, and Niger exhibit a large gap, suggesting a strong disadvantage for informal workers relative to formal workers.

Figure 3.12. Old-age pension coverage is lower among informal households

Share of households with at least one member age 65 and over declaring pension receipt (circa 2015)



Notes: Pension types vary across surveys and encompass old age, disability and survivor pensions.
Data refer to 2011 for Niger; 2012 for Albania; 2013 for Kyrgyzstan; 2014 for Armenia, Burkina Faso, Nicaragua and Viet Nam; 2016 for Argentina, Costa Rica, Paraguay, Peru and Uruguay.
Source: OECD (2019), *Key Indicators of Informality based on Individuals and their Household* (database).

Notes

[1] Regression results are not presented, but are available upon request. Determinants analysis was performed using data from Kyrgyzstan, in addition to the other countries. Kyrgyzstan is excluded from Figure 3.7 because the way job satisfaction is measured differs from the other countries: the survey asked workers to self-assess their job satisfaction on a 0-10 scale, where 0 = complete dissatisfaction and 10 = complete satisfaction. Workers with scores less than five are considered unsatisfied with their job. Determinants are estimated using logistic regression econometric models.

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Chapter 4. Protecting informal economy workers and their dependents

A majority of people in the Global South depend on informal employment for subsistence (Chapter 1). They contribute to the economy and society through market and non-market activities that are not well recognised or valued (Chapter 2), which leaves a majority of informal workers and their families outside the realm of public policy. Lack of access to appropriate risk management instruments, combined with large poverty and occupational risks, push many informal economy workers into income insecurity or make them vulnerable to income poverty (Chapter 3). This chapter examines lessons learnt from recent country experiences and information from new indicators of informality to identify policy solutions. Social protection systems, occupational safety and health (OSH), together with measures to raise productivity and wages and support the representation and voice of workers, can be directed to tackle the vulnerability of informal economy workers and their families, facilitate transition to formality and become a real pillar of inclusive development. The extension of social protection to informal economy workers should pay more attention to how formal and informal social protection can complement each other, to more equitable and sustainable financing, and to ensuring the portability of social protection rights and benefits across different types of employment, during life and work transitions. Tackling the vulnerability challenge requires an integrated approach that combines the extension of social protection with other measures to improve working conditions, raise productivity and wages, and support the representation and voice of informal workers. The chapter further illustrates why indicators of informality based on individuals and their households are needed and how they can help develop policy solutions to extend coverage and facilitate the transition from the informal to the formal economy.

There has been some progress with the extension of social protection to informal economy workers

Guided by legal regulations, social protection systems usually encompass a range of programmes, including social insurance and social assistance, as well as public employment programmes. Most systems are comprised of contributory programmes (most commonly, social insurance) and non-contributory, tax-financed programmes (most commonly, social assistance).

Social insurance programmes are financed mainly through contributions paid by, or on behalf of, insured members, typically workers and their employers.[1] To the extent that lack of social insurance is a key parameter used to measure informal employment[2] (Chapter 1), by definition few informal workers are covered by social insurance. In practice, the extension of social insurance to informal workers often means their full or partial transition to the formal economy. For workers in the informal sector (the majority of employees and contributing family workers and all employers and own-account workers), effective access to social insurance is usually associated with legal recognition and registration of the economic unit, often combined with measures to raise productivity and encourage compliance.

By contrast, social assistance programmes are usually financed by general taxes, address specific populations and particular contingencies and are often targeted at people living in poverty. While they are, in principle, provided regardless of employment status, in most developing and emerging countries, their coverage and benefit levels have been very limited. In many cases, informal workers cannot access these benefits, as eligibility criteria typically exclude individuals or households with a certain level of income, assets or work capacity. Workers in the informal economy are often referred to as the "missing middle", alluding to the fact that they may not be protected by either type of scheme, neither contributory nor tax-financed mechanisms. Although social assistance programmes usually do not contribute directly to formalisation, they ensure a certain level of income security and facilitate access to health care, education and skills development, which create the conditions for formalisation in the long run, especially when combined with other measures to raise productivity and reduce decent work deficits in the informal economy.

Lack of coverage for most workers in the informal economy is one reason that 55% of the world's population, or more than 4 billion people, is not or is only partially covered by social protection (ILO, 2017[1]). It contributes to informal workers' vulnerability and often thwarts aspirations of engaging in more productive employment and decent work. Lack of coverage constitutes an enormous challenge for economic and social development and human rights. The International Labour Organisation (ILO) Social Protection Floors Recommendation, 2012 (No. 202) and the ILO Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204) stress the importance of extending coverage to workers in the informal economy through a combination of contributory and non-contributory mechanisms (ILO, 2015[2]).

Some countries have extended social protection to informal economy workers

As most workers in developing countries do not work and have never worked in formal employment, large numbers are at risk of exclusion. Many countries have taken steps to increase social protection coverage as part of their plans to support the transition to formality. Emerging trends show that reducing exclusion of informal economy workers is

complex but possible (Stuart, Samman and Hunt, 2018[3]; Sojo, 2015[4]; RNSF, 2017[5]; ILO, 2017[1]). Innovative policy solutions to extend social protection coverage to informal economy workers are within reach for countries at various levels of development (Table 4.1). Many countries use a combination of social insurance and social assistance, in line with the ILO Recommendation No. 202 and Recommendation No. 204 (ILO, 2017[1]; ILO, 2017[6]).

Table 4.1. Country initiatives to extend social protection to people dependent on the informal economy, some examples

Types of schemes	Types of risk	Country: scheme	Source of financing	Coverage
		Social insurance		
Social insurance	Old age	Brazil: rural pension scheme	Contributions adapted to contributory capacities and seasonality, supplemented by subsidies from the government budget	Rural workers, rural producers
	Illness, old age, maternity, work injury, disability	Cabo Verde: social insurance scheme	Mandatory contributions from the self-employed based on simplified contribution categories	Employees, self-employed
	Illness, old age, maternity, disability	Uruguay: Monotributo mechanism to facilitate access to general social insurance scheme	Simplified tax and contribution payment on revenue generated by activities	Self-employed in micro and small businesses (own-account workers, employers)
	Old age, maternity, work injury, disability	Algeria: scheme for non-salaried workers under Caisse nationale de sécurité sociale des travailleurs non-salariés (CASNOS)	Mandatory contributions adapted to contributory capacity	Self-employed, including farmers
	Illness, old age, maternity, disability, death	Philippines: AlkanSSSya programme	Compulsory contributions from the self-employed; voluntary contributions from informal sector wage workers	Self-employed, informal sector workers
	Unemployment, maternity	South Africa: Unemployment Insurance Fund	Compulsory employer-employee contributions	Domestic workers
National health insurance	Illness	Ghana: National Health Insurance Scheme (NHIS)	Earmarked VAT on cigarettes, alcohol and luxury goods; reduced contributions from informal sector workers based on ability to pay; salaried employee-employer contributions	All individuals, including contributors and their families. Children, pregnant women, older individuals, very poor people exempted from contributions
		Rwanda: Compulsory Health Insurance	Taxes and donors to the poor, orphans and people living with HIV/AIDS; reduced contributions from informal economy workers; formal economy employee-employer contributions	Whole population
		Philippines: Health Insurance Corporation (PhilHealth) programme for the informal sector	Taxes and contributions from informal economy members based on ability to pay	Informal workers and their dependents (unmarried children under age 21, legitimate

				spouse, disabled children over age 21, parents age 60 and over)
Social assistance				
Universal health system	Illness	Thailand: Universal Coverage Scheme	Tax-based	All citizens not affiliated with either Social Security Health Insurance or Civil Servant Medical Benefit
Social assistance	Poverty	Brazil: Bolsa Família	Tax-based	Poor families with children, conditional on human development requirements
		China: Dibao programme	Tax-based	Poor families, unconditional
Social pensions Old age		Zanzibar: Universal Pension Scheme (ZUPS)	Tax-based	Individuals age 70 and over who are Zanzibar residents or have 10 years of continuous residency after age 18
		Lesotho: Universal Pension	Tax based	Citizens age 70 and over
Cash transfers from NGOs	Poverty	Bangladesh: BRAC Challenging the Frontiers of Poverty Reduction – Targeting the Ultra Poor (CFPR-TUP) programme	Donations	Households in extreme poverty
Labour market programmes				
Employment guarantee scheme	Unemployment/ underemployment	India: Mahatma Gandhi National Rural Employment Guarantee Scheme	Tax-based	Rural households, with a provision reserving 1/3 of those employment opportunities for woman workers

Notes: VAT = value-added tax. NGO = non-governmental organisation.
Source: Authors' compilation.

To reduce the exclusion of informal economy workers, some countries have extended coverage of contributory social insurance, such as health protection, pensions, maternity protection or unemployment support. A wide range of instruments have been used to encourage formalisation and ease eligibility criteria for contributory coverage, including reduced contribution levels for smaller firms on a temporary basis, simplified special mechanisms for categories of workers, tax deductions to promote payment of contributions, tax breaks and favourable modalities for firms that formalise, and simplified social security registration for workers and employers.

A crucial step in the extension of contributory social insurance to the informal economy has been the extension of social and labour rights to domestic workers through a mix of enforcement and simplification measures (Argentina, Brazil, Ecuador, South Africa, Uruguay); inclusion of self-employed workers in social insurance schemes through adapted mechanisms (Algeria) and simplified registration, tax and contribution payment mechanisms (Argentina, Peru and Uruguay); adaptation of contribution calculation and payment modalities to the characteristics of workers and employers (e.g. seasonality) (Brazil, Cabo Verde, Ghana); harnessing digital and mobile technology to facilitate access to social protection (Turkey, Uganda, Uruguay); and extension of pension

coverage through existing or new schemes adapted to the needs of self-employed workers (Brazil, Cabo Verde). Another promising development, including in Ghana, the Philippines and Rwanda, has been the establishment of national health insurance with a view to providing universal access to health care through adapted contribution payments combined with tax financing. Other countries, such as Thailand, have followed a different path to universal health coverage, focusing on the provision of free primary health care services funded through general taxation which led to a dramatic increase in coverage. In all cases, the extension of social insurance has been part of a broader set of measures to enhance productivity and promote the transition to the formal economy. Such measures to support the extension of social protection as part of a sustainable formalisation process are discussed below.

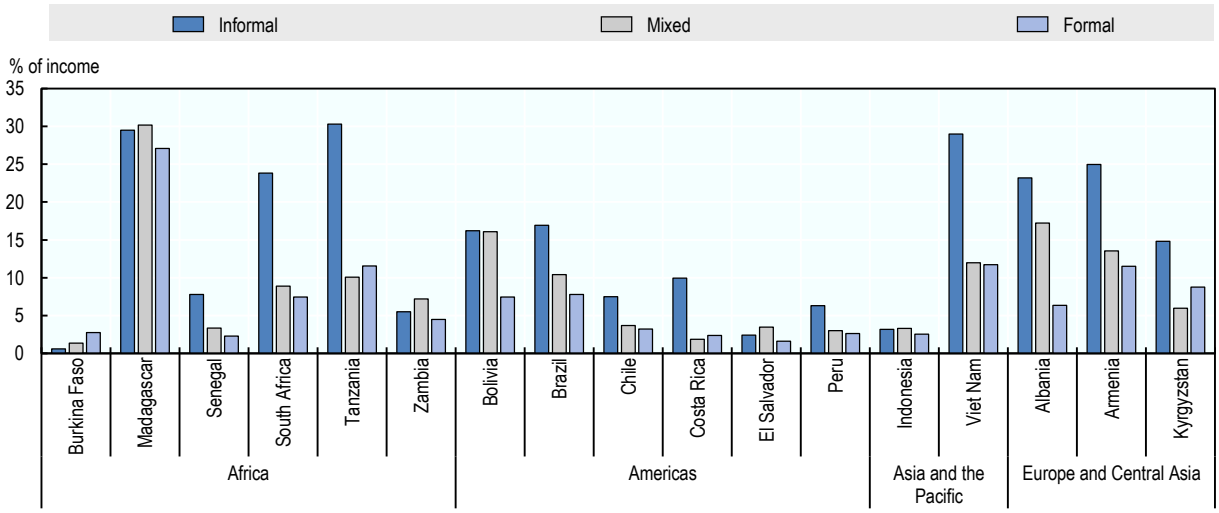
Informal economy workers also rely on non-contributory social protection schemes

Another approach has been to extend social protection through non-contributory, tax-financed cash transfers delivered in various forms. Among social assistance programmes, cash transfers are increasingly popular and are spreading across Africa, Asia and Latin America. These target low-income households and are sometimes conditional on human development requirements, as is Brazil's Bolsa Família programme, or unconditional, like China's Dibao programme. Unconditional cash transfers (UCTs) give poor households the choice and flexibility of allocating resources to meet the most pressing needs. They are gaining credibility among social policy makers, as recent evidence suggests that the transfers are not spent on vice consumption (e.g. alcohol or tobacco) and do not discourage people from working (Evans and Popova, 2014[7]). Social pensions are another trend in low- and middle-income countries. These non-contributory pensions provide basic income to all older individuals, even in low-income contexts (e.g. Zanzibar Universal Pension Scheme or Lesotho's Old Age Pension).

Altogether, these public transfers can be an important element of income security, particularly for informal households. Social assistance represents 15% of household income for informal households vs. 9% for mixed households and 7% for formal households. This implies that poverty-targeted social assistance transfers have a higher incidence in completely informal households, which are the most vulnerable. The share of public transfers varies across countries, from below 5% in Burkina Faso, El Salvador and Indonesia to above 20% in Albania, Armenia, Madagascar, South Africa, the United Republic of Tanzania and Viet Nam (Figure 4.1).

Figure 4.1. Public transfers can be an important element of income security for informal households

Share of government transfers as a percentage of total household income (2015)



Notes: Government transfers include social assistance, such as non-contributory pensions, scholarships or cash transfers. Basket of government transfers varies by country and may include pensions. Data refer to 2012 for Albania; 2013 for Kyrgyzstan; 2014 for Armenia, Honduras and Viet Nam; 2016 for Argentina, Costa Rica, Paraguay, Peru and Uruguay.
Source: OECD (2019), *Key Indicators of Informality based on Individuals and their Household* (database).

Non-governmental organisations (NGOs) can also play a role in supporting the livelihoods of informal economy workers and their households. In Kenya, GiveDirectly pilots a UCT programme in some villages that aims at testing a universal basic income reach out to the extreme poor. In contrast to the cash-only approach, BRAC's Challenging the Frontiers of Poverty Reduction-Targeting the Ultra Poor (CFPR-TUP) programme in Bangladesh follows a graduation model that comprises a cash grant, asset transfer, training and follow-up. BRAC graduation approach has attracted attention as an approach to lift people out of extreme poverty (Banerjee et al., 2015[8]) and has inspired similar approaches in other countries, including Ethiopia, Ghana, Haiti, Honduras, India, Pakistan, Peru, Yemen and South Sudan.

Expanding labour market programmes to informal workers is receiving renewed policy attention

Labour market programmes, such as public works programmes (PWPs) and skills training, are receiving renewed policy attention in many developing countries, where decent jobs deficits are large. PWPs are widely implemented throughout Africa, Asia and Latin America as an instrument of social policy often with funding from donor agencies, and tend to have a broad coverage of informal economy workers. While these programmes can facilitate the formalisation of informal economy workers, they may also prevent formal workers from going into informal jobs. Comprehensive skills development in the informal economy is less common, as national technical and vocational education and training (TVET) policies tend to focus exclusively on the needs of the formal economy.

Policy makers often see PWPs as an option to enhance income security for poor workers. Among the multitude of PWPs, employment guarantee schemes (EGSs), which guarantee employment to a specified population over a sustained or indefinite period, are generating increasing interest, as they fulfil the social protection function of unemployment protection for vulnerable individuals, including informal workers (Hagen-Zanker et al., 2011[9]; Murray and Forstater, 2013[10]; ILO, 2017[1]). Still, EGS programmes are rare. The Mahatma Gandhi National Rural Employment Guarantee Scheme in India provides a guarantee anchored in national law. Similar programmes include the Jefes de Hogar programme in Argentina, the EGS component of the Productive Safety Nets Programme in Ethiopia and the small-scale Zibambele Programme in South Africa.

Skills training and upgrading for informal workers is increasingly considered vital for poverty reduction and transition to higher tiers of the informal economy and to the formal economy (Gagnon, 2009[11]). Traditional TVET programmes remain concentrated on the formal economy. Informal apprenticeship and other training provided by the informal sector often constitute the sole, yet important, source of skills acquisition in the informal economy. Skills development programmes focused on economic actors in the informal economy include entrepreneurship training for people running informal production and service units, as provided by NGOs in Angola and Cameroon, by universities in South Africa, by local and regional authorities in Cote d'Ivoire and Ethiopia, and by professional organisations in Burkina Faso and Mali (Walther, 2011[12]). There have also been attempts to upgrade informal apprenticeships. One approach pioneered in Benin, Burkina Faso and Togo by the Hanns Seidel Foundation and in Burkina Faso by Swisscontact has been to transform informal apprenticeships into a dual system by supplementing traditional apprenticeships in the workshops of master craftsmen with theory undertaken at public or private training centres (Walther, 2011[12]). In Benin, end-of-apprenticeship exams organised by local business associations, in collaboration with local municipalities, led to the introduction of quality standards and the phasing out of exploitative traditional practices. The exams are now recognised nationally and award a national qualification (Akojee et al, 2013). Another approach in Jordan taken by the ILO, in collaboration with the International Youth Foundation, was to support the provision of skills among informal apprentices in micro and small vehicle repair businesses through complementary off-the-job training, on-the-job skills checklists and recognition of skills through trade tests upon completion (ILO/IYF, 2014[13]).

The role of informal social protection has to be better recognised

Traditional support provided by families and communities – such as unpaid care work for children and older persons or mutual support among relatives, neighbours and communities – are an essential element of social support in the informal economy. Yet, the role of informal support is not fully recognised or taken into account in social protection extension strategies.

With large deficits in state provision of social protection, informal support plays a critical role for informal workers and their households

Individuals and households around the world have long organised themselves into informal networks of mutual support to cope with risk and uncertainty. While some evidence points to the erosion of informal social protection over time as a result of urbanisation and globalisation, in many parts of the world, informal social protection still plays a major role, especially in contexts where public options are absent or limited.

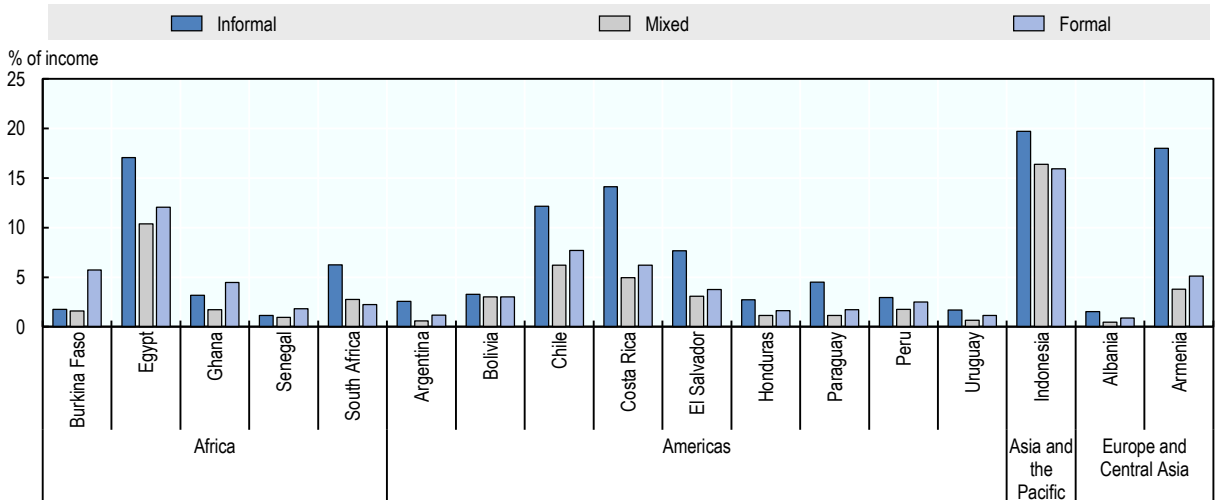
Informal support mechanisms continue to play a critical role for many individuals and households in low- and middle-income countries, especially in rural areas and for those engaged in the informal economy.

Informal support is often organised around lifecycle or livelihood risk and vulnerability. Although various classifications have been proposed to reflect the many forms it can take (Kaseke, 2013[14]; Calder and Tanhchareun, 2014[15]; Watson, 2016[16]), these can be grouped into two broad categories: 1) traditional support systems of family members, relatives and immediate neighbours; and 2) self-organised mutual aid arrangements.

The first category builds on solidarity and reciprocity and involves the family and extended family who looks after young, sick, disabled and older members of the kinship network. In the absence of public pensions, children are the major source of income security and support in old age (Oduro, 2010[17]). Moreover, when public services, such as child care and long-term care do not exist, family members, mostly women, take primary responsibility. The so-called private transfers received from friends and relatives are another element of this form of inter-household solidarity. In many developing countries, they represent an important share of household income, especially among informal households. Around 2015, for 18 countries, the average share of private transfers in total household income stood at 10% among informal households, 7% among formal households and 5% among mixed households (Figure 4.2). The share of private transfers in household income varies greatly across countries, from 4% or below in Bolivia, Burkina Faso, Ghana and Honduras to around 15% in Armenia and Costa Rica.

Figure 4.2. The share of private transfers is often more important among informal households

Share of private transfers as a percentage of per-capita household income (2015)



Note: Data refer to 2012 for Albania; 2013 for Ghana and Kyrgyzstan; 2014 for Armenia, Burkina Faso, Honduras, Nicaragua and Viet Nam; 2016 for Argentina, Costa Rica, Paraguay, Peru and Uruguay.
Source: OECD (2019), *Key Indicators of Informality based on Individuals and their Household* (database).

The second type of informal social protection involves community or neighbourhood-based support systems, including labour exchange, rotating savings (or "tontines" in West Africa) and credit associations. They are membership based, generally linked to contributions and meet needs not (fully) met by social protection systems. They are sometimes referred to as self-help schemes. Such support is often provided through

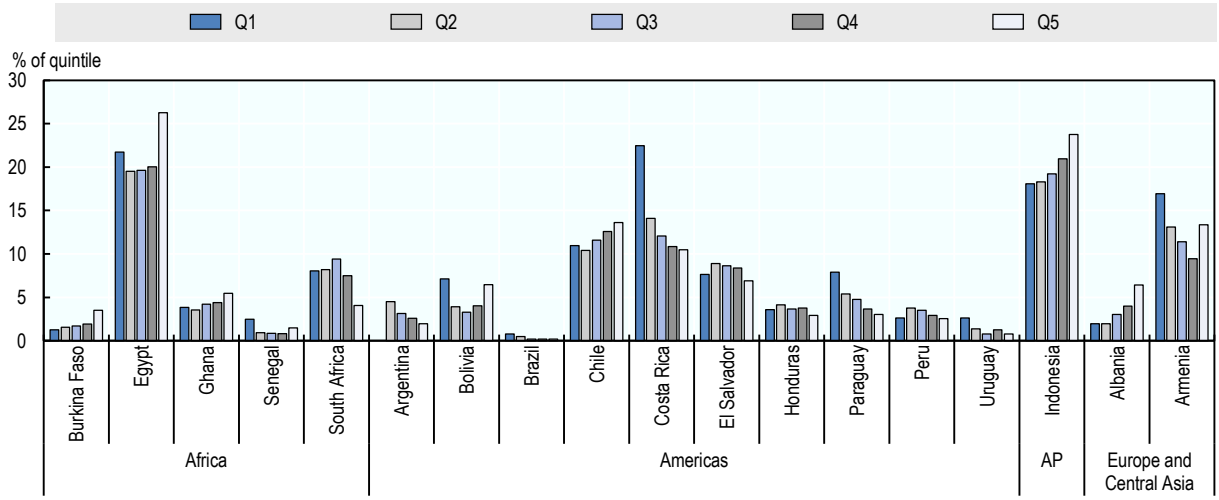
associations, often community based, formed for risk pooling around major life events, such as weddings, funerals and baptisms (Calder and Tanhchareun, 2014[15]). Burial societies and funeral associations, for instance, are mutual assistance network groups with a long history in many African countries. Some are limited to assistance at time of death; others provide assistance with hospital fees or to the unemployed (Oduro, 2010[17]).

Informal social protection mechanisms remain an important risk management strategy for households and individuals for several reasons. Traditional systems are part of a system of cultural norms, values and beliefs and constitute an important part of the extended family structure. As a response to internal migration from rural to urban areas, new forms of self-organised mutual aid arrangements have been established to cover migrants who are far away from their families. Informal social protection mechanisms emerged in response to gaps in formal social protection provision, especially where such protection is either non-existent or weak (Oduro, 2010[17]).

While an essential part of all societies, informal social protection has limitations. Studies suggest that informal risk-sharing mechanisms are most efficient when it comes to idiosyncratic shocks linked to individuals, households or lifecycle events, such as illness or death. They may fall short when it comes to covariate shocks that affect a wider geographical area, such as a neighbourhood or community. Covariate shocks, such as a weather-related shock or economic downturn, tend to break down informal insurance mechanisms, unless risks can be transferred outside the community. This can particularly hurt poorer households, which tend to be more resource constrained already (Watson, 2016[16]). A way to broaden risk pooling outside of the community is through remittances from migrants in other parts of the country or abroad. Studies show that remittances tend to be highly responsive to shocks (see, for instance, Yang and Choi, 2007). As with formal social protection, informal social protection mechanisms tend to exclude certain groups or not include all individuals on equal terms. Furthermore, informal social protection is not necessarily pro-poor, especially because members may not always be in a position to provide assistance (Dercon and Krishnan, 2002[18]) (Figure 4.3). In 6 of 18 countries for which data are available (Albania, Burkina Faso, Chile, Egypt, Ghana and Indonesia), the share of private transfers in household income is actually higher among informal households at the top of the income distribution than among those at the bottom.

Figure 4.3. Private transfers among informal households are not necessarily pro-poor

Share of private transfers among informal households, by income quintile (2015)



Note: AP = Asia and the Pacific. Data refer to 2012 for Albania; 2013 for Ghana and Kyrgyzstan; 2014 for Armenia, Burkina Faso, Honduras, Nicaragua and Viet Nam; 2016 for Argentina, Costa Rica, Paraguay, Peru and Uruguay.
Source: OECD (2019), *Key Indicators of Informality based on Individuals and their Household* (database).

Informal and formal social protection systems can complement and reinforce each other

Formal and informal social protection mechanisms can reinforce each other when informal support mechanisms are better recognised. The extension of social protection to workers in the informal economy often concerns households already relying on informal support and risk sharing (RNSF, 2017[5]). It is key that the extension of social protection reinforces rather than undermines the positive aspects of informal support mechanisms. The potential to build on such informal support, however, is often overlooked in social protection strategy and policy design. A thorough understanding of local support mechanisms can help create positive synergies and ensure that measures complement and enhance informal support. For instance, the extension of health coverage in Ghana and Rwanda harnessed existing community-based mutual health funds and incorporated them into national health insurance, thereby combining the advantages of national and local solutions: larger risk sharing, inclusion of very vulnerable groups and access at the local level (Table 4.1; see also (ILO, 2017[1])). In the Dominican Republic, an association of solidarity services (AMUSSOL) works in collaboration with 129 organisations of informal workers (trade unions, co-operatives or associations) to facilitate access to social insurance (WSM, 2016[19]). Financing the extension of social protection needs to balance equity and sustainability

The extension of social protection to informal workers can take various forms and be financed through different sources, with major equity and sustainability implications.

There is growing attention on financing the extension of social protection to informal economy workers

One approach to the extension of social protection coverage that has received much emphasis in recent years is to develop non-contributory, tax-financed schemes in the form

of universal entitlements to cash benefits. Not contingent on contributions, these non-contributory schemes can play a role in meeting informal workers' basic needs, but they require more public resources. However, workers in the informal economy are sometimes referred to as the "missing middle". They are often not eligible for social assistance because they are above the maximum threshold. At the same time, they are not covered by contributory schemes for a variety of reasons. Providing them with social protection is a major challenge.

A second approach is to support the enrolment of informal workers in contributory schemes by broadening the coverage of statutory schemes, easing effective access through more flexible eligibility conditions, adapted contribution levels and payment modalities, and more attractive benefit packages. From a public spending perspective, this approach has an advantage over tax-financed measures in that it is usually financed through contributions made by workers and, in the case of employees, their employers, with the possibility of additional financing from government budgets to supplement contributions of workers with insufficient contributory capacities.

Recent trends show that, in practice, the extension of social protection coverage to informal economy workers often combines both approaches, relying largely on public resources, supplemented by donor funds in some cases, to finance both non-contributory and contributory schemes. A major challenge with this approach is, as mentioned above, that significant public resources are required to implement and sustain the extension of social protection to the informal economy, taking into account that the necessary increase in domestic revenues allocated to extend coverage requires political will to find the fiscal space. At the same time, the extension of social protection to workers in the informal economy is an investment in people that will contribute to better access to health care and education, more income security, enhanced productivity and transition to the formal economy, which will not only help strengthen fiscal revenue in the medium and long term, but will also contribute to decent work and social justice.

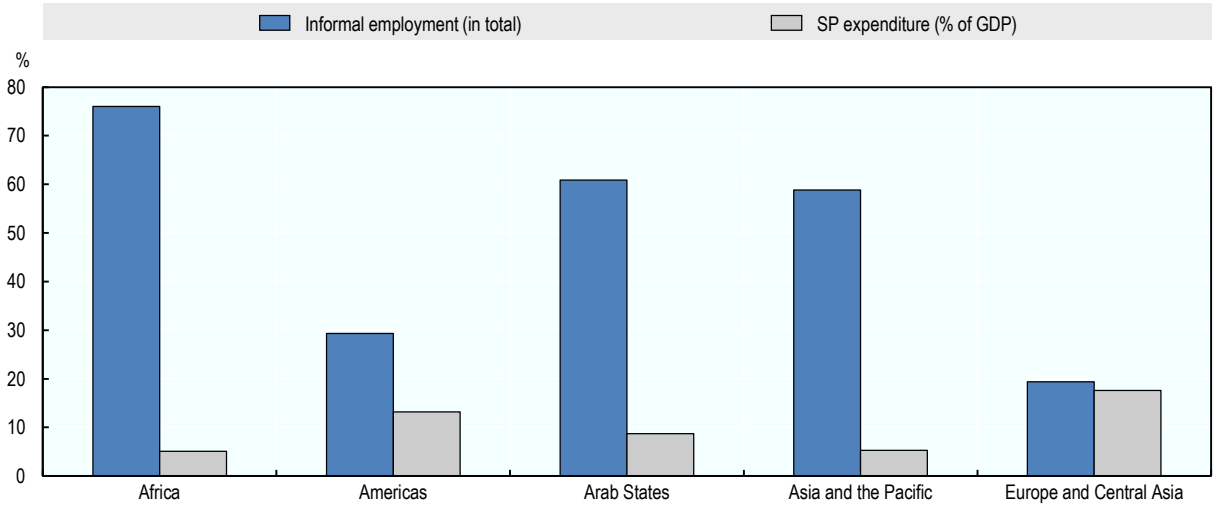
The funding gap to extend social protection to informal economy workers is particularly pronounced in most developing countries

As most informal workers have little or no access to social protection, the larger the size of the informal economy, the greater the level of public resources needed to cover the needs of informal workers and to compensate for the limited coverage of social insurance schemes financed through employee and employer contributions. A crude estimate of the funding gap to cover informal workers' needs, based on the size of the informal economy vs. the amount of public spending on social protection, shows that, while exclusion happens for several reasons, insufficient budget allocation is a key determinant in the developing world (Figure 4.4).

The level of resources allocated to social protection is the lowest in the regions with the highest proportion of informal workers. In Africa, social protection spending represents 5.1% of gross domestic product (GDP), although informal employment constitutes 86.0% of total employment (Chapter 1). Spending in Asia and the Pacific (5.3%) and in the Arab States (8.7%) also appears particularly low, considering that about 60.0% of total employment is informal. By contrast, Europe and Central Asia and the Americas spend much more and have the lowest share of workers in the informal economy.

Figure 4.4. The higher social protection spending, the lower informal employment

Percentage of informal employment and social protection spending, by region



Note: Excludes spending on health.
Source: ILO (2011), *World Social Protection Report 2010/11: Providing Coverage in Times of crisis and Beyond*, ilo.org/global/publications/books/WCMS_142209/lang--en/index.htm.

Financing the extension of social protection to the informal economy comes with substantial equity challenges

For many countries, financing the expansion of social protection to informal economy workers means creating fiscal space, either by increasing the tax base or improving the efficiency of expenditure or other policy options (ILO, 2017[1]). Yet, country experiences show that achieving progressive social spending is not enough to compensate for the inequity in collection through general taxation (Sojo, 2015[4]). The challenge therefore is to raise more tax revenue through a progressive tax system. Because trade tariffs have fallen and corporate contributions tend to be excluded from financing expansion of coverage, countries increasingly resort to indirect taxation, which is regressive in most countries. Financing the expansion of social protection through a regressive tax system can diminish the redistributive impact of social protection.

A number of other options have been proposed to address the equity and sustainability of financing. These include supporting the formalisation of employment and ensuring appropriate levels of social security contributions across different types of employment and raise revenues from social security contributions (OECD, 2016[22]; ILO, 2017[1]); improving taxation of natural resources (Bosch, Melguizo and Pagés, 2013[23]); fighting tax evasion and tax avoidance by transnational firms (Crivelli, de Mooij and Keen, 2015[24]; OECD, 2016[22]); and, in the case of disguised employment relationships, re-emphasising the line of responsibility between employer and worker so that *de facto* employers contribute to financing the social protection of their workers (Alfers, Lund and Moussié, 2017[25]). For dependent contractors, for instance, there is an argument for attaching social protection to supply chains, so that formal firms at the top of the chain contribute towards the social protection of the workers on whom their profits are based (Lund and Nicholson, 2003[26]).

Measuring informality at the individual and the household level is key to developing social protection extension strategies

Informality is often more complex than what is captured through measures of informal employment based on individuals. In fact, informality has very different meanings and implications depending on whether it is assessed at an individual or household level. More than ever, there is a need to develop new portraits of informality based on indicators that take into account not only the heterogeneity of individuals' informal activities but transitions in status and the context of informal economy workers' households.

Taking the diversity of the informal economy into account

Within countries, there is a lot of heterogeneity among informal workers, with important implications for the extension of social protection. The portraits of informality presented in Chapter 1 show that the informal economy encompasses workers with very different characteristics in terms of income, employment status, sector of activities or firm size. This diversity affects the risks workers face and the reasons for exclusion from risk management interventions. It also makes uniform solutions unrealistic. Efforts to extend social protection need to take this diversity into account, especially when it comes to differences in work-related risks, eligibility for social protection programmes, capacity to build up entitlements (RNSF, 2017[27]; ILO, 2017[1]) and disguised employment relationships (Alfers, Lund and Moussié, 2017[25]).

Employment status is a key driver that differentiates the type of protective measures informal workers need to cover their specific risks, the reasons for exclusion from social protection and the possible policy solutions to extend coverage. Across levels of economic development, on average, 45% of informal workers are own account workers, 36% are employees, 16% are unpaid family workers, and 2% are employers (Figure 4.5; see also Figure 1.8). The share of own-account workers is particularly high in developing countries (51% on average but more than 70% in Benin or Rwanda). Their representation decreases with increased levels of development. The same is true for unpaid family workers, who also represent a relatively high share of total informal employment in developing countries (22%). These two statuses, both considered vulnerable, comprise 77% of informal employment in developing countries and 60% in emerging countries. Working as a contributing family worker is especially significant for women in developing and emerging countries, where they represent 31% and 29% of all women workers in informal employment. The share of informal employees increases with increased development, from 21% in developing countries to 51% in developed countries. Among emerging countries, their representation is particularly high in South Africa (70%) and Costa Rica (71%).

Figure 4.5. There is a lot of diversity in the informal economy across employment statuses

Distribution of informal economy employment statuses as a percentage of informal workers, by gender (2015)

Note: Data refer to 2007 for Cameroon; 2011 for Benin, Niger and Senegal; 2012 for Albania and Nigeria; 2013 for Ghana, Kyrgyzstan and U.R. Tanzania; 2014 for Armenia, Burkina Faso, Honduras and Nicaragua; 2016 for Argentina, Costa Rica, Paraguay, Peru and Uruguay.
Sources: ILO (2018[29]), *Women and Men in the Informal Economy: A Statistical Picture*, www.ilo.org/global/publications/books/WCMS_626831/lang--en/index.htm.

The heterogeneity in status in employment reveals different barriers to social protection coverage. In some countries, independent workers (own-account workers and employers) and contributing family workers are excluded from statutory access to social protection. Other countries extend social insurance coverage well beyond salaried employees. Yet, in many cases, independent workers pay both the employer and worker contributions, unless specific measures are taken to reduce contribution rates for certain categories of independent workers. For wage workers without a contract and own-account workers in disguised employment relationships (i.e. dependent contractors), the key issue is to be recognised as having an employment relationship and to benefit from labour and social protection, including social insurance financed through employer and worker contributions. The case of informal employees in the informal sector, moreover, calls for the formalisation, through effective enterprise formalisation mechanisms, of the economic unit hiring them as an important condition for the formalisation of their jobs.

The extension of social protection also needs to take into account and adapt to the specific situation of informal wage workers and the self-employed. Appropriate mechanisms need to be put in place to accommodate the fact that their incomes may be low or irregular and that administrative capacities of small economic units may be very limited. The priority needs of informal workers may also differ from those of formal workers and make, for instance, the long contribution period required for entitlement to some benefits, notably pensions, dissuasive if not accompanied by short-term benefits. Extension strategies therefore need to define benefit packages that meet the needs of informal workers, for instance, by ensuring effective access to health care and income security in the short term (e.g. through disability, work injury, maternity or sickness benefits) and in the long term

(old-age pensions) through contributory or non-contributory schemes (ILO, 2017[1]; 2016[30]).

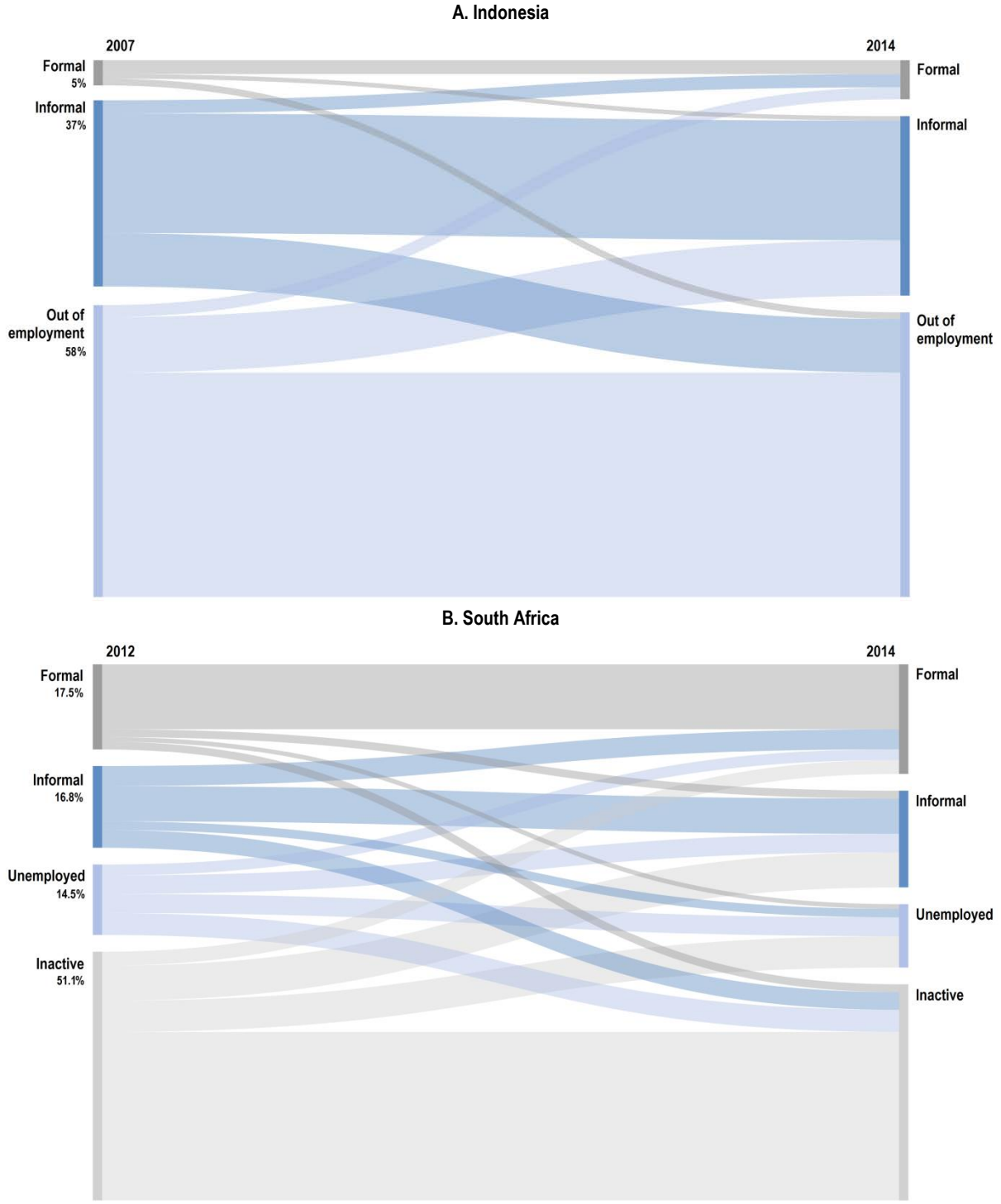
The sectors in which informal workers operate, the location of their work and their firm size also matter a great deal. Large enterprises have the highest levels of productivity, can provide higher wages, are more able to assume the costs and benefits of formalisation (including the cost of social protection)[3] and have higher administrative capacities. This makes the extension of social protection to informal workers potentially more straightforward in large firms, not least because they tend to be more exposed to labour inspection and more likely to have effective internal social dialogue mechanisms, which can favour compliance with labour and social security legislation and other fiscal obligations. Still, as shown in Chapter 1, a significant share of workers in informal employment are found in medium-sized (10-49 workers) and large (50 or more workers) formal sector enterprises, despite the greater ability of large firms to cover the cost of formalisation. This may result from the absence of recognition of the employment relationship or from contracts that provide no access to social security and other employment-related benefits.

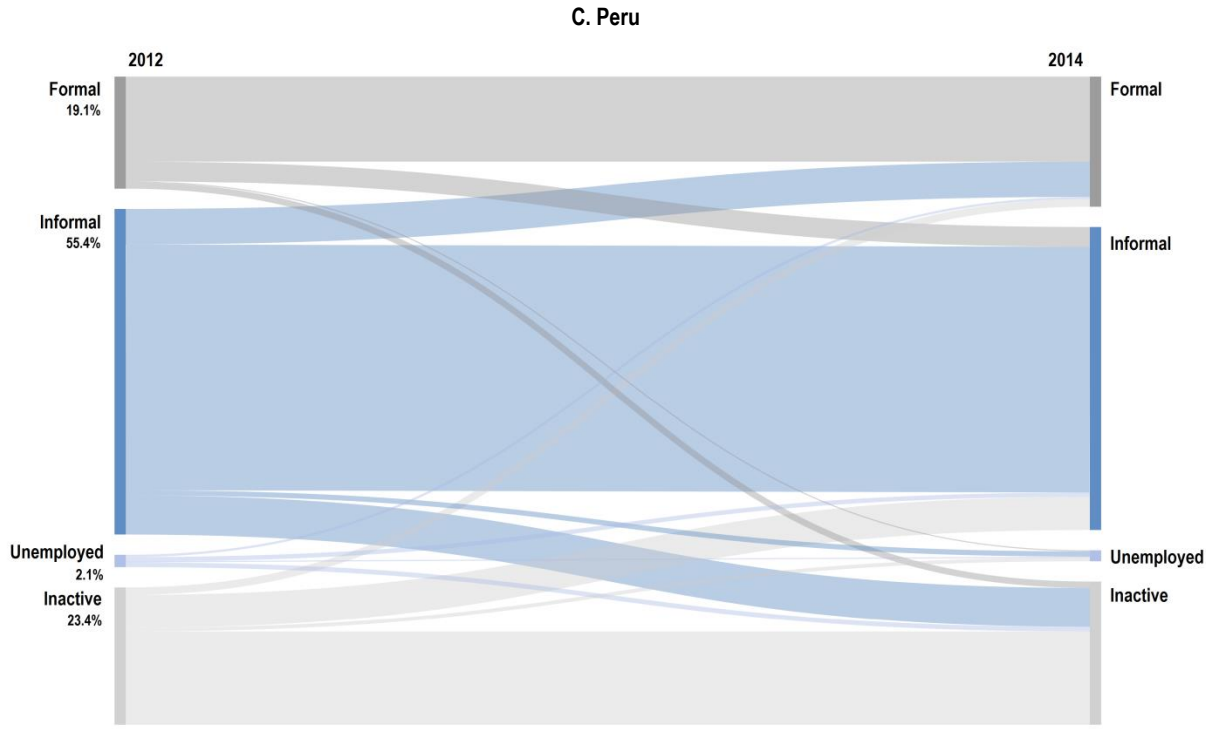
The extension of social protection to informal workers needs to account for labour mobility

Another important challenge in covering informal workers is their mobility in various dimensions, including movements between wage employment and self-employment (or a combination), economic sectors, geographical regions and into and out of informality. Frequent and diverse transitions between different types of employment (including self-employment) and economic sectors, as well as geographic mobility, raise the question of whether social security is portable and ensures effective and adequate protection over the lifecycle. In many cases, given incomplete coverage, labour mobility can also imply transitions between formal and informal employment. Job transition matrices by labour market status and formality for Indonesia, South Africa and Peru reveal a fairly large proportion of workers moving into and out of formality (Figures 4.6A, 4.6B, 4.6C). In South Africa and Peru, over two years, 25% and 11% of informal workers formalised, and 9% and 18% of formal workers became informal. In Indonesia, over seven years, 7% of informal workers formalised, and 18% of formal workers became informal. Informal employment is the primary channel for entry into employment from unemployment or inactivity. In Indonesia, those out of employment are nearly five times more likely to get an informal as a formal job (19% vs. 4%). In South Africa and Peru, the ratios are 2.3 (14% vs. 6%) and 5 (24% vs. 5%) coming from inactivity and around 1.7 (26% vs. 15%) and 2 (36% vs. 18%) coming from unemployment.

Figure 4.6. There are large movements into and out of informality

Transition matrices, by labour market and formality status, in Indonesia, South Africa and Peru (2007-14)





Note: Time spells: two years for Peru and South Africa (2012-14) and seven years for Indonesia (2007-14).
Source: OECD (2019), *Key Indicators of Informality based on Individuals and their Household* (database).

Extending social security to informal economy workers will require ensuring continued coverage across different types of employment and transferability of rights and entitlements between schemes. Continued coverage is relatively easily achieved in countries that cover the majority of the labour force, including employees and the self-employed, through one general scheme, as in Uruguay. In countries with more fragmented social protection systems, effective mechanisms need to be put in place to ensure that acquired rights are guaranteed and portable. Such measures are particularly important for contributory schemes (both mandatory or voluntary schemes). At the same time, rules for accessing benefits, namely minimum contribution periods, should not disadvantage workers with frequent labour market transitions (ILO, 2016[31]; Behrendt and Nguyen, 2018[32]).

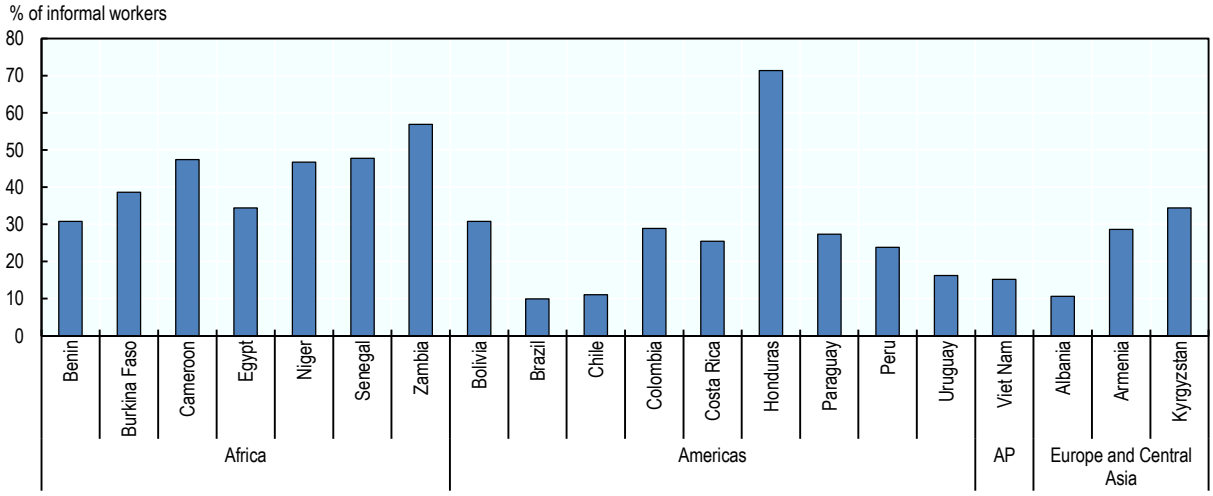
The household dimension is essential to identify the right mix of interventions and develop an integrated policy package for the extension of social protection to informal workers

As countries look to extend social protection to informal economy workers, it is essential to take into account their household contexts. Household characteristics provide a range of information needed to develop an effective extension strategy, including 1) how many informal workers belong to poor households and could be *a priori* covered if anti-poverty programmes were extended to all eligible households; 2) how many informal workers live in households with formal workers and may be fully or partially covered through them, at least for health, without creating disincentives to contribute, increasing dependency between household members or further burdening formal workers; 3) how many informal workers belong to food secure households and have capacity to pay contributions without risking food insecurity.

In many countries, the extension of tax-financed anti-poverty programmes would cover a larger share of informal workers. An important question is the extent to which the coverage challenge of informal workers could be resolved by prioritising coverage of poor households when building a social protection floor. Such coverage could be achieved through various means, including universal benefits for some population groups (e.g. older individuals, children or people with disabilities) or programmes directly targeting people living in poverty, based on clear, transparent and equitable eligibility criteria (ILO, 2017[1]). Around 2015, for 20 countries, the average share of informal workers living in poor households was 32% (Figure 4.7). The proportion of poor informal workers varies greatly across countries, from below 20% in 5 countries (Albania, Brazil, Chile, Uruguay and Viet Nam) to between 20% and 50% in 13 countries and above 50% in 2 countries (Honduras and Zambia). Africa has the highest proportion of poor informal workers. The findings suggest that tax-financed social protection programmes may be a straightforward way to extend social protection to informal workers in countries where a large proportion is poor.

Figure 4.7. Anti-poverty programmes could cover a large share of informal workers

Share of informal workers below the national poverty line as a percentage of informal workers (2015)



Note: AP = Asia and the Pacific. Data refer to 2011 for Benin, Niger and Senegal; 2012 for Albania; 2013 for Kyrgyzstan and Madagascar; 2014 for Armenia, Honduras and Viet Nam; 2016 for Costa Rica, Paraguay, Peru and Uruguay.
Source: OECD (2019), *Key Indicators of Informality based on Individuals and their Household* (database).

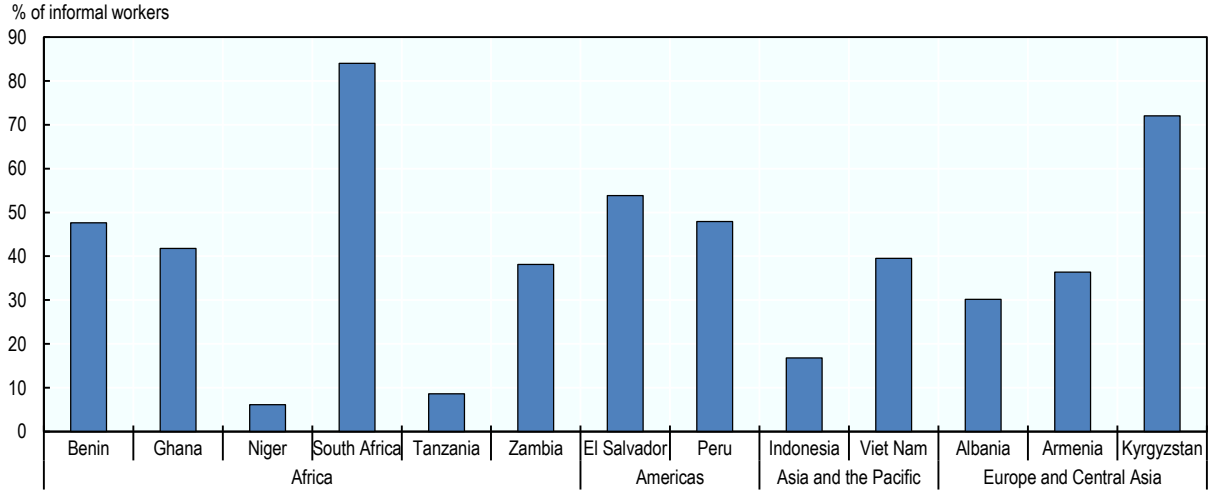
Some informal workers have the capacity to contribute and could be covered through contributory schemes. Experiences in countries that have successfully extended social insurance coverage to previously informal workers demonstrate that some adaptations to schemes may be necessary, in particular ensuring that 1) contribution levels are adapted to workers' contributory capacities; 2) payment modalities and procedures take into account the situation of workers and employers (e.g. seasonality, limited administrative capacities, geographic distance) and facilitate access through various means; 3) benefit packages meet workers' needs and are easily accessible; and 4) both workers and employers are aware of their respective rights and obligations and value social protection coverage (ILO, 2017[1]).

One way of assessing the capacity of informal workers to contribute to social protection is to look at the share of household budget spent on food. It is widely documented that the poorer and more vulnerable a household, the higher the share of household income spent on food. As incomes rise, the share of total income spent on food declines up to a point where an increase in non-food items no longer threatens food security. Generally, households spending above 65% are considered to have high food insecurity; those spending 50-65% have medium food insecurity; those spending below 50% have lower levels of food insecurity (Smith and Subandoro, 2007[33]).

Based on estimates of households with low levels of food insecurity and thus capacity to spend more on non-food items, data reveal that an average of 40% of all informal workers in the sample of 13 developing and emerging countries live in a food secure household (Figure 4.8). There are large disparities across countries, from 10% or below in Niger and the United Republic of Tanzania to above 50% in Kyrgyzstan and South Africa. Still, the findings suggest that there is potential for the extension of contributory mechanisms to a non-negligible proportion of informal workers in several countries, provided that barriers (e.g. lack of trust in social security institutions, access to benefits meeting workers' needs, complex administrative procedures) are addressed.

Figure 4.8. Informal workers' capacity to contribute to social protection is not negligible but varies across countries

Share of informal workers living in food secure households as a percentage of all informal workers (2015)



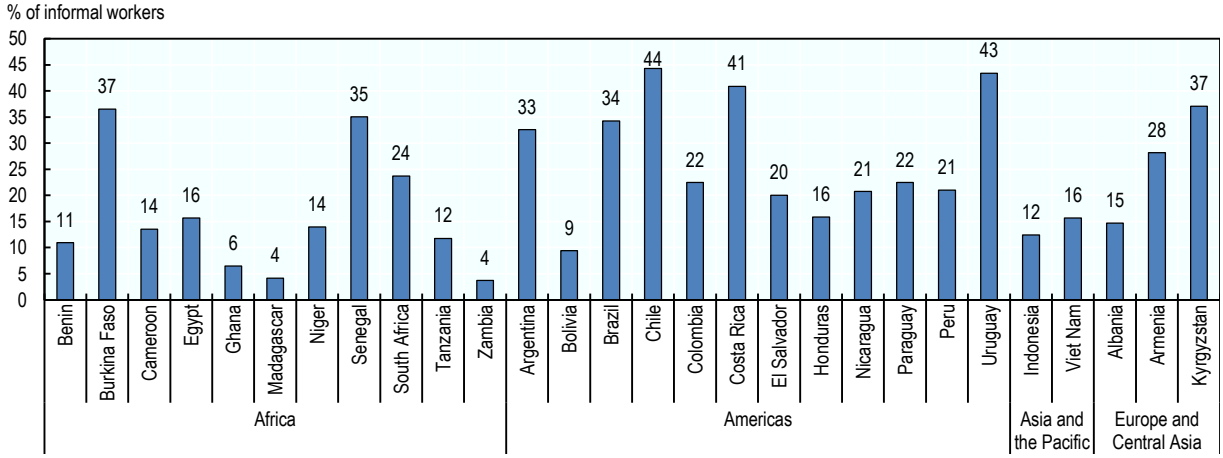
Notes: Food secure households defined as those spending less than 50% of income on food. Data refer to 2011 for Benin and Niger; 2012 for Albania; 2013 for Ghana, Kyrgyzstan and U.R. Tanzania; 2014 for Armenia and Viet Nam; 2016 for Peru.
Source: OECD (2019), *Key Indicators of Informality based on Individuals and their Household* (database).

In several countries, the scope for informal workers to be covered by existing formal schemes through spouses and other household members is important. Around 2015, for 28 countries, the average share of informal workers living in mixed households stood at 23% (Figure 4.9). In eight countries for which data are available, the share exceeds 30%. There are large regional disparities, with the lowest proportion of mixed households in African countries and the largest in Latin American countries. The findings suggest that, at least in some countries, allowing other household members to benefit from the coverage of formal economy workers may be an effective way to extend social protection

coverage to informal workers. This could be relevant for health insurance, but should not act as a disincentive to contribute if there is capacity, and should not reinforce dependency between household members which could thwart efforts with regard to promote gender equality in social protection.

Figure 4.9. The scope for informal workers to be covered by existing formal schemes through spouses and other household members is important

Share of informal economy workers living in mixed households as a percentage of all informal workers (2015)



Note: Data refer to 2007 for Cameroon; 2011 for Benin, Niger and Senegal; 2012 for Albania; 2013 for Ghana, Kyrgyzstan, Madagascar and U.R. Tanzania; 2014 for Armenia, Burkina Faso, Honduras, Nicaragua and Viet Nam; 2016 for Argentina, Costa Rica, Paraguay, Peru and Uruguay.
Source: OECD (2019), *Key Indicators of Informality based on Individuals and their Household* (database).

Realistic policy options to extend social protection to informal economy workers (enhancing both health protection and income security) account for capacity to contribute, employment status and whether informal jobs occur in or outside of the informal sector (Table 4.2). Not all workers and economic units are in a position to be formalised in the short or medium term. For many of them, measures to enhance the level, stability and predictability of income, reduce decent work deficits and improve productivity are the first steps, followed by gradual transition to formality. A key element of those measures is the extension of social protection through non-contributory or fully subsidised schemes to informal workers without any capacity to contribute. While not immediately related to formalisation, it and other measures create the conditions to advance the process. Those complementary measures are further developed in the next section. They go beyond social security to include conditions that are either necessary to make the extension possible (e.g. formalisation of enterprises before or alongside formalisation of jobs) or important to support the process of extension and its sustainability as part of the broader formalisation process.

Table 4.2. The extension of social protection to workers in the informal economy: Realistic policy options by capacity to contribute and employment status

Poverty status / Employment status	Working poor: Living in poor households	Non-poor: Able to contribute
Employees in formal sector enterprises Formalising jobs	The exclusion of employees in formal sector enterprises from contributory social security can be associated to two reasons: i) to be covered by law but undeclared; ii) to be uncovered or insufficiently covered by law. In the first case, the main issue is to ensure the application of the law. In the second case, the extension of legal coverage is a necessary first step.	
	Non-contributory, tax-financed social protection schemes with clear eligibility criteria, offering predictable benefits Social insurance coverage with subsidised contributions Measures to support the improvement of the level, stability and predictability of income, the reduction of decent work deficits, and productivity	Social insurance coverage: enhancing compliance, extending legal coverage and addressing administrative and financial barriers Tax-financed social protection schemes with broad coverage, such as universal old-age pensions or child benefits, could complement to guarantee a basic level of protection
	Recognition of the employment relationship, employment contract associated with effective access to social security benefits and extension of legal coverage when necessary (e.g. reduction/suppression of minimum thresholds, inclusion of groups previously excluded)	
Employees in informal sector enterprises and households Formalising jobs and enterprises (as a necessary condition)	Non-contributory, tax-financed social protection schemes with clear eligibility criteria, offering predictable benefits Social insurance coverage with subsidised contributions (combined with measures to formalise the enterprise) Measures to support the improvement of the level, stability and predictability of income, the reduction of decent work deficits, and productivity of enterprises and workers	Social insurance coverage: enhancing compliance, extending legal coverage and addressing administrative and financial barriers Tax-financed social protection schemes with broad coverage, such as universal old-age pensions or child benefits could complement to guarantee a basic level of protection Mix of incentives with compliance measures to facilitate transition to formality of the units (formalise enterprises) and workers (formalise jobs)
	Recognition of the employment relationship, employment contract associated with effective access to social security benefits and extension of legal coverage when necessary (e.g. reduction/suppression of minimum thresholds, inclusion of groups previously excluded) Supporting the formalisation of enterprises	
Independent workers (employers and own-account workers) Formalising enterprises and enhancing access to social protection	Non-contributory, tax-financed social protection schemes with clear eligibility criteria, offering predictable benefits Social insurance coverage with subsidised contributions (combined with measures to formalise the enterprise) Measures to support the improvement of the level, stability and predictability of income, the reduction of decent work deficits, and productivity	Social insurance coverage adapted to their situation Tax-financed social protection schemes with broad coverage, such as universal old-age pensions or child benefits Mix of incentives with compliance measures to facilitate the transition to formality of enterprises (and of jobs within enterprises)
Contributing family workers	Tax-financed social protection schemes with broad coverage, such as universal old-age pensions or child benefits Fully or partly subsidised social insurance coverage Facilitate the transition to another employment status	

The extension of social protection needs to be accompanied by other measures

Besides the lack of social protection, informality among employees and enterprises often associates with low productivity and wages, complex procedures and high costs of formalisation (Chapter 2), limited compliance and limited motivations among informal workers to formalise, and poor working conditions (ILO, 2017[34]). Tackling the vulnerability challenge in the informal economy thus requires complementing the extension of social protection programmes with other measures to reduce the costs and complexities of formalising, raise the productivity and wages of informal economy workers and enterprises, improve working conditions, put in place incentives to formalise, support the representation and voice of informal economy workers, and strengthen enforcement and compliance. A number of initiatives have been taken along these lines.

Reducing costs and complexities to register and comply with regulations

Simplifying business registration and licencing is important in removing barriers to formalisation. Many entrepreneurs face tedious, time-consuming administrative procedures and high costs in registering their businesses and declaring their workers. In Cambodia and Zimbabwe, it took 99 days and 91 days on average to register a business in 2017 (World Bank, 2018[35]). Several governments have introduced reforms to make it easier and less costly to establish a formal business. Legislative changes that translate into shorter and cheaper procedures for registering companies with the various administrative entities and for obtaining the necessary licences and operating permits should be a cornerstone of any agenda to formalise micro and small enterprises. The most common strategies to simplify business start-up are 1) one-stop shops; 2) business licencing reform; 3) administrative deadlines; 4) reduction or elimination of minimum capital requirements; 5) simplified legal formats for micro businesses; 6) simplified administrative processes; 7) electronic services; and 8) information and technical support. Reforms typically involve a wide range of stakeholders including social partners, who should be involved in the process from the beginning (ILO, 2014[36]).

One-stop shops and other measures can simplify business registration and declaration of workers. One-stop-shops tend to provide commercial and tax registration services under one roof. In some countries, they offer registration with the social security office for business owners and their employees. One-stop shops also provide information on the registration process itself and the related requirements. Streamlining procedures and reducing the number of steps also simplify registration and licensing. In Zimbabwe, an entrepreneur goes through ten procedures to register a small business; in New Zealand, it takes only one day (World Bank, 2018[35]). Online registration systems are also being used to simplify registration. Simplified legal formats for micro and small enterprises are another means. Under Brazil's 2008 law on Individual Micro Entrepreneurs (IME), entrepreneurs and own-account workers who hire no more than one employee and meet other eligibility criteria can register as an IME. Benefits include access to a basic state pension, disability and survivor benefits, health and maternity protection and a family allowance in the event of imprisonment or death of the household breadwinner (ILO, 2014[36]). By 2017, over 7.7 million were registered (Santiago, 2018[36]).

However, simplified registration, while an important step to reduce informality, should be combined with other measures, such as increasing productivity and putting in place incentives to formalise.

The fiscal obligations that come along with business formalisation are taken into consideration by small business owners when deciding to register. Some countries offer a differential tax rate for smaller companies. However, for micro and small businesses, the complexity of procedures, multiplicity of taxes and lack of information and support discourage formalisation. Several countries have created special tax regimes for these enterprises to promote formalisation. These usually offer a combination of 1) lower tax rates, compared with the general regime; 2) presumptive taxation; and 3) integration of taxes into a single payment (ILO, 2014[36]). Brazil's IME law allows own-account workers with annual sales up to a certain ceiling to pay a fixed monthly amount that replaces social security contributions and certain taxes, while exempting them from other taxes (ILO, 2014[36]).

Improving productivity, earnings and wages

Low labour productivity in the informal sector reduces the potential of economic units to transition themselves and their workers to formality. Due to limited access to finance, technologies, markets and skilled human resources, informal economic units tend to operate at low levels of labour productivity and remain in the informal sector. With capital, investments, technologies, property rights and a more skilled workforce, these units may be able to raise their production of goods and services, work more efficiently and benefit from economies of scale. For many, increased productivity is an important precondition to formalising and seizing opportunities in the formal sector. Productivity can also contribute to enhanced working conditions.

Technical skills upgrading through training schemes is an effective policy option to raise the productivity and earnings of informal workers and enterprises. In the informal economy, skills gaps and shortages tend to be large, as workers are very unlikely to benefit from TVET policy. Traditional informal apprenticeships are most often the only training option for many workers in the informal economy and for the vast majority of young people who enter the labour market. This is why several countries have taken the approach of upgrading informal apprenticeships.

Upgrading business practices can enhance professionalisation and increase productivity, which in turn may result in enterprise formalisation. Many informal operators lack access to relevant and affordable business management training, business development services and (sectoral) support programmes. Furthermore, they are often not organised but work in isolation, as a result of which they miss out on opportunities to access services jointly and negotiate better prices or conditions. By professionalising their business operations and working together (for instance, through member-based organisations), they may create economies of scale and access goods, services and markets at attractive rates or conditions. Upgraded business practices may also be a stepping stone to accessing formal markets.

Increased access to key resources, such as capital, infrastructure and technology, can enhance productivity, increase earnings and improve working conditions among the self-employed in the informal economy. Several countries have developed programmes along these lines (Table 4.3). In Ethiopia, an entrepreneurship programme offering an unconditional cash grant worth ETB 5 000 (Ethiopian birr) to mostly low-skilled young women stimulated self-employment, raised earnings by 33%, provided steady hours of work and halved the risk of later occupying a poor quality job in low-skill manufacturing (Blattman and Dercon, 2016[39]). Right before receiving the grant, participants were provided with business training, planning support and individual mentoring, which sheds

light on the importance of investing in comprehensive entrepreneurship programmes that offer multiple integrated services simultaneously (OECD, 2017[40]). In India, the Mahila Housing SEWA Trust (MHT) helps poor women in the informal economy access basic amenities and low-cost housing, thereby contributing to improving home-based work settings and living conditions (Lokmanya, Baug and Bhadra, 2013[41]). In South Africa, informal garment workers invested in improved sewing machines and other specialised tools, resulting in enhanced productivity and ability to make modern garments and increased earnings (if the customer provides the cloth, as modern fabrics are expensive) (Alfers et al., 2016[42]).

Providing incentives to formalise small enterprises

It is also important to put in place incentives to make formalisation more attractive. Examples include increased access to social security, procurement opportunities and financial and non-financial business development services.

Increasing access to social security can be an effective way to formalise micro and small enterprises. In some cases, such incentives are combined with tax simplifications. In Brazil, the Simples Nacional regime, which came into effect in July 2007, introduced a single tax payment, or monotax. It allows small businesses to file a single, simplified annual tax declaration, replacing tax and social security declarations at the federal, state and municipal levels with a monthly payment, which varies according to economic activity. The general law, moreover, reduces a few other fiscal obligations for micro and small enterprises. Instead of paying each tax or contribution separately, according to different calculation methods and payment schedules, taxpayers contribute a single monthly amount, which varies according to gross revenue over the previous 12 months and type of economic activity. The single tax significantly simplifies accounting in small firms (ILO, 2014[36]). Under Simples Nacional, employees working in micro and small enterprises continue to enjoy the same rights and benefits as other formal wage earners. A key feature is therefore that it reduced the administrative burden on companies without negatively affecting workers' rights and benefits in small firms (ILO, 2014[36]). By 2017, more than 4.9 million micro and small entrepreneurs had opted for the Simples Nacional regime (Santiago, 2018[36]).

The positive effects of social security coverage on firm performance (e.g. Lee and Torm, 2017 for Viet Nam) have led some countries to introduce measures in formalisation polices to encourage coverage. For example, Algeria has introduced the possibility for formalising enterprises to benefit from reduced social insurance contributions for up to three years.

Access to finance can increase productivity among small enterprises and may entail an incentive to formalise. By improving access to finance and making financial services more relevant, entrepreneurs can seize business opportunities otherwise beyond reach. Measures to enhance access include credit guarantee schemes, collateral registries and small and medium-sized enterprise (SME) windows within financial service providers. Relevant services include leasing, business insurance and digital payment services. Combining financial services with non-financial business development support may also enhance productivity in micro and small enterprises.

Financial education and awareness programmes can capacitate entrepreneurs to separate their private and business income and accounts, which is a requisite to meet formal accounting and other obligations. Some financial service providers provide incentives and/or support to small enterprises on the path to formality. Chile's state-owned Banco

Estado Microempresas offers credit for both working capital and production-related investments to formal and informal micro enterprises that have been in operation for more than one year. While formalisation is not a requirement prior to obtaining a loan, the bank helps customers formalise by providing information and training on the procedures. In 2013, the institution launched the entrepreneur's account, which is accessible to registered micro and small enterprises upon submission of the company's operating license and tax registration papers, together with documents identifying its legal representatives.

In Egypt, the non-profit Alexandria Business Association (ABA) introduced a gradual lending scheme whereby formalisation requirements increase with requested loan size. ABA began activities in 1983 to provide support to the private sector and promote the interests of the business community. With support from the United States Agency for International Development, the ABA's Small and Micro Enterprises Project (ABA-SME) was launched in 1990 and has been working as an independent micro-lending financial institution. Besides the usual goals of income generation and better yield for micro entrepreneurs, ABA-SME's programme declared formalisation a key component of its social mission. Eligibility for increasingly larger loans is tied to assistance and business development services to clients. Lending conditional on requirements provides an incentive to formalise. ABA-SME also supplements micro-loans with capacity-building activities for small entrepreneurs on how to understand the requirements and invest in tools and processes to meet them. So far, ABA-SME's formalisation programme has reached its goals of promoting existing small and micro enterprises and helping their transformation to formality. In 2004, around 1 400 of 24 000 active clients formalised their activities. By 2016, around 18% of all of ABA's SMEs had fully formalised (ILO, forthcoming).

Some governments encourage small entrepreneurs to participate in public procurement programmes. This may incentivise formalisation, as governments require suppliers to run formal businesses. Measures include quotas on small enterprises engaging in public bids; training, support and information for participating entrepreneurs; and separating a tender into multiple, smaller lots.

The Government of Brazil put in place a policy framework which, among other features, encourages participation of micro and small enterprises in public procurement. The 2006 general law governing micro and small enterprises gives these firms sole access to public acquisitions of goods and services and works worth up to BLR 80 000 (Brazilian real). The law also simplifies public tender procedures, permits subcontracting of micro and small enterprises within larger contracts and, in the event of a tie, guarantees their precedence over larger firms. One interesting initiative is the Ministry of Education's school meals programme, which obliges municipalities to spend 30% of the resources received for school meals from the national education development fund on products from family-based local farms. Another example is the national food acquisition programme, which assists food insecure people through a network of popular restaurants, food banks, community kitchens and food baskets distributed by the federal government. The programme allows public sector organisations to purchase directly from small enterprises through open competitions and without traditional tendering procedures, thereby supporting the growth and formalisation of small rural production units. In 2012, more than 185 000 farming families supplied products to this programme. Enterprises participating in any of these public procurement programmes must be fully formalised (ILO, 2014[36]).

Integration into the supply chain of a large company can be an effective incentive for small enterprises to formalise. The Chilean Economic Development Agency's Supplier Development Programme is the main public effort to promote business linkages with small enterprises. It aims to strengthen the diagnosis and development of public and private business projects to improve the quality and productivity of suppliers. Through the creation and consolidation of stable subcontracting relationships between an enterprise and its suppliers, the programme helps generate reciprocal business linkages. A leading multinational company established a programme, 50% funded by the Supplier Development Programme, that aims to increase the competitiveness of selected SMEs, through professionalisation, to become suppliers in the company's value chain. Selection requirements for this initiative include having at least a 60% purchase relationship with the transnational company and being a family business. Over three years, selected small enterprises have capacity-building opportunities to improve their management skills, entrepreneurship, accounting, information technology and software, inventories and sales, for instance. In the first year of implementation, the company observed a compliance level among participating enterprises of approximately 25% on average. Compliance increased to 70%, demonstrating increased positive impacts regarding the process of formalisation (ILO, 2016[43]).

Supporting cross-border trade by informal entrepreneurs has helped informal traders to develop their businesses. Authorities in Bangladesh and India, for instance, authorised border *haats* (informal markets), giving residents in towns near land ports the opportunity to trade manufactured and agrarian products at small scale (UNDP, 2016[44]). Border *haats* have expanded opportunities for micro and small entrepreneurs, notably women entrepreneurs, to engage in cross-border trade and develop their businesses, with a positive impact on the local economy and living conditions.

Formalisation, inclusiveness and global supply chains

The ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration) provides direct guidance to enterprises (both multinational and national) as well as governments and employers' and workers' organizations on social policy and inclusive, responsible and sustainable workplace practices. It covers areas such as general policies, employment, training, conditions of work and life, and industrial relations. The MNE Declaration is the only global instrument in this area that was elaborated and adopted by governments, employers and workers from around the world. The guidance provided in the MNE Declaration is founded substantially on principles contained in international labour standards.

The MNE Declaration was most recently amended in March 2017, when principles were added addressing specific decent work issues related to economy, social security, forced labour, wages, access to remedy and compensation of victims. Particularly in regards to the transition from the informal to the formal economy, the MNE Declaration states that "governments should develop and implement an integrated policy framework to facilitate the transition to the formal economy, recognizing that decent work deficits are most pronounced in the informal economy. Multinational and other enterprises should also contribute to this aim" (ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy, para 21). The MNE Declaration also highlights that workers employed by multinational enterprises should have the right, in accordance with national law and practice, to have representative organisations of their own choosing recognised for the purpose of collective bargaining.

The MNE Declaration also provides guidance on due diligence processes – consistent with the United Nations Guiding Principles on Business and Human Rights – in achieving decent work, sustainable businesses, more inclusive growth and better sharing of the benefits of FDI, particularly relevant for the achievement of Sustainable Development Goal 8 on Decent Work and Economic Growth, which includes a target on support productive activities and encouraging the formalisation and growth of micro-, small- and medium-sized enterprises. The Governing Body of the ILO also adopted a set of operational tools to stimulate the uptake of the principles of the MNE Declaration by all parties.

In the framework of the MNE Declaration, a thematic brief explored the role of multinational enterprises in the formalisation of SMEs in supply chains in Latin America, highlighting the critical role national legislation and enforcement, as well as a smart mix of public policies are needed to address the various and complex causes of informality. The findings also shed light on the positive role that MNEs can play in the formalisation of SMEs by acting as a vehicle to promote good practices among SMEs in their value chains, as part of their broader CSR efforts.

The *OECD Guidelines for Multinational Enterprises* (hereafter the Guidelines) aim to enhance economic growth in host and home countries while increasing well-being and ensuring that growth benefits are distributed fairly across all segments of the population (OECD, 2011[46]). The Guidelines recommend that enterprises respect human rights and core labour rights; provide the best possible wages, benefits and conditions of work, which should be at least adequate to satisfy the basic needs of the workers and their families; take adequate steps to ensure OSH in their operations; and avoid supporting, encouraging or participating in disguised employment practices. These recommendations can support the development and formalisation of informal workers. The Guidelines also recommend that enterprises respect the right of workers to establish or join trade unions and representative organisations of their choosing, including for the purpose of collective bargaining. The bargaining power of trade unions contributes to reducing inequalities and improving employment conditions (Dabla-Norris et al., 2015[47]), including for informal workers.

The Guidelines also recommend that enterprises build local capacity, encourage human capital formation and adopt practices that permit the transfer of technologies and know-how (OECD, 2015[48]). They encourage enterprises to consider the social and economic impacts of responsible supply chain management (OECD, 2015[48]). They also define a company's responsibility towards adverse impacts, including risks arising from informality in its own activities and in its supply chains and links to other business relationships. Companies meet these expectations through due diligence, in their operations and throughout their supply chains, to anticipate, prevent and mitigate adverse impacts (OECD, 2018[49]). Importantly, due diligence recommendations are not intended to shift responsibilities from governments to enterprises or from enterprises causing or contributing to adverse impacts to enterprises directly linked to adverse impacts through their business relationships. Instead, they recommend that each enterprise addresses its own responsibility with respect to adverse impacts (OECD, 2018[50]). The *OECD Due Diligence Guidance for Responsible Business Conduct*, which was developed through a multi-stakeholder approach and adopted by Adherent Countries to the *OECD Declaration on International Investment and Multination Enterprises*, provides detailed recommendations on carrying out due diligence.

The OECD seeks to support the implementation of OECD due diligence guidance for responsible supply chains by industry in partnership with government, business, workers

and civil society. As part of these activities, the OECD promotes the formalisation of informal workers in various sectors, including the extractives, garment and footwear and agriculture sectors. The examples below illustrate how enterprises can support the formalisation and inclusion of workers in global supply chains in various sectors.

Avoiding disengagement: Artisanal and small-scale miners in high-risk areas

The implementation programme of the *OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas* aims to create the right conditions for the development, formalisation and legalisation of artisanal and small-scale miners. The guidance provides strategies to create economic and development opportunities for informal miners in conflict-affected and high-risk contexts. In the five years of implementation, market access for artisanal miners improved, with better prices, better conditions and more secure long-term commercial opportunities; one industry initiative in conflict (3TG minerals, tin, tantalum, tungsten and gold) estimates that 80 000 miners are selling to the programmes and in turn providing support for as many as 375 000 dependents (iTSCi, 2018[51]).

Promoting inclusive business models for smallholder farmers

A core aim of the *OECD-FAO Guidance for Responsible Agricultural Supply Chains* is to enable investors and enterprises in the agricultural supply chain to engage with smallholder farmers effectively and positively (OECD/FAO, 2016[52]). It recommends that enterprises consider feasible alternative investments to avoid or minimise physical and/or economic displacement of legitimate tenure right holders.

As an alternative to large-scale land acquisitions, the guidance recognises that large enterprises can develop inclusive business models involving smallholder farmers, such as contract farming, management schemes, outgrower schemes or joint ventures. Such schemes allow smallholder farmers and local communities to benefit from more stable livelihood options and a fairer distribution of the benefits linked to the new business establishment. They are often associated with tailored know-how and technology transfer, local capacity building and more inclusive decision processes. The guidance also acknowledges how large agrifood enterprises can benefit from establishing long-term relationships with small-scale farmers, thereby supporting their integration into global supply chains.

Protecting homeworkers in garment and footwear supply chains

Since the passage of the Home Work Convention, 1996 (No.177) in 1996, there have only been ten ratifications and most countries do not have specific legislation protecting homeworkers. Yet homeworking continues to exist, in both the North and South, providing valuable inputs into global production models, both in the form of industrial outwork but also in service-based work conducted at the home using information and communication technologies (ICT). In many countries, homeworkers are an integral component of the garment and footwear supply chain but are particularly vulnerable to low wages and poor working conditions. Given the important share of women who perform homework, improving working conditions is important for achieving greater gender equality. The *OECD Guidance for Responsible Garment and Footwear Supply Chains* provides recommendations for due diligence:

- Identify local initiatives promoting the formalisation of homeworkers and protecting them against decent work deficits;

- Support the establishment of a grievance mechanism and take steps to enable homeworkers to access this mechanism so that they may alert the enterprise and/or government authorities of adverse impacts (ILO, 2015[2]);
- Engage with the local or national government, including by 1) promoting the extension of coverage of the law to informal workers; 2) drawing attention to causes of informality and encouraging government to remove underlying barriers to entry into mainstream economic and social activities; and 3) promoting the extension of social security coverage through improved access to health care and education for informal workers, including homeworkers.

Regulating due diligence

Governments are increasingly using legislation as a tool to promote due diligence in the global operations and supply chains of companies operating in and from their jurisdictions. Since 2011, binding legislation requiring companies to take steps either to disclose or take action on human rights risks in their supply chains has been passed in France, the United Kingdom and the United States, adopted by the Dutch Parliament and introduced in the Australian Parliament. The 2017 French duty of care law obliges large French companies to establish human rights due diligence plans to address risks in their operations, supply chains and business relationships. Companies that fail to publish or implement such a vigilance plan are subject to sanctions (Aïssi, 2018[53]). Similarly, the 2017 EU Regulation on due diligence in minerals supply chains lays down supply chain obligations for EU importers of tin, tantalum and tungsten, their ores, and gold originating from conflict-affected and high-risk areas in accordance with due diligence process under the OECD guidance. The EU Regulation will enter into force in January 2021.

Strengthening inspection and compliance

Such measures to encourage formalisation should go hand in hand with measures to enhance compliance, balancing carrots with sticks.

An important obstacle to greater formalisation of micro and small enterprises is the limited control that labour and tax authorities exert over this segment. There is a range of methodologies to improve inspection through better information management and analysis, education and support by these inspectorates (ILO, 2014[36]). Both preventive and corrective measures can enhance compliance, including 1) compliance strategies that address the main causes for non-compliance with registration obligations; 2) information and advice on how to comply with legislation, with awareness raising, education and direct assistance to employers and workers; 3) enforcement of applicable rules, with effective and deterrent sanctions; and 4) strengthened capacities of compliance agents, mechanisms (such as dispute resolution) and the judiciary to address compliance gaps (ILO, 2017[34]).

Tackling Occupational Safety and Health (OSH) in the informal economy

Most occupational injuries and illnesses could be avoided through effective implementation of prevention, reporting and labour inspection mechanisms. ILO OSH instruments – more than 40 specific standards and codes of practice – provide essential tools for governments, employers and workers to ensure maximum safety at work. ILO instruments on OSH fundamental principles include the Convention on Occupational

Safety and Health, 1981 (No. 155) and its 2002 Protocol, the Convention on Occupational Health Services, 1985 (No. 161) and the Convention on Promotional Framework for Occupational Safety and Health, 2006 (No. 187).

Improving OSH in the informal economy is a huge challenge for developing countries, but it is not impossible, and it is essential to protect workers' health and well-being and improve their standard of living. While this should be part of strategies to formalise informal workers and alleviate poverty (Forastieri, 2014[54]), there is also a need to develop policies and programmes promoting safe and healthy working conditions in both the formal and informal economy that include preventive measures to protect workers' health and safety (e.g. awareness-raising and promotional activities, such as national OSH campaigns) and low-cost solutions to improve working conditions.

One common approach is to encourage the gathering and reporting of occupational accidents and diseases that include uncovered workers and that can help design effective prevention strategies (Ehnes, 2012[55]). This, for instance, was one of the objectives of the "Improving safety and health at work through a Decent Work agenda" project co-financed by the European Union and implemented by the ILO in six pilot developing countries (ILO, 2011[56]). The project contributed to raise OSH issues at the highest level in national political agendas and to improve national systems for the reporting and notification of occupational accidents and diseases. Another example is the Brazilian Unified Health System (SUS) which provides morbidity and mortality estimates for formal and informal workers (Santana et al., 2016[54]).

Overcoming the lack of awareness in the informal economy of work-related hazards and working with local authorities to reduce them are also important. Occupational health services can be extended to the informal economy, for instance through enlarged partnerships at the community level with non-governmental and government institutions (Lund, Alfers and Santana, 2016[57]). In Ghana, dialogue with local government over fire hazards and poor sanitation in Accra's public markets proved critical in improving working conditions for informal workers. The network of trader organisations in Accra, the StreetNet Ghana Alliance, engaged in negotiations with the local authority that controls the markets, the Accra Metropolitan Assembly (AMA), improving significantly the relationship between traders and the local authority and identifying and implementing low-cost solutions. In Brazil, the Workers Health Reference Centre (CEREST) of Piracicaba intervened in the ceramic industry to facilitate an agreement between employers and workers. CEREST set up a multi-institutional intersectoral team of social protection institutions, such as community councils, and several ministries. Workers and employers reached an agreement (Procedure Adjustment Term) that led to the renovation of plants and living quarters, workers' formalisation, higher self-esteem and job satisfaction, and increased firm profits.

Labour inspection services could also go beyond their traditional role by adopting adequate multi-pronged strategies, in collaboration with relevant public and private stakeholders, to bring informal economic units into compliance, thus helping in formalisation efforts. Defining priority areas for policy action requires filling knowledge gaps. Given the lack of evidence and reliable data on the informal economy in most countries, labour inspectorates should meet with social partners, other government institutions and civil society organisations to identify influences that could assist to engage with informal economic units in formalisation programmes and bring them into compliance with applicable legislation. The ILO has developed a participatory labour

inspection methodology that has led to improved working conditions in many countries in Africa and can be adapted to other regions (ILO, 2018[58]).

Ad hoc OSH surveys can be carried out or OSH modules included in existing national household surveys covering informal workers to collect reliable data on working conditions and OSH outcomes.

Participatory training programmes, increasingly used in Asia (Table 4.3), are effective in improving working conditions in the informal economy (Kawakami, 2007[59]). Examples include Work Improvement for Safe Home (WISH) targeting home workers and small businesses in Cambodia, Work Improvement in Neighbourhood Development (WIND) for small farmers in Viet Nam, Work Improvement in Small Enterprises (WISE) in the Philippines and the extension of OSH services to workers in the informal economy through Primary Care Units (PCUs) in Thailand. The programmes focus on immediate needs of informal working environments and help informal workers identify and implement practical safety and health solutions by using low-cost and locally available materials, as well as practical tools, such as action checklists and photo sheets showing local good practices. Government officials, workers and employers are trained as participatory OSH trainers who subsequently extend the training through their networks.

Besides the critical role of reporting and labour inspection mechanisms, investments in basic infrastructure services can also help create safe and healthy working environments for informal workers (particularly women), for example through the provision of accessible wash facilities for market traders, or the provision of street lighting/mass transit systems that cater for the needs of informal workers.

Table 4.3. Selected policies and programmes to improve the situation of informal workers and tackle OSH in the informal economy

Type of intervention	Country	Description	Outcome
Minimum wage extension	South Africa	Sectoral Determination No. 7 adoption: setting a minimum wage and conditions of employment in the domestic work sector (accounts for 23% of urban informal employment and is 95% composed of poor black African women).	16 months after adoption, wages increased by 20%, share of domestic workers with a contract increased by 18%, share of domestic workers with unemployment insurance increased by 19%, share with pension contributions increased by 7%.
Access to capital	Ethiopia	Entrepreneurship programme consisting in 5 days of business training, planning support and individual mentoring, followed by an unconditional cash transfer of nearly ETB 5 000.	Stimulated self-employment, raised earnings by 33%, provided steady work hours and halved the likelihood of taking a precarious industrial job in future.
Access to infrastructure	India	Mahila Housing Self-Employed Women's Association (SEWA) Trust (MHT) helps poor women in the informal economy access tenure, basic infrastructure and other housing services (e.g. housing construction and improvements, water, sanitation, electricity, banks, co-operatives and government schemes).	Enhanced home-based work settings and improved living conditions for workers, their families and communities. For instance, MHT provided basic amenities, such as water, sanitation and electricity, to 46 840 poor households (805 women took loans to obtain these services).
Access to technology	South Africa	Informal garment workers invested in improved electric sewing machines and other specialised tools.	Enhanced productivity and ability to make modern garments (higher quantity of consistent quality) and increased earnings.
Informal cross-border trade	Bangladesh, India	Border *haats* (authorised informal markets), giving residents in towns near land ports the opportunity to trade manufactured and agrarian products at small scale.	Great potential for micro and small entrepreneurs, particularly women, to engage in cross-border trade and expand their businesses (improved economic stability and increased income).
Skills upgrading (training)	Jordan	Informal apprenticeships: pilot initiative to upgrade informal apprenticeships for young people in 31 garages (6 months of basic training followed by 3 to 5 months of on-the-job training).	76% of apprentices completed the programme. Among them, 89% passed the occupational skill test and received occupational licences, 92% obtained a job, and 90% were paid above the minimum wage. However, apprentices were exposed to high OSH-related risks.
Training	Viet Nam	Work Improvement in Neighbourhood Development (WIND): participatory training programme to improve OSH in agriculture. Use of practical tools (e.g. action checklists, photo sheets showing local good practices) to identify and implement practical safety and health solutions.	Contributed to better working and living conditions of the trained farmers through simple OSH solutions (e.g. improvements of farm roads and bridges for safe materials handling, adjusted working heights, safe storage of agricultural tools, frequent short breaks), using locally available materials.
Training	Philippines	Work Improvement in Small Enterprises (WISE): participatory training programme to improve the physical environment, working conditions and productivity of SMEs using simple and cost-effective business solutions. Use of practical tools (action checklists, photo sheets showing local good practices) to identify and implement practical safety and health solutions.	Improved physical environment, working conditions and productivity through improvements in materials storage and handling, workstation design, machine safety, control of hazardous substances, lighting, work-related facilities, work premises and the environment.
Extension of OSH services/training	Thailand	Extension of OSH services through Primary Care Units (PCUs): participatory training programme for informal economy workplaces. PCUs staff retrained as basic OSH service providers. Practical OSH services delivered include OSH risk-assessments, low-cost improvement advice, OSH training for workers, finding work-related diseases, and individual health consultations.	Basic medical care, as well as safety and health advice provided by PCUs to prevent work-related injuries. Promotion of local people's active involvement in identifying and managing their safety and health risks through participatory group discussions.

Dialogue with local government	Ghana	Dialogue with local government over fire hazards and poor sanitation in Accra's public markets: process of negotiation over working conditions between the network of trader organisations in Accra (StreetNet Ghana Alliance) and the public administration that controls the markets (Accra Metropolitan Assembly [AMA]). Informal workers trained in effective negotiation skills and informed on the role of local government in the maintenance of markets, followed by a series of dialogues with the AMA.	Working conditions improved: AMA agreed to deal with a clogged drain and to provide fire extinguishers, and asked the traders to form waste management committees to assist in monitoring in markets.
Mobilisation of institutional actors	Brazil	Workers Health Reference Centre (CEREST) intervention in the Piracicaba ceramic industry to facilitate an institutionalised agreement between employers and workers: multi-institutional intersectoral team set up and workers and employers informed about the need to improve living and working conditions to better workers' health and well-being. Seminars and workshops organised to discuss how to improve OSH and working conditions.	Procedure Adjustment Term agreement reached between employers and workers, thanks to the intermediation of the CEREST and other institutional actors. Plants and living quarters renovated, and formal job contracts offered to workers, with access to social protection benefits such as worker compensation. Increase in workers' self-esteem, job satisfaction and profits.
Use of supply chains to improve labour standards	United Kingdom	Use of subcontracting supply chains to support the effective management of OSH on construction sites: Olympic Park and Forum Development building projects.	OSH in subcontracting supply chains was effectively managed, with considerably lower accident frequency rates than the industry average throughout the work.

Note: ETB = Ethiopian birr.
Sources: Stuart, Samman and Hunt (2018[3]); Blattman and Dercon (2016[39]); ILO (2014[60]); Lokmanya, Baug and Bhadra (2013[41]); Alfers et al. (2016[42]); UNDP (2016[44]); Dinkelman and Ranchhod (2012[38]); Ticona Gonzales (2011[61]); Ulrichs (2016[62]); ILO/IYF (2014[13]); ILO (2008[63]); Kawakami (2007[59]); ILO (2007[64]); Siriruttanapruk, Wada and Kawakami (2009[65]); Lund, Alfers and Santana (2016[57]); James et al. (2015[66]).

Empowering informal economy workers and employers

One important step to address the deeply rooted decent work deficits in the informal economy and support the transition to the formal economy is to promote informal workers' empowerment, a transformation in which fundamental principles and rights at work, such as freedom of association and recognition of the right to collective bargaining, as well as tripartite social dialogue between the social partners and government authorities, become firmly established and effective in the informal economy fundamental principles and rights at work.

Autonomous, membership-based organisations of informal workers are expanding at the local, regional and global levels (Chen, Bonner and Carré, 2015[67]). The organisation of informal workers in developing countries was pioneered by the Self-Employed Women's Association (SEWA) of India, founded in the 1970s and accepted in 1983 as an affiliate by the International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers (IUF); and by the multi-country regional Latin American and Caribbean Confederation of Household Workers (CONLACTRAHO), established by domestic workers' organisations from Latin America in the 1988.

More recently, to advocate for their rights at the global level and engage in international fora, several transnational networks of informal workers have been formed or consolidated (Chen, Bonner and Carré, 2015[67]). These include; HomeNet International and HomeNet South East Asia (1990s), set up by home-based workers; StreetNet International (2002); HomeNet South Asia (2000); Latin American Waste Pickers Network (Red Lacre) (2005); Central America and Panama Network of Informal Workers (2005); Global Network of Waste Pickers (2009); HomeNet East Europe (2013); and International Domestic Workers Federation (2013). In addition, transnational

networks such as Women in Informal Employment: Globalizing and Organizing (WIEGO) network, (founded in 1997), provide research, statistical, technical and advocacy support to organisations of informal workers. Workers' organisations and collective bargaining have been instrumental in some countries in reducing decent work deficits in the informal economy through progress in wages, working and living conditions, extension of social protection and better law enforcement (Budlender, 2013[68]). Trade unions are increasingly providing services and support to informal economy workers to promote their transition to formality.

Trade unions have promoted formalization of informal domestic workers by promoting the use of written contracts, and inclusion in tripartite negotiations. For example, in Argentina, UPACP, the national domestic workers' union, has established a school that trains and certifies domestic workers. When households approach the school to hire a domestic worker, the union ensures that a contract in line with applicable labour standards is signed. Since 2015, UPACP also represents domestic workers in tripartite negotiations on minimum wages, with a view to negotiating further labour standards in the sector (Pereyra, 2018[68]).

In South Africa, an amendment to the Labour Relations Act in 2002 provided that a bargaining council has the power to extend its services and functions "to workers in the informal sector and home workers" (Godfrey, 2018[69]). Since then, bargaining councils have extended the support services to informal firms, along with its traditional functions in the areas of minimum standards, benefit funds and dispute resolution.

Employers' organisations have also launched initiatives to increase representation of small enterprises and informal operators. The Ghana Employers' Association (GEA) sees it as its role to encourage formalisation of informal activities and promote respect for labour standards and OSH. The GEA has strengthened representation of small enterprises in its governing council by assigning a seat to the Associations of Small-Scale Industries, which are expected to analyse the needs of their constituencies and make proposals on how to assist informal enterprises to formalise. The GEA also created an SME Desk to serve as a direct point of contact for small enterprises (ILO, 2013[70]). Employers' organisations also engage in policy advocacy for small enterprises, lobbying for improved regulations that are also easier to understand and accessible to own-account workers and micro enterprises, which also affect formalising enterprises. In Singapore, the National Employers' Federation (SNEF) sits on government committees where it also represents the needs of small enterprises. In these committees, SNEF and small enterprise representatives review legislation affecting small enterprises, such as registration and licensing procedures. SNEF maintains a standing committee to study policy impact and to provide recommendations based on feedback from its members (ILO, 2013[70]).

All in all, the evidence brought in this this chapter shows that tackling vulnerability in the informal economy requires action on many fronts, from extending social protection coverage to uncovered workers, to improving OSH to raising productivity and wages in the informal economy to simplifying and incentivising registration, to strengthening the representation and voice of informal economy workers and employers, through guaranteeing their right to freedom of association and collective bargaining and their participation in social dialogue concerning the policy environment in which they operate. Moreover, while for most countries the extension of social protection to the informal economy remains a formidable challenge, a number of policy solutions exist. As countries consider various options to extend coverage, much can be learnt from recent country experiences that contributed to reduce the vulnerability of informal workers.

More attention is needed, however, on recognising existing informal support mechanisms and incorporating them in extension strategies, making social protection extension financing more equitable and sustainable, and accounting for the fact that there are large and frequent transitions into and out of informality. Last, but not least, using mixed individual-based and household-based indicators of informality turns out to be particularly important to help policy makers develop policy solutions that take into account the household dimension of informality.

Notes

[1] The Organisation for Economic Co-operation and Development (OECD) defines social insurance programmes as "schemes in which social contributions are paid by employees or others, or by employers on behalf of their employees, in order to secure entitlement to social insurance benefits, in the current or subsequent periods, for the employees or other contributors, their dependents or survivors". The International Labour Organization (ILO) definition also contains these elements but emphasises the presence of risk sharing or "pooling" and the notion of a guarantee (ILO, 2017[1]).

[2] Affiliation to contributory social security (via at least part of the contribution being paid by the employer) is the main criteria used to define whether employees are in formal or informal employment. For employers and own-account workers (without employees), the absence of affiliation to social security applies indirectly as the absence of legal recognition of their economic units (through registration to relevant national institutions), potentially preventing their access to contributory social security.

[3] The ILO finds that 40.3% of employees are covered in enterprises with fewer than ten workers, while 70.0% are covered in enterprises with at least 50 workers (ILO, 2018[29]).

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Chapter 5. Addressing the gender dimension of informality

Globally, men are more exposed to informality than women, but the share of women in informal employment exceeds that of men in a majority of countries (Chapter 1). Across countries, however, risks and vulnerabilities associated with the informal economy (Chapter 3) disproportionately affect women. This chapter provides updated evidence on gender disparities in key informal employment outcomes, such as employment status and wage levels. It then examines the role of gender-based constraints in employment outcomes and access to social protection. Last, it reviews gender-sensitive approaches that have been instrumental in empowering women in the informal economy in a number of countries, with a view to identify priority areas for policy makers. It is evident that the vulnerability challenge in the informal economy needs to be addressed through a gender lens. In particular, gender-sensitive risk management instruments are critically needed to ensure that current attempts to extend social protection to informal economy workers do not leave women behind.

Informality exposes men and women differently

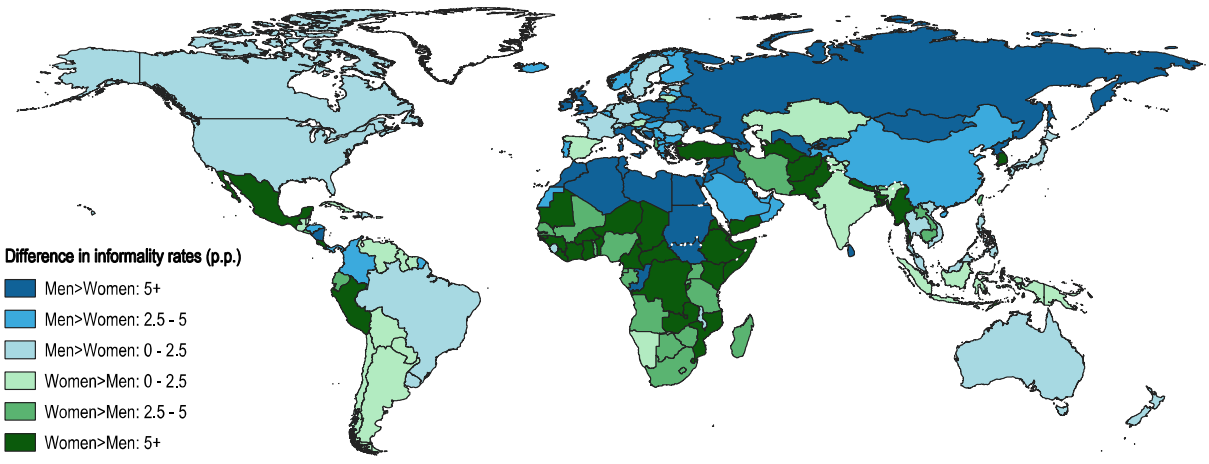
Informality can be quite different for men and women, for many reasons. The incidence of informal employment by gender varies across countries, reflecting existing gender gaps in employment rates. Over the past 27 years, the gender employment gap has shrunk by less than 2 percentage points, it remains large and continues to widen in emerging countries, where it stands at 30.0 percentage points in 2018 (ILO, 2018[1]; ILO, 2019[2]). Women's employment rates are particularly low in, northern Africa, the Arab States and southern Asia (ILO, 2016[3]; ILO, 2019[2]). Risks and vulnerabilities in the informal economy also vary by gender.

More men work in the informal economy, but women are most exposed in a majority of countries

Informal employment is a greater source of employment for men than women: 63% vs. 58%. However, informal employment is more common among women than men in sub-Saharan Africa, Latin America, southern Asia and, more generally, in low- and lower-middle-income countries (Figure 1.4). Up to 92% of all employed women in low-income countries are in informal employment, compared with 87% of men; in lower-middle-income countries, the proportions are 83% and 85% (ILO, 2018[4]). The share of women in informal employment exceeds the share of men in a majority of countries (55%) (Figure 5.1). Women are more exposed in above 90% of sub-Saharan African countries, 89% of South Asian countries and almost 75% of Latin American countries. The highest gender gaps occur in Gambia, Liberia, the Democratic Republic of Congo, Zambia; in Turkey, the gap exceeds ten percentage points. Men are more likely to be in informal employment in all countries in North Africa and Eastern Europe and in more than two-thirds of countries in the Arab States and northern, southern and western Europe. In Iraq and Jordan, the proportion of men in informal employment is 20 percentage points more than the proportion of women. In Poland, Slovakia and the Russian Federation, the gap is between six and ten percentage points to the disadvantage of men.

Figure 5.1. Women are over-represented in the informal workforce in a majority of countries

Share of men and women in informal employment



Notes: Total employment including agriculture. p.p. = percentage points.
Source: ILO (2018[5]), *Women and Men in the Informal Economy: A Statistical Picture*, www.ilo.org/global/publications/books/WCMS_626831/lang--en/index.htm.

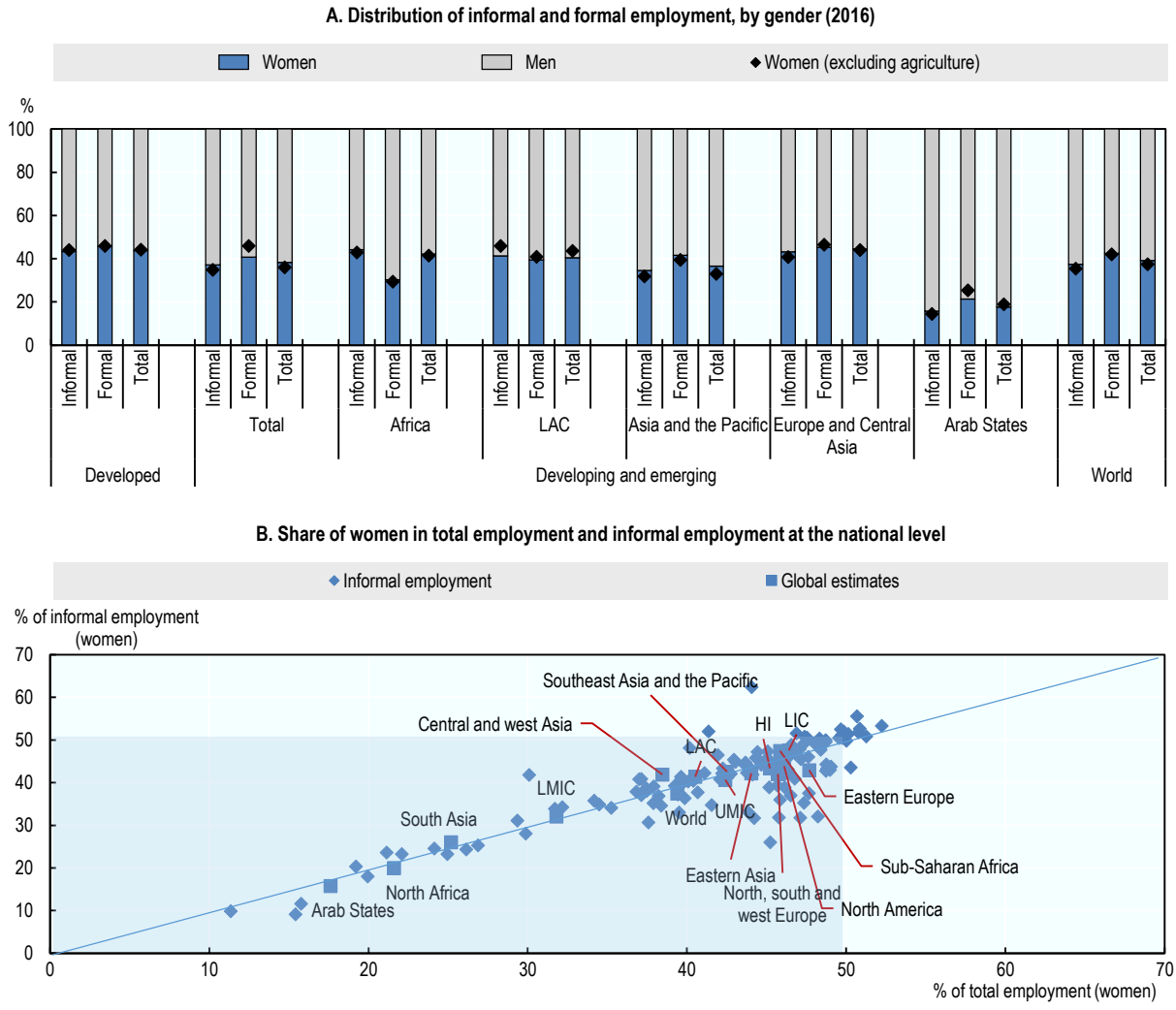
Out of the 2 billion workers in informal employment, 740 million are women (37.5% of all workers informally employed), ranging from 15.8% in the Arab States and 44.2% in Africa (Figure 5.2A) to 48.0% in low-income countries and above 50.0% in countries including Burundi, Myanmar or Zambia. The higher share of men in the informal workforce is primarily explained by their general over-representation in the workforce (Figure 5.2B).

The gender gap in the employment-to-population ratio remains significant and stable in most developing regions. According to International Labour Organization (ILO) data, in 2018, the world ratio was 45.3% for women and almost 71.4% for men (ILO, 2018[6]). The gender gap is most significant in northern Africa, the Arab States and southern Asia, but significant differences are also found in Latin America. Men constitute a larger share of total employment in 95% of all countries. The few exceptions primarily concern low-income countries and countries in sub-Saharan Africa and South Asia.

Men also make up the majority of workers in informal employment in 87% of all countries and 63% of low-income countries. Among countries with at least 50% of women in informal employment, Burundi, Malawi, Rwanda and Togo show higher employment-to-population ratios for women and higher shares of informal employment in total employment for women. In other countries, such as Benin, the Democratic Republic of Congo, Ghana, the Lao People's Democratic Republic, Liberia, Myanmar, Nepal, Uganda, Zambia and Zimbabwe, significantly higher shares of women in informal employment overcompensate for the slightly lower employment-to-population ratios, resulting in more women than men in informal employment.

The agriculture sector is an important source of informal employment, particularly in low- and lower-middle-income countries, which may affect the gender distribution of workers in informal employment. Women's contribution to the informal workforce excluding agriculture reveals mixed patterns across countries and regions. In Latin America and the Caribbean, women represent 45.9% of total informal employment when excluding agriculture, compared to 41.4% when total informal employment is considered (Figure 5.2A). This is particularly true in some Central American countries, such as El Salvador, Honduras and Nicaragua, where women constitute a more important part of informal employment (around 50%) when agriculture is excluded. The same pattern holds for certain African countries, such as Benin, Burkina Faso, Madagascar and Niger, but not for the region as a whole. The opposite pattern is true for some African countries and other regions, particularly in Asia and the Pacific and Europe and Central Asia. Women's contribution to the informal workforce decreases by more than ten percentage points, compared with their representation in total employment, in Albania, Egypt, Nepal, Pakistan, Rwanda, Turkey and Zambia, highlighting an over-representation of women in the agriculture sector.

Figure 5.2. The gender distribution of workers in informal and formal employment varies across regions



Notes: Shading represents the limits within which women represent below 50% of total employment (x-axis) and below 50% of informal employment (y-axis). LMIC = lower middle-income countries. UMIC = upper middle-income countries. HIC = high-income countries. LIC = low-income countries.
Source: ILO (2018[5]), *Women and Men in the Informal Economy: A Statistical Picture*, www.ilo.org/global/publications/books/WCMS_626831/lang--en/index.htm.

Women are more often found in the lower parts of the informal employment hierarchy

Across most regions, women are more often found working in the most vulnerable segments of the informal economy, for instance as domestic workers, home-based workers engaged on a piece rate basis in the lower tiers of global supply chains[1] or in the contemporary form of digital home-based work (Berg, 2016[7]), or contributing family workers. An estimated 75% of domestic workers, mostly women, are in informal wage employment. They face specific issues associated with working in private homes, which are often not considered workplaces but private arrangements outside the scope of state regulations and off-limits to labour inspectors (ILO, 2016[8]). Workers on crowd working

platforms are subject to many of the same labour exploitation concerns common in industrial home work. Similarly, to workers in the lower tiers of global supply chains, most operate in the informal economy, where the most serious decent work deficits can be observed, including non-compliance with fundamental labour principles and workers' rights. They are not covered by labour protections, have little control over when they work or their working conditions, and have limited options for recourse for unfair treatment (Berg, 2016[7]; ILO, 2018[9]).

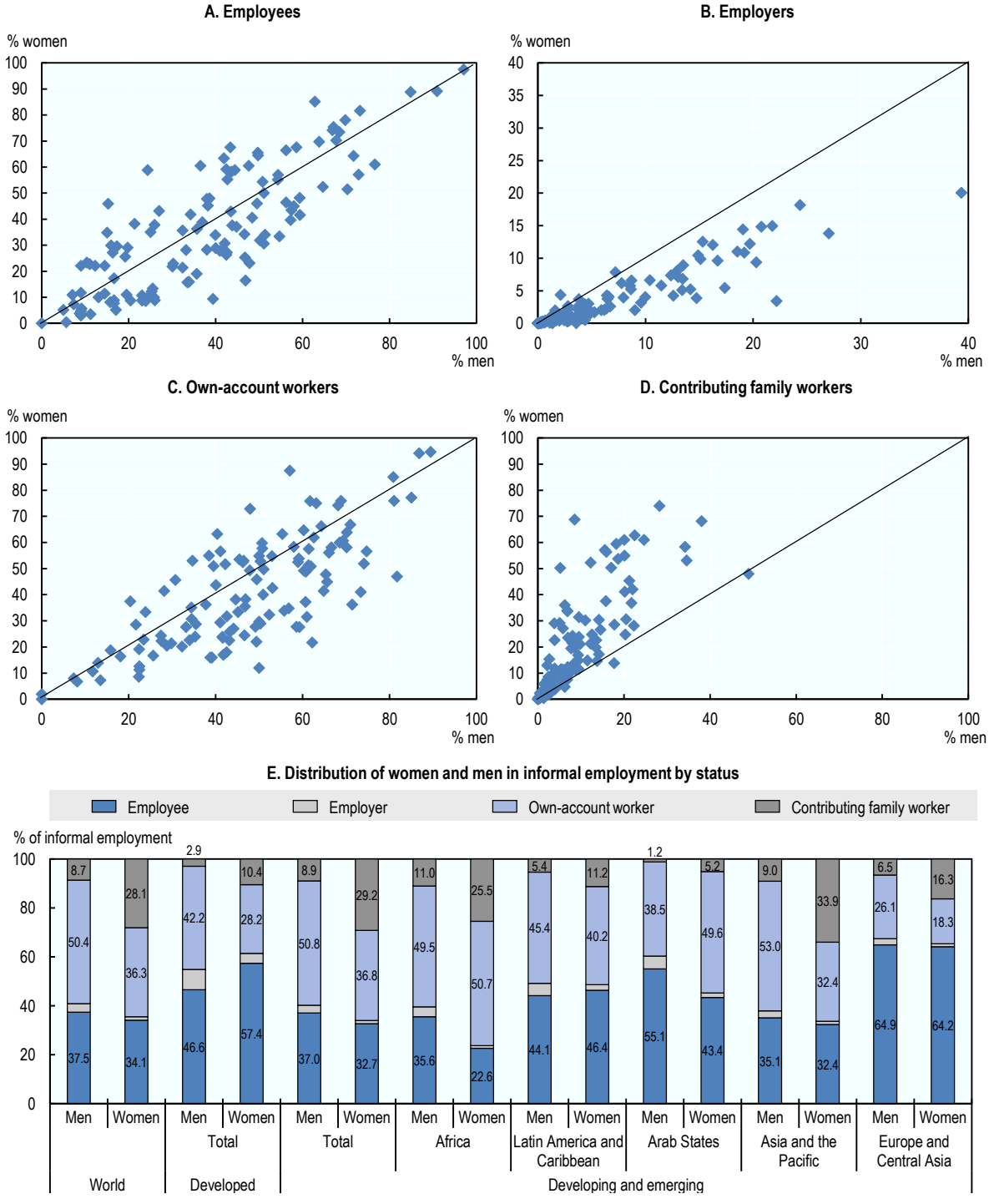
Analysis carried out by Women in Informal Employment: Globalizing and Organizing (WIEGO) on the interactions between type of informal work, level of earnings and risk of poverty finds a hierarchy of earnings and gender segmentation across employment types. Informal employers are at the top, with the highest earnings and lowest poverty risk, followed by own-account workers, employees, other informal wage workers, industrial outworkers/home-based workers and, at the bottom, unpaid contributing family workers (Chen, 2012[10]; Chen et al., 2005[11])

Women in informal employment are over-represented in the most vulnerable employment category of contributing family workers and under-represented among employers and, to some extent, employees and own-account workers (Figures 5.3A, 5.3B, 5.3C, 5.3D). Moreover, the proportion of contributing family workers is more than three times higher among women than men in informal employment: 28.1% vs. 8.7% on average. This concerns above 30% of women in informal employment in low- and lower-middle-income countries and close to one out of three women in informal employment in developing and emerging countries in Asia and the Pacific (Figure 5.3E). For these workers, the transition to formality first requires access to better working and living conditions, including access to social protection, followed by the transition to another status. By contrast, the proportion of employees tends to be lower among women in most regions in the developing world, with the exception of Latin America and the Caribbean. There, as in Africa and Asia, a significant share are domestic workers.

These results are in line with previous analyses showing that men are more likely to be in top-tier informal employment (e.g. employers), while women are more likely to be at the bottom (Jütting and de Laiglesia, 2009[12]; Chen, 2012[10]).

Figure 5.3. Women are over-represented in the most vulnerable employment categories

Distribution of women and men in informal employment, by status in employment



Notes: Distribution of women and men by employment status as a share of informal employment including agriculture.

Source: ILO (2018[5]), *Women and Men in the Informal Economy: A Statistical Picture*, www.ilo.org/global/publications/books/WCMS_626831/lang--en/index.htm.

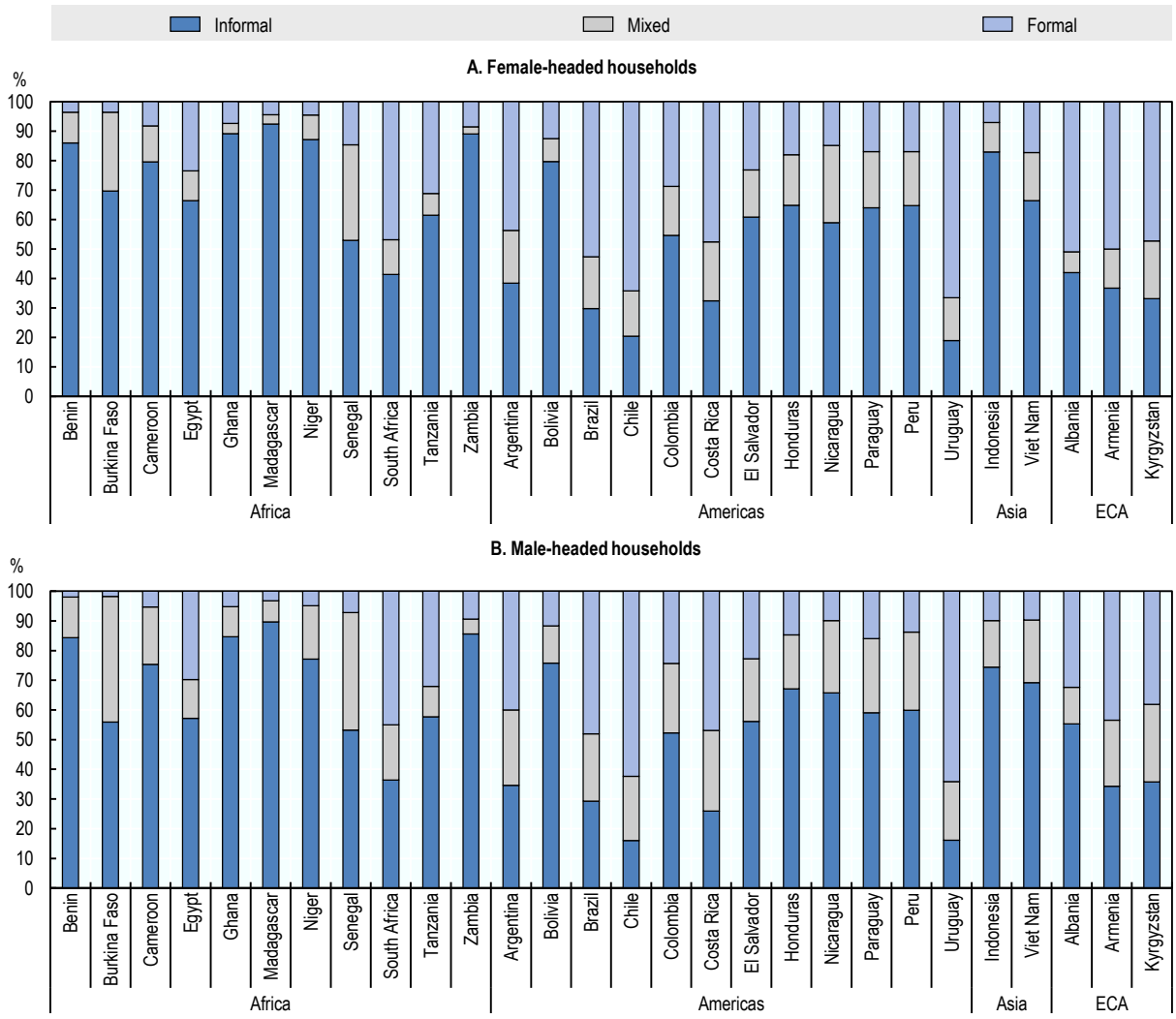
Female-headed households are less likely to be mixed

Women's high exposure to low-quality informal jobs may also make female-headed households more vulnerable and more likely to be fully or partly informal than male-headed households. However, in 14 of 27 countries in the Organisation for Economic Co-operation and Development (OECD) Key Indicators of Informality based on Individuals and their Household (KIIbIH), female-headed households are more likely to be formal (Figure 5.4). The share of formal female-headed households is higher in all European and Asian countries. In most African countries, the share of formal households is very low, with little variation by gender. However, in South Africa and the United Republic of Tanzania, the share of formal households is higher for male-headed households. In Latin America, the pattern is more diverse, with a higher share of mixed (formal and informal workers) female-headed households than in Africa, particularly in Argentina, Bolivia and Nicaragua.

Overall, female-headed households are less likely than male-headed-households to be mixed. That they are more likely to be either fully formal or fully informal may reflect their greater likelihood of having fewer working-age members. In many countries, women are not usually considered heads of households unless no adult male lives permanently in the household. However, female-headed households are not a homogeneous group, and the reason they are headed by a woman plays a role. For example, households headed by widows and abandoned mothers are more likely to be poor and vulnerable to risks than households headed by women with husbands who emigrated and send remittances (Jütting and de Laiglesia, 2009[12]).

Figure 5.4. Female-headed households are more likely to be fully formal in about half of countries in the KIIbIH

Distribution of formal, informal and mixed households among female- and male-headed households



Source: OECD (2019), *Key Indicators of Informality based on Individuals and their Household* (database).

There are important gender disparities in informal employment outcomes

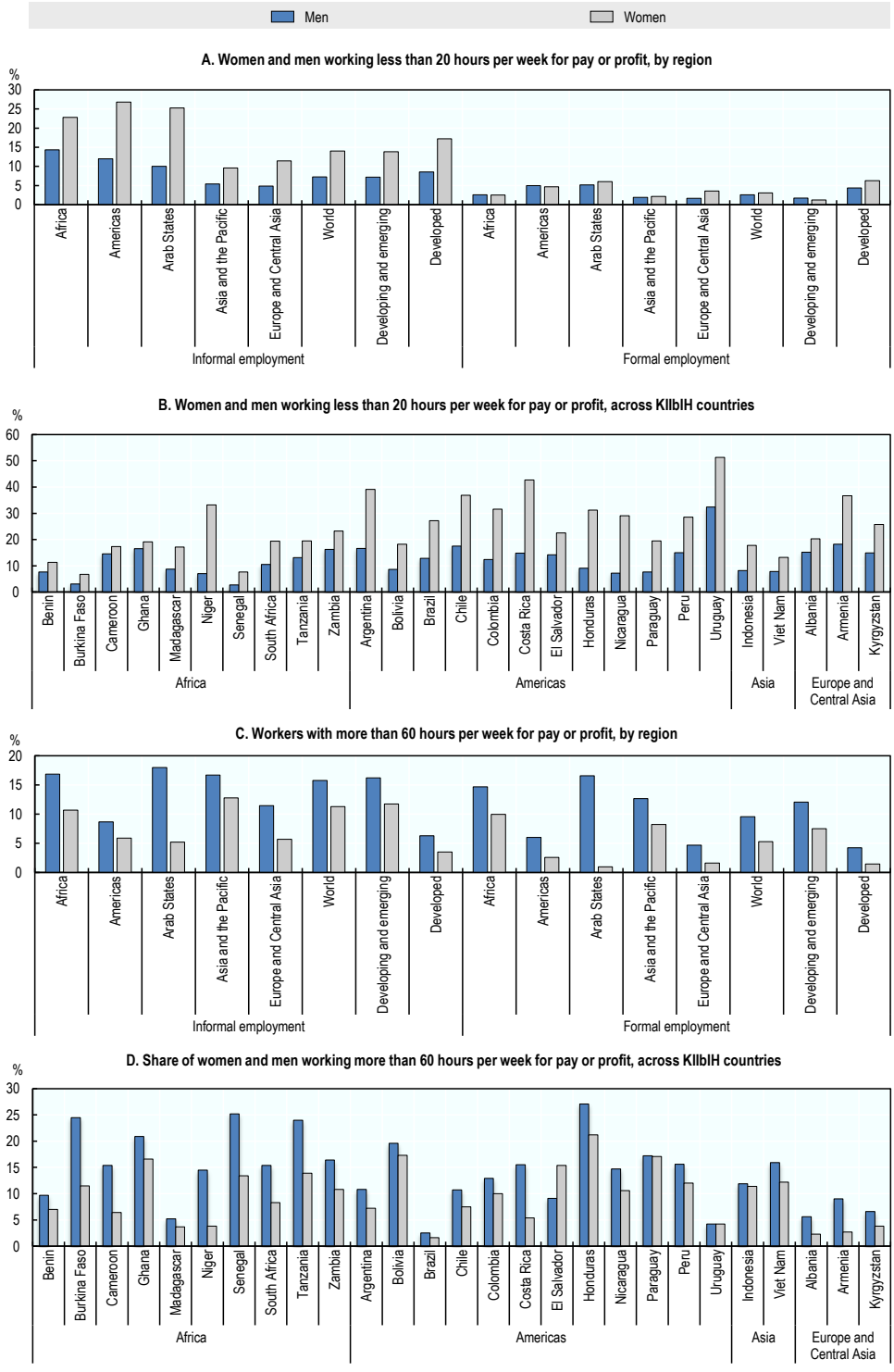
The increase in women's labour force participation worldwide has shifted focus from participation to their employment characteristics and outcomes. Women's over-representation in lower parts of the informal employment hierarchy affects outcomes.

Ability or availability to find full-time work is one measure. Women are more likely than men to work part time and for very limited hours (fewer than 20 hours per week for pay or profit), which has implications for their ability to access social protection and increases the risk of working poverty. According to ILO global estimates, workers in informal employment are more likely than workers in formal employment to work very short or excessive hours. Women working very short hours in informal employment are most vulnerable. Above 14.0% of all women in informal employment work fewer than

20 hours per week for pay or profit, compared with 7.3% of men in informal employment and 3.1% of women in formal employment. The proportion reaches 20% of women informally employed in Africa, the Americas and the Arab States (Figures 5.5A and 5.5C for ILO estimates and Figures 5.5B and 5.5D for the subset of countries in the KIIbIH). At the same time, fewer women are exposed to excessive hours of paid work (Figure 5.5C, 5.5D). These statistics, however, do not account for unpaid care work in the household, which falls disproportionately to women. Women perform the majority of unpaid care work worldwide: 76.2% of total hours contributed (ILO, 2018[13]). In no country do men and women provide an equal share; globally, women contribute two to ten times more (Ferrant, Pesando and Nowacka, 2014[14]; ILO, 2018[13]). Across the world, 606 million working age women (21.7%) perform unpaid care work on a full-time basis, compared to 41 million men (1.5%) (ILO, 2019[2]). In Egypt, 37% of working women and 5% of working men work for their families without pay (Sholkamy, 2017[15]). Domestic work and care responsibilities result in significant time poverty for women, making participation in remunerated work outside of the household a challenge.

Figure 5.5. Women in informal employment are more exposed to short hours of paid work; men are more exposed to excessive hours of paid work

Share of working women and men by time-intensity of employment

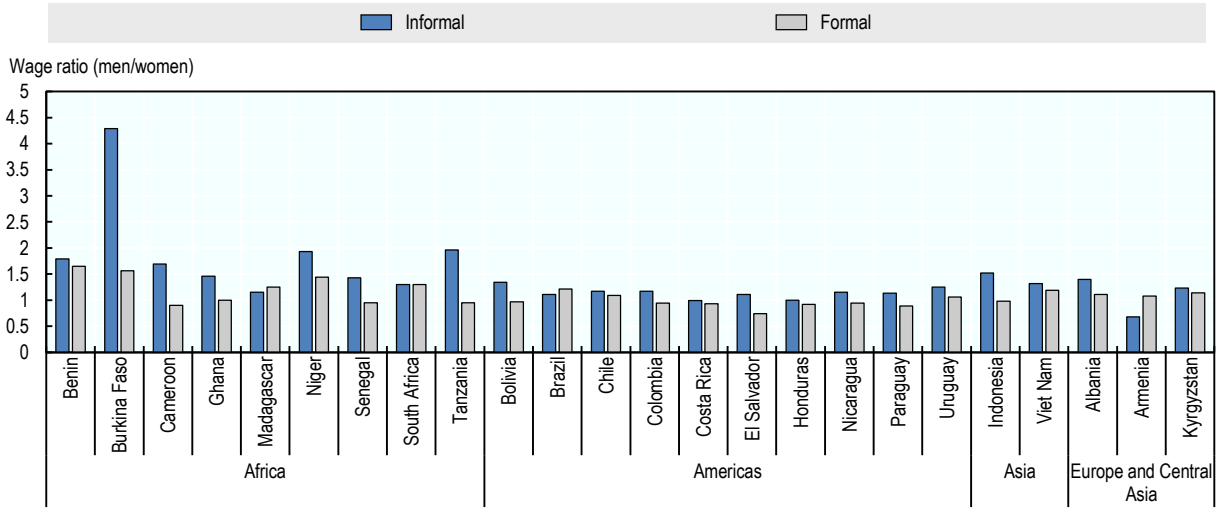


Source: ILO (2018[5]), *Women and Men in the Informal Economy: A Statistical Picture*, www.ilo.org/global/publications/books/WCMS_626831/lang--en/index.htm.

Gender pay gaps are another dimension of gender disparity in informal employment outcomes. Women in informal wage employment generally face a double penalty: on average, informal wage workers are paid lower wages than formal workers, and women are paid lower wages than men. As women tend to be over-represented in the lower end of the informal occupational spectrum, gender wage gaps may also be larger in the informal than in the formal economy. In most of the 19 developing and emerging countries for which data are available, women earn a lower hourly wage than men (Figure 5.6). Moreover, with the exception of Kyrgyzstan, the gender ratio is more pronounced in the informal economy. Overall, this indicates a larger gender gap in earnings for women in the informal than in the formal workforce.

Figure 5.6. The gender wage gap is more pronounced among informal economy workers in most countries

Median hourly wage ratio between men and women, by informality status



Note: AP = Asia and the Pacific. The gender wage ratio is defined as the unadjusted median hourly wage ratio between men and women in full-time employment (35 hours or more per week).
Source: OECD (2019), *Key Indicators of Informality based on Individuals and their Household* (database).

Several factors affect the gender pattern of informal employment outcomes

A combination of factors influences women's over-representation in low-paid, less-secure informal jobs. Vulnerabilities and barriers may be directly linked to gender or exacerbated by gender inequalities and discrimination. Three broad categories of factors affect high levels of informality among women and their concentration in low-quality informal jobs (Ulrichs, 2016[16]; Kabeer, 2008[17]).

Gender-specific constraints are norms and practices that apply to men and women based on gender. They are linked to socially constructed norms of women as caregivers and men as breadwinners. As seen, unpaid household work typically falls disproportionally on women, which affects the type of remunerated jobs they can take on and often leads to participation in informal employment (Alfers, 2015[18]; Samman, Presler-Marchall and Jones, 2016[19]). Women who are the main person responsible for unpaid care and have remunerated work outside of the household face a double burden. Gender-specific

constraints on women moving freely outside of the home concentrates their representation in home- and family-based occupations (Ulrichs, 2016[16]).

Gender-intensified inequalities refer to inequalities among household members, based on caste, class, ethnicity or religion, which can affect resource allocation and access to information, education or economic resources and exacerbate gender inequalities. Informal and formal institutions often grant women limited rights to land and access to credit, which limits their range of economic participation and influences decisions to participate in formal or informal employment: limited access to land, credit and networks often makes informal employment the only option (Jütting and de Laiglesia, 2009[12]).

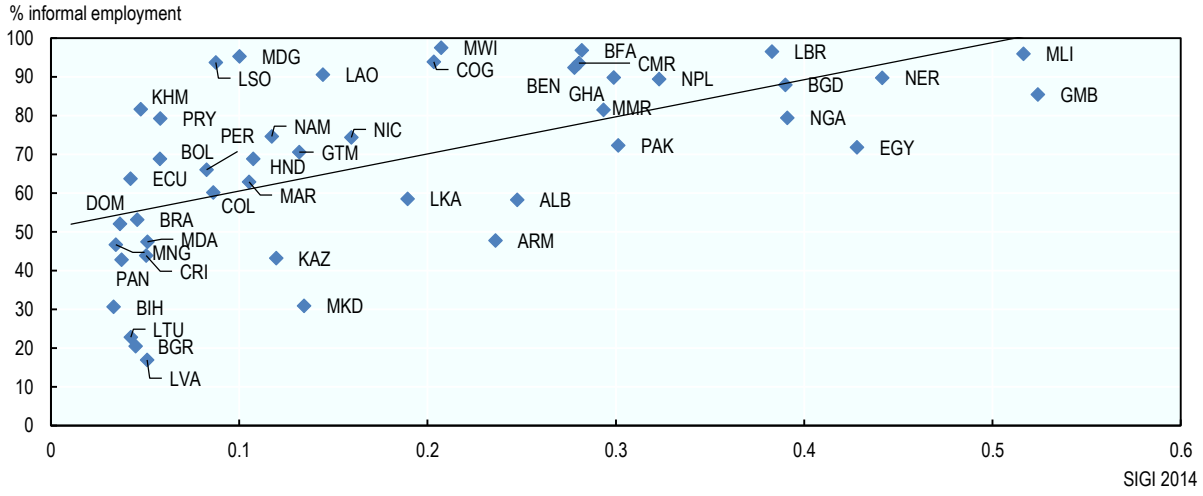
Imposed forms of gender disadvantages are biases, preconceptions and misinformation that can affect gender inequalities in the labour market through the design and implementation of policy based on stereotypes and reinforced gender inequalities.

In many cases, these constraints interact and jointly lead to gender segregations in the labour market. Women from poorer households may be particularly affected if they have to choose between a wage job, which pays more but is hard to balance with domestic duties and restrictions on mobility, and self-employment, which pays less but has more flexibility (Jütting and de Laiglesia, 2009[12]). Absence of social policies (e.g. for child care systems and maternity benefits) also forces women into more flexible employment, which is often informal and with less pay and security. These patterns are exacerbated during economic downturns, when social services are cut.

The OECD Development Centre's Social Institutions and Gender Index (SIGI) measures discrimination against women in social institutions across countries in five dimensions. One dimension measures discrimination in women's rights to access and make decisions over natural and economic resources. It includes measures of discriminatory practices related to land and non-land assets and access to financial services. There is a positive correlation between the share of women in informal employment and the SIGI, controlling for a number of other macroeconomic and institutional factors (Figure 5.7): women are more likely to be in informal employment in contexts of greater institutional discrimination.

Figure 5.7. The share of women in informal employment is higher in countries where social institutions are more discriminatory

Share of women in informal employment, by index of gender equality in social institutions (SIGI) (2014)



Notes: The OECD Development Centre Social Institutions and Gender Index (SIGI) measures five dimensions of discrimination against women in social institutions across 160 countries: discriminatory family code, restricted physical integrity, son bias, restricted resources and assets, and restricted civil liberties. 0 = no inequality; 1 = complete inequality. Controls include GDP per capita (2011 PPP), composition of GDP, geography, infant mortality rate, life expectancy, education, ILO estimates of labour productivity, 2017 Ease of doing business index, number of start-up procedures, share of youth (aged 15-24) and KOF Economic Globalization Index.
Sources: ILO (2018[20]) and OECD (2014[21]), *2014 Social Institutions and Gender Index (SIGI)* (dataset), www.genderindex.org/2014-results/.

Addressing gender-related risks and vulnerabilities in the informal economy is critical

Women's needs in the informal economy are often neglected in the design and implementation of formalisation and social protection strategies. Social protection policies are seldom gender neutral. Existing systems often assume full-time employment without interruption over the work life, whereas women may experience more frequent interruptions in employment, longer periods devoted to caring for others, lower labour market participation, more part-time work and lower earnings. The extension of social protection to the informal economy should take into account the gender-specific risks and vulnerabilities presented in this chapter.

This section looks at social protection policies and programmes – both non-contributory, tax-financed schemes (including social assistance) and contributory schemes (including social insurance) – from a gender perspective and considers how gender can be mainstreamed into the design and implementation of social protection policy.

Social assistance can ensure basic protection for women but can reinforce traditional gender roles

Extending social protection to informal workers has included an expansion of non-contributory social assistance schemes in the form of cash grants, which have become widespread in Africa, Asia and Latin America (Alfers, Lund and Moussié, 2017[22]).

Social assistance, including cash transfers and benefits related to maternity and children, and social pensions can address gender-specific constraints in the labour market and society in general. Investing in such programmes is important for child health and education and can increase women's income security and labour force participation.

Cash transfer programmes have contributed to improving the lives of vulnerable women and children, often making women the main recipient. Programmes like Brazil's Bolsa Família have had positive impacts on women's labour force participation and led to fewer women leaving employment (Soares, Ribas and Osório, 2010[23]; Bastagli et al., 2016[24]).

However, conditional cash transfer programmes have also attracted criticism for 1) not acknowledging women in their role as workers but instead reinforcing the traditional gender role of caregiver responsible for complying with conditionalities; 2) increasing the opportunity costs of participating in the labour market; and 3) exposing women to greater insecurity if they have to travel long distances to reach collection points or health facilities (Ulrichs, 2016[16]; Fultz and Francis, 2013[25]). There is also a concern that expansion of cash transfer schemes comes at the expense of financing and delivering social services and infrastructure: in some Latin American countries, spending on cash transfer programmes has increased more than spending on education, health care and housing (Alfers, Lund and Moussié, 2017[22]). Cash transfers are more effective in responding to the needs of women as both workers and mothers if coupled with complementary interventions, such as child care support for working parents and enhanced access to the labour market though job training (Thakur, 2009[26]).

Social insurance programmes for informal workers need to address women's needs and work patterns

Contributory social insurance programmes are an important protection for women against social risks, such as unemployment, old age, maternity and ill health. However, in low- and middle-income countries, they cover a limited share of the population, which is typically part of the formal workforce.

As social insurance schemes tend to reflect gender inequalities in the labour market, coverage of women is usually lower than that of men (Holmes and Scott, 2016[27]). However, public social insurance pensions often include equalising elements that promote gender equality, such as minimum pensions or care credits, which is usually not the case for other forms of contributory provision, such as private pensions or individual savings schemes (ILO, 2016[28]; ILO, 2017[29]).

Barriers to access for women are related to 1) eligibility, as women are over-represented in the most vulnerable forms of informal employment (contributing family workers and domestic workers, often part time, with very short hours and lower earnings) and therefore more likely to be outside the scope of legal coverage or to meet eligibility conditions; and 2) capacity to contribute, as women earn lower wages on average and have more work interruptions due to maternity and care work. However, some countries, including Brazil, Mongolia and South Africa, have extended social insurance coverage to informal women workers through, for instance, the inclusion of maternity provisions for domestic workers (ILO, 2016[28]).

Women live longer than men but often lack entitlement to pensions. Pension coverage remains limited and unequally distributed in many low- and middle-income countries (ILO, 2016[28]; ILO, 2017[29]). This gender gap reflects differences in three main areas

(ILO, 2016[28]; 2017[29]): demographics, labour market patterns and pension system design.

Women tend to live longer than men, increasing the share of women in old age and stretching their pension benefits over more years (World Bank, 2017[30]). Longer life expectancy also implies greater likelihood of being widowed, making women without a pension and lacking access to survivors' pension benefits or non-contributory pensions particularly vulnerable (Arza, 2015[31]).

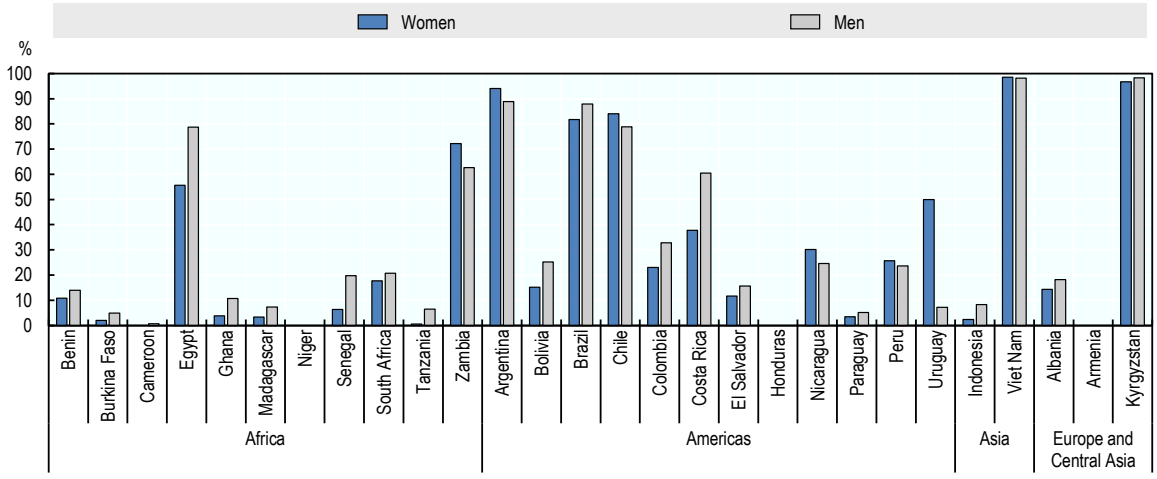
Gender gaps in labour market participation and outcomes also affect pension coverage. Lower participation and more part-time work affect women's access to and levels of benefits. Women tend to have shorter careers than men, either because they start later, interrupt employment to have children or stop working earlier to take care of older relatives, which itself reduces expected pension income. In addition, women generally earn less than men (Figure 5.6), which reduces pension contributions, and are more likely to be in informal employment (Figure 5.2), which does not offer pension benefits (ILO, 2017[29]; ILO, 2018[32]).

Furthermore, pension system design may reflect, minimise or magnify labour market gender inequalities. The availability of social pensions or minimum pension guarantees, eligibility conditions, minimum years of contributions (vesting period), adequacy of pension levels and provisions for widows and divorcees affect gender equality in pensions. Another important aspect is the link between benefits, contributions and earnings; pension formulas that closely reflect earnings and contributory histories without compensations for invisible unpaid work (e.g. through care credits) tend to benefit men more than women (Arza, 2015[31]).

Globally, 68% of the older population (aged 60 and older) receives a pension (ILO, 2017[29]). The share of individuals with access to pensions varies greatly across countries in the KIIbIH. The highest shares of beneficiaries of both genders are in Europe, Asia, Argentina, Chile and South Africa (Figure 5.8). Men are more likely to receive pensions than women in 12 of 22 countries. Women are more likely to receive them in seven countries, six of which are in Latin America, including Bolivia, Brazil, Chile and Peru. Countries that achieve close to universal pension coverage, such as Armenia or South Africa, usually do so through a combination of contributory and non-contributory schemes (ILO, 2017[29]). However, as non-contributory benefit levels are often low, social insurance pensions play an important role in ensuring adequate benefits.

Figure 5.8. Men are more likely than women to receive pensions in about half of countries in the KIIbIH

Share of individuals age 60 and over receiving old age pension, by gender

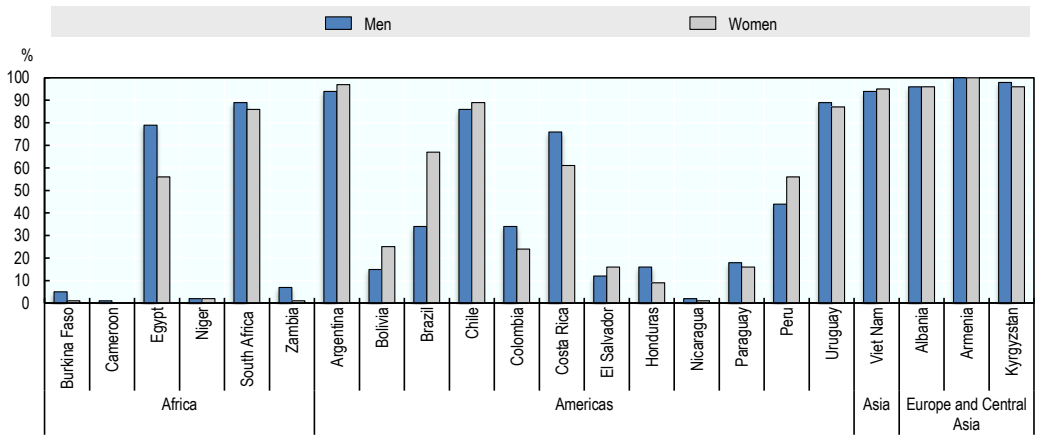


Source: OECD (2019), Key Indicators of Informality based on Individuals and their Household (database).

Pension outcomes are determined by current contributions. Globally, 34.5% of the labour force contributes to pension insurance (ILO, 2017[29]), but the share contributing to old-age pensions varies substantially across countries and regions (Figure 5.9). In some Latin American countries (Argentina, Brazil, Chile, Costa Rica and Uruguay), a majority of the employed population contributes, whereas below 5% does in Benin, Burkina Faso, Honduras and Niger. In general, in countries with high pension coverage, women are also well covered.

Figure 5.9. Pension coverage among the employed population varies across countries and regions

Share of currently employed population contributing or entitled to old-age pension



Note: Data on pension coverage not available for Benin, Ghana, Madagascar, Senegal, and U.R. Tanzania.
Source: OECD (2019), *Key Indicators of Informality based on Individuals and their Household* (database).

Lack of maternity benefits make women in the informal economy particularly vulnerable. Maternity benefits are intended to protect women from economic losses, gender inequalities and health risks related to maternity. The high level of income insecurity among women in the informal economy makes it challenging to reduce work time in paid and unpaid work before and after childbirth. Many therefore work far into their pregnancies or resume work soon after childbirth, exposing them to significant health risks (ILO, 2016[28]). According to the 2000 ILO Maternity Protection Convention (No. 183), member states must provide at least 14 weeks of maternity leave, and part of the costs should be covered by public funds or social protection systems. However, only 28% of women in employment worldwide are effectively protected by cash benefits in the event of maternity (ILO, 2017[29]). Most informal workers do not have access to maternity benefits, although they are particularly vulnerable to the risks of income insecurity and ill health. Moreover, without maternity protection, women in formal employment may be forced to shift into lower-paid and more insecure informal employment. Although such a shift is often considered temporary, women with children are likely to remain in informal employment for longer periods (ILO, 2016[28]).

Extension of pension and maternity coverage has protected women in the informal economy

Several countries in Latin America have extended pension coverage and improved pension levels in recent decades. Chile introduced a pension reform in 2008 to close the gender gap for women through top-ups for workers with low contributions and the introduction of child care credits (equivalent to 18 months of contribution on minimum wage). Women in other countries are far worse off. In Indonesia, for instance, women are significantly less likely than men to receive old-age pensions (Box 5.1).

Studies show additional positive effects of pension coverage for women. In South Africa, the introduction of social pensions improved the self-reported health status of older women. Old-age pensions have also been shown to increase school attendance, particularly among girls, which can have implications for gender inequalities across the lifecycle and over time.

Box 5.1. The gender pension gap in Indonesia

The population of eastern Asia and the Pacific is ageing the fastest of any region in history (World Bank, 2017[30]). This means a shrinking working-age population and greater pressure to design pension systems that can ensure adequate pension coverage and cope with the demographic challenges.

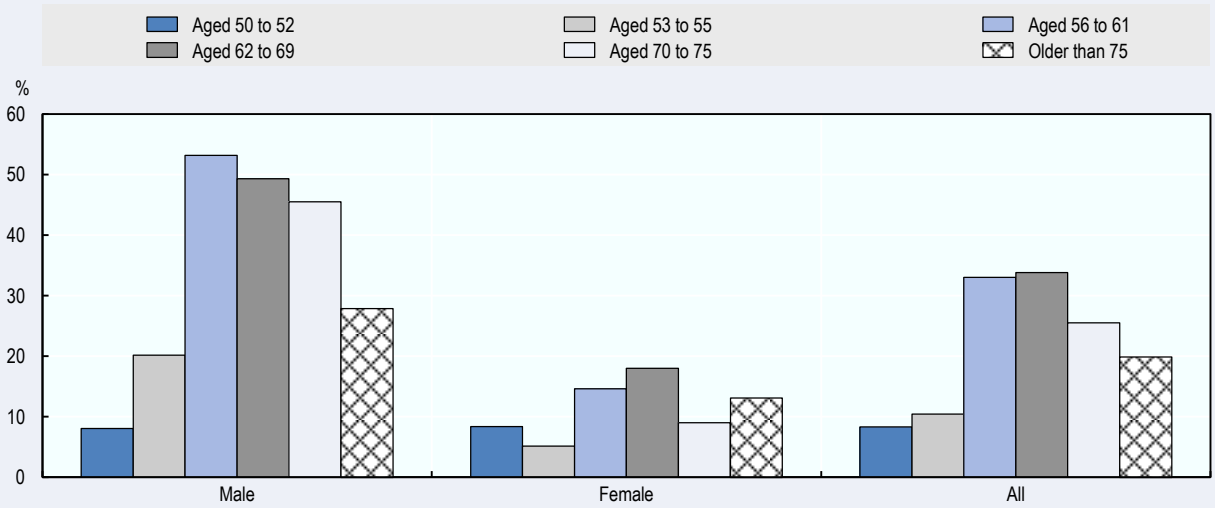
Indonesia has a defined contribution pension system with low coverage, particularly of older women. The vesting period, the minimum number of years of contribution required to qualify for pension benefits, is 15 years, and the programme includes a maternity benefit. However, periods of maternity are not counted as employment when computing pension levels, contrary to most developed OECD countries (World Bank, 2017[30]).

A study comparing pension systems in eight East Asian countries shows significant diversity (World Bank, 2017[30]). Countries offering the most equal pension policy for men and women are China, Mongolia and Thailand. Indonesia has the lowest ranking.

This is in line with results from an OECD study on social protection in Indonesia, which shows that elderly women are subject to gender pension gap and therefore much more vulnerable to poverty in old age (OECD, 2019[33]). The share of elderly women receiving pensions in Indonesia is lower than that of men in all age groups but those aged 50-52, with the largest difference among those aged 56-61 (Figure 5.10).

Figure 5.10. Men are more likely to receive pensions than women in Indonesia

Share of women and men receiving pensions, by age group (2014)

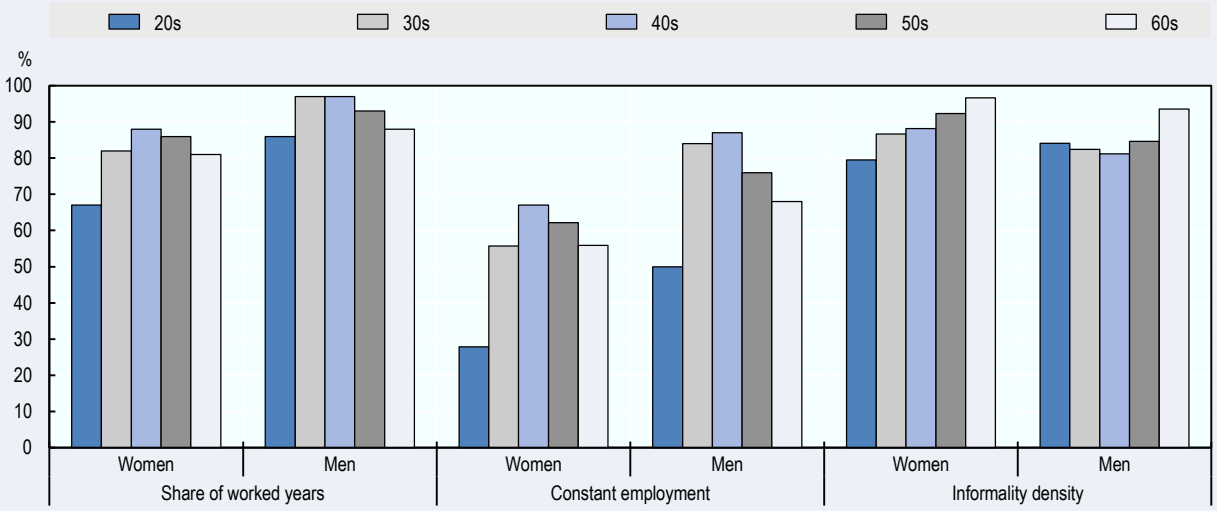


Source: OECD (2019[33]), *Social Protection System Review of Indonesia*, OECD Publishing, Paris.

Gender differences in labour market patterns largely explain the difference in pension benefits in old age. Employment histories reveal that women work fewer years, have shorter periods of consecutive employment and are more likely to be in informal employment (Figure 5.11).

Figure 5.11. Women in Indonesia work fewer years, have more employment interruptions and are more likely to be in informal employment than men

Labour force history indicators for men and women, by age decade (2014)



Source: OECD (2019[33]), *Social Protection System Review of Indonesia*, OECD Publishing, Paris.

The case of Indonesia illustrates how inequalities in the labour market, combined with pension policies that do not take women's vulnerabilities into account, can create a large gender pension gap.

An increasing number of countries, notably in Latin America, have made efforts to comply with the ILO Maternity Protection Convention and to extend maternity benefits to informal workers. Brazil's focus on improving social insurance for domestic workers, including 120 days of paid maternity leave, have significantly increased the share of covered workers, from 18% in 1993 to 30% in 2007 (Holmes and Jones, 2010[34]).

South Africa's Unemployment Insurance Fund (UIF) provides short-term benefits in the event of unemployment, illness, maternity and adoption. The programme has been extended to domestic and seasonal workers, thus extending protection to informal workers in general and vulnerable working-age women in particular (IPC-IG, 2017[35]). Benefits are paid for up to 17 weeks and cover up to 60% of workers' previous earnings (ILO, 2016[28]).

Much remains to be done to extend social protection to women workers in the informal economy

Designing social protection systems adapted to the needs of both women and men requires a better understanding of the barriers faced by women in informal employment over the lifecycle. Social protection system design can either mitigate or reinforce gender inequalities. To address gender constraints faced by women in general and women in informal employment in particular, gender needs to be mainstreamed into all aspects of design and implementation of social protection strategies and programmes. In addition, links to other policy areas need to be considered, including to the provision of quality

care services, promotion of equitable sharing of unpaid care work and improvement of working conditions in the care sector (ILO, 2018[13]).

Informal networks can play a role in facilitating access to social protection. Promoting women's voices and participation, including in collective decision making associations, such as trade unions and work councils, also contributes to women's empowerment (Jütting and de Laiglesia, 2009[12]). Belonging to such associations is important for women workers, particularly those self-employed in the informal economy, to gain recognition for their work (Thakur, 2009[26]). The Self Employed Women's Association (SEWA) for women in informal employment in India is one association created in response (Thakur, 2009[26]). SEWA offers a wide range of services, including child care provision and health insurance, and facilitates access to government benefits and services. Initiatives to facilitate access to quality child care services for informal workers also contribute to women's economic empowerment, especially where public child care is not provided or inadequate (Alfers, 2015[18]; Moussié, 2016[36]). Such initiatives can inform policy makers about the needs and gaps in access to social protection and should be taken into account in the design of social protection policies, systems and programmes.

Box 5.2. Strengthening self-employed women's rights: The case of SEWA in India

The Self Employed Women's Association (SEWA) was established in 1972 to address vulnerabilities of self-employed women in India. It combines trade union negotiating strategies with co-operative formation and provision of support services.

The association strives to strengthen access to full employment, which provides work, income, food and social security (health care, child care and shelter). Many activities focus on health, with child-care services, disaster management institutions and the SEWA Bank responding to concerns, such as health costs and loan defaults. SEWA has also introduced a maternity benefit that includes a grant and some antenatal and nutritional care at time of birth.

SEWA created is an integrated insurance scheme, VIMO SEWA, with three components: life insurance; asset insurance; and health insurance. The scheme was introduced in response to members' high health spending and to ill health being the main reason for loan default in the savings scheme (Thakur, 2009[26]).

Notes

[1] Women in Informal Employment: Globalizing and Organizing studies in Bangladesh, India, Nepal and Pakistan show that home-based work is a major source of employment for women in India, Pakistan and Nepal. In Nepal, nearly 50% of women workers (non-agricultural) are home based, compared with 22% of men (Raveendran and Vanek, 2013[39]; Akhtar and Vanek, 2013[37]; Raveendran, Sudarshan and Vanek, 2013[38]; Mahmud, 2014[40]).

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Annex A. Definitions of informal economy, informal sector and informal employment

Informal economy, informal employment and employment in the informal sector: international and operational definitions

The concept of "informality" was first introduced in the 1970s (Hart, 1973[1]; ILO, 1972[2]). For more than four decades, there has been much discussion on the causes of informality around the world but also about the definition and the measurement of informality. In 2015, the ILO Recommendation n°204 concerning the transition from the informal to the formal economy describes the "informal economy" as referring to all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements. The informal economy does not cover illicit activities. The Recommendation refers to the guidelines concerning the statistical definition of informal employment adopted by the 17th International Conference of Labour Statisticians in 2003 that themselves refer to earlier guidelines related to the informal sector. These guidelines are applied by many emerging and developing economies to measure informal employment, while developed economies typically do not measure such employment.

International standards distinguish between employment in the informal sector and informal employment. Employment in the informal sector is an enterprise-based concept and it is defined in terms of the characteristics of the place of work of the worker. By contrast, informal employment is a job-based concept and it is defined in terms of the employment relationship and protections associated with the job of the worker.

Employment in the informal sector

According to the international standards adopted by the 15th ICLS, the informal sector consists of units engaged in the production of goods or services with the primary objective of generating employment and incomes to the persons concerned. The informal sector is a subset of unincorporated enterprises not constituted as separate legal entities independently of their owners (ICLS, 1993[3]). They are owned by individual household members or several members of the same or different households. Typically, they are operating at a low level of organization, on a small scale and with little or no division between labour and capital as factors of production.

To facilitate international comparability, notably in the context of the Sustainable Development Goals (SDGs), and overcome previous limitations associated with the use of different measures by countries, the ILO recently applied a similar set of criteria, when processing micro-data, to determine informal employment and employment in the informal sector as a person's main job.

The translation of the international definition of the informal criteria was translated into a set of common criteria applied to micro datasets from national labour force surveys or similar household surveys.

Table A A.1. Operational criteria to define the informal sector and employment in the informal sector (in informal sector economic units)

1. Institutional sector	The "institutional sector" (government, public enterprises, non-governmental organisations (NGOs); private sector; households) is meant to separate persons working in government, public and private corporations, non-governmental and international organisations, and other institutions clearly recognised as belonging to the formal sector. It also serves to identify persons working in private households producing wholly for own final use.
2. Final destination of production	the purpose of the second mandatory criterion about the "destination of production" is to exclude from the scope of informal sector persons working in a farm or private business (unincorporated enterprise) where the main intended destination of the production is wholly for own final use.
3.Registration of the economic unit	Registration of the economic unit under national legislation (in the process of registration is considered as not registered). This includes registration with social security authorities, sales or income tax authorities and should be at national level. It identifies enterprises that are similar to corporations (quasi-corporations) and therefore outside the scope of the informal sector. The appropriate forms of registration relevant to the concept of informal sector should be examined in the national context.
4. Bookkeeping	This criterion assesses whether the economic unit maintains a set of accounts required by law (e.g. balance sheets) or keeps some official accounts. The purpose of the information on bookkeeping practices of the farm or private unincorporated enterprise is to identify whether the economic unit is constituted as a separate legal entity independent of its owner(s).
An alternative approach was applied in case both criteria 3 and 4 were missing (no question, no answer or don't know). Criteria 1 is a mandatory criteria.	
5. Contribution of employer (and employee) to social security	Contribution of employer (and employee) to social security or alternatively declaration of labour income (e.g. does the employer contribute to social security or declare labour income in order to pay income tax?) •If employer is contributing on behalf of the employee to social security, then the economic unit is part of the formal sector, otherwise assessment of the combination of the size and location of the activity.
6. Size of the economic unit, and 7. Location of workplace	Are considered as informal, all private economic units that with five or fewer workers or located in non-fixed visible premises (e.g. in the owners' dwelling, in the street, in construction sites, in agricultural plots, that are itinerant, etc.).

Informal employment

Employees are considered to have informal jobs if their employment relationship is, in law or in practice, not subject to national labour legislation, income taxation, social protection or entitlement to certain employment benefits (advance notice of dismissal, severance pay, paid annual or sick leave, etc.). The underpinning reasons may be the non-declaration of the jobs or the employees; casual jobs or jobs of a short duration; jobs with hours of work or wages below a specified threshold (e.g. for social security contributions); or lack of application of law and regulation in practice.

In the case of own-account workers and employers, the informal employment status of the job is determined by the informal sector nature of the enterprise. Employers (with hired workers) and own-account worker (without hired workers) are considered to be informal when their economic units belong to the informal sector.

All contributing family workers are classified as having informal employment, irrespective of whether they work in formal or informal sector enterprises.

Table A A.2. Operational criteria to define informal employment

1. Status in employment	a) If the person is reported as a contributing family worker, no further questions are required and the person is classified as having an informal job. b) If the person is recorded as an employer, or own-account worker, or member of a producer's cooperative, no additional questions are required and the formal or informal nature of the job is determined according to the formal or informal nature of the person's economic unit. Employers, own-account workers and members of producers' cooperatives with enterprises in the formal sector are classified as having a formal job. Similarly, employers, own-account workers and members of producers' cooperatives with enterprises in the informal sector are classified as having an informal job. If the enterprise is a household enterprise or a private business producing wholly for own or family use, the owner is also classified as having an informal job. c) The statistical treatment of "employees" and "not stated" is different and depends on the criteria of social security contributions by the employer or alternatively to entitlements to paid annual leave and paid sick leave.
	Assessment of informal employment for employees
2. Employer's social security contribution on behalf of employee	Contributions to a social security (ideally for pension) scheme by the employer is the option most commonly used in countries and the one applied in the operational definition. In case of contributions to social security, the employees is considered as being in formal employment If no contributions to social security, the employee is considered as being in informal employment. ·If don't know or no answer, then go to the next two criteria
Entitlement to and benefit from: 3. paid annual leave and 4. paid sick leave	Paid annual leave refers to paid vacation time, home leave, leave for national holidays, bereavement leave, or other casual leave. In some cases, the employee may receive paid compensation for some types of unused leave that has been accumulated. Such compensation is also included. Paid sick leave refers to entitlement to be paid by the employer during days that the employee is absent from work due to own illness or injury. In case of no answer concerning the contribution to social security, employees are considered in formal employment if they are entitled and effectively benefit from paid annual leave and paid sick leave.

Table A A.3. Operational definition of informal employment by country and survey

Country	Survey	Year	Employment	Employment rate	Formal/Informal sector criteria	Formal/Informal work criteria for employees	% population without any workers in the HH
Albania	Living Standards Measurement Survey	2012	M4A_Q02 (During the past 7 days, have you worked (at least one hour) for someone who is not a member of your household, for example, a public or private enterprise or company, an NGO or any other individual?)	29.81	Formal if government (M4B_Q09=1,3,4,5)	Formal if entitled to social security scheme (M4B_Q10=1)	35.06
Argentina	Encuesta Permanente de Hogares	2016	status (¿En la semana pasada, trabajó por lo menos una hora? (sin contar las tareas de su hogar))	53.65	Formal if government (pp04a='1),' formal if private and registered business (pp6e='1)' and fixed workplace (pp4g=1,2,4,6,7,8,10)	Formal if contributing to social security (pp07g4=1)	0
Armenia	Living Standards Measurement Survey	2014	d1_5 (Did you have any paid work or profitable job (own business) during the last 7 days, even if you worked only for one hour (include the work in a farm, family enterprise)?)	50.49	Formal if government (d1_7<4), formal if private and registered (d1_6=1)	Formal if enrolled in health insurance (i1_37='1)' or with a written contract (d1_5=1)	14.41
Benin	Enquete Modulaire Integree sur les Conditions de Vie des Ménages	2011	EA2 (Au cours de la semaine dernière, avez-vous travaillé ne serait-ce qu'une heure ?)	67.5	Formal if government or public company (AP4='1,' 2), formal if private sector (AP='3,4)' and registered (AP6_a, AP6_b, AP6_c='1)' or with written accounting (AP8c1 or AP8d=1)	Formal if contributing to social security (AP6_b='1)' or if contribution to social security if unknown (AP6_b='3)' if receiving written paystubs (AP8d=1)	2.41
Bolivia	Encuesta de Hogares	2015	s6a_01 (Durante la semana pasada, ¿trabajó al menos una hora?)	64.95	Formal if government (s6b_18='1,2,5,6),' formal if private and registered business (s6b_19=1,2)	Formal if paid annual leave (s6c_29a='1)' and medical insurance (s6c_29b=1)	0.02
Brazil	Pesquisa Nacional por Amostra de Domicilios	2015	v9001 (trabalhou na semana de 20 a 26 de setembro de 2015)	55.87	Formal if government (v9032='2,3),' formal if private and registered (v90531=1)	Formal if contributing to social security (v9059=1)	13.82

Burkina Faso	Enquête multisectorielle continue	2014	E01, E03, E05, E07, E09 (travaillé au moins une heure au cours des 7 derniers jours)	73.05	Formal if government (E26='1,2,7),' formal if private and paying taxes (E40='1),' formal if private and unknown tax information and firm has at least 4 workers (E27>2)	Formal if contributing to pension system (E41='1),' formal if unknown pension contribution and entitled to paid annual leave (E42='1)' and paid sick leave (E43=1)	2.64
Cameroon	Enquete Camerounaise aupres des menages	2007	s04q4 (Au cours des 12 derniers mois, c'est-à-dire depuis _____, (Nom) a-t-il/elle exercé une activité économique ?)	84.08	Formal if government (s04q13='1,2,5),' formal if private and written accounting (s04q16='1)' or business registration (s04q15=1)	Formal if affiliated with social security (s04q19='1),' formal if unknown social security affiliation and entitled to paid annual leave (s04q28d=1)	1.62
Chile	Encuesta de Caracterizacion Socioeconomica Nacional	2015	01 (La semana pasada, ¿trabajó al menos una hora, sin considerar los quehaceres del hogar?)	53.88	Formal if government (o15='3,8),' formal if private and more than 6 workers (o24>B)	Formal if affiliated with pension system (o29='1),' formal if affiliation with pension system unknown and with open ended contract (o16=1)	0
Colombia	Encuesta de Calidad de Vida	2015	P6240 (¿En qué actividad ocupó… la mayor parte del tiempo LA SEMANA PASADA?), P6250 (Además de lo anterior, ¿… realizó LA SEMANA PASADA alguna actividad paga por una hora o más?(, P6260 (Aunque… no trabajó LA SEMANA PASADA, por una HORA O MÁS en forma remunerada, ¿tenía durante esa semana algún trabajo o negocio por el que recibe ingresos?), 6270 (¿… trabajó LA SEMANA PASADA en un negocio por UNA HORA O MÁS sin que le pagaran?)	54.34	Formal if government (P6435='2),' formal if private with >5 workers (P8632>3) and with a fixed location (P8634='1),' formal if private and with insurance for work injury (P6990=1)	Formal if insured for work injury (P6990='1)' or pension system (P6920=1)	7.24

Costa Rica	Encuesta Nacional de Hogares	2016	CondAct (¿(Nombre) trabajó la semana pasada, aunque fuera una hora, en la semana, pero sin contar los oficios domésticos de su hogar?)	55.8	Formal if government or NGOs (SecInsPri), formal if private sector and business registered (D11='1,2)' or with written accounting (D12='1),' formal if private sector and unknown business registration/written accounting and contributing to social security (E10A='1),' formal if private sector and unknown business registration/written accounting and with more than 5 employees (C10>5) and with fixed workplace (C11=5,6)	Formal if contributing to social security (E10A='1),' formal if contribution to social security is unknown but entitled to paid leave (E9C='1)' and paid sick leave (E9B=1)	10.19
El Salvador	Encuesta de Hogares de Propósitos Múltiples	2014	actpr(LA SEMANA ANTERIOR (…) ¿REALIZO ALGÚN TRABAJO ANTERIORES PARA BUSCAR TRABAJO O POR LO MENOS UNA HORA? ESTABLECER SU PROPIA EMPRESA O NEGOCIO?)	56.59	Formal if government (R420='2,3),' formal if private and registered business (R426A='1)' and paying taxes (R426B='1),' formal if unknown or no registration and unknown tax paid but with workers having some type of private or public social security (422='1),' formal if unknown or no registration and unknown tax paid and business with >5 workers (R421>5) and fixed location (R426=8)	Formal if affiliated with public or private social security (R422='1)'	7.82
Ghana	Ghana Living Standards Survey	2012/13	s4aq1 (Did (NAME) do any work for pay, profit, family gain or did (NAME) produce anything for barter or home use during the last 7 days even if it was for only one hour?)	70.68	Formal if government (0> s4aq21 <7), formal if private sector with at least 6 workers (s4aq35>5) and at fixed location (s4aq32='1,3,4,8,9,14,15),' formal if private and unknown size and location and enrolled in pension system (s4aq28='1)' or other type of social security (s4aq30='1)' or free or subsidized medical care in the job (s4aq29=1)	Formal if enrolled in pension system (s4aq28='1)' or other type of social security (s4aq30='1)' or free or subsidized medical care in the job (s4aq29='1),' formal if unknown pension, social security or medical care status and entitled to paid annual leave (s4aq26='1)' and paid sick and/or maternity leave (s4aq27=1)	53.45

Honduras	Encuesta de Hogares de Propositos Multiples	2014	condact (Durante la semana pasada ¿dedicó una hora o más a algún trabajo o actividad con pago en dinero o en especie, u obtuvo algún ingreso? (Excepto quehaceres del hogar))	59.42	Formal if government (CE432='1),' formal if private with written accounting (CE444_5='5),' formal if private sector and unknown written accounting and at least 10 workers (CE431>1) and fixed work location (CE443=3)	Formal if contributing to socia security (CE438_1='1),' formal if unknown social security contribution and entitled to annual leave (CE438_3='3)' and paying taxes (CE434=1)	5.49
Indonesia	Indonesia Family Life Survey	2014/15	tk24a (Which category best describes the work that you do?)	47.6	Formal if government/NGOs (tka24a='4)' or in private sector with employer-provided pension/ health insurance policy (tk25a4='1,2,3,4;' tk25a3g='1,' tk25a3e2='1,' tk25a7_x=1)	Formal if employer-provided pension/ health insurance policy (tk25a4='1,2,3,4;' tk25a3g='1,' tk25a3e2='1,' tk25a7_x=1)	12.71
Kyrgyzstan	Life in Kyrgyzstan	2013	Activity	?	Formal if in government (i308='11,' 15), formal if business is registered (i313) or with medical insurance (i317), formal if in private sector and the registration (i313) and medical insurance (i317) are unknown and employer contributes to pension (i328)	Formal if enrolled in pension system (i328='1),' formal if pension affiliation status is unknown but entitled to paid sick leave (i330) and eligible for either unemployment benefits or paid paternity/maternity leave (i335_6='1' or i335_7=1)	26.51
Madagascar	Enquête nationale sur le suivi des objectifs du millénaire pour le développement à Madagascar	2013	qms04aq02 (Est-ce que (NOM) a travaillé au moins une heure au cours des 7 derniers jours ?), qms04aq04 (Même si (NOM) n'a pas travaillé au cours des 7 derniers jours, a-t-il un emploi permanent ?)	85.89	Formal if government (qms04bq03='11,12,' 16, 17), formal if private and registered enterprise (qms04bq07='1),' formal if unknown registration and at least 6 workers (qms04bq06>2)	Formal if contributing to pension system (qms04by18='1)' or employment-based social protection (qms04bq20='1),' formal if unknown contribution to pension and unknown social protection and with paid annual leave (qms04bq19=1)	1.95

Nicaragua	Encuesta Nacional de Hogares sobre Medición de Niveles de Vida	2014	EMPLOYED (trabajo… durante la semana pasada por lo menos una hora como asalariado, o en su propio negocio familiar?)	60.15	Formal if government or NGO (7500<S5P15 <8031 or 9799<S5P15<9801), formal if private sector and contributing to social security (S5P28=1)	Formal if contributing to social security (S5P28='1),' formal if social security contribution unknown and entitled to paid leave (S5P21='1)'	7.63
Niger	National Survey on Living Conditions and Agriculture	2011	ms04q01 (During the last 30 days, did [NAME] work at least one hour for an enterprise, for the state, for an employer or other person who is not a member of the household?), ms04q03 (During the last 30 days, did [NAME] work at least one hour, with or without pay, in a field or garden that belongs to him/her or belongs to another member of the household? Or did [NAME] raise livestock?), ms04q05 (During the last 30 days, did [NAME] work for at least one hour, with or without pay, in a business, processing activities, provide service for his own business or for the business of another household member? For example as an artisan, businessman, or independent fisherman, lawyer, doctor or other independent work?), ms04q07 (During the last 30 days, did [NAME] work at least one hour as an occasional worker or part time?), ms04q12 (Even if [NAME] didn't work during the last 30 days, does [NAME] have a job s/he would have worked during the last 30 days?), ms04q22 (At any time during the last 12 months, did [NAME] have paid work for a salary (for the state, a local collective or an enterprise) or work in his/her field or his/her	79.99	Formal if government (ms04q26='1,2,7),' formal if private and paying taxes (ms04q40='1)' or business has at least 5 workers (ms04q27>2)	Formal if affiliated with pension system (ms04q41='1)' or employment-related health insurance (ms04q44='1),' formal if unknown pension or health insurance status and entitled to paid sick leave (ms04q43='1)' and paid annual leave (ms04q42=1)	0.91

			garden, or for he own account or for another member of the household in a business, processing activities, a service? (For example, as an artisan, businessman, or independent fisherman, lawyer, doctor or other independent worker, excluding occasional work))				
Paraguay	Encuesta Permanente de Hogares	2016	a02 (Durante los últimos 7 días ¿ha realizado algún trabajo ya sea como empleado, por cuenta propia, empleador (patrón) o como familiar no remunerado?), a03 (Independientemente de lo que me acaba de decir... Durante los últimos 7 días ¿trabajó ... [NOMBRE]... al menos 1 hora, por cuenta propia, como patrón o empleado en una empresa o negocio no agropecuario o al menos 7 horas en la chacra o en el cuidado de sus animales?), a04 (Aunque ya me dijo que no trabajó durante los últimos 7 días. ¿Tiene ... [NOMBRE]... algún trabajo o una ocupación como obrero, empleado, cuenta propia o empleador (patrón) aunque no lo haya realizado en los últimos 7 días, pudiendo reincorporarse al empleo?)	66.17	Formal if government (B12='1),' if in private sector and registration (B28='1)' or written accounting (B30='1),' if in private sector and unknown registration/accounting but contributing to pension (B10='1),' if in private sector and unknown registration/accounting but business has >6 workers (B8>2) and not a single person business (B29=2,3,4)	Formal if affiliated with pension system (B10='1),' or if unknown affiliation with pension system entitled to paid leave (B13=1)	4.37
Peru	Encuesta Nacional de Hogares	2016	p501 (LA SEMANA PASADA, DEL……..... AL……..……., ¿TUVO UD. ALGÚN TRABAJO? (Sin contar los quehaceres del hogar))), p502 (AUNQUE NO TRABAJÓ LA SEMANA PASADA, ¿TIENE ALGÚN EMPLEO FIJO AL QUE PRÓXIMAMENTE VOLVERÁ?), p503 (AUNQUE NO TRABAJÓ LA SEMANA PASADA,	63.11	Formal if working for government (p510='1,2,3),' if private sector with written account (P510B='1)' or registration (P510A1=1,2)	Formal if affiliated with pension system (P558A='1,2,3,4)' and with a formal employment contract (P511A=1,2,3,4,5,6)	9.29

			¿TIENE ALGÚN NEGOCIO PROPIO AL QUE PRÓXIMAMENTE VOLVERÁ?), p504 =1,3,4,5,6,7,8,9,10,11				
Senegal	Enquete Suivi Pauvreté	2011	e1 (AU COURS DES 7 DERNIERS JOURS, [NOM] A-T-IL/ELLE ACCOMPLI LES TACHES MENAGERES SUIVANTES?)	65.15	Formal if government or NGO (e19a='1,2,6,7),' formal if private sector with written account and registration (e19b='1)' or affiliated with social security (e13=1)	Formal if affiliated with social security (e13='1),' formal if social security affiliation unknown but with a written contract (e9=1,2)	2.81
South Africa	National Income Dynamics Study	2014/15	w4_a_em1 (Are you currently being paid a wage or salary to work on a regular basis for an employer (that is not yourself) whether full time or part time? If you work for yourself, we will ask about this later) w4_a_ems (Have you engaged in any self-employment activities during the last 30 days? For example, you might buy and sell goods, be a commercial farmer, work for yourself as a doctor or hairdresser or be a freelance consultant.), w4_a_emc (Have you done any casual work to earn money in the past 30 days?), w4_a_emp (In the last 30 days did you do any work on your own or the household's plot, farm, food garden, cattle post or kraal, or help in growing farm produce or in looking after animals for your household? If you have already told us about your commercial farm, do not tell us about it again.)	45.11	Formal if private and business is registered for income tax and/or VAT (w4_a_emstax='1)' or has more than 5 workers (w4_a_emsnumemp>1)	Formal if affiliated with pension fund (w4_a_em1dedpen='1)' or medical health (w4_a_em1dedmed='1)' or unemployment insurance (w4_a_em1deduif=1) and not entitled to paid leave (w4_a_em1pdleave=1)	30.12
Tanzania	National Panel Survey	2012/13	hh_e08b (In the last 7 days, did [NAME] work as an employee for a wage, salary, commission or any payment in kind; including doing paid apprenticeship, domestic work or paid	83.63	Formal if government (E19=1,2,3,4,6,7)	Formal if contributing to health insurance plan in the job (E35=1)	66.12

			farm work even if for one hour?) hh_e14 (Although [NAME] did not do any work during the last 7 days, do [NAME] have a job or own farm or enterprise at which [NAME] will definitely return to work?)				
Uruguay	Encuesta Continua de Hogares	2016	f66 (Durante la semana pasada, ¿trabajó por lo menos una hora sin considerar los quehaceres del hogar?), f67 (Durante la semana pasada, al menos durante una hora, ¿hizo algo para afuera, ayudó en un negocio o colaboró en el cuidado de animales, cultivos o huerta?), f68 (Aunque no trabajó la semana pasada, ¿tiene algún trabajo o negocio al que seguro volverá?)	59.6	Formal if government/public works/cooperative (f73='2,3,8),' formal if private and with written accounting (f262='1)' or registered with taxes or social security (f263='1)' or with legal status (f264='2,3,4,5),' formal if private with fixed work place (f78='1,3,4)' and business with >4 employees (f77>2)	Formal if affiliated with pension system (f82='1),' formal if unknown affiliation with pension system and entitled to paid annual leave (f267='1)' and paid sick leave (f268=1)	12.33
Vietnam	Viet Nam Household Living Standards Survey	2014	m4ac2 (Last 12 months)	76.76	Formal if government or NGO (m4ac8a='5,6),'	Formal if affiliated with social security (m4ac13c='1,' 2)	2.27
Zambia	Living Conditions Monitoring Survey	2015	sec5q1 (What is your main current economic activity status? Are you……..)	48.95	Formal if government (sec5q4='2,3,6,7),' formal if private and enrolled in pension, gratuity or social security (sec5q5='1),' formal if private and unknown social security and at least 5 workers (sec5q7=1)	Formal if enrolled in pension, gratuity or social security (sec5q5='1),' formal if unknown social security enrolment and entitled to paid annual leave (sec5q6=1)	0

Annex B. Additional tables - The Key Indicators of Informality based on Individuals and their Households (KIIbIH) Database*

Annex Table B.1. Informality rate by age group

Annex Table B.2. Informality rate by level of education

Annex Table B.3. Informality rate by status in employment

Annex Table B.4. Informality rate by location

Annex Table B.5. Informality rate by degree of informality of household

Annex Table B.6. Distribution of households across location and degree of informality

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Annex Table B.8. Informal workers by firm size

Annex Table B.9. Poverty rate of the employed

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Annex Table B.11. Informal workers living with less than the national poverty line

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Annex Table B.18. Hourly wage ratio (informal to formal)

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Annex Table B.21. Share of the employed by weekly hours worked and informality status

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Annex Table B.25. Informality rate by gender and location

Annex Table B.26. Distribution of informal workers across status in employment and gender of worker

Annex Table B.27. Share of informal workers by weekly hours worked and gender

Annex Table B.28. Pension contributors by gender and informality status

Annex Table B.29. Poverty rate of the employed by gender

Annex Table B.30. Poverty rate by informality status and gender

Annex Table B.31. Poverty rate according to degree of informality of household and gender of household member

Annex Table B.32. Poverty status of all workers according to status in employment and gender

Annex Table B.33. Poverty status of informal workers by status in employment and gender

Annex Table B.34. Poverty status of formal workers by status in employment and gender

*Full tables available at https://doi.org/10.1787/939b7bcd-en.

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Tackling Vulnerability in the Informal Economy

A majority of workers in the world are informally employed and contribute to economic and social development through market and non-market activities that are not protected, regulated, well-recognised or valued. This study provides an in-depth diagnosis of informality and the vulnerability prevailing in the informal economy. It explores new ideas to improve the lives of workers in the informal economy based on the ILO indicators of informality and the new OECD Key Indicators of Informality based on Individuals and their Household (KIIbIH).

The report contributes in four ways to the global debate on the transition from the informal to the formal economy: 1) by examining the multiple faces of informality in a large sample of countries representing diverse conditions, locations and stages of development; 2) by presenting new empirical evidence on the links between informality and the development process; 3) by assessing risks and vulnerabilities in the informal economy, such as poverty and occupational risks, which can be mitigated with social protection and appropriate risk management instruments; 4) by showing that the transition to formality is a complex issue that touches on a wide range of policy domains.

Consult this publication on line at ***https://doi.org/10.1787/939b7bcd-en***.

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