



ADDRESSING INFORMALITY THROUGH THE SOCIAL ECONOMY

Why is it important to address informality?

Evidence shows that informality might provide jobs, income and a safety net for workers. However, at high levels, informality results in reduced productivity, a decline in both the Human Development Index and GDP indicators, and an increase in poverty. Informality can act as a barrier to longer-term growth, competitiveness, and business formalisation. It has broader and significant economic and social consequences such as lower tax revenues, limiting the scope for government expenditures, including for social protection systems. High levels of informality create additional challenges to the formal sector through unfair competition, which can discourage investment and businesses growth, since informal businesses need to stay small to evade enforcement agencies.

Informality affects OECD and non-OECD countries. Globally, almost 60% of workers lack the protections granted to formal employees. For example, labour informality is estimated at 16.8% of total employment within the European Union. In Australia, Korea, and Chile, more than 25% of workers hold informal jobs, while in Brazil, Costa Rica and South Africa, this figure ranges from 36% to 43%. The prevalence of informal employment exceeds 50% in Argentina, Colombia and Mexico and surpasses 65% in Egypt, Thailand, and Peru. In countries such as India and Indonesia, the informal employment rate stands above 80% (Figure 1).

How can the social and economy help?

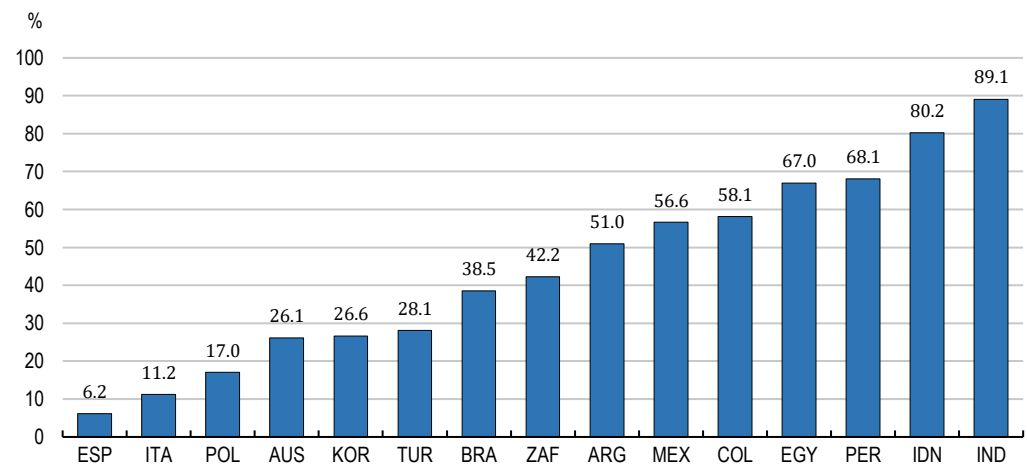
The social and solidarity economy can play a significant role in addressing the challenges posed by informality. Lower entry barriers, tax incentives specific to social economy organisations such as cooperatives, and access to training and education opportunities are among the many pathways by which the social and solidarity economy helps to reduce business and labour informality (Figure 2). The field has also the distinctive ability to reach disadvantaged groups, formalise activity through its entities (e.g., cooperatives and social enterprises), facilitate access to information about labour rights and entitlements, and ensure the equitable distribution of surplus and profits (see below).

What is the social and solidarity economy?

The social economy, also referred to in some countries as solidarity economy and/or social and solidarity economy, is made up of a set of organisations such as associations, cooperatives, mutual organisations, foundations, and, more recently, social enterprises. In some cases, community-based, grassroots, and spontaneous initiatives are part of the social economy in addition to non-profit organisations, the latter group often being referred to as the solidarity economy. The activity of these entities is typically driven by societal objectives, values of solidarity, the primacy of people over capital and, in most cases, by democratic and participative governance.

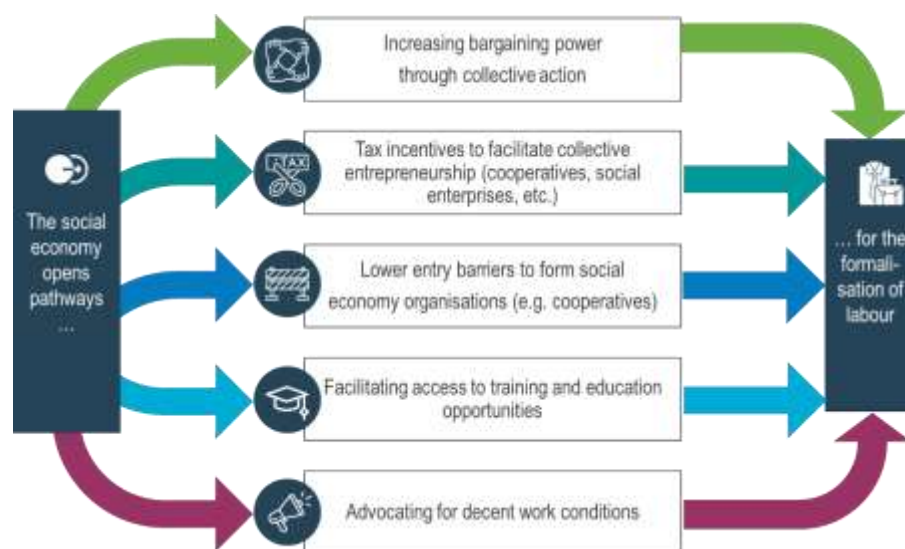
Read more: [OECD Recommendation on the Social and Solidarity Economy and Social Innovation](#)

Figure 1. Share of informal employment by country in some OECD countries and beyond



Source: ILOSTAT, 2023

Figure 2. Pathways by which the social economy contributes to reducing informality



Examples of the social economy to support the transition to formality

- In Brazil, the 2024-2027 Pluriannual Plan introduced the "Sustainable Popular and Solidarity Economy Programme" to spur more economic development and climate sustainability. This Plan recognises that the expansion of the popular and solidarity economy offers a compelling response for generating income and promoting local development. It also presents a concrete development strategy to address high rates of informality, extreme poverty and income inequality.
- In the Region of Murcia, Spain, the 2021-2024 Pact for the Social Economy seeks to generate welfare, enhance social inclusion and reduce social inequalities. The Pact also aims to reduce the informal economy through cooperatives and other social economy entities by providing financial support for formal employment, awareness-raising campaigns and labour and tax advice.

Learnings from OECD work with Colombia



Work on Colombia: [Social protection and tackling informality: building on the social and solidarity economy in Colombia](#)

OECD work with Colombia has shown that promoting conducive and tailored ecosystems can significantly help to unleash the social and solidarity economy's full potential for tackling informality, through strengthening compliance and risk-based analysis for cooperatives. More broadly, the social economy can provide solutions to support the transition to formal work in many economic sectors.

The OECD/Colombia Project produced the following deliverables:

- Analysis of the social economy ecosystem using [the EU/OECD Better Entrepreneurship Policy Tool](#).
- Three workshops on the social and solidarity economy ecosystem and informality and social and solidarity economy practices, as well as information systems. These workshops shared international experiences from Brazil, Canada, El Salvador, Ireland, Italy, Mexico, Portugal, Spain, Ireland, Italy, and the United States of America.
- [Workshop highlights](#) with the main policy recommendations for Colombia.
- A report on the [contribution of cooperatives in Colombia in the transition from informality to formal jobs](#).

The New LEED Project:

Addressing Informality through the Social Economy

The social economy can support formalisation in many ways. It can empower communities and vulnerable groups to launch economic activity with impact through collective entrepreneurship and complement existing labour markets by offering employment to disadvantaged groups. Social economy organisations and entities can also act as intermediaries, offering products and services that provide benefits such as social protection, education and health services to support the transition from informal to formal economies.

Building on OECD work on the social economy through the Local Employment and Economic Development Programme, the OECD Recommendation on the Social and Solidarity Economy and Social Innovation, and learnings from recent work on Colombia, the LEED programme is launching a new project aiming to support countries, regions and cities in addressing informality through the social economy.

Objective

The project seeks to implement various activities to achieve the following specific goals:

- **Support raising awareness and visibility** of the social economy, in particular the pathways by which it helps address informality. Social economy organisations are active in many OECD countries and beyond. They provide decent and stable jobs for informal workers and facilitate economic activity through collective entrepreneurship. Nonetheless, there is still a need to further raise their visibility and deepen awareness and knowledge of their potential in the transition to formality among policy makers across various levels of government and the general public.
- **Provide practical guidance and policy options** to help improve framework conditions and overcome barriers facing social economy organisations active in the reduction of informality.
- **Equip countries, regions and cities to better understand how to build thriving social economy ecosystems** and how to engage more proactively with social economy organisations and entities to support goals of addressing informality.
- **Provide actionable guidance** based on best practice examples from OECD countries and beyond to support implementation of social economy strategies that target informality, taking into account national and local contexts.

These objectives will be pursued mainly through:

- **Assessment of national and local framework conditions and policies** for the social economy in general (challenges, barriers and possibilities for action) and in particular, those related to its contributions to reducing informality, as well as links with employment/job creation, social policies and collective entrepreneurship/business policies.
- **International peer learning exercises** to support experience and best practice-sharing among countries, regions and cities on what works, what does not work, why and how.
- **Thematic briefs** on selected priorities depending on local contexts that highlight the contributions of the social economy to delivering concrete solutions to informality (e.g. formalisation of employment, compliance, governance of social economy entities, collective entrepreneurship, etc.).

Activities and Outputs

As part of this project, the OECD will develop the following activities and outputs:

Activities

- **Case studies** at national and local level that provide evidence and policy recommendations on the social economy and its contributions to addressing informality through cooperatives, social enterprises and other social economy entities.
- **Analytical or thematic reports** that identify strategic priorities such as compliance, information systems, governance, social impact, etc. that need to be addressed so as to enhance social economy organisations' performance and capacity to address informality.
- **Focus group discussions** with different social economy stakeholders (i.e. authorities, academia, practitioners, networks, etc.) to gather relevant information and knowledge.
- **Workshops and learning seminars** that facilitate peer review among countries, regions and cities, alongside opportunities to share lessons and good practices on how the social economy delivers or could deliver results in reducing informality.

Outputs

- **Thematic briefs** highlighting the main policy recommendations and learnings from international examples.
- **International reports** tailored to national, regional or local priorities. These can vary, ranging from overarching analytical reports to papers focusing on specific topics.

How can you participate?

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Discover the OECD Recommendation on the Social and Solidarity Economy and Social Innovation

The Recommendation promotes the social economy's potential to pioneer new business models, provide essential services, contribute to a fairer, green and digital transition, engage youth, and build communities. It recognises the diversity of practice and the need for policy tools applicable to a range of country contexts and varying degrees of development of the social economy.



[Access the Recommendation](#)

About the OECD Social Economy and Innovation Unit and the OECD Centre for Entrepreneurship, SMEs, Regions and Cities

The OECD began work on social economy over 25 years ago to assist national, regional, and local governments in designing and implementing strategies to support the SSE and social enterprises by providing them with tailored and evidence-based policy recommendations. The work supports the OECD's Local Economic and Employment Development (LEED) Programme.

The Centre helps local, regional and national governments unleash the potential of entrepreneurs and small and medium-sized enterprises, promote inclusive and sustainable regions and cities, boost local job creation, and support sound tourism policies.