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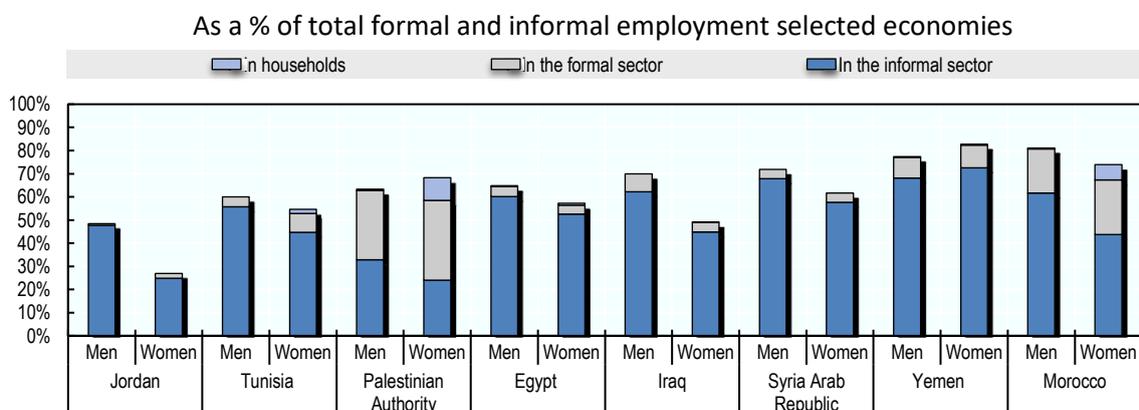
**Session 4. Social resilience: moving away from informality to formal employment and businesses**

In many countries around the world, the informal economy offers opportunities of livelihood to people who would otherwise have no job and income. Informality can provide a certain safety net when rates of formal job creation are low. It can also be a source of supplementary income from low-paid employment in the formal sector, and can play an incubator role for new-enterprise creation, with some firms operating initially in the informal economy in order to test the viability of their business.

The challenge for policymakers is to create opportunities and incentives for informal workers and firms to enter the formal sector, in a conducive environment where firms can thrive and individuals can fulfill their professional aspirations. Indeed, informality is associated with low productivity and growth, losses in fiscal revenues, and equity issues. Many informal businesses have limited access to finance and are constraint to small-scale production, never developing their potential. Moreover, in addition to narrowing tax bases and lowering tax collection, informal activities use and congest public infrastructure without contributing the tax revenue used to replenish it. On the other side, most informal workers do not benefit from basic social protection that allows for resilience and stability during unforeseen disruptions and periods of illness or disability. These drawbacks are manifest in the current crisis generated by the COVID-19 pandemic.

Informal employment<sup>i</sup> is widespread in the MENA region, representing 68% of total employment, reaching up to 78% in Yemen and 81% in Morocco (Figure 1). Although in several MENA economies economic growth has been sustained for several decades, it has failed to create enough opportunities in the form of decent jobs. Formal workers are mainly engaged in the public sector in MENA economies, while formal private employment represents only one fifth of total employment in the region (OECD, 2020). In many MENA economies, the formal private sector faces important challenges restraining firms' capacity to grow and create jobs, such as dealing with complex administrative procedures, access to quality infrastructure, credit and technologies, and high labour taxes.

**Figure 1. Components of informal employment**



Note: Economies have been selected upon data availability.  
Source: ILO, 2018

### ***Gender-specific issues confine many women to informal work in the MENA region.***

A substantial portion of women's formal employment is in the public sector, but almost 62% of all women workers are informally employed in the MENA region (Bonnet, et al., 2019). Also, female informal workers are over-represented in the most vulnerable and lower-paid categories of informal employment, notably domestic work and agriculture. One-third (33%) of them are contributing family workers compared to a far lower percentage (6%) of men's informal workers.

The relevance and characteristics of women's participation in the informal economy in the region are related to a number of interrelated socioeconomic, cultural, structural and institutional factors. For example, in some MENA economies, the law prohibits women from working in specific sectors. Moreover, household duties, coupled with the often limited availability of affordable childcare facilities and family-friendly policies, are a significant barrier to women's formal economic activity in some MENA economies. The cultural stereotype that a woman's role is in the home –especially after marriage and childbirth– and that working in private sector jobs is socially less acceptable, is pervasive. Furthermore, across the region women willing to be entrepreneurs face significant barriers to access credit, due to conservative lending policies, absence of collateral, or distrust.

### ***The Covid-19 economic shakeup has exacerbated the vulnerability of informal workers and businesses in MENA economies.***

The informal sector usually serves as a buffer to negative shocks, temporarily absorbing the workforce pushed out of the formal sector. However, amid the COVID-19 crisis, social distancing policies, lock-down and confinement measures have reinforced vulnerabilities in the informal sector due to the nature of most informal sector jobs, where working remotely is not an option. Informal workers were obliged to choose between either complying with health distancing measures or sustaining their livelihoods.

Informality is amplifying the economic shock to livelihoods in the face of COVID-19. As the outbreak continues to throw several key industries into turmoil (tourism, logistics, restaurants and retail), unemployment in MENA is anticipated to rise by at least 1.2% in the near future causing a potential total loss of 1.7 million formal and informal jobs, including 700,000 for women. Yet, in the MENA region, 89% of informal workers are at risk of job and income loss and have no social protection (Oxfam, 2020). Indeed, a significant portion of the labour force does not contribute to social security, ranging from 32% in Libya to almost 90% in Yemen (ILO, 2018). In MENA economies, only 16% of the poorest quintile receives social assistance in comparison to the 40% global average (International Policy Centre for Inclusive Growth, 2017). The MENA region is indeed characterised by low levels of social protection expenditure, varying on average between 2.5% and 7.6% of GDP respectively in the Mashreq and North Africa (ILO, 2017).

### ***The way forward: What policies can reduce informality and bolster social resilience, promoting formal employment and businesses in a post-COVID-19 economy?***

MENA economies have sought to quickly roll out relief packages to support their informal sector. Social protection policy responses notably include financial protection in access to healthcare, cash transfers and in-kind support. For example, in Morocco, the government allocated subsistence aid to informal workers. Moreover, existing social assistance programmes were expanded to include additional workers and households, notably in Egypt (Takaful & Karama programme), Jordan (Bread Subsidy Cash Compensation Programme) and the Palestinian Authority (Cash Transfer Programme). However, measures that directly assist informal workers and firms, such as state support for wages and income replacement support for companies, bear considerable implementation challenges.

As MENA economies prepare their post-COVID-19 crisis response, policy makers are at a critical juncture. They have the opportunity to move away from informality and bolster social resilience by promoting formal employment and businesses, with specific attention to women's needs. Governments would have to continue to cope with the social consequences of informality. At the same time, given the significant costs of crisis relief efforts and the relatively narrow formal tax bases, governments in economies with high prevalence of informality would need to raise additional

revenue. Investing in digital transformation and green recovery should also be taken into account as a way to boost formal job creation, creating opportunities for informal worker to engage in formal employment.

Some dimensions to take into consideration to boost formal employment and business in a post COVID-19 scenario crisis include:

- **Improving business awareness on the benefits of formality.** Shifting incentives in favour of being formal and employing workers with formal contracts requires better communication on the benefits of formality, which are many, including access to financial services and insurance services.
- **Simplifying enterprise registration and creating incentives for formalisation.** Reducing the number of steps and locations to proceed with administrative procedures can create the right incentives for registration of new businesses and formalisation of informal enterprises.
- **Leverage fiscal policy – taxing and spending.** Reducing tax compliance cost and simplifying tax systems may help MENA governments to reduce the burden of informality. In turn, social spending and social protection coverage have redistributive function to combat poverty and improve employability of the most vulnerable people.
- **Fostering a public-private dialogue.** Greater involvement of the private sector in the design of policies may help MENA governments to better address the challenges faced by informal businesses in registering and then operating their businesses, and accessing infrastructure, technologies and finance.
- **Adopting an inclusive approach sensitive to women’s specific needs.** A combination of incentives to support the needs of women employees and entrepreneurs may include adjustments to the tax system –women being generally assumed to be the second earner– out-of-work transfers, childcare support and parental leave provisions.
- **Bridging the skills gap for workers in the informal economy.** Skills development can improve productivity and help workers diversify their employment opportunities. Current challenges to accessing and participating in skills and lifelong learning opportunities in the region include costs of training and opportunity costs (e.g. foregone income), and location- and gender specific-factors, which impede access to learning opportunities especially for girls and people in rural communities.
- **Investing in digital transformation to boost formal job creation.** The push towards digitalisation accelerated by the COVID-19 pandemic has already benefited small businesses and self-employed people that provide goods and services using digital platforms. MENA governments can promote the digital transformation of businesses by improving digital infrastructure and security, and ensuring accessibility and affordability of high-speed Internet especially in rural areas and among lower-income households.

This session will identify concrete and innovative actions to promote formal entrepreneurship and the integration of people and firms into the formal economy, and to remove barriers still holding back women's ability to set up a business. Emphasis is placed on the implications for a post-Covid-19 world, with increasing use of digital technologies and the role of entrepreneurship to recover the loss of economic activities.

***Key questions for Discussion:***

- How have structural issues, such as the lack of quality jobs in the formal economy, inequalities and a weak business environment been aggravated by the COVID-19 crisis?
- How can policymakers and the private sector encourage and support entrepreneurship, including women-led businesses, in the formal economy to recover job and enterprise losses?
- How can digital transformation and a green recovery drive job creation in MENA?
- What is the role of local and central governments? What is the role of the private sector? How can the civil society support social resilience in the region?

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<sup>i</sup> Informal employment includes own-account workers outside the formal sector, contributing family workers, employers and members of producers' cooperatives in the informal sector, and employees without formal contracts (ILO, 2003).