



Informal is the new normal

Improving the lives of workers at risk of being left behind

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January 2018

Key messages

- Informality remains a pervasive challenge. On average, 7 in 10 non-farm workers in countries in sub-Saharan Africa and Southern and South-East Asia are in the informal economy, and the scale of the challenge has been increasing in many regions.
- Many workers in the informal economy are in a highly precarious economic situation. Women are disproportionately 'at the bottom of the pyramid' and face the biggest challenges.
- Because processes of formalisation are unlikely to absorb the informal workforce in the near term, we call for policy measures which will reach informal workers.
- Policies to target self-employed workers could include promoting access to capital and technology, supporting cross-border trade and improving infrastructure in the workplace, including for home-based workers.
- To target wage workers, we highlight a minimum wage policy that has benefited those working informally.
- Under universal policies, we argue for pensions and health coverage, support for worker organisation and skills upgrading.

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Acknowledgements

This paper was written by Elizabeth Stuart, Emma Samman and Abigail Hunt (Overseas Development Institute (ODI)).

We thank Francesca Bastagli and Stephen Gelb (ODI); Renana Jhabvala (Women in Informal Employment Globalizing & Organizing – WIEGO/Self Employed Women’s Association); Prakash Loungani (Independent Evaluation Office of the International Monetary Fund); Pedro Martins (United Nations Economic Commission for Africa); and Reehana Raza (Urban Institute) for their peer review. We also extend thanks to those who provided their time and expertise to the authors: Alejandro Guarin (International Institute for Environment and Development); William Price (World Bank); Mike Bird (WIEGO); and Jonathan Casey (Independent Consultant).

Finally, we acknowledge Ciara Remerscheid for managing the report’s production, Holly Combe for editing, and Amie Retallick for layout and design.

This paper was supported through a research project on macroeconomic policy in low-income countries with the International Monetary Fund (IMF). The views expressed in this paper are those of the authors and should not be reported as representing the views of IMF staff, IMF Executive Board, or IMF management.

This paper was generously supported by the Bill and Melinda Gates Foundation. The views presented in this paper are those of the author and do not necessarily represent the views of ODI or of the Bill and Melinda Gates Foundation.

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Introduction

In 2009, the Organisation for Economic Co-operation and Development's (OECD) publication of *Is informal normal?* (Jutting and Laiglesia, 2009) marked the acceptance of a new understanding of informality in mainstream thinking. The book argued that, rather than being a stage of development to be reduced and eventually – as far as possible – eradicated as the entire labour force graduated to higher quality and more formal employment, the informal sector was likely to grow.

Today, the question of whether informal is the new normal re-emerges with a new urgency. Not only have all governments agreed to deliver full employment by 2030, with a commitment to fast-track progress for the poorest and most marginalised, but the demographic bulge and a new understanding of the real scale of unemployment makes this already Herculean task more challenging still. When measured as the share of the non-agricultural workforce, levels of informal employment vary markedly across the 60 developing countries for which data are available (see Charmes 2016). However, the median share is 58% while in seven – Benin, Burkina Faso, Mozambique, Nepal, India, Cameroon, Mali – it exceeds 80%. Moreover, trend data suggests that informal employment has become more prominent in most regions (*ibid.*).

Those working at the 'top' of the informal economy – variously identified as 'employers' (Chen, 2012; Gindling and Newhouse, 2014) or 'top performers' (defined by Grimm, et al. (2012) as the top 10% of entrepreneurs according to both size and productivity criteria) – are not the focus of this paper. This group already has a low risk of poverty and relatively high average earnings (Chen, 2012; Gindling and Newhouse, 2014). Indeed, some may have chosen deliberately to situate themselves in the informal sector (Maloney, 2004; IMF, 2017). Instead, we direct attention to those nearer the 'bottom' of the informal workforce. Included in this group are own-account workers, casual wage workers, homeworkers and contributing family workers (Chen, 2012, see also discussion below and Annex). We also consider household-level enterprises that result from most self-employment.

The literature evidence clearly indicates that policy-makers should maintain a focus on formalisation as a medium to long-term strategy for optimal outcomes in terms of productivity and the reduction of poverty and inequality (La Porta and Scheleifer, 2008; Kanbur, 2014; IMF, 2017; McMillan et al., 2017). This will entail the creation of better jobs allowing workers to move away from the kind of employment unlikely to provide good working conditions. However, this paper takes up the call for efforts to – at the same time – improve the circumstances of informal workers and the productivity of household enterprises in the near term: people for whom formalisation might not otherwise reach – or at least not in the near future. This approach takes account of countries' starting points and the heterogeneity of the informal workforce, emphasising the circumstances of more vulnerable workers, particularly women. We then identify examples of targeted and universal interventions that could provide support to these workers. This pragmatic policy approach focuses on what is immediately possible, alongside what is ultimately desirable.

To be clear, this paper does not argue for diluting hard-won rights to protections and to organise in the context of the formal economy and decent work. Instead, it proposes a more pragmatic and less binary approach to labour market policies, whereby at least some of those rights, as well as supports such as access to credit, are extended to the lower reaches of the informal workforce. It should be stressed that these rights and benefits can only truly transform workers' experiences if they are delivered as part of the process of addressing wider structural barriers, such as gender and caste-based discrimination and exclusionary growth patterns. This is likely to be a longer-term endeavour – although detailed examination of these approaches remains beyond the scope of this report.

The structure of this paper is as follows: Chapter 1 considers the nature and size of the informal economy, including definitions of the term, and unpacks and disaggregates the informal workforce, while Chapter 2 sets out policy responses.

1. The scale of the informality challenge

All UN member states have committed to deliver full and productive employment, with decent work for all, by 2030, in their signing of the Sustainable Development Goals (SDGs). Goal 8, ‘Decent Work and economic growth’, contains the following target (8.5): ‘By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value’. As outlined in Target 8.3, this is intended to encourage the formalization and growth of micro-, small- and medium-sized enterprises, and ‘leave no one behind’ (see Stuart and Samman 2017). While significant progress was made on average during the Millennium Development Goal (MDG) period, it was often the poorest and most marginalised groups, such as ethnic minorities and women, who benefited less (Bhatkal et al., 2015). In the context of employment, the ‘leave no one behind’ agenda entails focusing on extending access to decent work for those least likely to be in it, namely people in rural areas, those working in agriculture, youth and people with limited education, according to the latest available World Bank data on extreme poverty (2016: 5), where analysis of 89 household surveys from developing countries has shown that 80% of the extreme poor live in rural areas, while 64% work in agriculture, 44% are 14 years old or younger and 39% have no formal education.

Despite the above, signatories to the SDGs may not have fully appreciated the efforts required. According to the ILO (2015), more than 212 million people will be unemployed by 2019. Ensuring decent and full employment for this number, as well as new labour force entrants, is clearly a pressing challenge, especially in regions where the youth population is growing in relative terms (see Box 1). Moreover, Gelb and Khan (2016) show that the number of people seeking jobs may be ten times the number of officially unemployed,¹ stating that 2 billion working-age people (two-thirds of whom are women) are classified as ‘outside the labour force’. According to the 2013 World Development Report (WDR) on jobs, ‘an unknown number’ are ‘eager to have a job’ (WDR, 2013, cited in Gelb and Khan, 2016). Data from polling surveys suggest that this number is likely to be considerable: according

Box 1: The demographic challenge facing sub-Saharan Africa

In SSA, there are currently around 198 million young people in the 15- to 24-year-old age group (a proxy for new entrants to the labour market), with this number expected to rise by 50% to 281 million by 2030 (UN DESA, 2015). Indeed, SSA alone is likely to account for nearly two thirds of the growth in the world’s working population between 2015 and 2050 (World Bank and IMF, 2016: 190); the productive employment of these young people is the major factor underlying the ‘demographic bonus’ the region hopes to enjoy. As it stands, the official youth unemployment rate (as estimated by ILO) stands at 13% in the region, which is nearly twice as high as the 7% figure for SSA’s working age population (World Development Indicators, 2017). These figures indicate the challenge of incorporating these young people into labour markets. But this is only part of the story given that, in poor countries, a lack of productive work may be more aptly measured by the share of people who are underemployed and/or working in low productivity, low-paying jobs. Fox (2014) states that only around a quarter of young people in Africa can expect to get ‘any kind’ of wage job – whether casual or formal – in the near future. Meanwhile, IMF estimates suggest that, in low-income SSA, the informal sector – both self-employment and agricultural employment – presently accounts for about 90% of the 400 million existing jobs (IMF, 2015). To absorb new labour force entrants effectively, an estimated 18 million high-productivity jobs will be needed each year through 2035 (ibid. 25-26). Without this, there is a risk these workers could end up working as unremunerated family labourers or in low productivity informal work (Canning et al., 2015).

Source: Samman and Watkins (2017).

1 According to the ILO, the official definition of unemployment includes those who are out of work but have actively sought employment within a previous reference period (e.g., four weeks). See <https://www.oecd.org/statistics/data-collection/Population%20and%20Labour%20Force%20Definitions-Eng.pdf>.

to Gallup and ILO (2017: 7), ‘a majority of women who are not currently in the workforce’ would prefer to work, while Hunt and Samman (2016:13) have found that, in 2009, across 17 countries in the Middle East and North Africa (MENA) and sub-Saharan Africa (SSA), where gender inequality has been high, an average of around 90% of men and women reported that a good-quality job was either ‘essential’ or ‘very important’ to them’. In addition, particularly in SSA, economic transformation presages an exodus from the agricultural sector, which is likely to increase pressure for non-farm job creation (Adams et al., 2013).

Clearly this is a more significant task by several orders of magnitude, and it is highly likely that the number of jobs needed will outstrip the capacity of formal labour markets to supply them. The 2014 World Development Report states that in many developing countries, particularly in sub-Saharan Africa and South Asia, ‘*even if economic growth rates are high* [our italics], the formal sector cannot generate enough wage employment in the near future to absorb the majority of the labor force’ (World Bank, 2014: 179). Therefore, the informal sector remains ‘the main contributor to GDP and to employment’ (ibid.).

1.1. Conceptualising informality

There are numerous – and, at times, inconsistent – conceptual understandings and definitions of informality (Charmes, 2016; Kanbur, 2014; ILO and Women in Informal Employment: Globalizing and Organizing (WIEGO) 2013; Chen, 2012). A basic distinction between characteristics of enterprises (which emphasise the informal sector) and employment relationships (which go beyond this sector to include informal work in the formal sector, private households and for workers’ own use) is reflected in the evolution of international definitions of informality. In 1993, the International Conference of Labour Statisticians (ICLS) adopted a definition based on the characteristics of the enterprises that make up the informal sector (i.e. unincorporated enterprises, which may be unregistered or small). Subsequently, in 2002, ICLS expanded the concept of informality to include the nature of employment (ILO and WIEGO, 2013), namely whether or not workers had legal and social protections, be it in enterprises – whether formal or informal – or households (ILO, 2003). The empirical evidence gives weight to this expanded definition. According to Charmes (2012: 117), (non-farm) informal employment outside the informal sector constitutes about 50% of employment in transition countries, 41% in MENA, 35% in Latin America and 20% in SSA. It follows that the expanded definition enables accounting for the broader context of workers in informal working relationships.

Box 2: Statistical definitions of informality

- The *informal sector* refers to the production and employment that takes place in unincorporated small or unregistered enterprises.
- *Informal employment* refers to employment without legal and social protection – both inside and outside the informal sector.
- The *informal economy* refers to all units, activities and workers so defined and the output from them.

Source: Chen, 2012.

This means that informality is a broad term that can refer either to the nature of the enterprise or the nature of the employment relationship (Box 2). In this report, our focus is on informal employment, which – in line with the ICLS definition – we characterise as work that takes place outside formal public and/or private systems, which is therefore beyond the reach of typical regulation or policy. As explored below, this can include wage work or self-employment. Within this framing, we single out household-level enterprises, that is ‘production units that are owned and operated by single individuals working on their own account as self-employed persons, either alone or with the help of unpaid family members’ (Hussmanns, 2004: 2). These types of enterprises are relatively overlooked (Kweka and Fox, 2011), yet lie ‘at the intersection of enterprise-based and labor-based perspectives’ (Bakeine, 2009). This expanded focus enables us to cover both informal workers and the micro enterprises that account for most informal activity, particularly among vulnerable workers.

Because the choice and implementation of policy and its financing will vary depending on the relative size and composition of the informal workforce within a given country, we explore each of these elements in turn. We highlight the circumstances of countries in Latin America and the Caribbean, by way of illustration.

1.2. Trends in informality around the world

The main approaches to measuring informality reflect the two conceptual approaches described above (focused on employment relationships and enterprise characteristics, respectively). Two key indicators are the share of the workforce in informal employment – typically obtained from household or labour force surveys – and the share of output produced through informal channels (or the so-called ‘shadow economy’ as per Medina and Schneider, 2017)² (see Box 3). We focus on the data on informal employment, with a view to understanding the average

2 This approach has been critiqued on the basis that GDP is likely to already include part of the ‘shadow’ economy (e.g. the outputs produced by informal workers in formal firms (Charmes, 2016: 32).

size of the informal workforce and how this varies across countries. The measure typically used is the share of informal employment in the non-agricultural workforce. This exclusion of agriculture makes change over time visible in heavily agricultural economies (Charmes, 2016: 22). For example, in most countries in SSA and South and East Asia, informal arrangements account for more than 90% of total employment, owing to the preponderance of agriculture. As a result, any shifts over time within agriculture and other sectors (e.g. through rural-urban migration) would be overlooked if the employment measure included agriculture (ibid).

Charmes (2016) provides the most comprehensive up-to-date estimates of informal employment. This data, covering 60 developing countries in the most recent period (2005-10), suggests that non-agricultural informal work constitutes 70% of employment in South and South-East Asia, and in sub-Saharan Africa (with most of these jobs in the informal sector in these two regions), while standing at 58% in Latin America (see Box 4, 6) (Figure 1). Levels of informality vary significantly at a country level (see Figure A.1), with a median of 58% and range from 6% (Slovakia) to 96% (Benin). Three countries have levels below 10% (in addition to Slovakia, Serbia and Ukraine), while seven have levels above 80% (in addition to Benin, Burkina Faso, Mozambique, Nepal, India, Cameroon and Mali). The variation is also considerable within regions – in Asia,

the share of non-agricultural informal employment ranges from 26% in Mongolia to 86% in Nepal; in Latin America and the Caribbean (LAC), it ranges from 42% (Brazil) to 75% (Honduras); in SSA, the range is from 33% (South Africa) to 96% (again, Benin).

Globally, the statistics suggest that women are about equally represented in informal employment relative to men – though in low-income countries they are overrepresented in the non-agricultural informal workforce by nine percentage points (ILO, 2017: 13, 15). However, Charmes (2016: 31) observes that ‘Female employment in the informal economy continues to be widely underestimated, especially because their secondary activities in processing agriculture and food products in rural areas are not well captured.’

Contrary to longstanding predictions that the traditional informal sector would shrink as petty trade, small-scale production and casual jobs become absorbed into the modern, formal economy, informality has not only persisted but continued to emerge in new, unexpected areas (Chen, 2012; ILO and WIEGO, 2013). For example, the deregulation of labour markets which aimed to increase flexibility and competition, or reduce labour and production costs, has led to increased labour casualisation as formal enterprises outsource production to informal workers (Chen et al., 2006; Chant and Pedwell, 2008). Informality has also risen in the wake of recent

Box 3: Measurement challenges

Measuring the informal economy – both levels and trends – presents an array of challenges. There are two main approaches. One is to infer levels of informal activity indirectly through proxies, such as:

- small enterprises,
- electricity demand,
- levels of cash deposits or money transactions,
- and income-expenditure discrepancies,

Another approach is to measure informal employment directly through surveys (Williams, 2015: 120; Medina and Schneider, 2017). However, data on these proxy indicators is often lacking, while data collected through surveys may be subject to various country-level differences, despite a shared conceptual underpinning and the establishment of internationally-agreed statistical definitions (see ILO, 2013, which offers guidance on implementing international standards).

A first challenge is that people may not always accurately report the status of their employment, and their willingness to do so can vary across countries, depending on the acceptability of such work (Williams, 2015: 123). Second, definitions of the informal sector vary – which is problematic when seeking to measure

informal economic activity in a comparable way. For example, many countries exclude agriculture from their measurement of the informal sector, while others measure only the urban informal sector. Meanwhile, ‘only a handful of countries’ have collected data on informal employment outside informal enterprises (Chen, 2005: 5).

Two types of household surveys commonly provide employment-related data: Labour Force Surveys, which are mainly available in OECD, Latin American and Eastern European countries, and integrated multi-purpose surveys with an employment module, such as the World Bank’s Living Standards Measurement Survey (Lugo, 2007: 2). However, very few countries collect such data regularly (Chen, 2005: 5). ILO is responsible for developing the framework underpinning data collection and for assembling cross-national data on informal employment. As Williams (2015: 123) states: ‘it is not known whether [this] data set provides an accurate description of the level of informal employment’, but it is based on the same definition of informal employment and the same method and interview schedule. This means that ‘although some caution must be exercised, [this] country-level data ... is ... deemed sufficiently comparable between countries to allow comparative analysis’. The figures assembled by Charmes (2016) upon which the analysis in this report is based draw upon ILO data.

protracted economic disasters such as the Asian crisis of the 1990s and the global financial crisis in 2008-09, in which business contraction and reductions in public sector employment provoked a rise in informal employment (Lund, 2009; Jutting and Laiglesia, 2009; King and Sweetman, 2010; Stavropoulou and Jones, 2013). Formally employed workers may also react to crises by taking on additional informal work to supplement their incomes (Amir and Berry, 2012).

Charmes (2016) also shows trends in the share of informal employment (as a share of non-agricultural work) by region since the mid-1970s, albeit somewhat limited by patchy and inconsistent data (Figure 1). This suggests a fall in sub-Saharan African countries (though seven in 10 workers are informally employed nonetheless). It also indicates that the share of the informal workforce has risen elsewhere. This is notably the case in Northern Africa, where the share of the informal workforce is estimated to have been 19 points higher in the late 2000s than it was three decades earlier.

Estimates of the share of the ‘shadow economy’ in GDP (IMF, 2017; Medina and Schneider, 2017; Mai and Schneider 2016) have broad coverage (e.g. Medina and Schneider 2017 include 158 countries between 1991 and 2014). These, in turn, point to decline in this share’s importance during the 1990s and 2000s – on average, by five percentage points. It is difficult to compare this measure, defined as ‘all economic activities which are hidden from official authorities for various reasons’ directly with data on non-agricultural informal

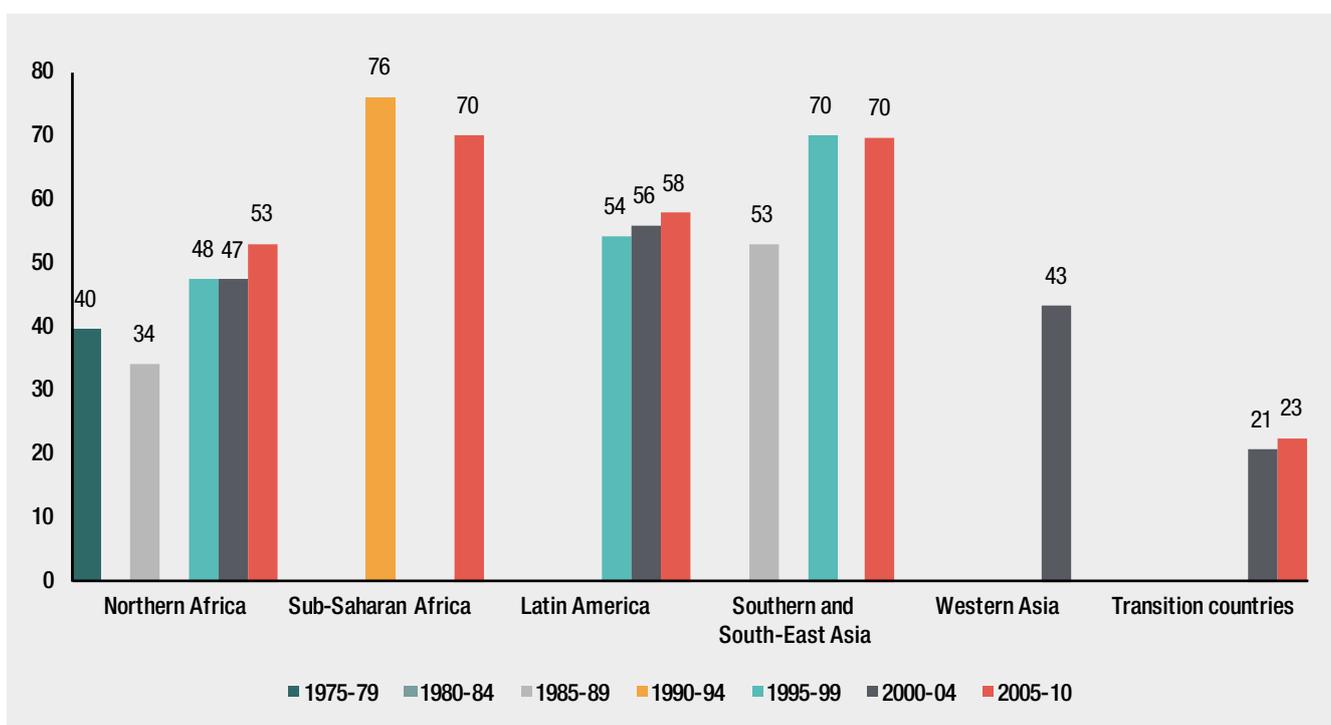
employment: Charmes (2016) points out that the shadow economy and informal economy should not be conflated, as the latter may be captured (at least partially) in GDP (see footnote 2). However, it is entirely plausible that a decline in the relative size of the ‘shadow economy’ could coincide with a rise in the share of the informal workforce – for example, if growth in the formal sector proved to be dynamic but capital intensive. Indeed, if both tendencies were true, this would suggest a significant decline in wages, thereby strengthening this report’s call for a focus on informal workers.

1.3. Understanding the heterogeneity of the informal workforce

Informal employment can be divided into two categories (Chen, 2012):

- ‘self-employment’
 - employers in informal enterprises
 - own-account workers in informal enterprises
 - contributing family workers
- ‘wage employment’
 - employees of informal enterprises
 - casual labourers
 - paid domestic workers
 - ‘industrial outworkers’
 - homeworkers.

Figure 1: Trends in the proportion of employment in the informal economy as a share of non-agricultural employment, 1975-2010



Source: Elaboration of data in Charmes (2016: 22, Table 1.1).

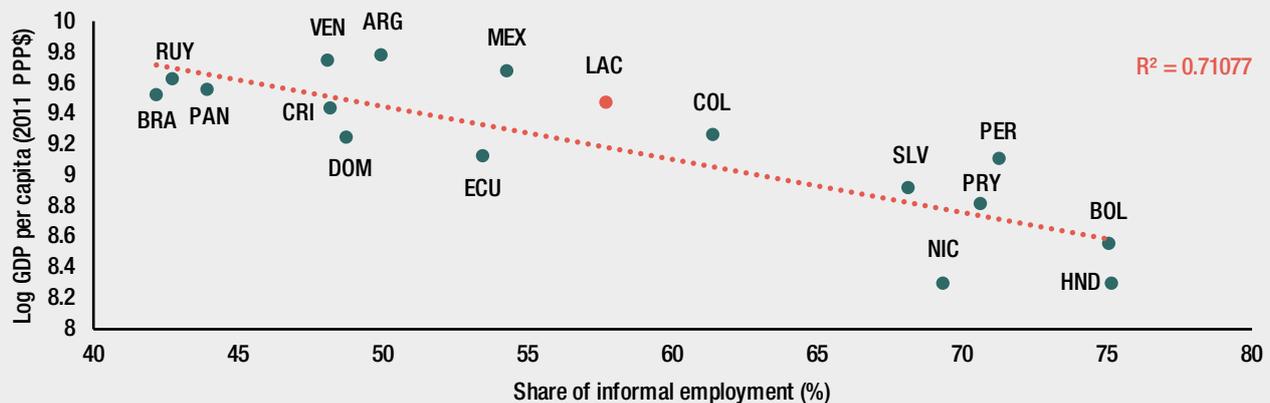
Note: Regional averages are country-weighted.

Box 4: Informality and economic growth in Latin America

Analysis of the informal economy is severely constrained by a lack of data, but more data is available for Latin America than for other developing regions. For this reason, we seek to illustrate levels and trends in the share of the informal workforce in the region and how it relates to growth – drawing on data compiled by Charmes (2016) on the share of the non-agricultural workforce in informal employment for 16 countries of the region for 2005-2010 and trend data for 13 of these countries between 1995-1999 and 2005-2010. As noted, it is estimated that 58% of workers in LAC’s non-agricultural workforce are in informal employment. It can be seen that levels of informality negatively correlate with income levels (Figure 2) – that is, in countries with a higher GDP per person, the

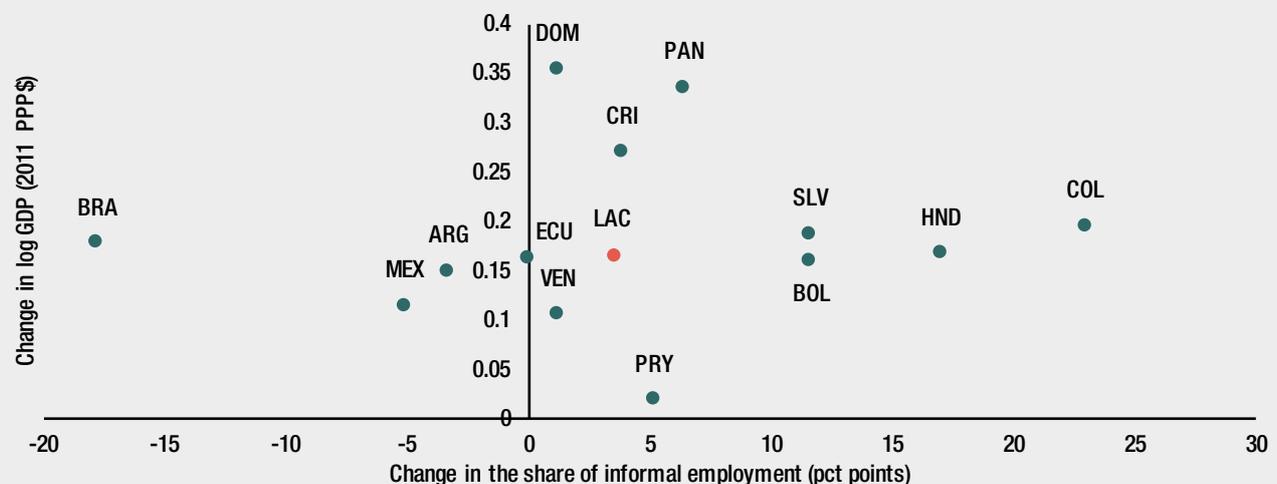
share of the workforce working informally is lower. However, there is no evident pattern between growth and changes in the share of informal workers over the 1995-1999 to 2005-2010 period (Figure 3). In the region, average incomes rose in every country except Haiti, but with diverse country-specific experiences. For example, the share of the informal workforce in Honduras rose while it fell in Brazil. This reinforces a body of evidence suggesting that, in times of growth, the informal economy can either contract as the formal sector absorbs a higher share of workers or expand. This potentially occurs in response to the actions of entrepreneurial small firms and/or subcontracted and outsourced activities in the informal economy that may be linked to global value chains (WIEGO, 2017a).

Figure 2: The relationship between informal employment (as a share of the non-agricultural workforce) and log per capita GDP in 16 LAC countries, 2005-2010



Sources: Charmes (2016) for employment data and World Development Indicators (2017) for GDP.

Figure 3: Change in the share of informal employment (as a share of the non-agricultural workforce) and change in log per capita GDP in 13 LAC countries, 1995-1999 and 2005-2010



Sources: Charmes (2016) for employment data and World Development Indicators (2017) for GDP.

Charmes (2011) also outlines that the share of self-employment in informal employment varies markedly across regions (Figure 4), while ILO country-level data again suggests marked variation across countries, even within regions (Figure A.2).

The two broad categories of informal work (unwaged and waged) and the multiple sub-categories reflect diverse opportunities and motivations. This is described by Bacchetta et al. (2009: 45) as follows:

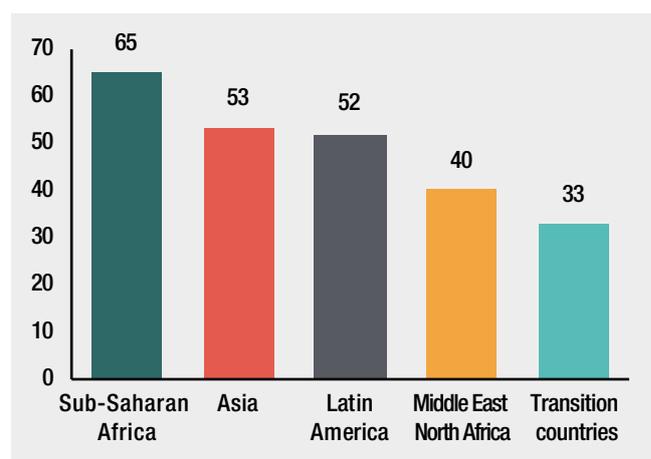
The informal economy is comprised of different segments that are populated by different types of agents: a lower-tier segment dominated by households engaging in survival activities with few links to the formal economy ... an upper-tier segment with microentrepreneurs, who choose to avoid taxes and regulations ... and an intermediate segment with micro-firms and workers subordinated to larger firms...

It follows that workers within the informal economy face a disparate risk of experiencing negative outcomes associated with poverty and precarity. The informal economy is highly segmented by employment status and enterprise type, while employment status is, in turn, segmented by gender and other social characteristics, all of which influence poverty outcomes. Demonstrating this, WIEGO has developed a model to illustrate the links between types of informal work, levels of earnings and the risk of poverty (also see Figure 5 and Annex 1 for further

information on definitions). This shows that earnings in informal work are highest among informal employers and regular informal wage workers at the top (mainly male), followed by own-account workers and, finally, casual wage workers (of all genders). Meanwhile, industrial outworkers and contributing family workers (mostly female) have the lowest earnings and are correspondingly at the highest risk of poverty.

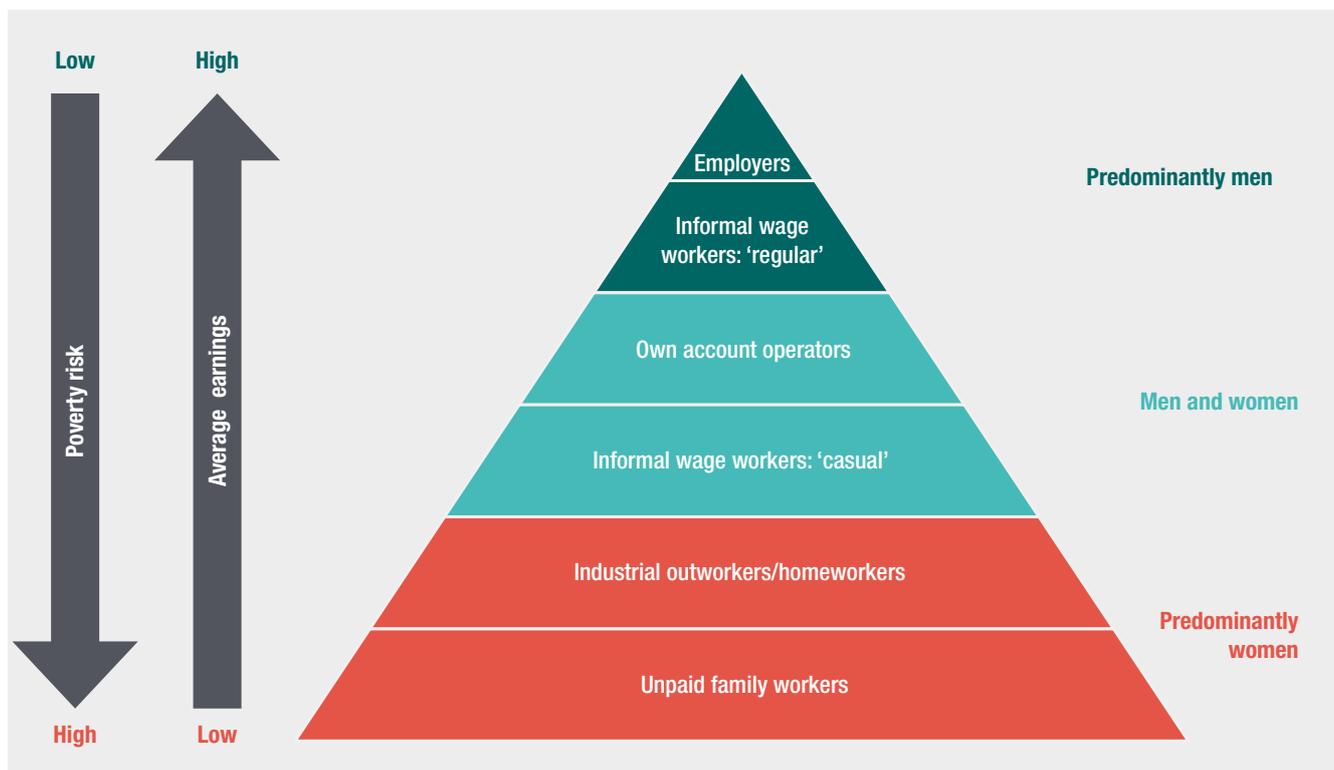
Chen et al.'s (2005) empirical analysis of national data from six countries: Costa Rica, Egypt, El Salvador, Ghana, India and South Africa supports this taxonomy.

Figure 4: Share of self-employed individuals in the informal economy



Source: Charmes (2011), cited in Charmes (2016: 30, Table 1.7).

Figure 5: Model of informal employment: hierarchy of earnings and poverty risk by employment status and sex



Source: Chen 2012: Figure 1.

Although they do not reference it explicitly (and do not seek to separate formal and informal workers), Gindling and Newhouse (2014: 320) also provide broad empirical support for the hierarchy through an analysis of standardised data across 98 countries:

When we look ... at non-agricultural workers, we find that there is a clear order: employers are better off than wage and salary employees, who in turn are better off than own account workers, who in turn are better off than non-paid employees.

The authors go on to construct a profile of the characteristics of different worker types:

Employers are the most educated, the least likely to live in poor households, the oldest, the most likely to be men, the most likely to be a household head, the least likely to work in agriculture, and work the most hours. Non-paid employees are the least educated, the most likely to live in poor households, the youngest, the most likely to be women, the least likely to be a household head, the most likely to work in agriculture, and work the fewest hours. Own account workers and wage and salary employees are in between employers and non-paid family workers on all of these characteristics. Compared to any category of nonagricultural worker, agricultural workers are in many ways the worst off.

The evidence suggests that own-account workers and contributing family workers constitute the bulk of the workforce in poorer developing countries; for example, these groups account for nearly three quarters of workers in low-income countries (Figure 6), with country-specific evidence reinforcing this view: in India, for example, 85% of workers are in self-employment or casual work, and 73% of non-agricultural workers in Bangladesh are self-employed (Chen and Doane, 2008, cited in Fields 2017: 45). Meanwhile, 68% of the workforce in Chad in 2012 were own-account workers with 16.5% unpaid family labourers (own analysis of INSEED and OPHI, 2012).

Relatively more men than women are own-account workers globally (37% versus 28%), while three times as many women are contributing family workers (15% versus 5.5%). Over time, the share of own-account workers in the total workforce has stayed constant for men (38% in 1997 and 37% in 2017) and risen somewhat for women (from 24.5% in 1997 to 28% in 2017). In contrast, the share of contributing family workers has fallen by around half for both men and women (from 10% to 5.5% for men and from 27.5% to 15% for women). Nonetheless, this category remains important in regions such as South Asia and SSA (where it constitutes around 30% of women's employment). Moreover, while the share has fallen in South Asia since 1997 by nearly 15 percentage points, it has increased in SSA by six percentage points (ILO, 2017). In summary: a large number of workers remain in these vulnerable, informal working relationships, with women in an especially precarious position. The evidence suggests that only a relatively small share of these self-employed people in developing countries have the potential to

Figure 6: Types of employment by income level, by latest year available



Source: Elaborated from data in Gindling and Newhouse (2014: 318, Table 2).

become successful according to the typical definition (i.e. employing others).³ Rather, the majority are ‘survivalists’ facing many of the same vulnerabilities and challenges as other informal workers.

In keeping with this vulnerability, many workers enter informal self-employment in times of household economic distress. Women (and children) are particularly likely to engage in distress-driven work during times of exacerbated hardship where they have not been active in the labour market immediately before. For example, Posadas and Sinha (2010, cited in Kabeer, 2012) demonstrate the ‘added worker’ effect in Indonesia, where 41% of wives entering paid work in response to shocks to husbands’ earnings

during the 1997/98 financial crisis became self-employed, with 23% entering private wage employment and this effect lasting several years after the crisis.

We argue for a policy focus on providing supports and protections to vulnerable informal workers – which are likely to be situated in all segments of Chen’s triangle, with the likely exception of employers. This is for moral reasons – in line with governments’ poverty reduction commitments, as outlined above – and instrumental purposes – in order to increase productivity, as we discuss below. We will explore the selected policies likely to achieve these impacts in the following chapter.

3 The potential to become successful is often assessed on the basis of whether own-account arrangements have the same profile as employers in terms of characteristics like age, gender, education, rural/urban location and industrial sector; Gindling and Newhouse (2014) conclude that around 35% of own-account workers fall into this category. Country-level evidence reinforces the view that a minority of self-employed workers are likely to be successful entrepreneurs (Fox, 2016 on SSA; Grimm et al., 2012 on seven West African countries; De Mel et al., 2008 on Sri Lanka).

2. Policies to increase benefits and lower costs at the bottom of the pyramid

The argument that outcomes should be improved among informal workers alongside efforts to promote formalisation is an approach that might be termed ‘not letting the best be the enemy of the better’. This has been stated by a number of scholars (e.g. Maloney, 2004; Chen 2008; Fox and Sohnesen, 2012; Fox, 2014). Along similar lines, in assessing sub-Saharan Africa’s regional outlook (IMF, 2017), the IMF cautioned that policy-makers, instead of attempting only to increase the tax revenue generated from informal workers, should focus on policies to foster the productivity of household enterprises (an argument also made by Kweka and Fox 2011; Fox and Sohnesen, 2012; Fox 2016).

Productivity gains can accrue, both from investing in the productive capacity of household enterprises and workers; it has been long established that employees with more human capital are more productive (Schultz, 1961; Becker, 1994). There are also productivity benefits in investing in capital and technology (Barro and Sala-i-Martin, 2003). In the past, the right to a package of benefits, such as health insurance and pensions, has come through formal sector employment, rather than by virtue of working per se (Perry et al., 2007). In this paper, we examine instances of where and how selected benefits have been extended to informal workers, to point to examples of interventions that may be promising for policy-makers to pursue in other country contexts. While a detailed discussion lies beyond its scope, there is also the need to consider innovative means of financing policy, including from the informal sector itself (Box 5).

To do this, we present policy options within discrete categories. The sheer diversity of the informal economy, both in terms of worker profiles and the activities undertaken, means tailored interventions can be most effective in addressing the needs of their intended constituency. While there is no ‘one size fits all’ approach, successful initiatives can provide a valuable basis for replication elsewhere – provided adjustments are made in close collaboration with target groups to ensure they reflect that group’s specific, context-relevant priorities (Hunt and Samman, 2016; Taylor and Pereznieta, 2014). Therefore, we outline policies and initiatives directly targeted at

improving conditions and outcomes for specific groups in the informal economy, namely self-employed workers/household enterprises and wage workers, respectively.

Given the specific experiences of workers in the informal economy, notably significant challenges in accessing benefits linked to employment status, we also propose a third category of universal policies, and a fourth on those that should apply to all workers.

2.1. Self-employed workers and household enterprises

As discussed, most informal workers are self-employed, particularly in poorer countries – including both own-account workers and contributing family workers. Because these latter workers operate through household-level enterprises, improving their circumstances requires a focus both on their status as workers but also as enterprises. Here we consider policies that aim to 1) improve these workers’ access to capital, infrastructure and technology and 2) increase their ability to engage in cross-border trade.

2.1.1. Access to capital

One constraint faced by many informal operators is a lack of credit. Yet the literature points to innovative approaches to supplying capital to household enterprises. For example, an entrepreneurship programme developed as part of a recent randomised trial in Ethiopia (Blattman and Dercon, 2016) provided business training, planning support and individual mentoring for five days, as well as a 500 Birr unconditional cash transfer, worth around \$300 at that time (about \$1,030 in purchasing power parity, or PPP). Participants were generally low-skilled, unemployed young adults (80% of whom were women) with an average age of 22. They typically had little work experience, but were educated to grade 9. The grant stimulated self-employment in small, informal enterprises, including agriculture and petty business, such as market trading.

Recipients indicated that 55% had been spent on business materials or investments six to eight weeks

after disbursal, with 35% going to savings or cash on hand, and 10% on consumption or transfers. This implied that, while participants sought to smooth income shocks, they also invested at least \$165 of the \$300 into enterprise development. After one year, the programme had a significant impact on income, with weekly earnings 12 Birr higher than the control group – around \$1 per

Box 5: Taxing informal workers

There is a possible perception that extending access to the tax-financed policies proposed in this report to informal workers is unfair and liable to encourage ‘free-riding’. However, there are strong arguments to refute this view. First, informal workers make significant contributions to the economy. For instance, societies gain from a healthier, better protected workforce – as discussed elsewhere in this report – meaning there is an intrinsic value in financing policies that promote improved outcomes, even when contributions from those workers are absent.

Second, informal workers may well already pay tax – notably consumption tax – even if they are not paying it directly, and it is worth noting that, in LICs, a much higher share of tax revenue is currently obtained by indirect taxes compared with high income countries (HICs) (Bastagli, 2015). Meanwhile, informal workers may also pay informal taxes, such as bribes and high interest rates on loans.

Finally, many informal workers would not be eligible to pay direct taxes such as income tax even if formally employed because they fall below the threshold for doing so (Keen and Kanbur, 2015).

The IMF (2017) warns policy-makers away from a single-minded focus on taxing the informal sector, in addition to revenue generation. However, there may be some benefit in building a culture of tax compliance among informal workers. For example, broader governance gains could accrue if taxation encourages effective collective action among informal sector operators – as well as more institutionalised channels for state society bargaining. In summary, paying tax may strengthen the social contract (Bastagli, 2015).

While levying taxes on informal workers may be administratively difficult, this may not be to a prohibitive extent. For example, the Monotax that has been in place since 2006 in Uruguay and is currently being planned in Argentina, Brazil and Ecuador levies a tax on microentrepreneurs who join the scheme, who are then entitled to the benefits of the contributory social security scheme (with the exception of unemployment protection). This has been effective in formalising many previously informal enterprises and extending social security coverage to independent workers, especially women (ILO 2014b, cited in Ortiz et al. 2017: 21).

week (\$3.4 PPP) in absolute terms. Although this may appear modest, this gain is significant in relative terms given that participants otherwise earned only \$3. This represents a one-third increase in the earnings of very poor young people, many of whom were low-skilled women. Importantly, the programme increased the earnings of participants with prior predicted high- and low-earning potential, implying that the latter may be driven, not by innate ability, but liquidity and credit constraints.

This corroborates other evaluations, which find that access to credit can enable business growth, leading variously to higher levels of assets and profits, and smooth consumption (Taylor and Perezniето, 2014). There is some evidence of the effectiveness of microfinance – including micro-credit and micro-savings – in securing wider social outcomes, such as increasing female household bargaining power. However, this is less convincing when offered as a stand-alone intervention (Garikipati, 2008; Stewart et al., 2010; Duvendack et al., 2011; Banerjee, et al., 2013). Additionally, a recent rigorous review found that the effects of cash transfers on recipient expenditure on business-related assets and subsequent profitability to be mixed (Bastagli et al., 2016). In short, while increasing access to capital can help tackle barriers to enterprise establishment and growth, ensuring improvement across a range of areas – including income, well-being and empowerment – requires access to capital to be just one element of an integrated, comprehensive approach to improving outcomes in the informal economy. This should go beyond solely increasing access to finance, to consider how to achieve broader financial inclusion. This involves ensuring that informal workers fully benefit from financial services through regular use and engagement. For example, a worker having a bank account in their name is unlikely to secure higher income security, as a wider range of factors contribute to the more positive outcomes associated with financial inclusion, such as the worker’s regular use of a bank account and their increased uptake of digital payment methods (Demirguc-Kunt et al., 2014).

2.1.2. Improving infrastructure in the workplace... and the home

For many informal workers, their home is also their workplace. For example, nearly 32% of women working in non-agricultural employment in India were home-based in 2012 (Raveendran et al., 2013). Yet home-based workers often remain invisible in official labour force estimates, which means that their needs and preferences are subsequently overlooked by policy-makers. In a recent longitudinal study of homeworkers in the urban informal economy in Ahmedabad, India, participants cited housing-related problems as their biggest challenge, resulting in poor working and living conditions, and hampered productivity. Concerns included a lack of space to take bulk orders and store materials, as well as issues with floods and leaks because of poor quality housing – often in slum or low-income areas – leading to damage to household property and work-related goods. Workers

also reported that forced relocations to city peripheries, due to urban development, resulted in increased rents and service charges, although electricity, sanitation and other services were often intermittent or non-existent. In addition, increasing transport costs for workers needing to travel to obtain raw materials or deliver finished goods produced additional financial burdens, or physical ailments for those walking long distances with goods. These factors, in addition to low piece rates and declining order volumes related to macroeconomic downturns, mean many homeworkers report overall low wages or declining revenue (Mahadevia et al., 2014).

In response to these challenges, the Self-Employed Women's Association (SEWA) started the Mahila Housing Self-Employed Women's Association Trust (MHT) in Gujarat state in 1994. This now operates across India. Focusing on supporting poor women in the informal economy, MHT is a hybrid social and technical organisation aimed at increasing members' access to tenure, basic infrastructure and other housing services. Its core technical activities include housing construction and improvements, including building toilets and water tanks and laying drain pipes. This enhances home-based work settings, simultaneously improving living conditions for workers, their families and communities. MHT's social approach focuses on building members' confidence to liaise with service providers, such as electricity companies, water and housing boards, as well as administrative and government structures and district panchayats. In addition, MHT supports women to organise into local groups to improve their local habitat, and has linked thousands of women with mainstream institutions including banks and cooperatives, as well as government schemes such as the Gujarat Unorganised Labour Welfare Board.

MHT also works closely with municipal and town administrations, state and national governments, and service providers. For example, MHT forged a partnership with Torrent Power Ahmedabad Electrification Company in 2001. This was put in place as a way of developing policies and systems for legal slum electrification, with over 85,000 households in Ahmedabad City benefitting in under three years. In 2013, state-level government funds supported MHT water and sanitation improvement projects, reaching nearly 47,000 homes that year (SEWA, 2013; SEWA, 2005; Mahadevia et al., 2014).

2.1.3. Improved access to technology

Improving access to technology can significantly increase productivity in the informal economy. For example, self-employed garment workers in Durban, South Africa, have adapted or invested in improved electric sewing machines and specialised gadgets for use in their work, reporting increased returns from being able to turn out a higher quantity of consistent quality garments than when using hand-powered machines. However, power cuts are common at Berea Station in Durban, where many garment makers are based. These often last the whole day, meaning garment workers may go back to using manual machines,

or lose business altogether. Furthermore, workers report that productivity gains achieved by investing in electric machines only translate into increased earnings if the customer provides the cloth to sew with, due to the cost of modern fabrics (Alfers et al., 2016). Therefore, while technology has significant potential to improve productivity, this is likely to be maximised in combination with wider efforts, such as infrastructure development, as well as a focus on increasing the long-term growth prospects of informal enterprises such as business support and an enabling policy and legal framework (De Haan, 2016; Chen, 2012).

Improving the enabling environment for workers' access to technology, along with their use of it, will involve a range of elements including, among others, first recognising that many informal workers operate in non-standard workplaces, such as private homes, public spaces or natural markets where informal workers congregate due to a steady flow of potential customers in that area. Second, many technologies employed by informal workers are 'low-tech', including trollies and carts used by street vendors, waste pickers or market porters (Alfers et al., 2016). Following this, supporting workers' use of work technologies involves taking the realities of informal workers into account in wider policy-making. Evidence of improved outcomes can be seen in Lima, where municipalities are able to hire private enterprises for specific activities, including solid waste management. Here, the district of Los Olivos has worked well with waste picker associations by including them in the waste management system, leading to better and safer conditions for waste pickers. For example, they work during the daytime and wear uniforms – either a vest or a pullover with a logo – which they identify as an important way of signalling the municipality's recognition of them as workers – with added safety features such as reflective strips to help make them visible in the street (ibid.).

2.1.4. Government support to informal cross-border trade

The ability to trade across borders can greatly impact growth and employment opportunities in an economy. Yet significant barriers persist. This is particularly the case for household enterprises, which often lack resources to establish import–export processes and lack knowledge about trade processes, and experience limited mobility, harassment and demands from border or customs agencies for bribes and other irregular fees. Structural challenges, such as non-tariff barriers, can also create costly, unpredictable and time-consuming processes for traders, with these most adversely affecting small enterprises in developing countries, and hinder regional value chain development (ITC, 2015).

In recognition of these challenges, the governments of Bangladesh and India have authorised the operation of four 'border haats', or informal markets. These border haats are effectively 'land ports' for the small-scale trade of manufactured and agrarian products, offering significant

opportunity for informal traders from both sides of the India–Bangladesh border – notably women – to reach new markets, therefore supporting the expansion of micro and small enterprises (CUTS International, 2014; UNDP, 2016). Documented positive outcomes of border haats include improved economic stability for traders, as well as increased income: during one ten-month period in which the Balat border haat became fully operational, daily business trade rose by 300,000 India rupees per day (approx. \$17,651 in 2017 PPP, calculated using the 2016 PPP rate of 17.447 (OECD, 2018). Additional positive spillover effects include:

- wages earned by support workers, including traders’ assistants, porters and waste clearers, as haat businesses grow
- authorities’ increased ability to track cross-border informal trading activities
- improved relationships between both authorities and local communities in an area of historical political tension (CUTS International, 2016).

In recognition of their success, permission has recently been given for the establishment of six more border haats between India and Bangladesh.

2.2. Wage workers

Wage workers typically constitute a smaller share of informal workers, especially in poorer countries, but may also be vulnerable. This is particularly true of industrial outworkers (homeworkers) but also of casual labourers and even informal workers in more stable situations. Vulnerabilities include poor working conditions, exposing workers to health and safety hazards, and low (and potentially unstable) earnings. Here we focus on the potential benefits of minimum wage policy, as applied to informal workers.

2.2.1. Extending the minimum wage

Various regulatory measures to support workers in the informal economy have been implemented in developing countries. These are often closely tailored to local socio-economic conditions and take a sector-based approach, rather than a general one (Saget, 2006). Evidence suggests that minimum wage regulation can reduce wage inequality and have a positive effect on earning levels, provided careful attention is paid to sound policy design, including taking both the needs of workers and economic factors, such as productivity, into account (Belser, 2013).

The domestic work sector provides a useful example of how minimum wage regulation can be extended to an area of the economy characterised by informality. This particular sector is distinct from much of the informal economy because the employment relationship takes place in the household and, as such, is often undeclared, disguised or hidden. It is also distinct because it falls outside many countries’ labour regulations (ILO, 2016).

An estimated 50 million of the world’s 67 million domestic workers are in informal employment, a figure expected to rise as demand for personal and household services grows, due to ageing populations, women’s increased labour market participation, and the cost-effectiveness of home-based care services compared to institutional care (ibid.; Eurofound, 2013).

In South Africa, the domestic work sector constitutes an estimated 7.8% of total employment and 23% of urban informal employment; the vast majority of these workers (some 95%) are poor black African women (Budlender, 2016; Statistics South Africa, 2016). In 2002, Sectoral Determination No. 7 was adopted following campaigning from trade unions, a government investigation into the wages and conditions of work of domestic workers and a series of workshops and public hearings (Budlender, 2016); one consequence of this was the setting of a minimum wage and conditions of employment in this sector. Although its enforcement has been uneven, significant positive outcomes have been achieved. Sixteen months after adoption, wages had increased by 20% and the probability of workers having a contact increased by 18%. In addition, the share of domestic workers benefitting from employer contributions to the Unemployment Insurance Fund (UIF) increased by 18 to 20 percentage points, with no discernable impact on employment rates (Dinkelman and Ranchhod, 2012). Evidence of how this has affected hours of work is mixed, however, and requires further study. While Dinkelman and Ranchhod (2012) found little impact in this regard, a study of two settlements in Pretoria found an increase in part-time working arrangements, while a macro-level study found a 4% decline in domestic worker hours of work between 2002 and 2003, though this was also reflected in other sectors (Hertz, 2004; Matjeke et al., 2012, both cited in ILO, 2016).

2.3. Universal measures

Many informal workers are excluded from social protection owing to the extent of informality in developing countries and the challenges inherent in collecting contributions from these workers and determining subsequent entitlements to services. Ensuring access to critical services can therefore best be achieved by providing universal access, which is delinked from formal employment status. Given that, by definition, informal workers lack protections, universal policies can address this gap, thereby contributing to incremental formalisation. This section demonstrates how social protection programmes applied according to principles of progressive universalism, a principle whereby the poorest people are covered first by universal policies, can improve the lives of workers in the informal economy across a range of outcomes. There has been a trend towards social assistance expansion since the 1990s, most notably in Latin America, where there have been significant efforts to extend social protection coverage to workers in the informal economy (Bastagli, 2009). Recognising this, we consider pensions, as

well as health coverage, and comment on the burgeoning policy discussion on universal basic income (Box 7).

2.3.1. Universal pensions as a critical element of economic security in older age

Extended periods of time in the informal economy is a key contributor to economic insecurity in old age in many developing countries. The most common pension system globally is social insurance – state-administered contributory pension systems providing earning-related benefits to workers who have contributed over a set period (Arza, 2015, in Holmes and Scott, 2016).

Yet social insurance schemes are often inaccessible to informal workers: employers rarely make contributions if they are in informal wage employment, and the low and instable incomes of many informal workers prohibits them from making regular individual contributions. Other factors limiting pension coverage include eligibility to enroll, the ability to navigate administrative processes, perceptions of benefits and informal workers' decisions to prioritise insurance schemes that meet more immediate needs, such as health insurance (van Ginneken, 2003; Adebayo et al., 2015). Women are even more likely to be excluded from contributory pensions, due to their lower contributory capacity. This stems from their overrepresentation at the bottom of the pyramid in the informal economy, as well as their reduced time in paid work – and therefore the contributory period – because of their disproportionate unpaid domestic and care work over the life course. ILO estimates suggest that, on average, the share of women above retirement age who receive a pension is 11 percentage points lower than that of men (ILO, 2016, cited in ILO, 2017: 15). The result is that women have a significantly heightened risk of poverty in old age (Sabates-Wheeler and Kabeer, 2003; Holmes and Jones, 2013; ILO, 2014; Holmes and Scott, 2016).

Bolivia, previously a country with very limited old age social protection, introduced the Renta Dignidad ('Dignity Pension') programme in 2008 to protect the basic income of all people aged 60 years and older. This universal non-contributory solidarity pension increased non-conditional cash transfers to the older population by over 100%, reaching over 800,000 beneficiaries by 2010, 55% of whom were women and 83% of whom did not previously receive any income or pension. By 2013, the scheme had reached 97% of the total eligible beneficiaries, paid monthly or annually and with benefits equating to around \$340 each year. One effect was a 5.8% reduction in extreme poverty by 2009, particularly in rural areas (Ticona Gonzales, 2011). In addition, provisions to cover the funeral expenses of Renta Dignidad recipients help families avoid economic burdens following deaths and provide an incentive to report them immediately, thereby preventing identity theft and continued claims on the pension (ibid.; ILO, 2010).

2.3.2. Universal health coverage

Ensuring informal workers' health coverage is one of the most common, yet complex, challenges across developing countries (Nakhimovsky et al., 2017). Even minor or routine issues can have severe economic consequences for informal workers, due to the immediate out-of-pocket costs of receiving treatment. Lifecycle risks for women, including pregnancy and childbirth, require specialist provision, yet lack of income can force women to continue working, putting their own and their children's health at risk and creating a vicious circle of ill health and economic shocks (Ulrichs, 2016). Furthermore, many informal workers labour in unsafe environments – because of workplace hazards, as well as violence at work and during commutes. This heightens their risk of illness and injury (Rockefeller Foundation, 2013; UN Women, 2015).

Informal workers are often excluded from or unable to access health insurance schemes because collecting health care payments from informal workers, who by definition do not benefit from employment-related social protection, is often challenging (Nakhimovsky et al., 2017). Workers' inability to pay insurance premiums is a significant barrier to uptake: around half of the informal workers participating in a study in the Dominican Republic opted out of health insurance due to low incomes (Perry et al., 2007). Regressive flat-rate contributory systems, where all participants pay the same regardless of income, also face substantially lower uptake among the poor in Nigeria, Uganda and Tanzania (Basaza et al., 2008; Odeyemi, 2014, cited in Ulrichs, 2016). Interrupted employment or seasonal work further limit informal workers' abilities to pay regular fees, creating a disincentive to enrolment (Ulrichs, 2016). Women can also face exclusion or higher contribution levels when parent companies of private insurance schemes cite costs associated with pregnancy and childbirth (Berkhout and Oostingh, 2008; Ahmed and Ramm, 2006, both in Holmes and Jones, 2013).

Universal free healthcare (UHC) has been launched in several countries, in recognition of the inequitable health outcomes from existing systems (Cotlear et al., 2015). Thailand launched its Universal Coverage Scheme (UCS) in 2002, a tax-financed national health insurance scheme that provides free health care services to 75% of the Thai population, with benefits including promotive, curative and rehabilitative services, obstetric care, antiretroviral therapy for HIV and a wide range of sexual and reproductive health services. A 2011 independent assessment found this scheme had improved access to vital health services, with the reduction in out-of-pocket payments preventing users from falling into poverty (Ulrichs, 2016).

Ghana's National Health Insurance Fund aims to include informal workers by linking community-based public and private service providers with a national-level pooled fund, financed mainly via tax revenue, with additional contributions from donor funds, payroll taxes from formal workers and premiums from informal workers (Kusi et al., 2015; Blanchet and Acheampong 2013). Comparatively, Ghana is a success story. However,

enrolment has been low and, though it is mandatory, is not enforced, leading some less healthy individuals to self-select to register. This raises the share of beneficiaries requiring treatment and therefore raises average costs across the scheme (Blanchet et al., 2012).

There is now broad consensus that mandatory registration schemes that are supported by general government revenue and delink benefits from the contributions paid (such as premiums or payroll taxes), rather than relying on beneficiary contributions, can

help progress towards UHC (Nakhimovsky et al., 2017). However, the complexity of establishing UHC means that gradually increasing informal workers' access to healthcare may provide a practical approach to a longer-term move towards UHC (ibid.). Ultimately, the challenge lies in designing a system that can provide quality services while also being sustainable and having a wide enough reach to counter the 'vicious circle' of health and economic shock experienced by workers in the informal economy and their families.

Box 6: Illustrating the heterogeneity of informal employment in Latin America

Within LAC countries, there is evident segmentation between formal and informal workers, and within the informal workforce. One example of this can be seen in earnings. Tornarolli et al. outline the following:

Formal workers [those with social benefits] in any labor category earn more than their informal counterparts in the same category. The difference ranges from 23% (for the self-employed professionals) to 67% for the entrepreneurs. For salaried workers, the formal-informal wage gap is around 50%. (2014: 18)

These differences persist when controlling for observable characteristics of workers such as their education, age and region of residence. However, considerable heterogeneity also pervades the informal economy. Using the cases of Costa Rica and El Salvador, Chen et al. (2005) find that for every employment status except employers informal workers earn less than the average formal sector wage worker – as little as 70% less in the case of domestic workers (Figure 7). This reinforces the diverse motivations for entering the informal economy, namely the likelihood of voluntary participation in its upper tiers (Fields 1990, cited in Kraemer-Mbula and Wunsch-Vincent, 2016: 17) alongside considerable need-driven engagement elsewhere. Correspondingly, rates of working poverty are far higher for those households with an informal worker in lower tiers of the informal economy, particularly domestic workers, informal own-account workers and contributing family labourers (Chen et al., 2005). Notably, women are concentrated in forms of informal employment with high poverty rates (ibid.).

Data in other non-monetary wellbeing measures highlight, first, additional aspects of work that matter to workers (Lugo, 2007) and, second, differences within the informal workforce. Two key areas highlighted by this literature are the subjective wellbeing of workers, and workplace safety. Some literature points to the higher subjective wellbeing that self-employed workers

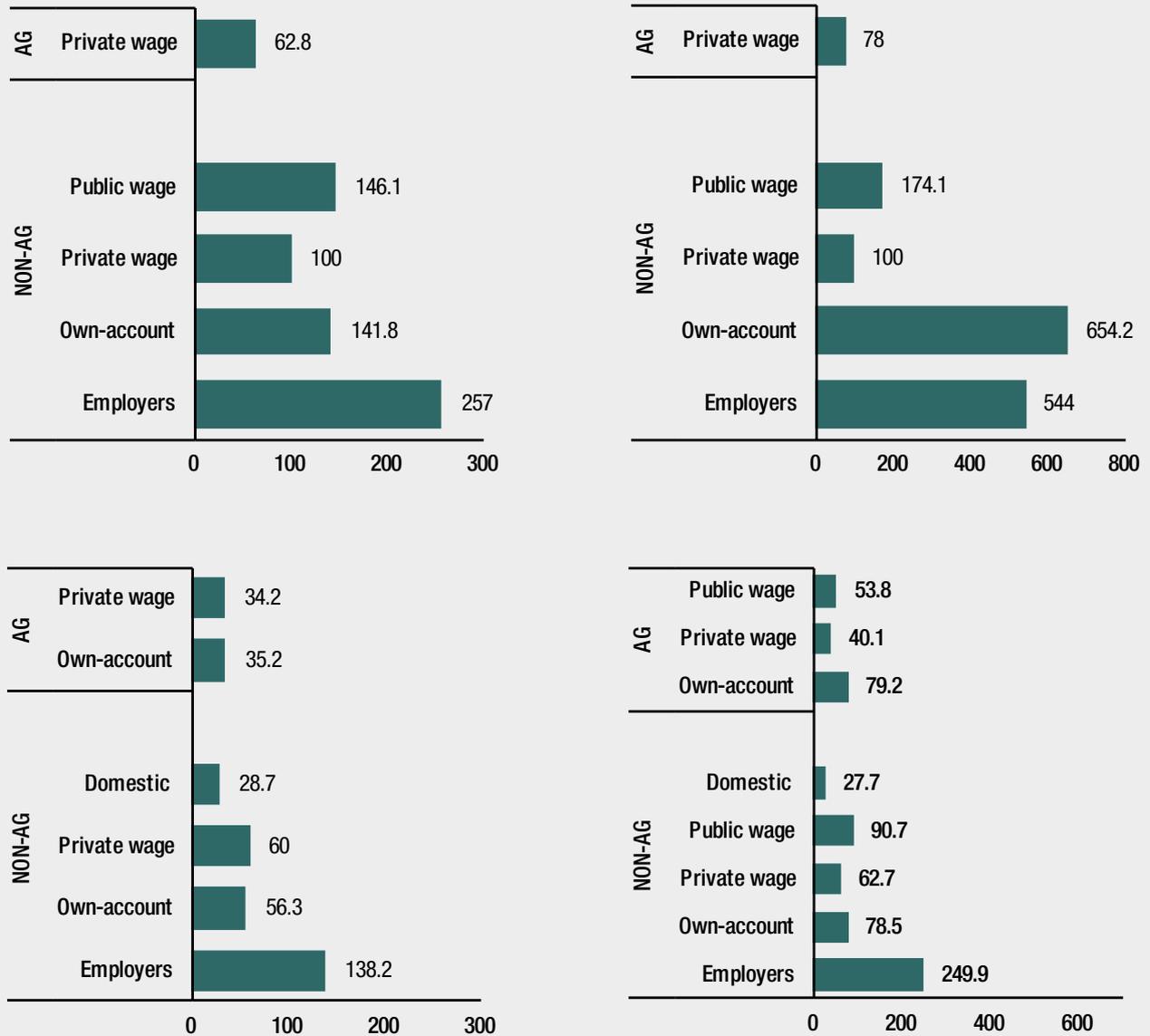
enjoy over wage workers. However, more detailed study of Latin American workers shows that self-employed professionals and business owners value the autonomy and flexibility their working conditions provide (Aguilar, 2013; Lora, 2008) while 'for other categories of self-employment, the economic insecurity and lack of stability associated to precarious jobs prevents individuals from considering their occupation an opportunity for personal growth or a source of satisfaction' (Aguilar, 2013: 58).

Exposure to workplace hazards is another important concern. For example, a recent survey of workplace conditions in six Central American countries (Eurofound, 2015) has pointed to very high levels of informal employment – some 71% of women and 75% of men in this study lacked social security coverage (and as many as 85% of women and 91% of men in Honduras). This same study found that 46% of workers were exposed to repetitive movements for more than half of their working day, with 21% reporting exposure to high temperatures (a possible risk factor for chronic kidney disease) and 21% reporting noise exposure.

Cassar (2010) shows how autonomy at work and workplace conditions combine to predict job satisfaction levels for self-employed workers relative to employees in Chile. She shows that self-employed workers are more likely to lack work place facilities such as decent toilets and clean water compared to employees, while employees are more likely to do 'heavy work' and have an accident or injury due to their efforts. But, after controlling for job protections (including the existence of a contract and job protections) and occupational hazards, self-employees reported higher job satisfaction than employees. This was attributed to feelings of autonomy in relation to their work. It follows that policy-makers need to consider diverse aspects of job quality, including but not related to wages – as well as the ways that these differ between the formal and informal economies, and among different categories of workers.

Box 6: Illustrating the heterogeneity of informal employment in Latin America (continued)

Figure 7: Hourly earnings as a percentage of the hourly earnings of formal, private non-agricultural wage workers by employment status category, Costa Rica and El Salvador (2003)



Source: Chen et al. 2005: 47, Table 3.4.

2.4. Policies for all workers

In addition to the measures suggested above, we suggest that increasing worker's individual capabilities is an important route to improving their access to better opportunities. While these benefits can impact individual outcomes significantly, they do not necessarily influence working conditions – a critical determinant of informal worker outcomes. Therefore, we also discuss worker organisation.

2.4.1. Organising through workers' unions and associations for increased recognition and rights

Labour unions and workers' member associations are among the labour market institutions most critical to improving worker outcomes. Recent IMF research finds that weakened union density contributes to increased overall income inequality (Jaumotte and Osorio Buitron,

2015). In India, Kanbur (2014) uses data from the National Commission for Enterprises in the Unorganised Sector (NCEUS)⁴ to show that the poverty incidence among unorganised workers is close to four times that among organised workers. Here, we focus on examples of self-employed worker organisations, given that discussion to date has more often focused on the activities of unions and other similar entities led by wage and salaried workers.

Following the establishment of SEWA in India, unions and associations of informal workers have emerged globally in response to the failure of traditional labour unions to represent their needs and interests because of their focus on supporting workers in waged labour. SEWA organises and helps advocate for the extension of rights and protections to self-employed, informal workers, as well as for increased recognition of their economic contributions, often focusing on collective bargaining with local and national authorities (Kabeer, 1994; Bhatt, 2006).

Box 7: Universal basic income to support informal workers

Several countries – including India and Kenya – and regions and cities – including Ontario in Canada and Oakland in California are actively considering a policy intervention called Universal Basic Income (UBI). This is an unconditional cash transfer that does not depend on contributions and is paid to all citizens. There is currently a basic income experiment taking place in Kenya: a 12-year randomised control trial (RCT) in rural areas, conducted by GiveDirectly, a non-governmental organisation targeting the extreme poor (GiveDirectly, 2017). One argument for UBI is that it could provide social protection to informal sector workers (Cruz-Saco, 2002). However, it may not be the optimal form of social protection for informal workers, particularly those who are left furthest behind, unless it is designed carefully.

Piachaud (2016) notes that a citizen's income (a term he says has essentially the same meaning as UBI) would be relatively inefficient compared with other forms of welfare state interventions, arguing that (to tackle poverty), it is more efficient to direct resources at root causes than to distribute to everyone. The same argument could be applied to tackling some of the underperformance and individual vulnerabilities in the informal economy.

Moreover, while universality may make a UBI easier to administer than current social protection systems, this may paradoxically only serve to increase inequalities for those who are 'uncounted' – that is, excluded by design or in practice from national censuses and household surveys (Carr-Hill, 2013).

Currently 93% (The Hindu, 2016) of India's population is registered under this system. This may be high compared to other methods of social protection in the country. For example, the Public Distribution

System, a food security programme, aims to deliver highly subsidised staple food grains to two-thirds of the population – but an estimate of the exclusion error from 2011-2012 suggests that 40% of the bottom 40% of the population are excluded from it (though surveys suggest this share may have improved significantly since that period (India Budget National Economic Survey (NES), 2016-17)). However, for the 7% of the population left uncovered by Aadhar, this risks further entrenching inequalities. In addition, almost a third of adults in India still do not have a bank account and are likely to belong to the poorest social groups – women, Scheduled Castes, Scheduled Tribes, older and disabled people (NES, 2016-17). As the National Economic Survey (NES, 2016-17) which devotes a chapter to the idea of UBI clearly states: 'While Aadhar is designed to solve the identification problem, it cannot, on its own, solve the targeting problem.'

In addition, there is a fear that UBI will be used to reduce other social spending or fail to tackle structural barriers to equality in the labour force. Governments would need to ensure that it was a complement to rather than a replacement for, wider social spending (Standing, 2002). The NES (2016-17) has issued the following statement:

It is important to recognise that universal basic income will not diminish the need to build state capacity: the state will still have to enhance its capacities to provide a whole range of public goods. UBI is not a substitute for state capacity: it is a way of ensuring that state welfare transfers are more efficient so that the state can concentrate on other public goods.

⁴ This was established by the Government of India as an advisory body on the informal sector, to improve the productivity of informal enterprises to generate large-scale employment opportunities on a sustainable basis, particularly in the rural areas (WIEGO, 2017b).

The situation of street vendors provides a useful insight into the role of such organisations. Street vendors account for between 2% and 24% of the total urban informal workforce in African, Asian and LACs, and most are women in many countries (ILO and WIEGO, 2013). Among other contributions, their activity:

- generates demand for formal and informal suppliers
- brings retail goods to consumers
- generates jobs for porters, guards and transporters
- creates government revenue through payments for basic services (including water, electricity, storage, public toilets and waste removal)
- creates government revenue via value added tax payments on stock purchases.

Despite this, these vendors often face unfavourable terms of exchange from public authorities; costs include demands for cash payments to access public space and bribes to avoid evictions, confiscation of goods or fines for real or imagined transgressions of by-laws, and in-kind payments for unreturned confiscated merchandise. All these penalties reduce income and curb productivity (Roever, 2014; Chen, 2012; Munandi, 2012).

Street vendors from 10 cities participating in WIEGO's Informal Economy Monitoring Study have identified several ways in which membership-based organisations have helped them. First, these organisations create a link between vendors and local or national authorities, to enable workers' advocacy for improved conditions or to support mediation between vendors and authorities (e.g. in the case of confiscated merchandise). Second, vendors have highlighted their role as a critical source of information, training, advice and guidance, including on policy developments. Third, these organisations provide a space for street vendors to articulate their complaints and demands, including conflict resolution when competition for scarce space for vending activity leads to disputes between each other (Roever, 2014).

Successful outcomes from informal worker association negotiations include the Public Private Partnership between the Municipal Council of Nakuru, Kenya, agreed in 2010, and the Nakuru Street Traders and Hawkers Association. The latter included a memorandum of understanding (MoU) outlining improvements to the working environment, including the establishment of a market development committee, set monthly trader fees, the development of a trader database and the construction of alternative trading sites (Munandi, 2012).

2.4.2. Skills upgrading for informal workers

One reflection of relatively low investment in the informal workforce is evidenced in the relatively little training that workers in the informal sector receive. For example, Nielson et al. (2007) indicate that less than 5% of enterprises in Kenya, Zimbabwe and Zambia with 10 or fewer employees had provided training, compared to 81% of enterprises employing over 150 employees (Adams et al., 2008: 6). This signals a widespread need for innovative

ways of improving the skills of informal workers – with potential gains including productivity, earnings and empowerment more broadly.

An area that has attracted recent policy emphasis is that of upgrading 'informal apprenticeships'. Informal apprentices 'acquire the skills for a specific trade in a micro or small business by learning and working side-by-side with an experienced craftsman. Such apprenticeships are based on an informal agreement embedded in local norms and traditions, rather than on a contractual relationship' (ILO and IFY, 2015: 1). These are 'by far the most frequent form of skills training in Africa for the informal sector', training up to 70% of urban informal sector workers (Adams, 2013: 31). As reported by Filmer and Fox, an average 20% of young adults in five SSA countries with comparable data had been apprentices, with this figure reaching 35% in Ghana (2014: 90).

Overall, the evidence suggests that some initiatives in this area have yielded very positive returns and are among the cheaper training options (Filmer and Fox, 2014: 100). However, these 'have not reached the scale and sustainability which had been hoped for', in part owing to their complexity (Fox and Thomas 2016: i33). For example, in a 2008 study in Ghana, where informal apprenticeship training constitutes 80-90% of all basic skills training (COTVET, 2015), Monk et al. (2008) found that, under their most conservative estimates, training increased the earnings of employed people who did apprenticeships but had no formal training by 50%, though this pathway also relegated them to future work in the informal sector. The scheme, in which apprentices learn sector-specific skills from master crafts persons over a one- to four-year period (Daily Graphic, 2016) had the most effect on those with the least education, with returns declining as levels of education rose (to zero for individuals with more than six years of formal education). Meanwhile, in Jordan, ILO and International Youth Foundation (IYF) (2015) describe a recent pilot initiative focused on upgrading informal apprenticeships, where 61% of youth were inactive and school work transitions could be very long. Here, evidence suggested that informal apprenticeships could expose young workers to considerable workplace hazards. The programme provided six months of basic training, three to five months of on-the-job training to young people at 31 garages and certified completed apprenticeships. Evaluation suggested that three quarters of participants completed both phases of the project, with 92% of apprentices obtaining a job and 90% obtaining more than the minimum wage. Apprentices and employers alike rated the programme highly.

2.4.3. Policy design

This section has discussed many types of policies, though it must be stressed that extra effort is often needed to ensure that those most likely to be left behind can access and benefit from their entitlements.

For example, in the case of social protection, Ulrichs (2016) outlines common barriers, chief among which is

a lack of awareness among potential beneficiaries about programmes and how to access them. This can be due to a lack of information or understanding of how to navigate administrative processes, which can be excessively complex and burdensome, and therefore particularly challenging for those with lower levels of literacy and education (Kabeer, 2008; World Bank, 2012). Cultural norms limiting women's physical mobility and confining them to domestic or unpaid work contributing to family enterprises may further reduce their knowledge and confidence levels in accessing available benefits (Holmes and Jones, 2013; Kabeer, 2012). Lack of awareness may also lead informal workers to opt out as they perceive the opportunity costs to be higher than the potential advantages. These costs include lost income because of time spent queueing to register or receive benefits, which can be particularly challenging to women already experiencing time poverty due to juggling paid work with unpaid care and domestic work (Basaza et al., 2008; Perry et al., 2007).

All this means careful attention must be paid to policy and programme design, along with strengthening of the capacity and accessibility of delivery mechanisms, concerted awareness-raising and communication efforts (including translating information into minority languages and increasing understanding of populations with low literacy). Such steps are essential for programmes to achieve full reach and impact (Ulrichs, 2016). Finally, reaching scale and ensuring those at risk of being left

behind benefit both require investments in programmes with fit-for-purpose delivery mechanisms. These include providing sufficient financial and technical resources to increase the capacity of the administrative bodies responsible and extending the reach of delivery via the efficient and appropriate use of information and communications technology (ICTs) as digital literacy and connectivity continues to increase.⁵

Targeted interventions will also need to be designed with care, as segmentation in the informal economy can be reinforced by ostensibly 'inclusive' development initiatives to support workers, which can inadvertently exclude the most marginalised. For example, a recent study in northern Nigeria shows that formal sector contraction has led workers with more education, as well as those who have participated in poorly targeted economic inclusion development programmes which have assisted graduates and others with already-high levels of social capital, to establish small-scale enterprises in the informal economy. This has crowded out poorer, less educated and migrant workers who were previously in the 'better' informal occupations, pushing them into the lower status, more precarious tiers of the informal economy pyramid, thereby exacerbating their poverty, disaffection and vulnerability to Islamic radicalisation (Meagher, 2015). This further reiterates the need for initiatives that are focused squarely on achieving outcomes for those nearer the bottom of the pyramid.

5 We are grateful to our colleague Stephen Gelb (ODI) for raising this important point during discussion.

3. Conclusion

This paper has argued that governments and development partners ought to recognise the importance of the informal economy, with a view to maximising outcomes for the workers who are in it and likely to remain so. This is, we have argued, is an important pragmatic approach that builds on countries' starting points, namely the large number of informal workers and the limited potential of the formal sector, under current circumstances, to absorb millions of additional workers in some parts of the world. This means that, for informal workers presently at the bottom of the pyramid, the benefits of full formalisation may never be reached.

The paper has considered an illustrative selection of policy interventions, both universal and targeted, that have (at least partly) succeeded in improving productivity and/or wellbeing for workers who may otherwise be excluded from progress. While these policies have been implemented in specific geographical and political contexts, they may well be replicable in others, and we urge policy-makers to consider the viability of similar policies in their countries. Additionally, while we have only looked at individual policies, it is likely that, depending on the context, it may be more effective to implement multiple policies together as an integrated package.

However, there is another compelling reason for the informal economy to be accorded due attention: as noted at the outset, informal really may be the new normal. In developed countries, traditional labour markets are evolving quickly but, in developing countries, these will not have existed in the first place in many instances, making change likely to be more rapid. While fears of automation

in developing countries may be overplayed (Gelb and Khan, 2016), the gig economy is already expanding exponentially in some developing countries (e.g. by 60% month on month in India (Hunt and Machingura, 2016)). Some jobs or tasks may never be formalised in the manner that the term is currently conceived, and the informal economy may only grow in importance.

The policy measures outlined in this paper would, when implemented, take the informal worker close to the definitional threshold of formality, when informality is defined as lying outside the reach of the 'typical regulation or policy'. However, policy-makers should not fall into a lexical trap of imagining that implementing some or even all of the policies we examine will be sufficient in order to deliver full formalisation, which we continue to recognise as the gold standard in terms of both social and economic outcomes.

Indeed, some might worry that our proposed approach effectively relieves governments of their obligations to ensure that decent work is universal by redoubling formalisation efforts. However, a focus on those at risk of being left behind in labour markets calls attention to the need to extend benefits, protections and capabilities associated with formality to both the informal workers who will not enter formal employment in the near term and the household enterprises they operate. Far from letting governments off the hook, this also ensures an urgent tackling of the wider structural barriers preventing the most marginalised workers from better realising their potential to contribute to their own lives and livelihoods.

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Annex 1: Status in employment (taken from UN DESA 2010, Box 4.3)

Employment, as defined by the 13th Conference of Labour Statisticians which took place in 1982, is comprised of two broad categories: ‘paid employment’ and ‘self-employment’.

Persons in paid employment include those who during the reference period were either (a) ‘at work’ (i.e. performed some work for a wage or salary, in cash or in kind) or (b) ‘with a job but did not work’ (i.e. were temporarily not working but had a formal attachment to their present job, having already worked in it).

Persons in self-employment include those who during the reference period were: (a) ‘at work’ (i.e., performed some work for profit or family gain, in cash or in kind) or (b) had an enterprise, such as a business or commercial enterprise, a farm or a service undertaking, but were temporarily not at work for any specific reason.

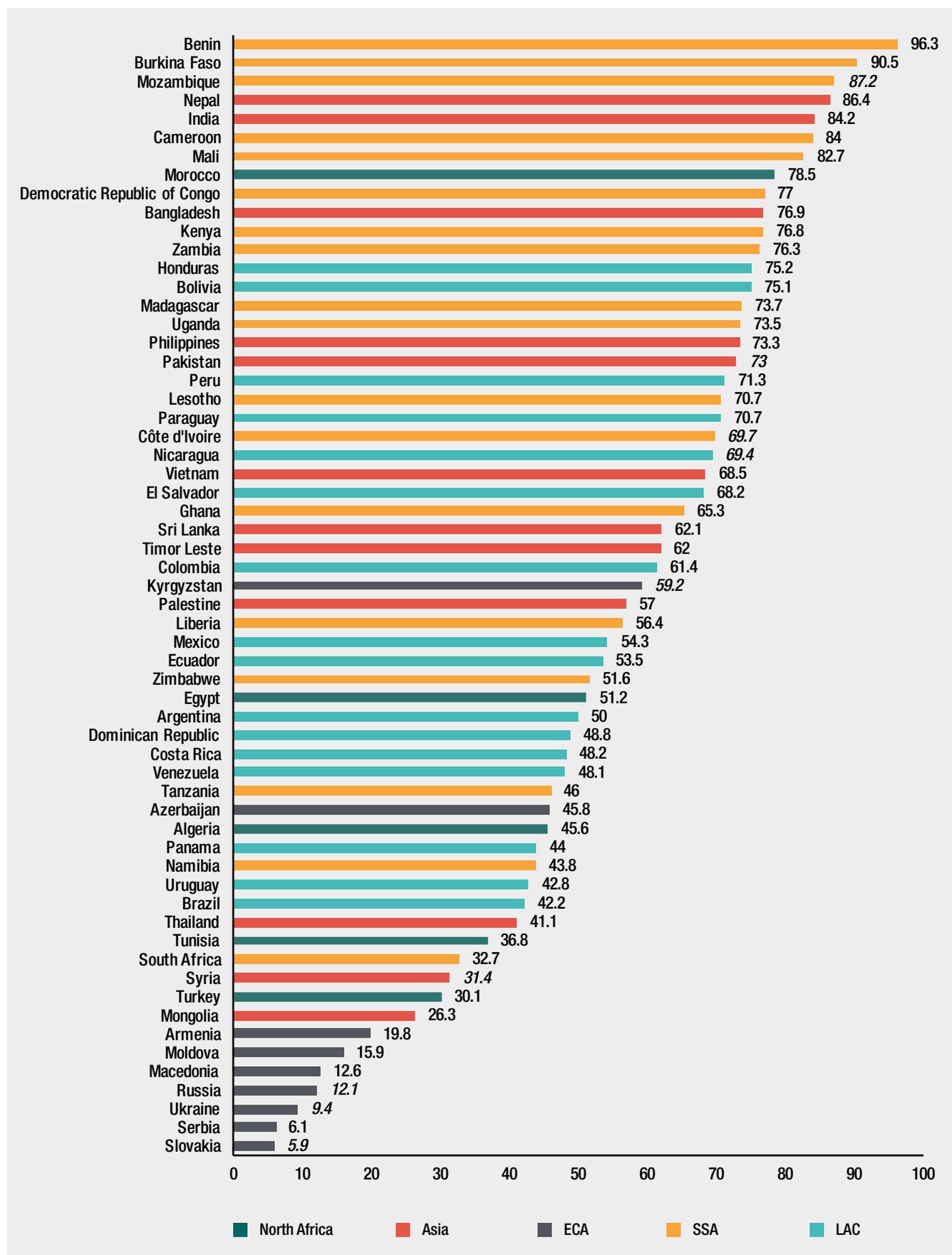
The International Classification of Status in Employment (ICSE), adopted in 1993, provides guidelines for classifying jobs in the labour market on the basis of the type of explicit or implicit contract of employment an individual has with his or her employer or other persons.

Five major groups and a residual category are presented in ICSE-93: employees, employers, own-account workers, members of producer cooperatives and contributing family workers:

- **Employees** hold paid employment jobs and are typically remunerated by wages and salaries, but may also be paid by commission from sales or by piece-rates, bonuses or in-kind payments, such as food, housing or training.
- **Employers**, working on their own account or with one or several partners, hold self-employment jobs and have engaged one or more persons to work for them in their businesses as employees on a continuous basis.
- **Own-account workers**, working on their own account or with one or several partners, hold self-employment jobs and have not engaged any employees on a continuous basis.
- **Members of producers’ cooperatives** hold self-employment jobs in a cooperative, producing goods and services, in which each member takes part, on an equal footing with other members, in all decisions related to production, sales, investments and distribution of proceeds.
- **Contributing family workers** (referred to in previous classifications as unpaid family workers) hold a self-employment job in a market-oriented establishment (i.e. business or farm) operated by a relative living in the same household, who cannot be regarded as a partner because their degree of commitment to the operation of the establishment is not at a level comparable to that of the head of the establishment.

For analytical purposes, employers and own-account workers are sometimes combined and referred to as “self-employed”. Workers in paid employment are referred to as ‘wage and salaried workers’. Contributing family workers, although considered to be part of the ‘self-employed’ group, are usually analysed separately on the basis that their jobs, unlike other forms of self-employment, are unpaid.

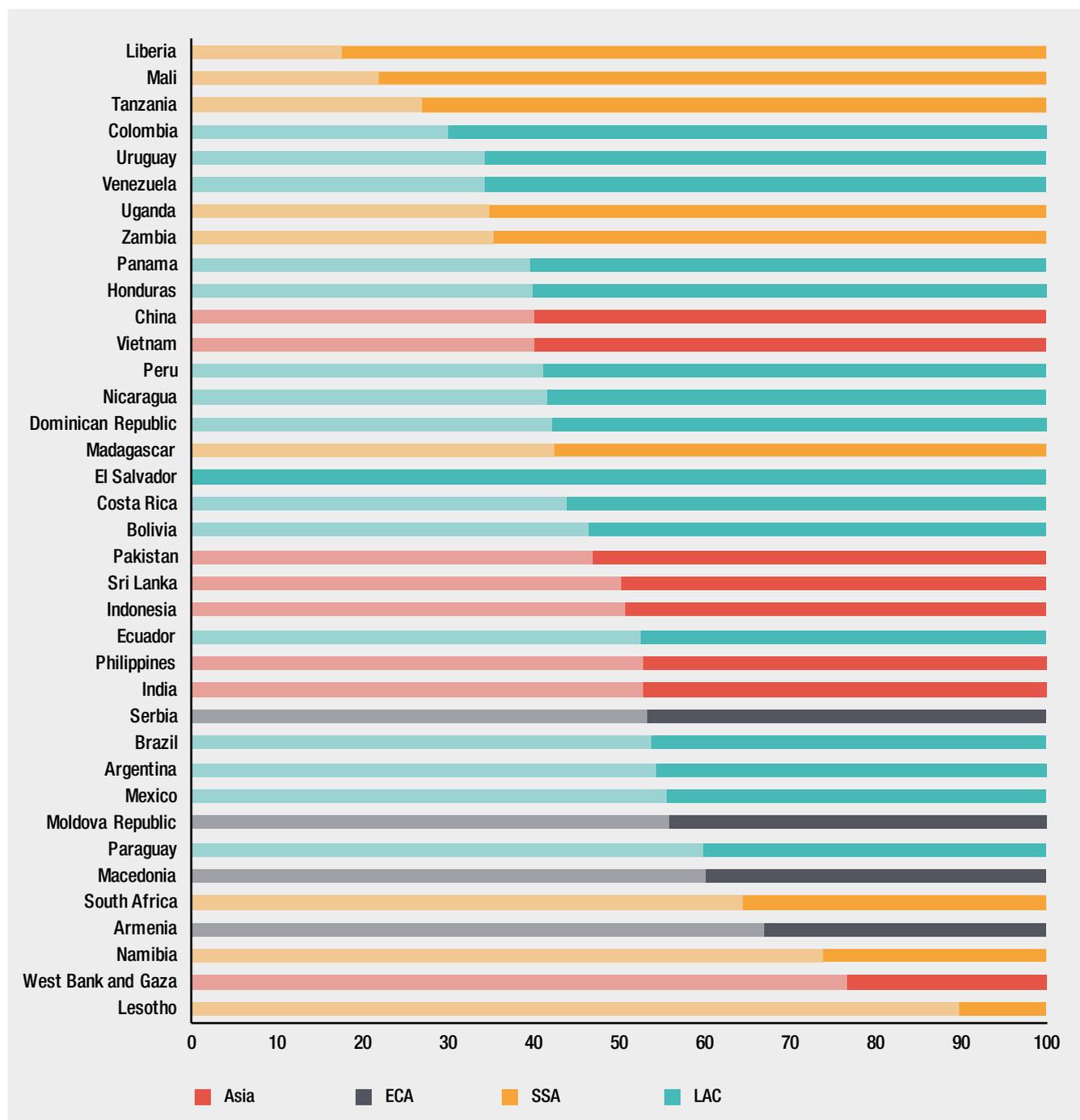
Figure A.1: Employment in the informal economy as a share of total non-agricultural employment in 60 countries (%)



Source: Charmes (2016).

Note: 2005-2010. Figures in italics refer to informal sector employment only.

Figure A.2: Share of informal non-farm work considered wage work, in 37 countries



Source: Elaboration of data from ILO (2012), cited in Williams 2015: 127.

Note: Data is from 2004-2010. Lighter colours indicate waged work and darker colours indicate non-waged work.



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