

Chapter 4. Protecting informal economy workers and their dependents

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

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

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

Social insurance programmes are financed mainly through contributions paid by, or on behalf of, insured members, typically workers and their employers.¹ To the extent that lack of social insurance is a key parameter used to measure informal employment² (Chapter 1), by definition few informal workers are covered by social insurance. In practice, the extension of social insurance to informal workers often means their full or partial transition to the formal economy. For workers in the informal sector (the majority of employees and contributing family workers and all employers and own-account workers), effective access to social insurance is usually associated with legal recognition and registration of the economic unit, often combined with measures to raise productivity and encourage compliance.

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

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

Some countries have extended social protection to informal economy workers

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

complex but possible (Stuart, Samman and Hunt, 2018^[3]; Sojo, 2015^[4]; RNSF, 2017^[5]; ILO, 2017^[11]). Innovative policy solutions to extend social protection coverage to informal economy workers are within reach for countries at various levels of development (Table 4.1). Many countries use a combination of social insurance and social assistance, in line with the ILO Recommendation No. 202 and Recommendation No. 204 (ILO, 2017^[1]; ILO, 2017^[6]).

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

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

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

Notes: VAT = value-added tax. NGO = non-governmental organisation.

Source: Authors' compilation.

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

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

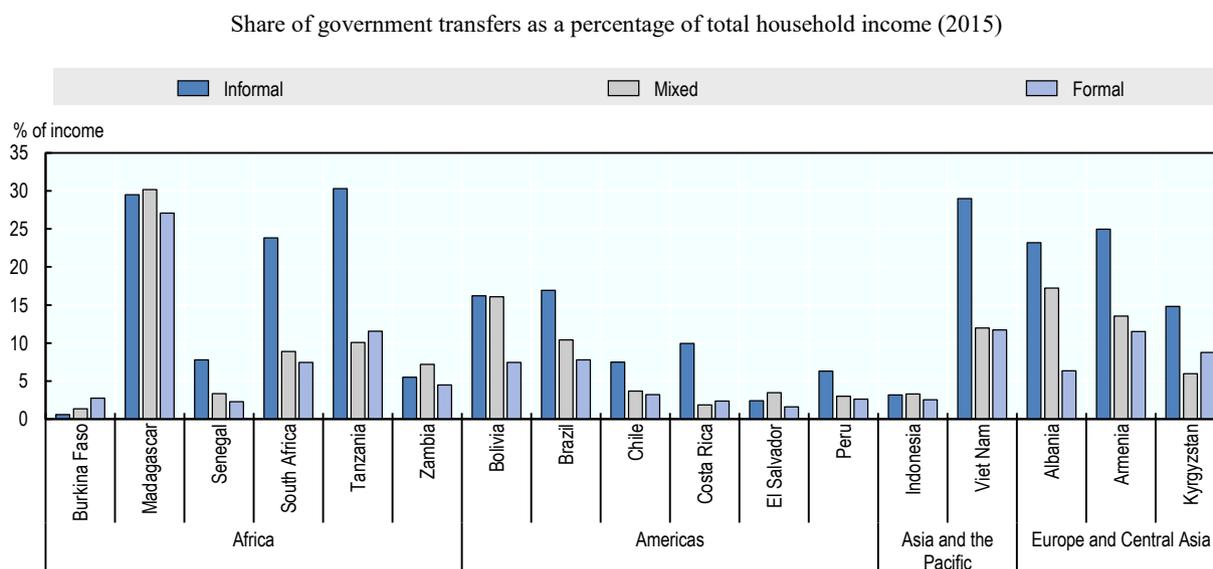
coverage through existing or new schemes adapted to the needs of self-employed workers (Brazil, Cabo Verde). Another promising development, including in Ghana, the Philippines and Rwanda, has been the establishment of national health insurance with a view to providing universal access to health care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

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

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

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

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



Notes: Government transfers include social assistance, such as non-contributory pensions, scholarships or cash transfers. Basket of government transfers varies by country and may include pensions. Data refer to 2012 for Albania; 2013 for Kyrgyzstan; 2014 for Armenia, Honduras and Viet Nam; 2016 for Argentina, Costa Rica, Paraguay, Peru and Uruguay.

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

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

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

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

Policy makers often see PWPs as an option to enhance income security for poor workers. Among the multitude of PWPs, employment guarantee schemes (EGSs), which guarantee employment to a specified population over a sustained or indefinite period, are generating increasing interest, as they fulfil the social protection function of unemployment protection for vulnerable individuals, including informal workers (Hagen-Zanker et al., 2011^[9]; Murray and Forstater, 2013^[10]; ILO, 2017^[11]). Still, EGS programmes are rare. The Mahatma Gandhi National Rural Employment Guarantee Scheme in India provides a guarantee anchored in national law. Similar programmes include the Jefes de Hogar programme in Argentina, the EGS component of the Productive Safety Nets Programme in Ethiopia and the small-scale Zibambe Programme in South Africa.

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

The role of informal social protection has to be better recognised

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

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

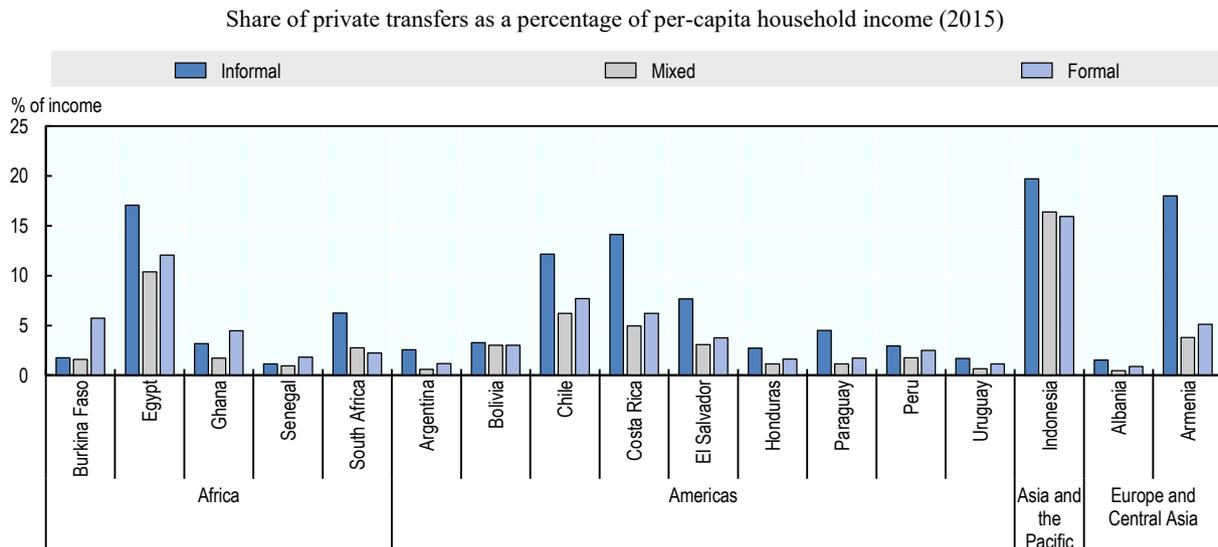
Individuals and households around the world have long organised themselves into informal networks of mutual support to cope with risk and uncertainty. While some evidence points to the erosion of informal social protection over time as a result of urbanisation and globalisation, in many parts of the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

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

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

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

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



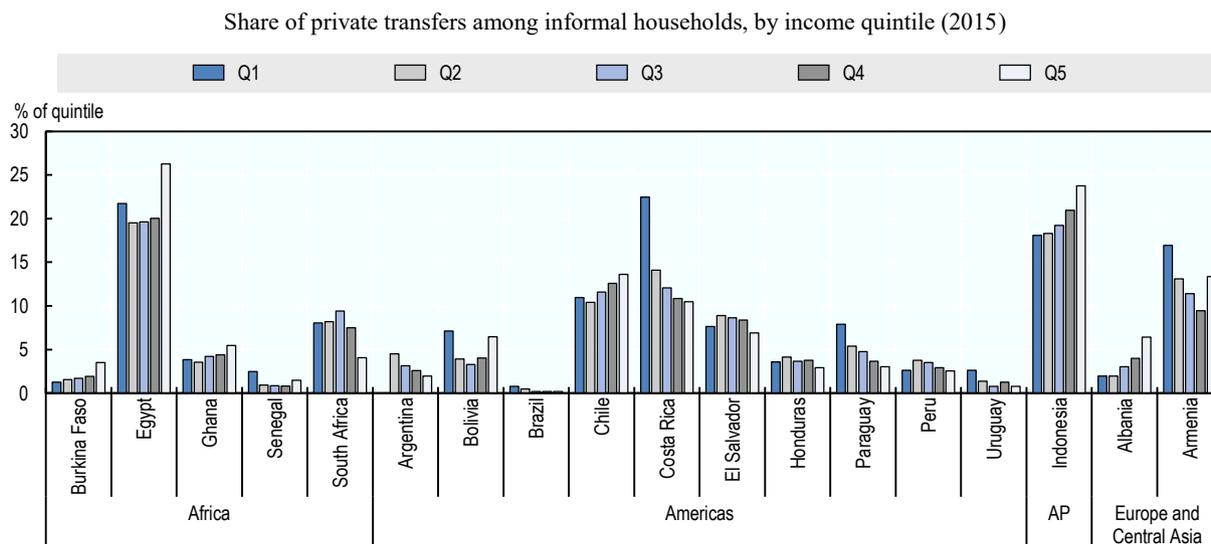
Note: Data refer to 2012 for Albania; 2013 for Ghana and Kyrgyzstan; 2014 for Armenia, Burkina Faso, Honduras, Nicaragua and Viet Nam; 2016 for Argentina, Costa Rica, Paraguay, Peru and Uruguay.
Source: OECD (2019), *Key Indicators of Informality based on Individuals and their Household* (database).

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

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

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

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

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

Note: AP = Asia and the Pacific. Data refer to 2012 for Albania; 2013 for Ghana and Kyrgyzstan; 2014 for Armenia, Burkina Faso, Honduras, Nicaragua and Viet Nam; 2016 for Argentina, Costa Rica, Paraguay, Peru and Uruguay.

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

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

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

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

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

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

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

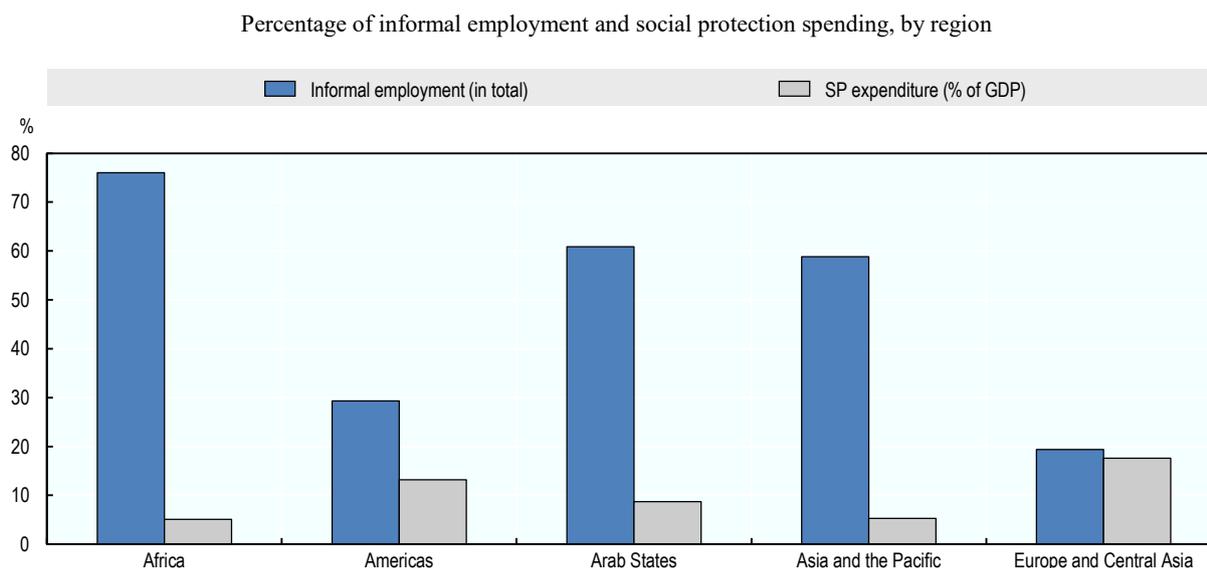
A second approach is to support the enrolment of informal workers in contributory schemes by broadening the coverage of statutory schemes, easing effective access through more flexible eligibility conditions, adapted contribution levels and payment modalities, and more attractive benefit packages. From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

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

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

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

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

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

Note: Excludes spending on health.

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

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

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

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

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

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

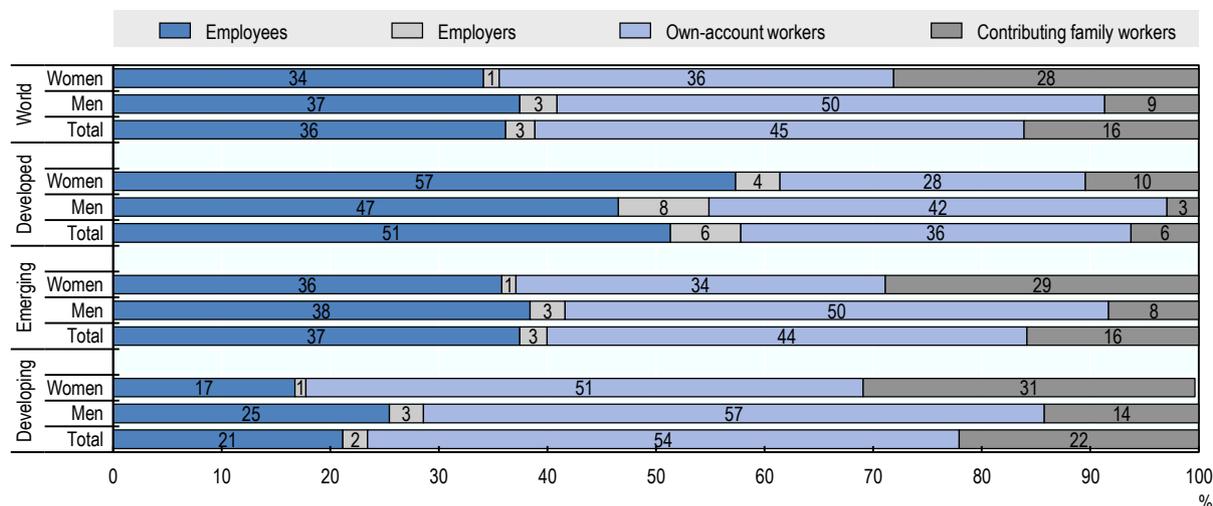
Taking the diversity of the informal economy into account

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

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

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

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



Note: Data refer to 2007 for Cameroon; 2011 for Benin, Niger and Senegal; 2012 for Albania and Nigeria; 2013 for Ghana, Kyrgyzstan and U.R. Tanzania; 2014 for Armenia, Burkina Faso, Honduras and Nicaragua; 2016 for Argentina, Costa Rica, Paraguay, Peru and Uruguay.

Sources: ILO (2018^[29]), *Women and Men in the Informal Economy: A Statistical Picture*, www.ilo.org/global/publications/books/WCMS_626831/lang--en/index.htm.

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

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

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

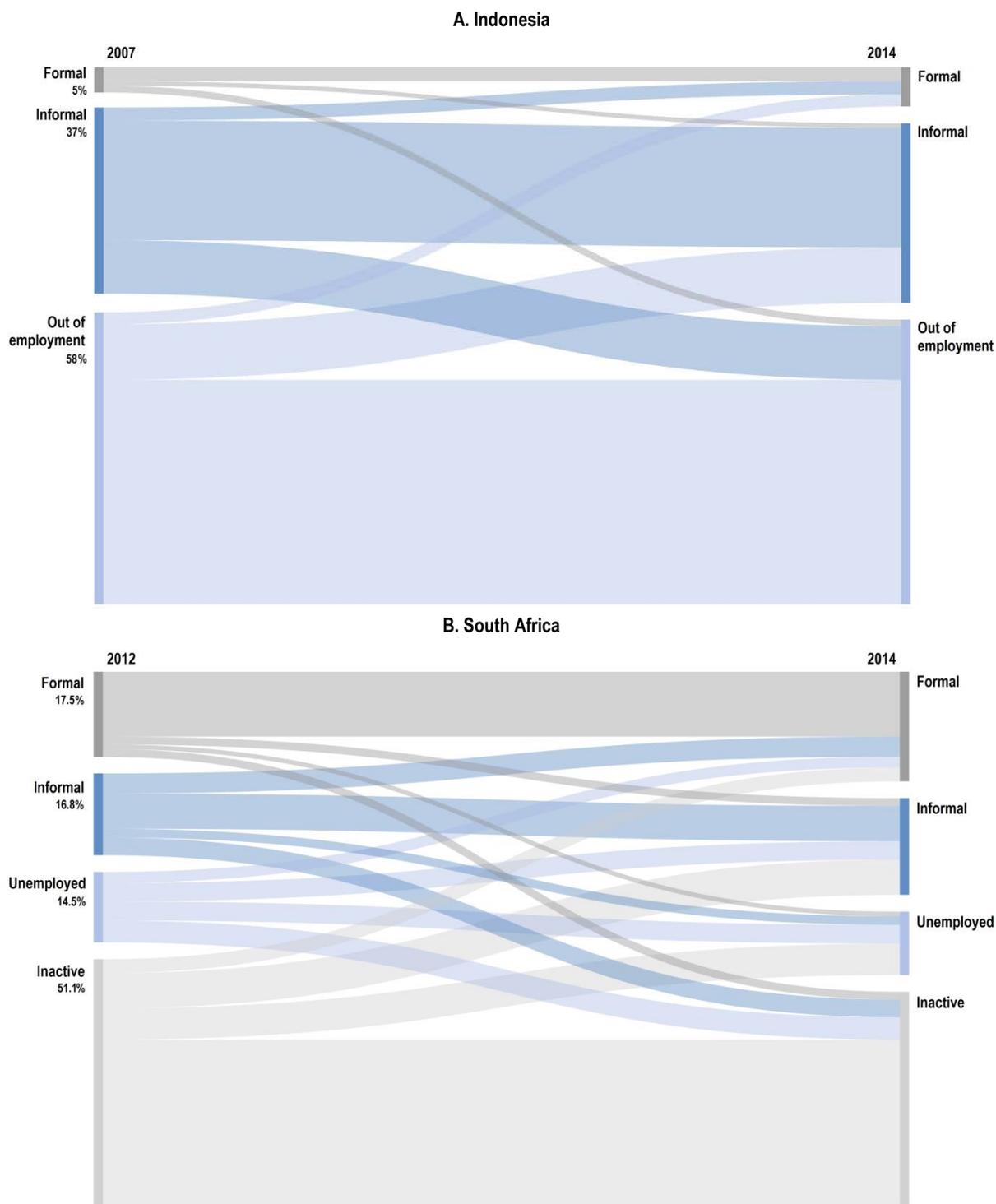
The sectors in which informal workers operate, the location of their work and their firm size also matter a great deal. Large enterprises have the highest levels of productivity, can provide higher wages, are more able to assume the costs and benefits of formalisation (including the cost of social protection)³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

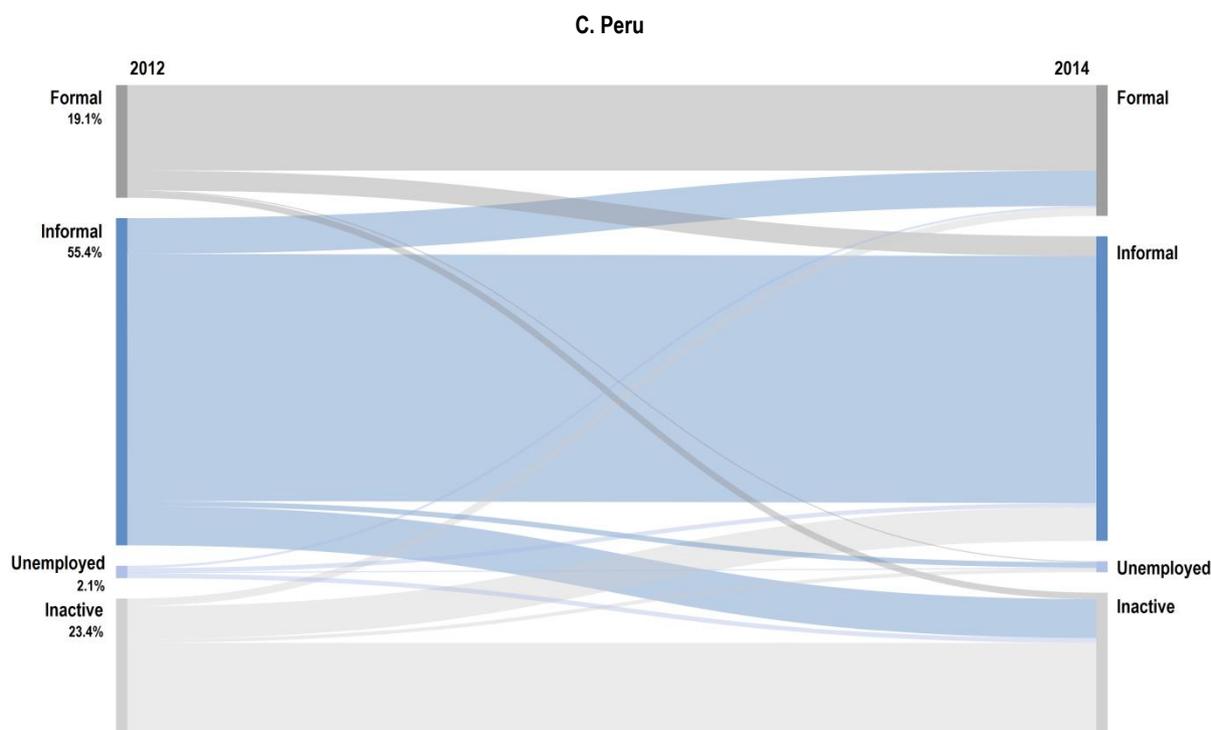
The extension of social protection to informal workers needs to account for labour mobility

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

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

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





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

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

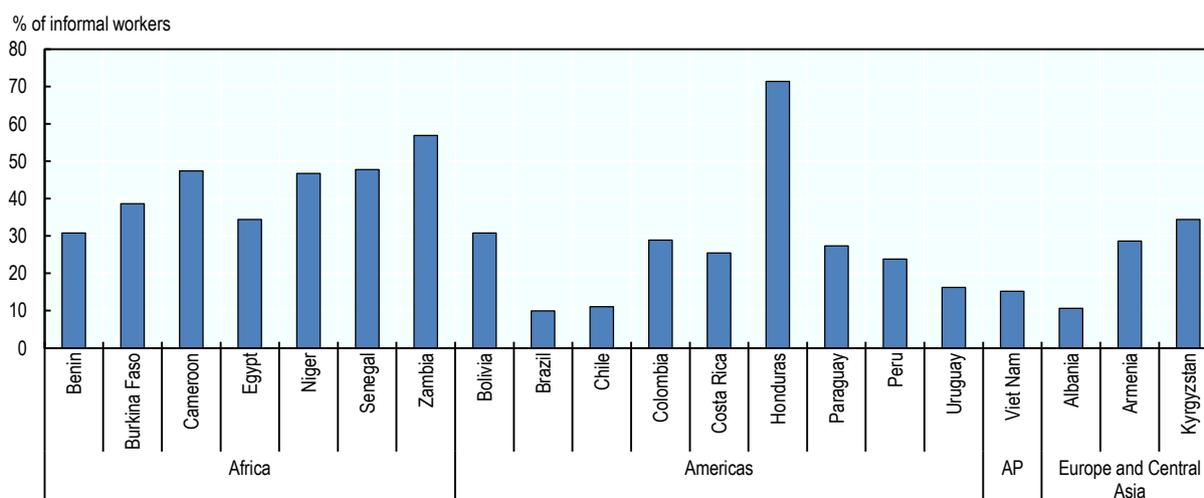
The household dimension is essential to identify the right mix of interventions and develop an integrated policy package for the extension of social protection to informal workers

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

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

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

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



Note: AP = Asia and the Pacific. Data refer to 2011 for Benin, Niger and Senegal; 2012 for Albania; 2013 for Kyrgyzstan and Madagascar; 2014 for Armenia, Honduras and Viet Nam; 2016 for Costa Rica, Paraguay, Peru and Uruguay.

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

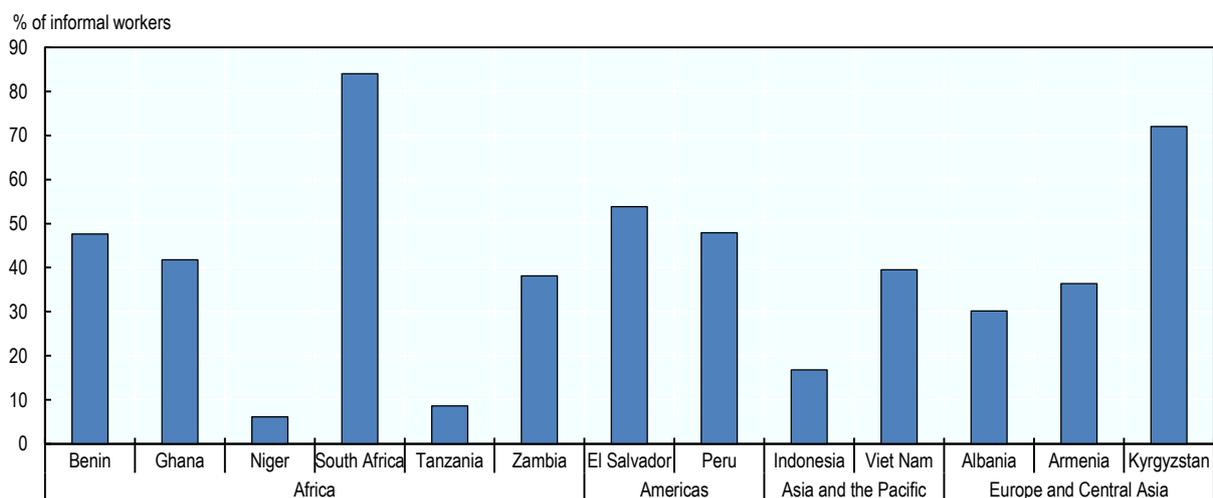
Some informal workers have the capacity to contribute and could be covered through contributory schemes. Experiences in countries that have successfully extended social insurance coverage to previously informal workers demonstrate that some adaptations to schemes may be necessary, in particular ensuring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

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

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

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

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



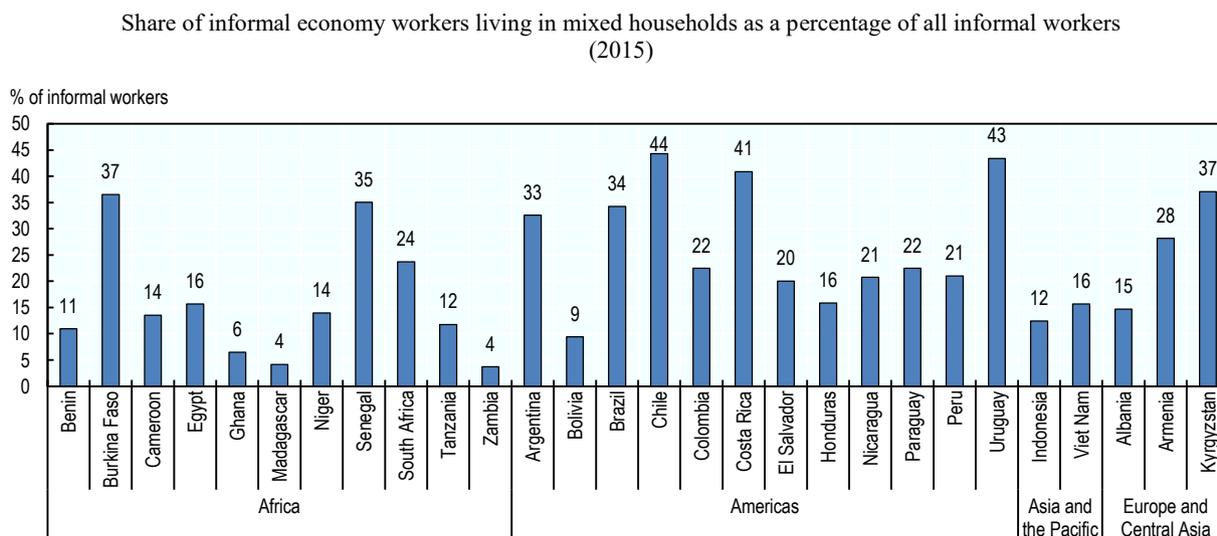
Notes: Food secure households defined as those spending less than 50% of income on food. Data refer to 2011 for Benin and Niger; 2012 for Albania; 2013 for Ghana, Kyrgyzstan and U.R. Tanzania; 2014 for Armenia and Viet Nam; 2016 for Peru.

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

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

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

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



Note: Data refer to 2007 for Cameroon; 2011 for Benin, Niger and Senegal; 2012 for Albania; 2013 for Ghana, Kyrgyzstan, Madagascar and U.R. Tanzania; 2014 for Armenia, Burkina Faso, Honduras, Nicaragua and Viet Nam; 2016 for Argentina, Costa Rica, Paraguay, Peru and Uruguay.

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

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

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

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

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

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

Reducing costs and complexities to register and comply with regulations

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

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

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

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

Improving productivity, earnings and wages

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

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

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

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

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

Providing incentives to formalise small enterprises

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

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

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

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

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

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

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

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

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

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

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

Formalisation, inclusiveness and global supply chains

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

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

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

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

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

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

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

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

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

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

Promoting inclusive business models for smallholder farmers

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

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

Protecting homeworkers in garment and footwear supply chains

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

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

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

Regulating due diligence

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

Strengthening inspection and compliance

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note: ETB = Ethiopian birr.

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

Empowering informal economy workers and employers

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

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

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

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

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

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

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

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

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

Notes

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

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

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

References

- Aïssi, E. (2018), *The French duty of vigilance law: a new legal instrument for a fairer globalisation*, Global Labour Column, Society, Work & Development Institute (SWOP), University of Witwatersrand, <http://column.global-labour-university.org/2018/06/the-french-duty-of-vigilance-law-new.html> (accessed on 3 August 2018). [50]
- Alfers, L. et al. (2016), *Technology at the base of the pyramid: Insights from Ahmedabad (India), Durban (South Africa) and Lima (Peru)*, Women in Informal Employment Globalizing and Organizing (WIEGO), Manchester, <http://www.wiego.org/sites/default/files/publications/files/WIEGO-Technology-Base-pyramid-2016.pdf> (accessed on 3 August 2018). [40]
- Alfers, L., F. Lund and R. Moussié (2017), “Approaches to social protection for informal workers: Aligning productivist and human rights-based approaches”, *International Social Security Review*, Vol. 70/4, pp. 67-85, <http://dx.doi.org/10.1111/issr.12153>. [25]

- Banerjee, A. et al. (2015), “A multifaceted program causes lasting progress for the very poor: Evidence from six countries”, *Science*, Vol. 348/6236, <http://dx.doi.org/10.1126/science.1260799>. [8]
- Behrendt, C. and Q. Nguyen (2018), “Innovative approaches for ensuring universal social protection for the future of work”, *ILO Future of Work Research Paper Series*, No. 1, International Labour Organization, Geneva, <http://www.ilo.org/publns>. (accessed on 13 December 2018). [31]
- Blattman, C. and S. Dercon (2016), *Occupational Choice in Early Industrializing Societies: Experimental Evidence on the Income and Health Effects of Industrial and Entrepreneurial Work*, National Bureau of Economic Research, Cambridge, MA, <http://dx.doi.org/10.3386/w22683>. [37]
- Bosch, M., Á. Melguizo and C. Pagés (2013), *Better pensions, better jobs: Towards universal coverage in Latin America and the Caribbean*, Inter-American Development Bank, Washington, DC, <https://publications.iadb.org/handle/11319/462> (accessed on 28 June 2018). [23]
- Budlender, D. (2013), “Informal Workers and Collective Bargaining: Five Case Studies”, *WIEGO Organizing Brief*, No. 9, Women in Informal Employment: Globalizing and Organizing (WIEGO), Manchester, <http://www.wiego.org/publications/informal-workers-and-collective-bargaining-five-case-studies> (accessed on 3 August 2018). [67]
- Calder, R. and T. Tanhchareun (2014), *Informal social protection: Social relations and cash transfers*, Department of Foreign Affairs and Trade, Commonwealth of Australia, <http://dfat.gov.au/about-us/publications/Documents/informal-social-protection.pdf> (accessed on 11 May 2018). [15]
- Chen, M., C. Bonner and F. Carré (2015), “Organizing Informal Workers: Benefits, Challenges and Successes”, United National Development Programme, New York, http://hdr.undp.org/sites/default/files/chen_hdr_2015_final.pdf (accessed on 5 July 2018). [66]
- Crivelli, E., R. de Mooij and M. Keen (2015), “Base Erosion, Profit Shifting and Developing Countries”, No. 15/118, International Monetary Fund, Washington, DC, <https://www.imf.org/en/Publications/WP/Issues/2016/12/31/Base-Erosion-Profit-Shifting-and-Developing-Countries-42973> (accessed on 11 May 2018). [24]
- Dabla-Norris, E. et al. (2015), *Causes and consequences of income inequality: A global perspective*, International Monetary Fund, Washington DC, <https://www.imf.org/external/pubs/ft/sdn/2015/sdn1513.pdf> (accessed on 28 January 2019). [44]
- Davis, B. et al. (2016), *From evidence to action: the story of cash transfers and impact evaluation in Sub-Saharan Africa*, Oxford University Press, Oxford. [21]
- Dercon, S. and P. Krishnan (2002), “Informal insurance, public transfers and consumption smoothing”, *Royal Economic Society Annual Conference 2002*, <https://ideas.repec.org/p/ecj/ac2002/60.html> (accessed on 11 May 2018). [18]

- Dinkelman, T. and V. Ranchhod (2012), “Evidence on the impact of minimum wage laws in an informal sector: Domestic workers in South Africa”, *Journal of Development Economics*, Vol. 99/1, pp. 27-45, <http://dx.doi.org/10.1016/J.JDEVECO.2011.12.006>. [59]
- Duflo, E. (2000), “Grandmothers and granddaughters: old age pension and intra-household allocation in South Africa”, *Working Paper Series*, No. 8061, NBER, Cambridge, MA, <https://www.nber.org/papers/w8061.pdf> (accessed on 13 December 2018). [20]
- Ehnes, M. (2012), *Improvement of national reporting, data collection and analysis of occupational accidents and diseases*, International Labour Office, International Labour Organization, http://www.ilo.org/safework/info/publications/WCMS_207414/lang--en/index.htm (accessed on 3 August 2018). [52]
- Evans, D. and A. Popova (2014), “Cash Transfers and Temptation Goods: A Review of Global Evidence”, *Policy Research Working Papers*, No. 6886, World Bank, Washington, DC, <http://dx.doi.org/10.1596/1813-9450-6886>. [7]
- Forastieri, V. (2014), “Occupational safety and health in the informal economy”, International Labour Organization, Geneva, http://www.ilo.org/safework/info/publications/WCMS_313828/lang--en/index.htm (accessed on 3 August 2018). [51]
- Gagnon, J. (2009), “Moving out of Bad Jobs – More mobility, more opportunity”, in Jütting, J. and J. de Laiglesia (eds.), *Is Informal Normal? Towards More and Better Jobs in Developing Countries*, OECD Publishing, Paris, <https://www.oecd-ilibrary.org/docserver/9789264059245-en.pdf?expires=1526055092&id=id&accname=ocid84004878&checksum=FFEC3F2B50C9FF1DFDC1F349622020B2> (accessed on 11 May 2018). [11]
- Godfrey, S. (2018), *Multi-employer collective bargaining in South Africa*, International Labour Organization, Geneva, http://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/publication/wcms_632263.pdf. [69]
- Hagen-Zanker, J. et al. (2011), “Systematic Review of the Impact of Employment Guarantee Schemes and Cash Transfers on the Poor”, *ODI Systematic Review*, Overseas Development Institute, London, <https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/7161.pdf> (accessed on 11 May 2018). [9]
- ILO (2018), *A Guide on Labour Inspection Intervention in the Informal Economy - A participatory method*, International Labour Organization, Geneva, https://www.ilo.org/labadmin/info/pubs/WCMS_626573/lang--en/index.htm (accessed on 13 December 2018). [56]
- ILO (2018), *Women and men in the informal economy: A statistical picture, 3rd edition*, International Labour Organization, Geneva, https://www.ilo.org/global/publications/books/WCMS_626831/lang--en/index.htm (accessed on 29 August 2018). [28]

- ILO (2017), *Building social protection systems: International standards and human rights instruments*, International Labour Office, International Labour Organization, Geneva, Switzerland, <http://www.social-protection.org/gimi/gess/RessourcePDF.action?ressource.ressourceId=54434>. [6]
- ILO (2017), *Enterprise Formalization*, International Labour Organization, Geneva, https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/---ifp_seed/documents/publication/wcms_544828.pdf (accessed on 25 January 2019). [33]
- ILO (2017), *World Social Protection Report 2017-19: Universal social protection to achieve the Sustainable Development Goals*, ILO, Geneva, http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_604882.pdf. [1]
- ILO (2016), *Formalization of SMEs in supply chains in Latin America: what role for multinational enterprises?*, International Labour Organization, Geneva, https://www.ilo.org/global/topics/employment-promotion/small-enterprises/WCMS_533197/lang--en/index.htm. (accessed on 28 January 2019). [41]
- ILO (2016), “Maternity cash benefits for workers in the informal economy Low coverage of maternity protection”, International Labour Organization, Geneva. [29]
- ILO (2016), *Non-standard employment around the world: Understanding challenges, shaping prospects*, International Labour Organization, Geneva, Switzerland, <http://www.ifro.org> (accessed on 28 January 2019). [30]
- ILO (2015), *The transition from the informal to the formal economy*, International Labour Organization, Geneva, <http://www.ilo.org/publns>. (accessed on 24 January 2019). [2]
- ILO (2014), “Monotax: Promoting formalization and protection of independent workers”, *Social Protection in Action: Building Social Protection Floors*, No. 02, International Labour Organization, Geneva, <http://www.socialsecurityextension.org/gimi/gess//RessourcePDF.action?ressource.ress> (accessed on 3 August 2018). [58]
- ILO (2014), “Policies for the formalization of micro and small enterprises”, *Programme for the Promotion of Formalization in Latin America and the Caribbean*, Regional Office for Latin America and the Caribbean, International Labour Organization, https://www.ilo.org/wcmsp5/groups/public/---americas/---ro-lima/documents/publication/wcms_318208.pdf (accessed on 24 January 2019). [35]
- ILO (2013), *The Informal Economy and Decent Work: A Policy Resource Guide supporting transitions to formality*, International Labour Organization, Geneva. [70]
- ILO (2011), *Improving safety and health at work through a Decent Work Agenda*, International Labour Organization, Geneva, http://www.ilo.org/safework/projects/WCMS_149466/lang--en/index.htm (accessed on 3 August 2018). [53]

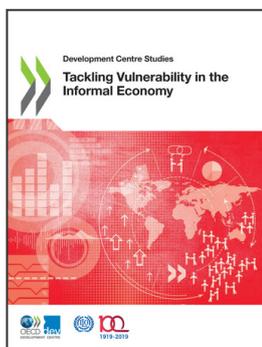
- ILO (2008), *Decent work and the transition to formalization: Recent trends, policy debates and good practices*, International Labour Organization, Geneva, http://www.ilo.org/safework/info/publications/WCMS_110314/lang--en/index.htm (accessed on 3 August 2018). [62]
- ILO (2007), *An introduction to the Work Improvement in Small Enterprises (WISE) programme*, International Labour Organization, Geneva, http://www.ilo.org/travail/whatwedo/instructionmaterials/WCMS_152469/lang--en/index.htm (accessed on 3 August 2018). [63]
- ILO/IYF (2014), *Upgrading Informal Apprenticeships in Jordan: Key Findings from a Pilot Study*, International Labour Organization, International Youth Foundation, <https://www.iyfnet.org/library/upgrading-informal-apprenticeships-jordan-key-findings-pilot-study> (accessed on 3 August 2018). [13]
- iTSCi (2018), *ITSCI: Purpose*, <https://www.itsci.org/purpose/> (accessed on 28 January 2019). [48]
- James, P. et al. (2015), “Protecting workers through supply chains: Lessons from two construction case studies”, *Economic and Industrial Democracy*, Vol. 36/4, pp. 727-747, <http://dx.doi.org/10.1177/0143831X14532296>. [65]
- Kaseke, E. (2013), “Informal Social Security in Southern Africa”, SASPEN and FES International Conference on Social Protection for those Working Informally, 16-17 September, http://www.saspens.org/conferences/informal2013/Paper_Kaseke_FES-SASPEN-16SEP2013-INT-CONF-SP4IE.pdf (accessed on 11 May 2018). [14]
- Kawakami, T. (2007), *Participatory approaches to improving safety, health and working conditions in informal economy workplaces. Experiences of Cambodia, Thailand and Viet Nam*, International Labour Organization, Geneva, http://www.ilo.org/safework/info/publications/WCMS_110307/lang--en/index.htm (accessed on 3 August 2018). [57]
- Lokmanya, O., T. Baug and A. Bhadra (2013), *SEWA Annual Report 2013*, Self Employed Women’s Association Annual Report 2013 Self Employed Women’s Association (SEWA), Ahmedabad, <http://www.sewa.org> (accessed on 3 August 2018). [39]
- Lund, F., L. Alfors and V. Santana (2016), “Towards an Inclusive Occupational Health and Safety For Informal Workers”, *NEW SOLUTIONS: A Journal of Environmental and Occupational Health Policy*, Vol. 26/2, pp. 190-207, <http://dx.doi.org/10.1177/1048291116652177>. [55]
- Lund, F. and J. Nicholson (2003), *Chains of production, ladders of protection : social protection for workers in the informal economy*, World Bank, Washington, DC, <http://documents.worldbank.org/curated/en/159501468763155293/Chains-of-production-ladders-of-protection-social-protection-for-workers-in-the-informal-economy> (accessed on 17 May 2018). [26]
- Murray, M. and M. Forstater (eds.) (2013), *Employment Guarantee Schemes*, Palgrave Macmillan US, New York, <http://dx.doi.org/10.1057/9781137313997>. [10]

- Oduro, A. (2010), “Formal and informal social protection for Sub-Saharan Africa”, “Promoting Resilience through Social Protection in Sub-Saharan Africa” workshop 28-30 June 2010, organised by the European Report on Development, <http://erd.eui.eu/media/BackgroundPapers/Oduro%20-%20FORMAL%20AND%20INFORMAL%20SOCIAL%20PROTECTION.pdf> (accessed on 11 May 2018). [17]
- OECD (2018), *OECD Due Diligence Guidance for Responsible Business Conduct*, OECD Publishing, Paris, <http://www.oecd.org/investment/due-diligence-guidance-for-responsible-business-conduct.htm> (accessed on 28 January 2019). [47]
- OECD (2018), *OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector*, OECD Publishing, Paris, <https://dx.doi.org/10.1787/9789264290587-en>. [46]
- OECD (2017), *Unlocking the Potential of Youth Entrepreneurship in Developing Countries: From Subsistence to Performance*, Development Centre Studies, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264277830-en>. [38]
- OECD (2016), *Tax Policy Reforms in the OECD 2016*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264260399-en>. [22]
- OECD (2015), *All on Board: Making Inclusive Growth Happen*, OECD Publishing, Paris, <https://dx.doi.org/10.1787/9789264218512-en>. [45]
- OECD (2011), *OECD Guidelines for Multinational Enterprises, 2011 Edition*, OECD Publishing, Paris, <https://dx.doi.org/10.1787/9789264115415-en>. [43]
- OECD/FAO (2016), *OECD-FAO Guidance for Responsible Agricultural Supply Chains*, OECD Publishing, Paris, <https://dx.doi.org/10.1787/9789264251052-en>. [49]
- Pereyra, F. (2018), *Cuando la expansión de derechos es posible: el diálogo social de las trabajadoras domésticas en Argentina*, International Labour Office, Argentina. [68]
- RNSF (2017), *Extending coverage: Social protection and the informal economy*, Research, Network and Support Facility, European Commission, European Union. [27]
- RNSF (2017), *Extending coverage: Social protection and the informal economy*, Research, Network and Support Facility, European Commission, European Union. [5]
- Santana, V. et al. (2016), “Gathering Occupational Health Data from Informal Workers: The Brazilian Experience”, *New solutions: a journal of environmental and occupational health policy*, Vol. 26/2, pp. 173-89, <https://www.ncbi.nlm.nih.gov/pubmed/27235998>. [54]
- Santiago, S. (2018), *The Brazilian experience on the 'Simples Nacional': Mico Entrepreneur, Micro and Small Businesses*, International Labour Office, Manila, https://www.ilo.org/manila/eventsandmeetings/WCMS_635183/lang--en/index.htm. [36]

- Siriruttanapruk, S., K. Wada and T. Kawakami (2009), “Promoting occupational health services for workers in the informal economy through primary care units”, *ILO Asia-Pacific Working Paper Series*, ILO Subregional Office for East Asia, International Labour Organization, <http://www.ilo.org/asia> (accessed on 3 August 2018). [64]
- Smith, L. and A. Subandoro (2007), *Measuring Food Security Using Household Expenditure Surveys*, International Food Policy Research Institute (IFPRI), Washington, DC, <http://dx.doi.org/10.2499/0896297675>. [32]
- Sojo, A. (2015), “Including informal economy workers in contributory social protection: Current challenges in Latin America”, *International Social Security Review*, Vol. 68/4, pp. 69-92, <http://dx.doi.org/10.1111/issr.12088>. [4]
- Stuart, E., E. Samman and A. Hunt (2018), “Informal is the new normal: Improving the lives of workers at risk of being left behind”, No. 530, Overseas Development Institute, London, <https://www.odi.org/sites/odi.org.uk/files/resource-documents/11993.pdf> (accessed on 17 May 2018). [3]
- Ticona Gonzales, M. (2011), “The Dignity Pension (Renta Dignidad): A Universal Old-age Pension Scheme”, in *Sharing Innovative Experiences: Volume 18 Successful Social Protection Floor Experiences*, United Nations Development Programme (UNDP), New York, <http://www.social-protection.org/gimi/gess/RessourcePDF.action?id=24360> (accessed on 3 August 2018). [60]
- Ulrichs, M. (2016), “Informality, women and social protection: identifying barriers to provide effective coverage”. [61]
- UNDP (2016), *Trade Winds of Change: Women Entrepreneurs on the Rise in South Asia*, United Nations Development Programme (UNDP), Bangkok, <http://www.asia-pacific.undp.org/content/rbap/en/home/library/sustainable-development/trade-winds-of-change.html> (accessed on 3 August 2018). [42]
- Walther, R. (2011), “Building Skills in the Informal Sector”, *Background paper prepared for the Education for All Global Monitoring Report 2012*, No. 2012/ED/EFA/MRT/PI/08, United Nations Education, Scientific and Cultural Organization, <http://www.unesco.org/new/fileadmin/MULTIMEDIA/HQ/ED/pdf/gmr2012-ED-EFA-MRT-PI-08.pdf> (accessed on 11 May 2018). [12]
- Watson, C. (2016), “Shock-Responsive Social Protection Systems Research Working Paper 3: Shock-Responsive Social Protection in the Sahel: Community Perspectives About the project”, *Shock-Responsive Social Protection Systems study*, Oxford Policy Management (OPM), Overseas Development Institute (ODI), the Cash Learning Partnership (CaLP), INASP, <http://www.cashlearning.org/downloads/wp3-community-perspectives-sahel-en.pdf> (accessed on 11 May 2018). [16]
- World Bank (2018), *Doing Business 2018: Reforming to Create Jobs*, World Bank, Washington DC, <http://www.worldbank.org> (accessed on 28 January 2019). [34]

WSM (2016), *AMUSSOL: informal workers have access to social security in the Dominican Republic!*, Wereldsolidariteit – Solidarité Mondiale, Schaerbeek.

[19]



From:
Tackling Vulnerability in the Informal Economy

Access the complete publication at:

<https://doi.org/10.1787/939b7bcd-en>

Please cite this chapter as:

OECD/International Labour Organization (2019), "Protecting informal economy workers and their dependents", in *Tackling Vulnerability in the Informal Economy*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/120e596f-en>

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of OECD as source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to rights@oecd.org. Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at info@copyright.com or the Centre français d'exploitation du droit de copie (CFC) at contact@cfcopies.com.