

Executive summary

Most workers in developing and emerging economies carry a double burden of informal employment and low-paying work

Informal workers make up nearly 60% of the workforce globally, and 90% in low-income countries. New evidence from the *Key Indicators of Informality based on Individuals and their Household* (KIIbIH) shows that, despite widespread heterogeneity, informality often displays a two-tier structure. The *lower tier* comprises workers with earnings below 50% of the median earnings of their country: they are the majority of the global informal workforce, at 54% on average, and up to 80% in some countries. A relatively small number of workers in the *upper tier* enjoy relatively higher earnings; they are also more skilled and more productive. Compared to both formal workers and upper-tier informal workers, those in the lower tier, as well as their household members, face a greater probability of falling into poverty, and encounter greater health-related and old-age hardships. They carry a double burden of low-paying work and informality.

Transitions between formal and informal employment remain limited, and the benefits of formalisation can be disappointing for some workers in the lower tier

The combination of informality and low-paying work is particularly persistent, as manifested by the extremely infrequent transitions towards formal employment. Even when they happen, such transitions do not necessarily result in income improvements for the poorest workers. By contrast, workers in the upper tier of informality find it easier to access formal jobs and improve their incomes, largely because of their higher education levels.

Informal workers have few opportunities to upgrade their skills and transition to formal jobs

Close to 45% of informal workers have at best a primary level of education, compared to 7% of those in formal employment. Conversely, the share of informal employment among workers with no education is 94% globally, and 85% among those with primary education only. Informal workers also have very limited opportunities to upgrade their skills, whether through employer-provided training, public programmes or other forms of learning, typically because those are not adapted to their needs. This compounds the persistence of informality and low-paying employment, as formal economy employers generally look for skills that informal workers either do not have, or cannot prove having. As a result, economies with large informal employment display sizeable skill mismatches. This hampers the adoption of new technologies and productivity, perpetuating informal employment and a vicious, intragenerational circle of informality.

Children of low-paid, informal workers inherit their vulnerability

Informality and low-paying work are path-dependent: children in households where all family members are informally employed have a lower chance of securing a formal job as they grow up. This is because their school attendance, from primary level onwards, is lower than that of children with formally working parents; less financial resources and parental time are devoted to their education; and school-to-work transitions are longer and more uncertain for them.

Social protection gaps in the informal economy can be filled, but this demands a more detailed understanding of workers' situations

The vicious circle of informality, especially for workers in the lower tier and for their children, can be broken by extending social protection coverage to all workers and their household members. Globally, social protection coverage is often inconsistent and sparse, with large gaps between formal and informal workers. This is mainly due to gaps in contributory schemes, which tend to benefit relatively better-off informal workers in the upper tier, while non-contributory schemes benefit poorer workers in the lower tier. Extending social protection to informal economy workers is possible, with i) a combination of contributory and non-contributory schemes, based on a granular analysis of the situations of different groups of workers, the risks they face and their contributory capacities, and ii) the mobilisation of additional revenues from carefully identified sources, through strengthened tax compliance and enforcement, in ways that do not increase the cost of formalisation unreasonably.

Policy recommendations

The two-tier feature of informal employment begs for differentiated policy actions to ease transitions between these tiers and towards formal jobs.

For workers in the lower tier and their children: Alleviate the double burden of informality and low-paying work, and invest in human capital

Informal workers in the lower tier would particularly benefit from specific solutions to break the inter- and intra-generational circles of informality and low-paying work.

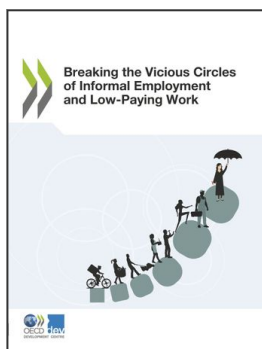
Skill development policies are one such solution. For informal workers, it is critical to create more specific opportunities of employer-sponsored training and public skills development programmes tailored to their needs. It is also necessary to recognise the skills they acquire through informal work. To improve the skills of children, the would-be workers, governments should continue investing in accessible, equitable, quality education; prevent school drop-outs; and smoothen school-to-work transitions.

Another, parallel, solution is social protection. Countries should consider better including lower-tier, informal workers in non-contributory social protection schemes, and subsidising their participation in contributory schemes, which should be seen as an investment into poverty alleviation.

In addition, policy makers should recognise that certain workers will never be able to move out of low-paid, informal jobs. Where such jobs help sustain livelihoods, and may therefore be considered as essential and socially desirable, the priority should be to alleviate the double burden of informal employment and low-paid work through: remuneration policies that address inequality; effective minimum wages; and measures to improve the bargaining power of low-paid informal workers.

For workers in the upper tier: Encourage formalisation

For workers in the upper tier, who are more likely to respond positively to standard formalisation policies, additional measures should be considered, such as ensuring adequate coverage by labour laws, social security and tax regulations, as well as enforcing compliance with these regulations by workers and by employers.



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