

Executive summary

The vast majority of people in the Global South depend on the informal economy for their livelihoods. Informal workers and economic units contribute to economic and social development through market and non-market activities that are not protected, regulated, well recognised or valued. This leaves a majority of informal economy workers and their families outside the benefit of public policy, and raises the question for policy makers of how to improve the security and livelihoods of workers and their dependents who rely on the informal economy.

This study reviews some of the approaches taken thus far and explores new ideas to improve the lives of men and women in the informal economy and facilitate their transition to the formal economy. Detailed investigations develop new portraits of informal workers and economic units that take into account the broader context of their households, and identify the complex links between informality and the development process, the diversity of risks and vulnerabilities in the informal economy, and the gender-sensitive policy measures to protect informal economy workers and their families and support their transition to formality. The study is based on analysis of micro and macro data, including the recent set of ILO indicators of informality measured at the individual level and the new *OECD Key Indicators of Informality based on Individuals and their Household (KIIBIH)*.

Key findings

The report contributes to the global debate on the transition from the informal to the formal economy in six important ways. First, it constitutes an unprecedented examination of the diverse reality and multiple faces of informality in a large sample of countries representing diverse conditions, locations and stages of development. These comprehensive portraits of informality, covering individuals, households and economic units, expand upon existing knowledge about the well-being of informal workers and their households and provide new information that is not captured by traditional individual- or firm-level indicators. There are also distinct patterns across and within countries and tackling vulnerability in the informal economy will need to take these differences into account.

Second, the study presents new empirical evidence on the links between informality and the development process. A complex and dynamic picture emerges, with substantial variations in patterns of informality and informalisation across and within countries. The analysis also sheds light on informal workers' positive contribution to society, supporting investment in the protection of workers, including entrepreneurs and their families who depend on the informal economy.

Third, the report assesses risks and vulnerabilities in the informal economy. Informal workers face large poverty and occupational risks due to a combination of factors. Lack of access to social protection and appropriate risk management instruments thus pushes

many informal economy workers into income insecurity or vulnerability to income poverty. Moreover, risks and vulnerabilities are higher for women in the informal economy. In the absence of effective, gender-sensitive policies to manage risks, men and women informal workers will remain particularly vulnerable, and vulnerability will continue to be passed on to other segments of the population, particularly children and older individuals, who disproportionately live in households relying fully on the informal economy in developing countries.

Fourth, the report shows that the transition to formality of workers and economic units is a complex issue that touches on a wide range of policy domains. Laws, regulations and policies may promote the registration and licensing of enterprises with national, provincial and municipal authorities, the creation of enabling business environments, and the enhancement of compliance with legal frameworks, such as tax, social security and labour laws.

Fifth, not all workers and economic units are in a position to formalise in the short or medium term. For many, improvement of working and living conditions is a necessary first step in a gradual transition. Support should focus on removing obstacles and creating an environment that facilitates and encourages their transition and ultimate formalisation.

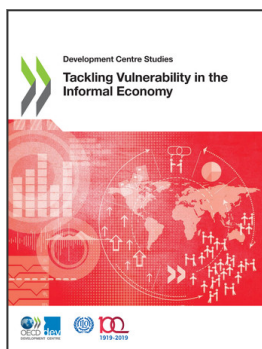
Sixth, based on recent country examples and information from new indicators of informality, the study suggests priority areas for policy makers. Tackling vulnerability in the informal economy and facilitating transitions to formality requires actions on five broad fronts: 1) extending social protection to informal economy workers; 2) improving occupational safety and health (OSH); 3) raising productivity and labour income in the informal economy; 4) creating a policy mix to incentivise formalisation of enterprises and workers, remove barriers to formalisation and encourage legal compliance; and 5) empowering informal economy workers and employers through their organisation, representation and engagement in social dialogue, including collective bargaining.

Key recommendations

- Extend coverage of contributory social protection schemes, namely social insurance, to informal economy workers by 1) combining measures to support the formalisation of enterprises with access to social protection, extending statutory coverage; 2) adapting benefits, contributions and administrative procedures to the needs and constraints of informal economy workers; and 3) subsidising contributions for workers with low income.
- Ensure continued social protection coverage during labour market transitions, including by ensuring coverage for workers in all types of employment and by facilitating portability of entitlements between schemes.
- Create a social protection floor to protect living standards: guarantee at least universal access to essential health care and basic income security throughout the lifecycle, ensuring sustainable and equitable financing from general taxation, contributions or a combination.
- Ensure that the extension of social protection takes into account gender-related risks and is conducted in a gender-sensitive way.
- Reduce costs and complexities to register enterprises and declare workers, and put in place a systemic strategy for a virtuous alignment of policies, regulations and institutions aimed at 1) enhancing productivity growth 2) strengthening

compliance and enforcement of legal requirements; and 3) generating incentives for formalisation, making formalisation easier, less costly, more feasible and more attractive.

- Increase awareness of the benefits of formalisation, the costs of informality, and informal economy workers' positive contributions to society and non-negligible contributions to tax collection to make the case for investing in tax-financed protection instruments as an enabling condition for a gradual transition to formality.
- Address tax avoidance and tax evasion through 1) implementing effective preventative and corrective measures, 2) reinforcing the progressivity of taxation, while expanding the tax base; 3) facilitating social insurance coverage; 4) addressing employment status misclassification and contribution evasion in the case of disguised employment relationships; 5) increasing tax revenues through non-regressive taxes; and 6) fighting tax evasion and tax avoidance by transnational firms.
- Improve the evidence base on vulnerability in the informal economy by supporting the improvement of survey questionnaires, notably on social protection coverage, and by monitoring vulnerability in the informal economy through an improved set of informality indicators measured at the individual, household and enterprise levels.
- Promote an integrated approach to the formalisation of workers and economic units that combines extending social protection, improving OSH, raising productivity and labour income and empowering informal economy workers with other measures to formalise the informal enterprises that employ 85% of all informal economy workers.
- Promote freedom of association and the right to collective bargaining in the informal economy through initiatives to support the organisation and representation of informal economy employers and workers, and their engagement in social dialogue, as an integral part of efforts to support transition to the formal economy.



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