

### Chapter 3. Risks and vulnerabilities in the informal economy

*Risks and vulnerabilities are part of everyday life for many people in the world of work and their families. Often, these risks and vulnerabilities appear in proportion to the scale of informal employment and the breadth of public and private risk management systems. Despite representing the majority of the workforce and supporting a disproportionately large number of dependents (Chapter 1), the contribution of informal workers to society is not well recognised or understood, making their inclusion as beneficiaries of tax-financed government programmes difficult to argue in many places (Chapter 2). This chapter assesses the risks and vulnerabilities in the informal economy. It shows that informal workers face larger poverty and occupational risks that, combined with lack of access to appropriate risk management instruments, push many into income insecurity or make them vulnerable to poverty. Without effective policies to manage the risks – especially occupational safety and health (OSH) and social protection policies – informal economy workers will remain particularly vulnerable and continue to pass vulnerability on to others, particularly children and the elderly, who disproportionately live in informal households in developing countries.*

## Informal economy workers are exposed to many risks

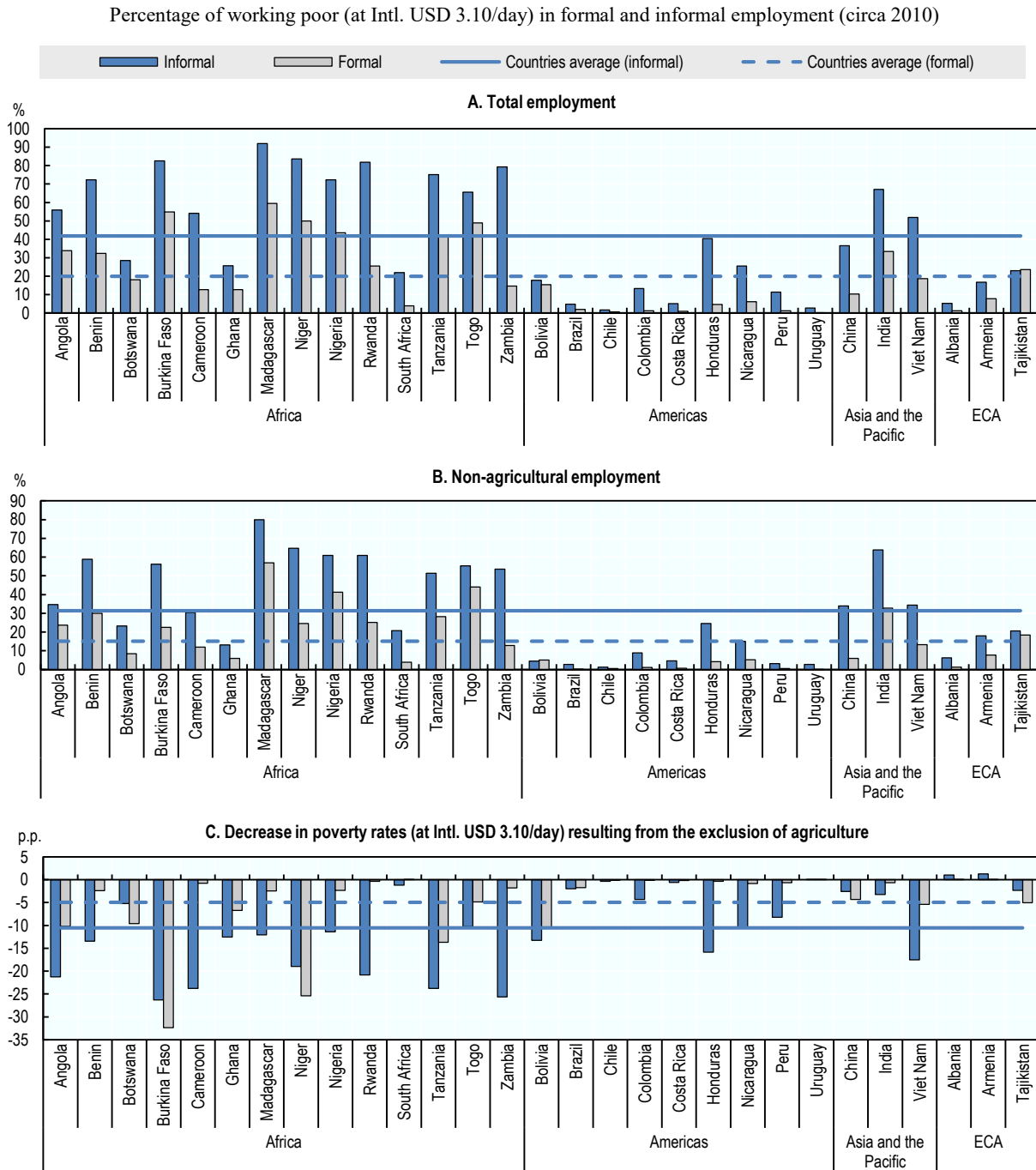
Informal economy workers often face a greater range of risks, which largely reflect their working and living conditions. Assessing these risks is essential to appreciate the high costs to individuals and society of ignoring them, make the case for investing in protection of informal economy workers, and identify appropriate policy responses.

### *In-work poverty risks are particularly high among informal economy workers*

Informal workers are twice as likely as formal workers to belong to poor households. Among the 29 countries for which comparable data are available, using the international poverty line of International USD 3.10 PPP (international United States dollar; purchasing power parity), the share of the working poor stands at about 20% for formal workers and nearly 42% for informal workers on average (Figure 3.1A). There are also large disparities across regions and countries. The Americas and Europe and Central Asia have the lowest in-work poverty rates among informal workers; Africa and Asia have the highest. Rates range from 1.6% in Chile to 92.0% in Madagascar for informal workers, and from 0.1% in Uruguay to 59.5% in Madagascar for formal workers. The gap in rates between formal and informal workers is particularly large in Benin, Cameroon, Madagascar and Zambia, where formal workers are much less likely to belong to poor households.

A high incidence of working poverty among informal workers largely, but not exclusively, captures the importance of low productive agricultural activities in informal employment. Poverty levels excluding agriculture fall to 15.1% in formal employment and 31.3% in informal employment (Figure 3.1B), representing declines of 4.9 and 10.5 percentage points from poverty levels for all employment sectors including agriculture (Figure 3.1C). Notwithstanding high heterogeneity across the countries under study, excluding agriculture almost systematically lowers working poverty levels, especially among informal workers, highlighting the intimate links between agricultural activities, informality and poverty. The percentage point decrease in informal employment poverty rates by excluding agriculture is largest in African countries, such as Rwanda (-20.9), Angola (-21.3), Cameroon (-23.8), the United Republic of Tanzania (-23.8), Zambia (-25.7) and Burkina Faso (-26.3). In Cameroon, Rwanda and Zambia in particular, this is not accompanied by a comparable decrease in formal employment poverty rates, which instead remain fairly unchanged, almost certainly because formal production units in the agriculture sector are uncommon. In fact, agricultural activities in many developing and emerging countries are still, to a large extent, informal and subsistence based.

**Figure 3.1. Informal economy workers face greater in-work poverty risk than formal economy workers**



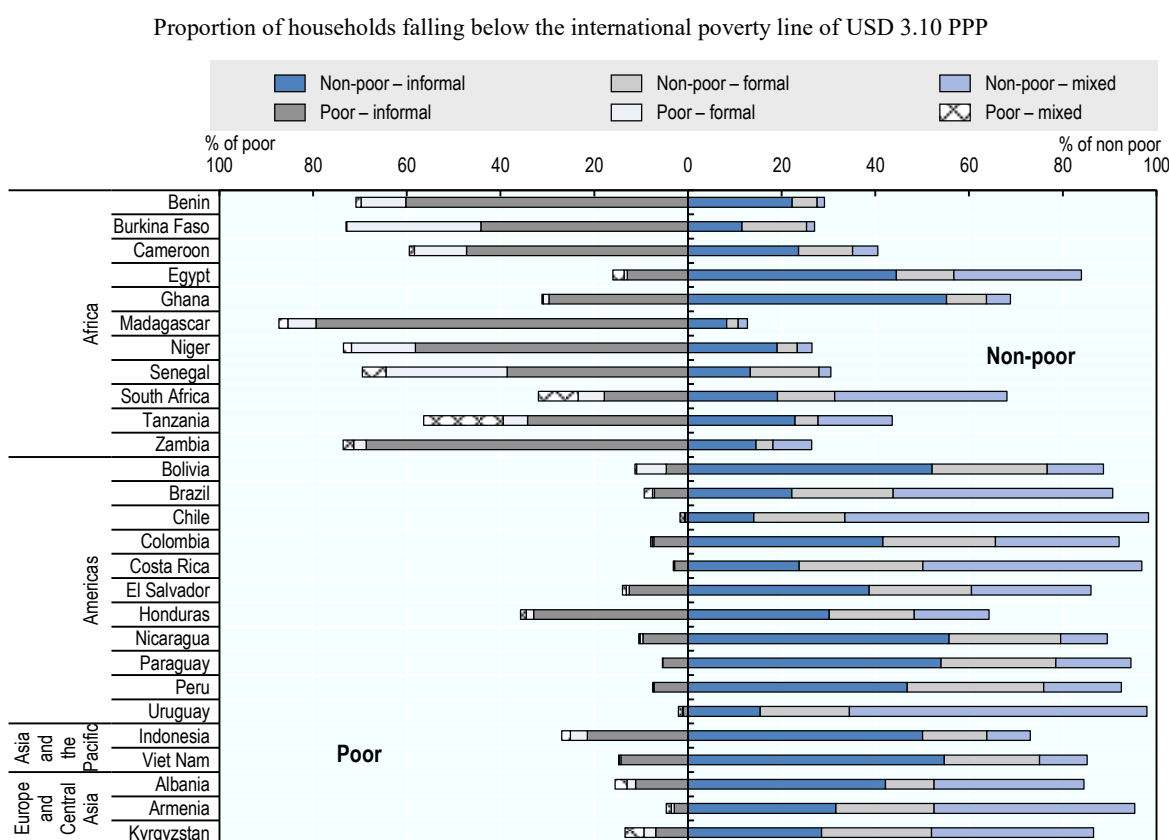
Notes: Poverty rates are measured at the international poverty line of Intl. USD 3.10/day. Averages refer to simple arithmetic (unweighted) mean of all countries displayed.

Source: ILO (2018<sup>[1]</sup>), *Women and men in the informal economy: A statistical picture, 3rd edition*, [https://www.ilo.org/global/publications/books/WCMS\\_626831/lang--en/index.htm](https://www.ilo.org/global/publications/books/WCMS_626831/lang--en/index.htm).

*The higher the degree of informality of households, the higher the incidence of poverty and low income*

Evidence from the OECD Key Indicators of Informality based on Individuals and their Household (KIIBIH) database shows a strong association between the degree of informality of households and incidence of income poverty. There are significant disparities in overall poverty rate across countries when using the Intl. USD 3.10 international poverty line (Figure 3.2): countries in Africa show much higher rates than countries in Latin America and Asia. Overall, poor households are much more likely to be completely informal; non-poor households are much more likely to be mixed (formal and informal workers) or completely formal.

**Figure 3.2. The incidence of household poverty increases with the degree of informality of households**



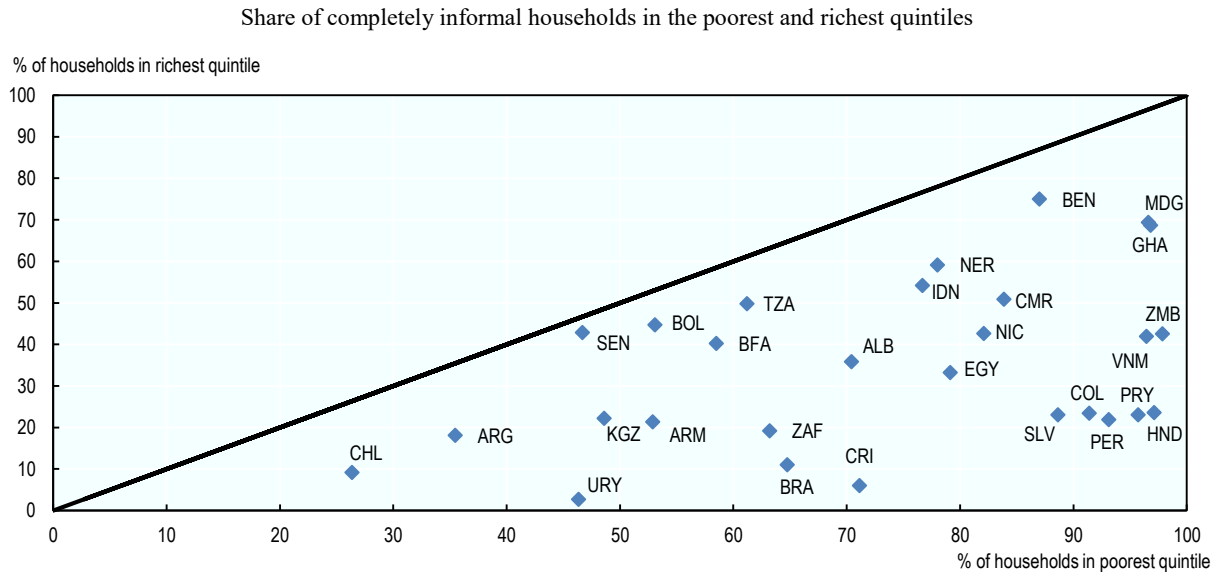
Notes: Includes all sampled households with at least one worker; mixed households have at least two workers. Argentina excluded due to a lack of data.

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

Low-income households also tend to be disproportionately completely informal (Figure 3.3). The share of completely informal households in the poorest and richest quintiles, compared with a perfectly equal distribution of informality across both (the 45° line), also reveals several clusters of countries: 1) countries with low and equal shares of completely informal households in both the poorest and richest quintiles (e.g. Argentina and Chile); 2) countries with large differences in the incidence of informal households, with poorer households more likely to be completely informal than those in the richest

decile (e.g. Brazil, Colombia, Costa Rica, El Salvador, Honduras, Paraguay, Peru); and 3) countries, many in Africa, with a more equal but also much higher proportion of informal households over the income distribution. In most countries, however, informal workers are over-represented in the poorest quintile.

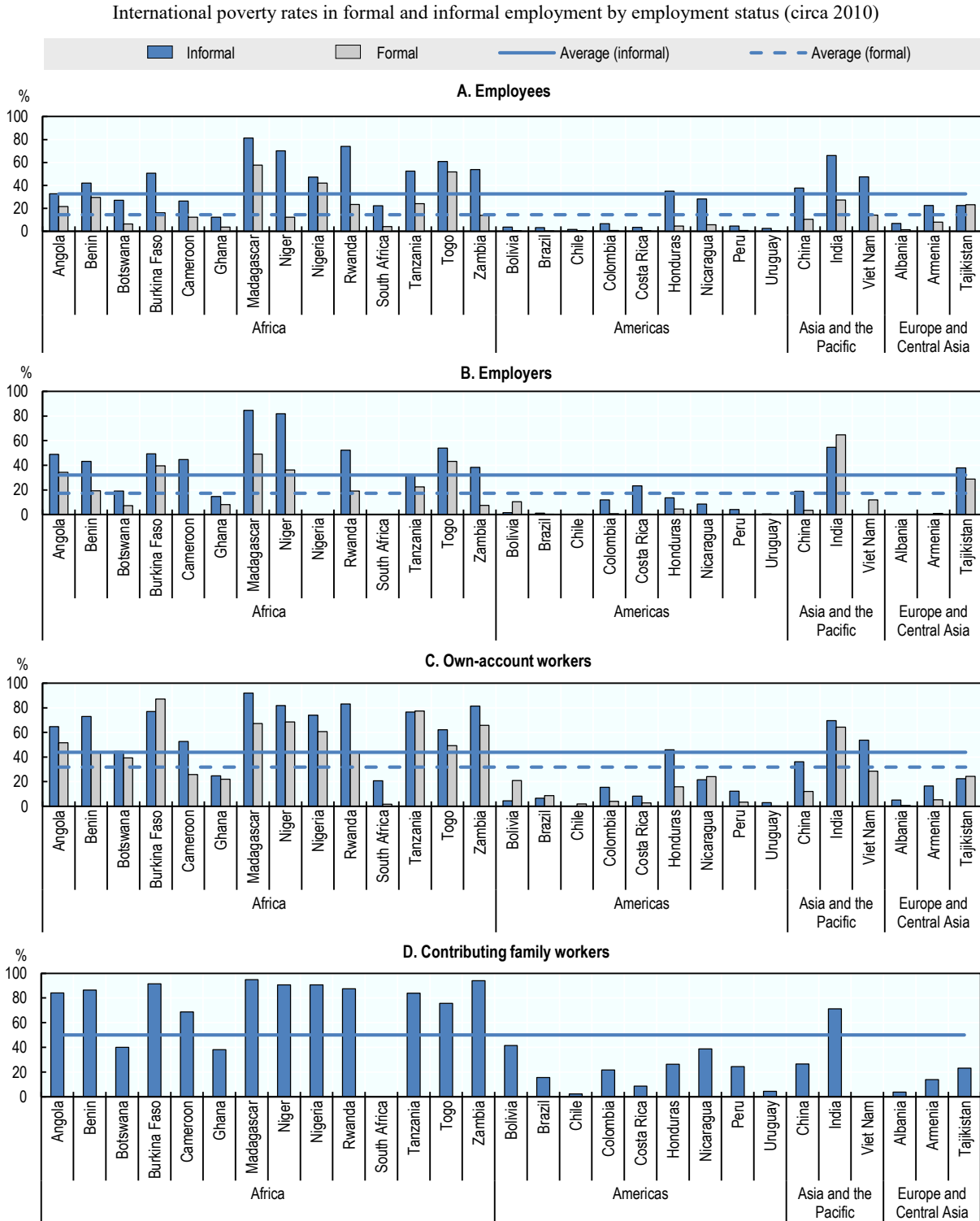
**Figure 3.3. Across countries, a disproportionate share of the poorest households are employed in the informal economy**



*Note:* Quintiles based on overall consumption distribution of all households.  
*Source:* OECD (2019), *Key Indicators of Informality based on Individuals and their Household* (database).

In both the formal and informal economy, employment status is a key factor in workers’ poverty risk. Although poverty systematically affects informal workers more than formal workers in the 29 countries for which comparable data are available, there are large disparities across employment statuses: on average, the poverty risk is around 14% among formal employees, 17% among formal employers, 32% among informal employees, informal employers and formal own-account workers, 44% among informal own-account workers, and as high as 50% among contributing family workers (informal workers by definition) (Figure 3.4A, Figure 3.4B, Figure 3.4C, Figure 3.4D). The risk of poverty for formal own-account workers is similar to that of informal employees/employers on average, suggesting that factors beyond informality, such as employment status, influence poverty status.

**Figure 3.4. There are large disparities in the incidence of poverty across status in employment for both formal and informal economy workers**

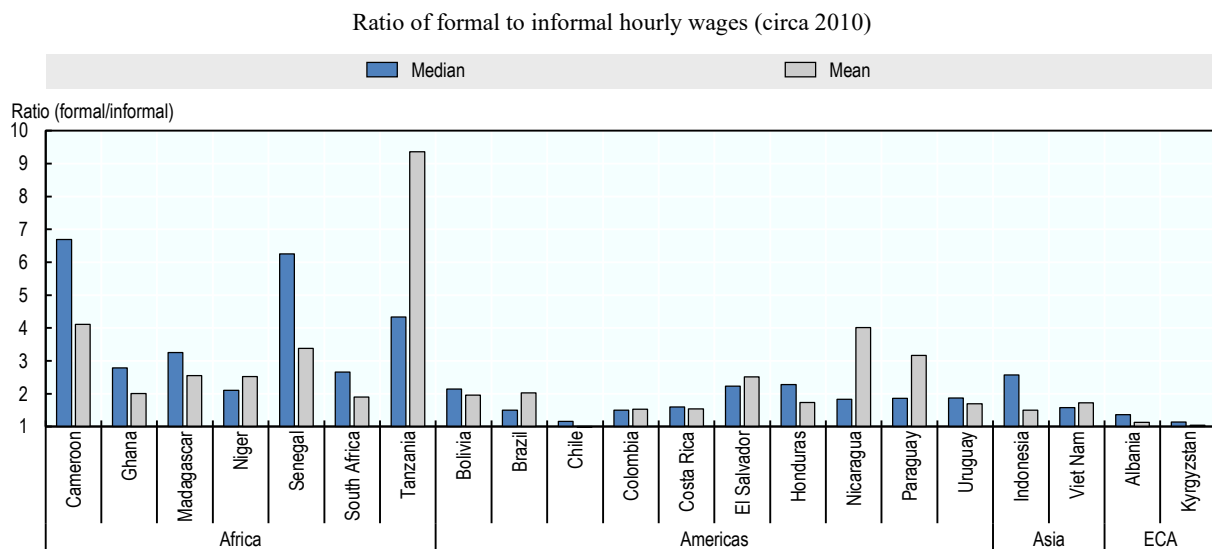


*Notes:* See notes to Figure 3.1. Based on total employment including agriculture. Employment statuses defined according to the “Resolution concerning the international classification of status in employment” adopted by the 15th International Conference of Labour Statisticians (ILO, 1993<sup>[2]</sup>). Contributing family workers, irrespective of whether working in formal or informal sector enterprises, are in informal employment by definition. 3.4B: missing data for Albania, Armenia (informal), Cameroon (formal), Chile (informal), Nicaragua (formal), Nigeria, South Africa and Viet Nam (informal). 3.4C: missing data for Chile (informal). 3.4D: missing data for South Africa and Viet Nam.

*Source:* ILO (2018<sup>[1]</sup>), *Women and men in the informal economy: A statistical picture, 3rd edition*, [https://www.ilo.org/global/publications/books/WCMS\\_626831/lang--en/index.htm](https://www.ilo.org/global/publications/books/WCMS_626831/lang--en/index.htm).

A large informal-formal wage gap among employees helps explain the higher incidence of poverty among informal employees. Globally, employees represent a large share of workers in both the formal and informal economy. On average, across the 25 countries for which data are available, the ratio of formal to informal hourly wages stands at around 51%, indicating a large wage penalty associated with informality (Figure 3.5). Lower education, lower productivity and over-representation in occupations or economic sectors with lower wages are among features that differentiate workers in informal and formal employment. There are also noticeable disparities across countries. The largest wage gaps occur in Africa, ranging from about 11% in Niger to 52% in Madagascar. In other words, on average, informal employees work approximately nine hours to earn what formal employees earn in one hour in Niger and in two hours in Madagascar. The wage gap is much lower in the Americas and Europe and Central Asia, the largest being in Honduras (48%) and Armenia (69%).

**Figure 3.5. Globally, there is a large informal-formal wage gap**

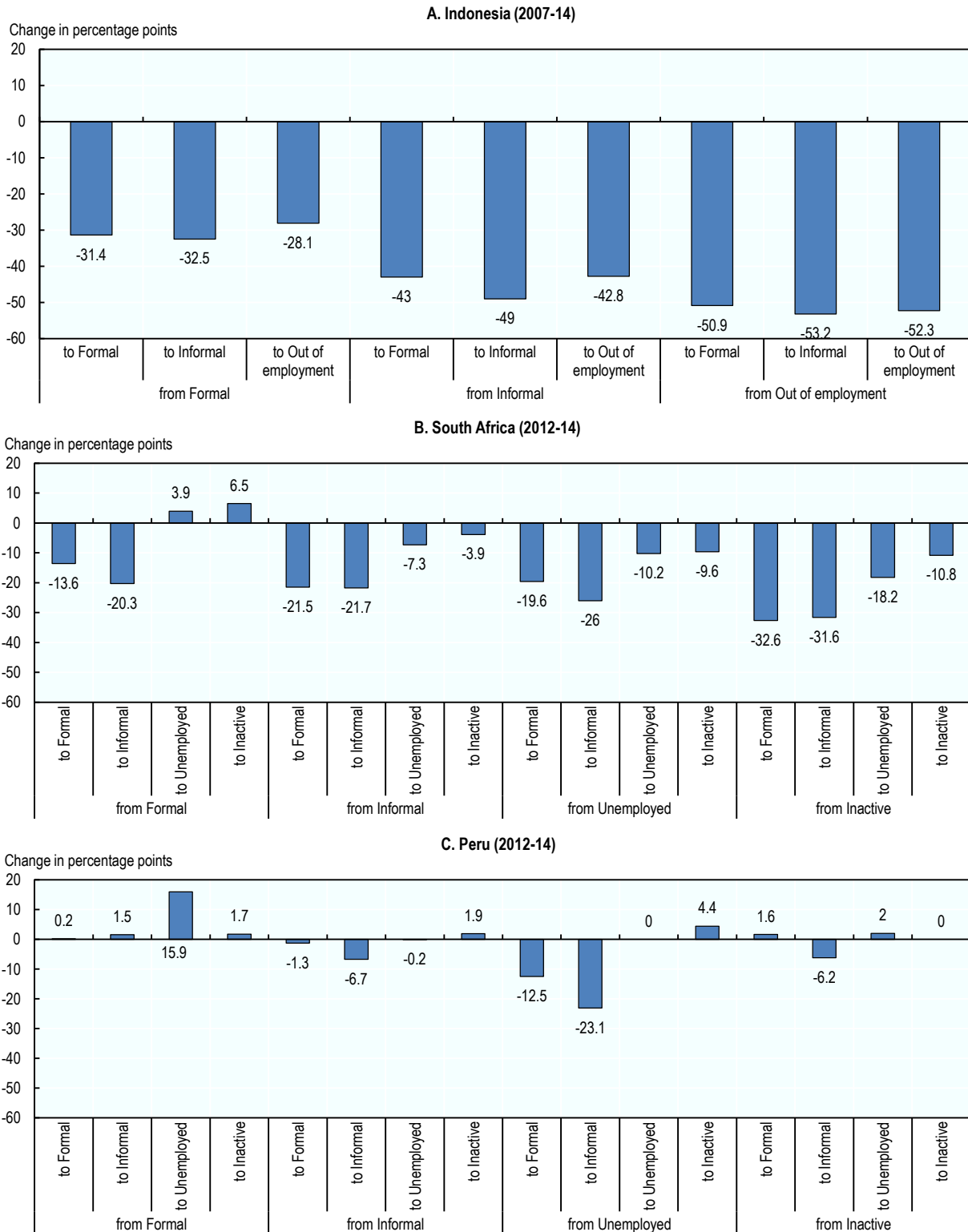


*Notes:* Gross wage gap (as opposed to net wage gap) is reported, but varies depending on country data. Raw wage gap does not remove some major “composition effects” arising from features that may differentiate informal and formal workers. Only wages earned in the main occupation are considered, except for Senegal and South Africa, where hours worked by occupation are not available separately. Averages based on median and mean wages are almost equal (2.7 and 2.5, respectively). Sample excludes Argentina, Armenia, Egypt, Peru, and Zambia due to missing information.

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

**Figure 3.6. There is no simple link between changes in poverty and movements into and out of informality**

Poverty dynamics according to labour market transitions in Indonesia, Peru and South Africa (circa 2010)





*Note:* Poverty rates calculated only for the working-age population (age 15 and over) using the international poverty line of USD 3.10 2011 PPP. In Indonesia, notable gains in overall poverty reduction have been recorded between 2007 and 2014 in both *Budan Pusat Statistik* (Statistics Indonesia) data sources and in the RAND Institute's IFLS longitudinal data (OECD, 2019<sup>[3]</sup>; Statistics Indonesia, 2016<sup>[4]</sup>; RAND Institute, 2015<sup>[5]</sup>).

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

Recent evidence shows that there is no simple link between changes in poverty and movements into and out of informality. Examining how labour market transitions are associated with changes in living conditions is crucial, given the importance of informal economy workers among poor households. Empirical evidence from Indonesia, Peru and South Africa using panel data suggests that there is no simple relationship between poverty dynamics and formalisation, as formalisation does not guarantee faster movement out of poverty. Changes in labour market status between 2007 and 2014 in Indonesia and between 2012 and 2014 in Peru and South Africa show that, although formal jobs are systematically associated with lower poverty levels, getting a formal job is not associated with the strongest reduction in poverty (Figure 3.6A, Figure 3.6B, Figure 3.6C). This suggests that factors beyond level of formalisation influence poverty, e.g. household composition, employment status, sector of activity or access to social protection (Alter Chen, Jhabvala and Lund, 2002<sup>[6]</sup>).

### ***Informal economy workers face high occupational risks***

Poor safety and health working conditions prevail in the informal economy and carry high social and economic costs. Many who work informally, especially but not exclusively those in developing countries, are exposed to OSH risks. According to ILO estimates, 2.78 million people die each year from work-related accidents or diseases, and 317 million sustain occupational injuries, representing an estimated loss of 4% of global GDP (ILO, 2012<sup>[7]</sup>; 2013<sup>[8]</sup>).

Monitoring OSH in developing countries, however, is often a challenge. Public health systems can play an important role in collecting data on the health of both formal and informal workers, as shown by Santana et al. (2016<sup>[9]</sup>) in the case of Brazil. OSH registers are usually absent or incomplete in the informal economy, although it accounts for most workers in developing countries. The knowledge base on OSH outcomes (occupational injuries and illnesses) and causes (unsafe and unhealthy working conditions) is therefore still limited. This fuels a vicious circle whereby lack of reliable OSH data impedes evidencing the magnitude of the problem, which leads to public ignorance, lack of political interest and commitment, low resources allocated to labour inspection and reporting structures and, ultimately, poor access for workers to treatment and compensation, which in turn gives little incentive to report occupational injuries or illnesses (ILO, 2013<sup>[8]</sup>).

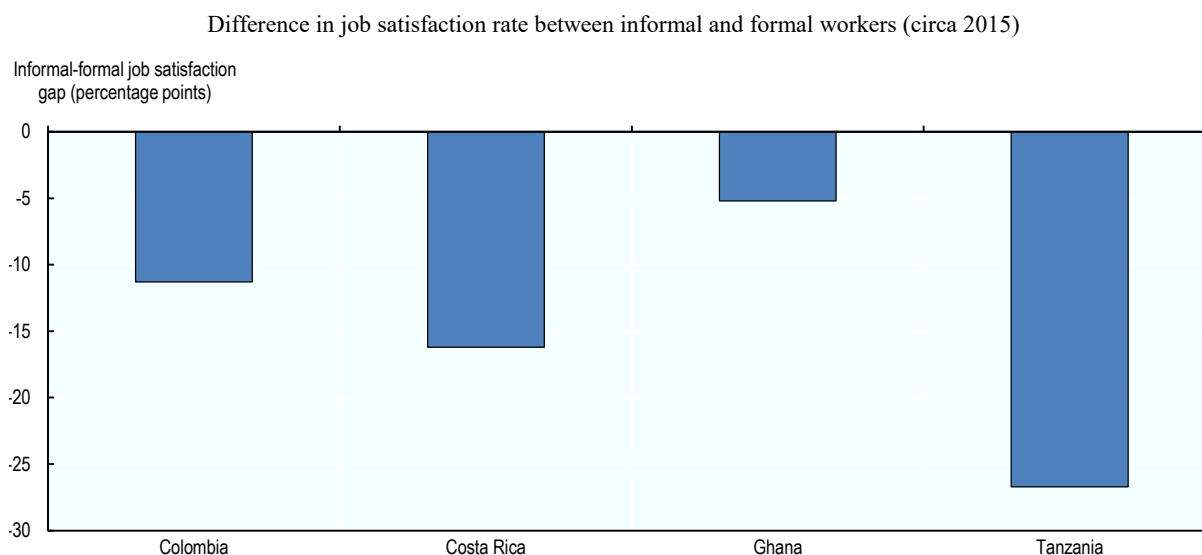
Some information on OSH issues in developing countries, especially in the informal economy, is available from a small number of specific survey data. One important data source is the Working Conditions and Health Survey, first conducted in 2011 in six Central American countries. Surveyed workers are exposed most of the working day to repetitive movements (46.2%), high temperatures (21.2%; a possible risk factor for chronic kidney disease) and noise (20.9%) (Merino-Salazar et al., 2015<sup>[10]</sup>). A significant share of workers also report physical risks related to dangerous tools and machines (18.4%), dangerous stairs, openings and slopes (18.3%), slippery and unstable surfaces (17.4%), humidity (16.2%) and breathing chemical substances (15.5%). The Informal Economy Monitoring Study (IEMS) looks at the working conditions of informal workers

involved in street vending, home-based work and waste picking in ten African, Asian and Latin American cities. OSH issues, such as illness, accidents and exposure to health risks at the workplace, are mentioned in 48% of all IEMS focus group discussions. Home-based workers are the most concerned (58%), and they identify hazardous raw materials and the work process as health risks causing respiratory illnesses, burns and other health impairments (Roever and Rogan, 2016<sup>[11]</sup>). A limited number of developing and emerging countries include as part of their labour force surveys questions about exposure to risks related to the working environment (fumes, dust, high temperature) and to the equipment, tools and products (chemicals, explosives) used to perform their work. In Bangladesh and Uganda, informal workers appear more likely to use dangerous tools or more likely to be exposed to dust, fumes, noise or vibrations (reported by nearly half of workers in informal employment in Uganda, compared with 42.0% of those in formal employment and 35.0% of formal employees; and by 12.6% of informal and 5.9% of formal wage workers in Bangladesh). However, use of chemicals or exposure to other dangerous products is less often reported by informal workers, possibly due to the nature of the acuties and/or to lack of awareness of the danger associated with the products they commonly use.

***Inferior working conditions in the informal economy are reflected in a large informal-formal job satisfaction gap***

Indicators of job satisfaction are increasingly used when assessing vulnerability in employment. Self-reported measures of job satisfaction are closely tied to overall working conditions. Their main advantage is to allow synthesising multi-faceted aspects of the working environment that are often not well reported, especially in the informal economy, where occupational accidents and diseases are hardly registered.

In four countries for which available and comparable information on job satisfaction are available (Colombia, Costa Rica, Ghana and the United Republic of Tanzania), there is an informal-formal job satisfaction gap, ranging from 5.2% in Ghana to 26.7% in the United Republic of Tanzania (Figure 3.7).

**Figure 3.7. There is an informal-formal job satisfaction gap**

*Note:* The job satisfaction gap corresponds to the difference in the job satisfaction rate between informal and formal workers. The job satisfaction rate is defined as the percentage share of workers who self-report being either somewhat or very satisfied with their main occupation (as opposed to being either somewhat or very unsatisfied).

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

An examination of the determinants of the job satisfaction confirms that informal workers systematically show a lower probability of job satisfaction, compared with formal workers. To single out determinants of the gap in job satisfaction between informal and formal economy workers and of job satisfaction within the informal economy, multivariate analysis, controlling for individual, household and job characteristics, as well as country fixed effects, was conducted in five countries.<sup>1</sup>

This result is in line with other studies looking at the informal-formal job satisfaction gap in Bosnia and Herzegovina (Krstic and Sanfey, 2007<sup>[12]</sup>), Colombia (Hurtado, Hessel and Avendano, 2017<sup>[13]</sup>), Mexico (Temkin, 2016<sup>[14]</sup>), Viet Nam (Demenet, Razafindrakoto and Roubaud, 2016<sup>[15]</sup>) and in eighteen Latin American and Caribbean countries (Aguilar, García Muñoz and Moro-Egido, 2013<sup>[16]</sup>). However, it contrasts with other results for Mexico (Rojas, 2013<sup>[17]</sup>) and Ghana (Falco et al., 2015<sup>[18]</sup>) that do not find a robust satisfaction premium for formal employment. Based on Chilean data, Cassar (2010<sup>[19]</sup>) suggests that these differences might be driven by the negative impact of a lack of valuable workplace facilities in comparison with the utility gains experienced by informal workers from being independent. Findings based on data from El Salvador, Guatemala and Honduras also reveal large heterogeneity in workers' valuations, within informal jobs and across formal and informal jobs; low-skilled workers in particular display a higher relative valuation of self-employment (Pagés and Madrigal, 2008<sup>[20]</sup>). In the five countries included in the multivariate analysis, the predicted informal-formal job satisfaction gap is larger for men, low-educated workers and the self-employed.

In terms of determinants of job satisfaction within the informal economy, results of the multivariate analysis confirm the importance of employment status and gender. The predicted probability of job satisfaction is significantly lower for employees and even more so for contributing family workers, compared with other employment statuses. Men

are also less likely than women to be satisfied with their jobs in the informal economy, and this effect appears to be stronger for contributing family workers and own-account workers.

### People dependent on the informal economy are particularly vulnerable

High exposure to risks, combined with lack of access to appropriate risk management instruments, make most informal economy workers and their families particularly vulnerable. Two sets of interrelated factors usually explain the difficulty for informal workers to benefit from prevention and protection measures against general and work-related risks: their largely unorganised and unregulated status and their exclusion from regulations and public policy.

#### *Informal economy workers need strong representation to improve working conditions, earn better wages and upgrade skills*

While both trade unions and employers' organisations face multiple challenges in expanding their membership and offering support to workers and economic units in the informal economy, there is evidence of increasing efforts to this effect. The Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87) and the Right to Organise and Collective Bargaining Convention, 1949 (No. 98) provide that all workers, without distinction whatsoever, enjoy the fundamental rights which flow from freedom of association (Article 2 of Convention No. 87). Informal economy workers therefore have the right to organise and to engage in collective bargaining (where there is an employer), as do employers in the informal economy. They can freely establish or join organisations of their own choosing for the furtherance of their occupational interests and carry out their activities without interference from public authorities. They also have the right to represent their members in tripartite bodies and other social dialogue structures (ILO, 2015<sup>[21]</sup>).

In practice, however, despite progress in recent years, workers and employers in the informal economy are often under-represented in trade unions and employers' organisations. Weak representation and organisation of informal workers and employers is a strong impediment to the advancement of their interests and the resolution of the problems they face (ILO, 2013<sup>[22]</sup>). This is particularly true when it comes to their capacity to negotiate collective agreements around wages and working conditions. In addition, informal economy actors usually lack opportunities to voice their concerns, through social dialogue, directly to policy makers regarding the challenges they face in their daily business operations, with the consequence that formalisation policies may not correspond adequately to their real needs and priorities. However, some trade unions and employers' organisations have extended their services to include informal economy workers, such as the Trade Union Confederation in Ghana and the employers' organisation in Malawi (ILO, forthcoming<sup>[23]</sup>).

Preventive measures to reduce risks at work, in the form of OSH management systems and a general safety culture, often do not reach the informal economy. The necessary awareness, technical means and resources to implement OSH measures are usually lacking. Moreover, small businesses and workers in the informal economy motivated to improve safety and health conditions on their own initiative often lack practical support.

Lower levels of education and poor skills acquisition and development in the informal economy, stemming from lack of technical and vocational education and training (TVET)

opportunities is another factor holding informal workers in a vulnerability trap. Micro and small businesses, which overwhelmingly dominate the informal sector, cannot expect to move from subsistence to productive and profit-generating activities if employees and entrepreneurs are not equipped with opportunities to upgrade their skills and compensate for an overall low level of initial education. However, most of the skills acquired by informal workers come from self-training or informal apprenticeships with, still in many countries, little opportunity for innovation and upgrade, a situation that largely stems from the low availability of and lack of access to formal TVET opportunities (Walther, 2011<sup>[24]</sup>).

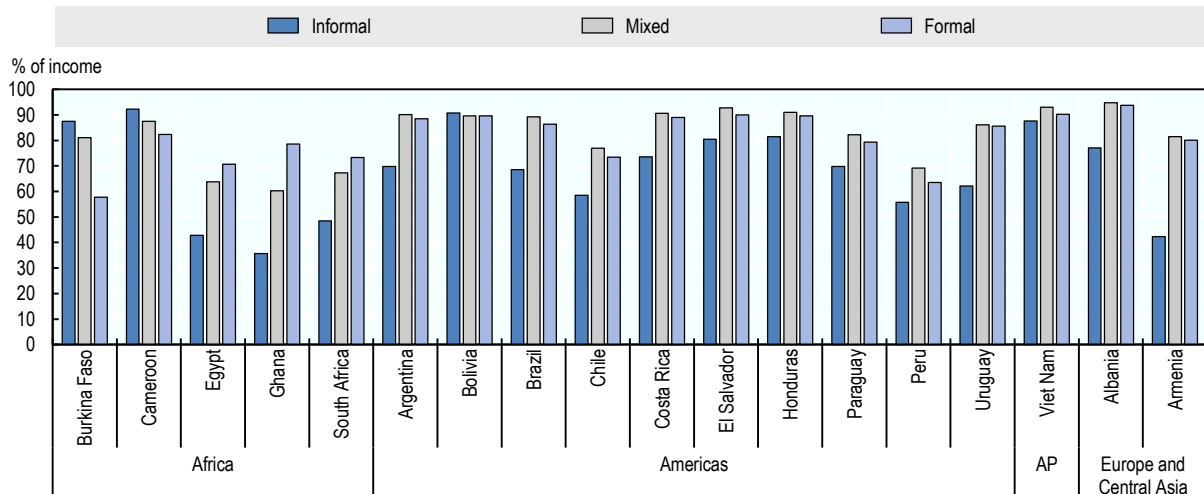
***Absence of adequate social protection arrangements makes informal economy workers and their families particularly vulnerable***

While significant progress has been made worldwide in building social protection systems, many informal workers remain excluded. According to the ILO (2017<sup>[25]</sup>), “[a]t present, most countries have in place social protection systems anchored in national legislation covering all or most policy areas of social protection”. Yet, in many developing countries, large segments of the population are not covered. Despite their greater need for protection, informal workers often fall through the cracks of social protection systems, making many income insecure or vulnerable to income poverty and affecting their families.

One driver of vulnerability among informal workers is lack of access to social protection, making work the only option to survive. The vast majority of informal households rely mostly on labour income for their livelihoods. Around 2015, the average share of labour income in total household income per capita for 19 developing and emerging countries stood at 69% among informal households and 79% among mixed and formal households (Figure 3.8). In 17 of the 19 countries for which data are available, labour income is the main source of household income for households dependent on the informal economy. In only 2 of 16 countries (Armenia and Ghana) is the share of labour income below 50% among informal households. Considering that many informal workers have low job security and are not covered by any kind of unemployment protection or other benefits, they are very vulnerable to income poverty in case of a loss in earnings (income insecurity).

**Figure 3.8. Employment is the main source of income for most households**

Share of income from work as a percentage of household income per capita, by level of informality of households (2015)



Note: AP = Asia and the Pacific. Data refer to 2007 for Cameroon; 2012 for Albania; 2013 for Ghana; 2014 for Armenia, Burkina Faso, Egypt, Honduras and Viet Nam; 2016 for Argentina, Costa Rica, Paraguay, Peru and Uruguay.

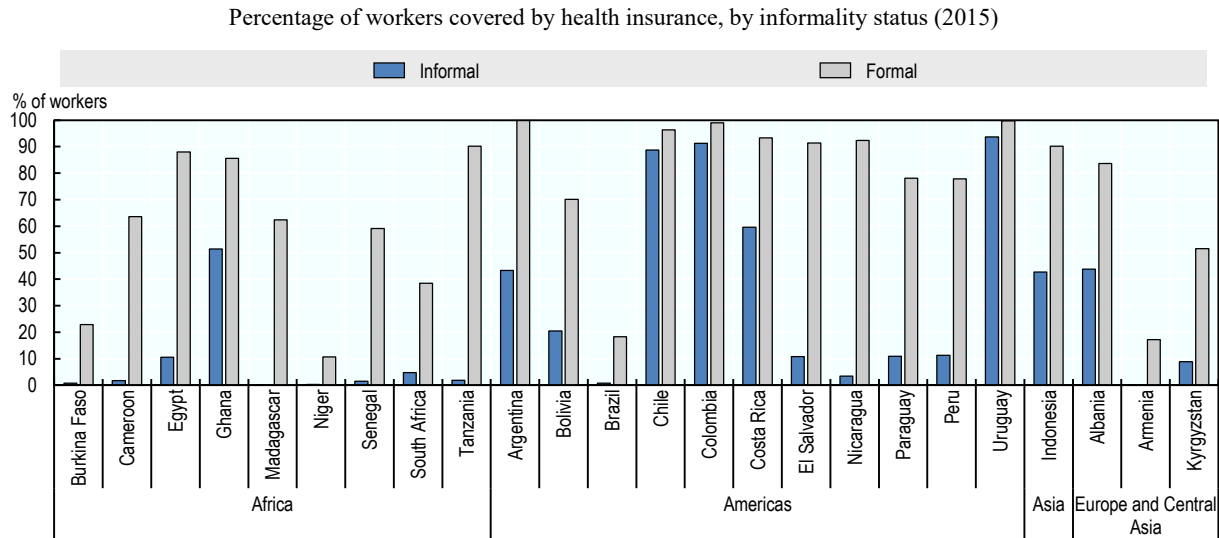
Source: OECD (2019), *Key Indicators of Informality based on Individuals and their Household* (database).

Lack of access to health protection is another driver of income insecurity and vulnerability to income poverty. Throughout the developing world, access to health care is one of the most important social protection areas that informal economy workers search for (ILO, 2017<sub>[25]</sub>). Despite some progress in the development of national health systems, at least half of the world's population still cannot obtain essential health services (WHO/World Bank, 2017<sub>[26]</sub>). People dependent on the informal economy are typically at risk of exclusion, notably because they have greater difficulties paying health insurance contributions or accessing health care.

Data confirm that, on average across 19 developing and emerging countries for which comparable data are available, formal workers enjoy a greater health insurance coverage rate (71%) than informal workers in mixed households (39%) or in completely informal households (33%) (Figure 3.9). The higher coverage of informal workers in mixed households likely reflects coverage through formal workers in the household. Overall results suggest that workers furthest from the formal economy are most at risk of not having access to health insurance. Disparities across countries are also significant: in general, there is high coverage of formal workers in Latin America, low coverage of informal workers in three of nine countries in that region, and particularly low coverage in sub-Saharan Africa.

One hypothesis is that informal workers can access health insurance benefits as dependents of a formal household member subscribed to a plan that allows for the possibility of covering other household members.

**Figure 3.9. Informal workers are much less likely to be covered by health insurance than formal workers**



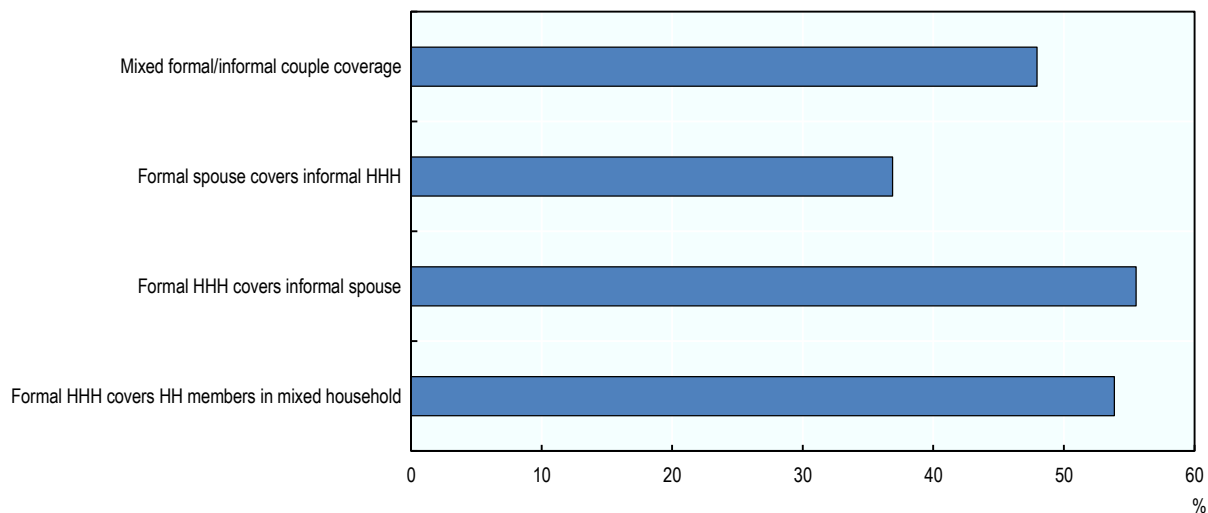
*Notes:* Households with at least one working-age adult. Data refer to 2007 for Cameroon; 2011 for Niger and Senegal; 2012 for Albania; 2013 for Ghana; 2014 for Armenia, Burkina Faso, Honduras, Nicaragua and Viet Nam; 2016 for Argentina, Costa Rica, Paraguay and Uruguay.

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

While it is impossible to distinguish the mechanisms through which informal workers may be covered by health insurance in all countries – that is, whether they subscribe to voluntary health insurance, benefit from a household member’s insurance or benefit from a universal scheme – detailed data from the Indonesia Family Life Survey allow in-depth analysis of health insurance coverage. In particular, it asks in detail about the health insurance respondents are enrolled in and whether it covers their spouse and other household members. Focusing first on formally employed household heads enrolled in employment-based health insurance (PT ASKES for civil servants, retired military and police personnel; ASTEK Jamsostek for private sector workers; or other employer-provided health insurance or clinic), 54% report that their health insurance also covers other household members, and 55% report that it covers their informally employed spouse (Figure 3.10). An informally employed household head covered by a formally employed spouse occurs less frequently: about one-third of cases. Overall, among mixed informal/formal couples, about half of formal workers report that their spouse is covered by their health insurance. Further research could provide more insight into why formal spouses are less likely to cover informal household heads, taking into account potential gender dynamics, as about 83% of household heads in Indonesia are men.

**Figure 3.10. Health insurance coverage of informal workers through formal dependents**

Share of household members covered by health insurance through a formally employed household member (2014)



*Note:* HHH = head of household.

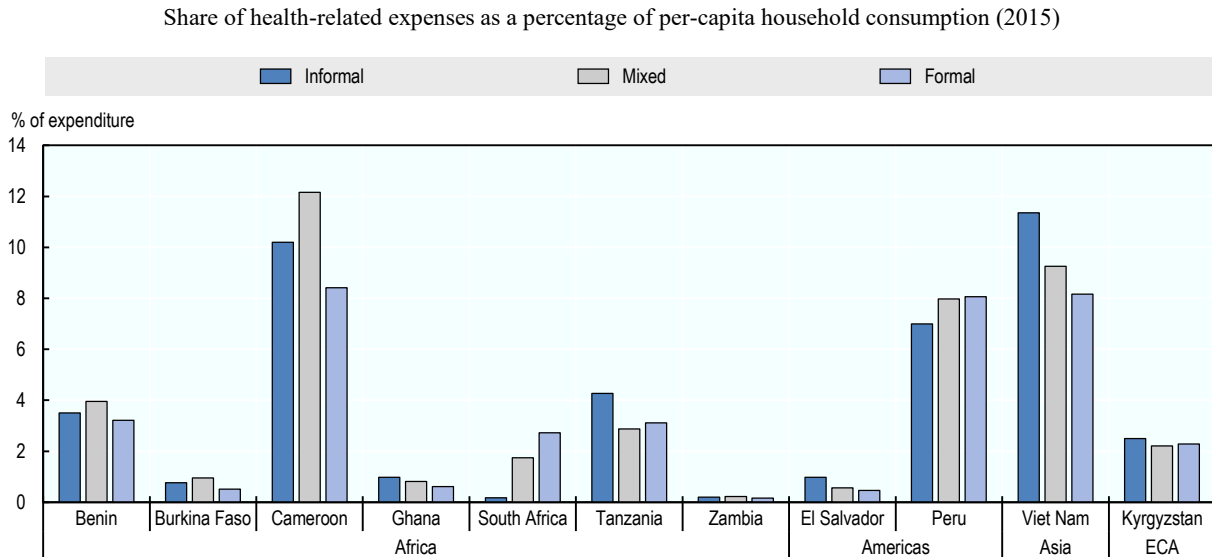
*Source:* Authors' calculations based on RAND Institute (2015<sup>[51]</sup>), Indonesia Family Life Survey 2014/15.

For many households dependent on the informal economy, lack of effective financial health risk protection often results in a significant health expense burden that can lead to substantial financial difficulties, such as reduced ability to pay for other basic needs. The percentage of household expenditure spent on health care is thus an important variable in vulnerability assessments. This figure is used to examine the direct burden of household health expenses on income.

Data on health-related expenses as a share of total household consumption for informal, mixed and formal households in ten developing and emerging countries show a high burden on informal households (Figure 3.11). The burden of health expenses on households is also likely to increase with the number of household members not covered by health insurance. In eight of ten countries (Armenia, Benin, Cameroon, El Salvador, Ghana, Kyrgyzstan, the United Republic of Tanzania and Viet Nam), informal households bear a higher financial burden than formal households. In six countries (Armenia, El Salvador, Ghana, Kyrgyzstan, the United Republic of Tanzania and Viet Nam), informal households also spend more on health than mixed households. In seven countries (Benin, Cameroon, El Salvador, Ghana, Indonesia, Kyrgyzstan and Viet Nam), mixed households bear a higher financial burden than formal households. The data also reveal large disparities across countries in share of health-related expenses among informal households, ranging from 2.5% in Kyrgyzstan to 26.0% in Benin.



**Figure 3.11. In many countries, informality associates with a high burden of health expenses on households**



*Note:* Data refer to 2007 for Cameroon; 2011 for Benin; 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).

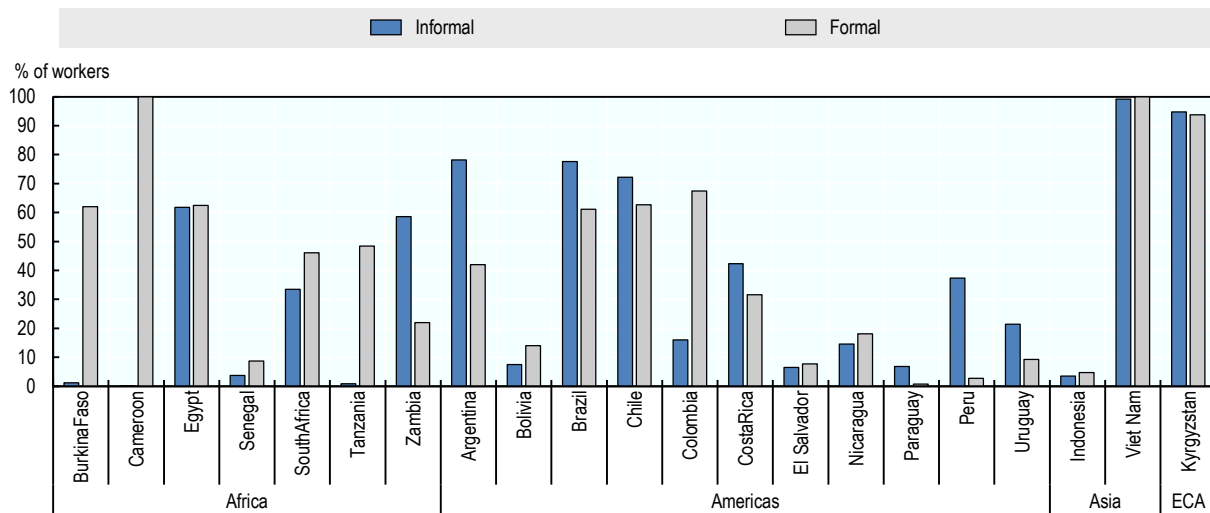
As a result of inadequate pension coverage, many informal workers experience income insecurity or become vulnerable to income poverty in old age. Pensions are essential to ensuring income security after one's working years. The ILO estimates that, worldwide, 68% of individuals over retirement age receive an old-age pension, reflecting a rapid expansion of both contributory and non-contributory, tax-financed social pensions in developing and emerging countries. However, one-third of all individuals over pensionable age do not receive a pension, and benefit levels for many are inadequate (ILO, 2017<sub>[25]</sub>). Informal workers are particularly vulnerable.

There are several reasons for which informal economy workers are disproportionately at risk of income insecurity and have limited options in old age. While old age is far off, the immediate priority tends to go to health care. Lack of familiarity with pension schemes or lack of trust may lead to reluctance to contribute to a retirement benefits scheme that does not meet immediate or priority needs. Existing contributory pension schemes may not be sufficiently adapted to the situation of informal workers. Where non-contributory pension schemes are established to guarantee basic income security, benefit levels may be too low.

In 21 developing and emerging countries, the average proportion of households with at least one member age 65 and over receiving some pension is 51% for informal households, 62% for mixed households and 69% for formal households (Figure 3.12). The distribution of coverage among informal households varies greatly across countries, from below 5% in Burkina Faso, Nicaragua, Niger and Zambia to above 95% in Albania and South Africa, which have large tax-financed schemes that provide a basic level of protection. Disparities across countries are also particularly pronounced in relative terms when comparing the gap in pension coverage within countries between formal and informal households. Burkina Faso, Cameroon, Colombia, and Niger exhibit a large gap, suggesting a strong disadvantage for informal workers relative to formal workers.

**Figure 3.12. Old-age pension coverage is lower among informal households**

Share of households with at least one member age 65 and over declaring pension receipt (circa 2015)



Notes: Pension types vary across surveys and encompass old age, disability and survivor pensions.

Data refer to 2011 for Niger; 2012 for Albania; 2013 for Kyrgyzstan; 2014 for Armenia, Burkina Faso, 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).

## Notes

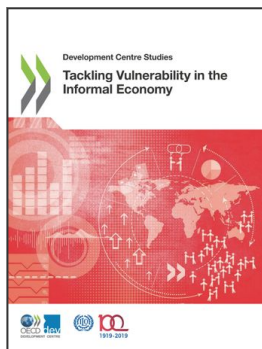
<sup>1</sup> Regression results are not presented, but are available upon request. Determinants analysis was performed using data from Kyrgyzstan, in addition to the other countries. Kyrgyzstan is excluded from Figure 3.7 because the way job satisfaction is measured differs from the other countries: the survey asked workers to self-assess their job satisfaction on a 0-10 scale, where 0 = complete dissatisfaction and 10 = complete satisfaction. Workers with scores less than five are considered unsatisfied with their job. Determinants are estimated using logistic regression econometric models.

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