



# Addressing informality An ILO perspective

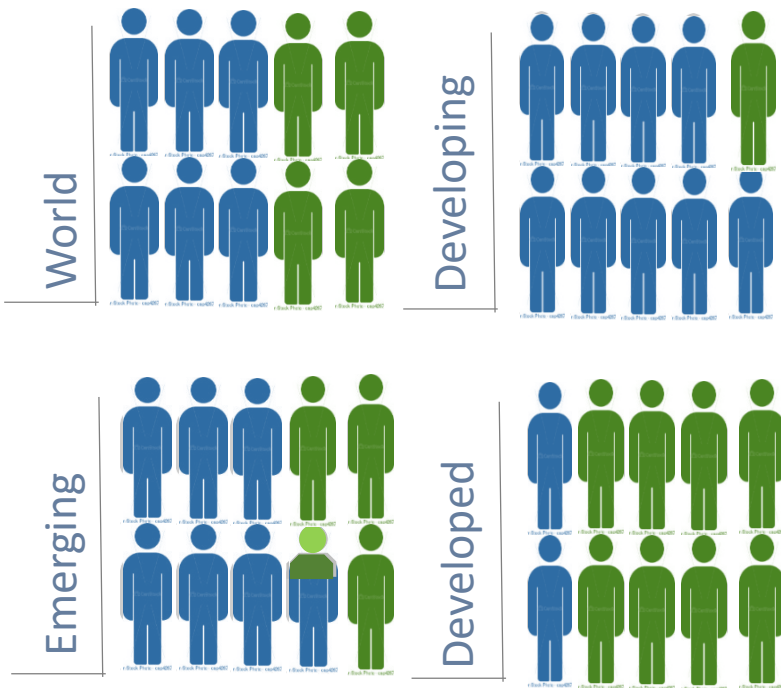
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# 2 billion people – more than 60 per cent of the world's employed population – are in informal employment

 Informal employment

 Formal employment



## Informal jobs

- 6 out of 10 workers globally are in working in the **informal economy**.
- **58%** of employed women, **63%** of men.

## Regional disparities:

- From **89%** in sub-Saharan Africa and **88%** in Southern Asia to **14%** in Northern, Southern and Western Europe

## A majority of independent workers:

- **64%** are non-wage workers: **45%** are **own-account workers** and **16%** **contributing family workers**.
- **Wage workers** represent only **36%** of all informal workers (from 30% in Africa to 56% in Europe and Central Asia)

## Informal economic units



Globally, **8 out of 10** economic units are informal

- **9 out of 10 in Africa**

These informal enterprises provide employment to:

- **85%** of the 2 billion workers in informal employment and to **52%** of global employment

Source: ILO calculations based on household survey micro datasets: *Women and in the informal economy: a statistical picture*

Note: based on 119 countries representing more than 90 per cent of the world's working population. Missing values are estimated based on sub-regional/ income groups averages.

# Multiple drivers of informality

## ▶ Understanding causes of informality necessary to design and implement adequate policy responses

**Broad range of drivers** - embrace but transcend the world of work, including:

- ▶ **Inability of the economy to create enough formal jobs** (e.g. jobless growth, inadequate business environment);
- ▶ **Inadequate or absent regulatory framework** (e.g. exclusion from legal coverage, excessive costs and/or complexity of compliance);
- ▶ **Lack of effectiveness, transparency or accountability of public institutions** (e.g. ineffective social security system);
- ▶ **Lack of recognition of existing property** as well as lack of access to the means to get property rights (e.g. land);
- ▶ **Low productivity** (e.g. inability to overcome costs of formalization);
- ▶ **Low educated and qualified workforce** (e.g. low mobility from informal to formal jobs);
- ▶ **Discrimination** (e.g. exclusion of workers from categories of jobs based on race, gender, age);
- ▶ **Attractiveness of informal activities** (e.g. evasion of tax/contributions, work family balance);
- ▶ **Lack of voice and representation of workers** (e.g. domestic workers, home-based workers).

**Transversal drivers** - influence almost all forms of informality (e.g. inefficient public institutions).

**Specific drivers** - specific to a particular type of economic unit (e.g. micro and small enterprises), group of workers (e.g. domestic workers) or sector (e.g. construction).

# The significance of Recommendation 204 on the transition from the informal to the formal economy

## ► **First international standard to provide a normative framework focusing on the informal economy**

**R204** recognizes that the high incidence of the informal economy

- is a major challenge for the rights of workers and decent working conditions
- has a negative impact on enterprises, public revenues and government's scope of action, soundness of institutions and fair competition in national and international markets

**Three objectives:** 1) Facilitate the transition of workers and economic units from the informal to the formal economy; 2) Promote the creation and sustainability of enterprises and decent work in the formal economy; 3) Prevent the informalisation of formal jobs

Some of its **guiding principles:**

- the necessity to address the diversity of characteristics of workers and economic units in the informal economy with tailored approaches;
- the specific national circumstances, legislation, policies, practices and priorities for the transition to the formal economy;
- the preservation and expansion, during the transition, of the entrepreneurial potential, dynamism, skills and innovative capacities;
- the need for a balanced approach combining incentives with compliance.

# A broad diversity of possible interventions across a large range of policy areas

▶ Heterogeneity of informal economy & multiple drivers → broad range of policies influence formalization/informalisation.

- ▶ **Policies that affect the economic environment:** Macroeconomic, trade, industrial, tax, sectoral and infrastructure policies aiming to promote employment, enhance productivity and facilitate structural transformations, etc.
- ▶ **Policies that affect transversal drivers** such as those to tackle weak social security systems, weak labour market institutions, lack of access to finance, to education, to skills, to infrastructures, etc.
- ▶ **Policies that target specific categories** of economic units (e.g. MSEs), groups of workers (e.g. domestic work), type of informality (e.g. undeclared work in formal enterprises).

In addition:

**Combine interventions** to increase: 1) the ability of the economy to absorb the informal and 2) the ability of individuals and economic units to enter the formal economy.

Formalization goes **beyond legal issues** (e.g. productivity growth).

**Integrated approaches work best!!**

# Recommendations for strengthening the resilience of those operating in the informal economy in the context of the COVID-19 Crisis

The COVID-19 crisis laid bare the vulnerabilities of the millions who earn a livelihood in the informal economy. ILO estimated that **relative poverty increased by a third among informal economy workers in 2020**.

- ▶ Ensure that responses to mitigate the health and economic impact of the crisis and measures for an inclusive recovery (1) **do not bypass enterprises and workers in the informal economy** and (2) **prevent informalization of the formal economy**.
- ▶ In the mid-term, and building on the crisis' responses when appropriate, **foster the transition from the informal to the formal economy**. Such transition is a condition, not only to reduce vulnerability in a sustainable manner, but also to achieve inclusive development and realize decent work for all. Recommendation 204 remains a relevant tool in that regard.

▶ **Thank you for your attention**