

# 2 Portraits of informality

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This chapter presents the informality profile of people across countries and regions in 2019 on a global basis and for selected countries, as well as the latest trends covering the COVID-19 pandemic period. It relies on International Labour Organization (ILO) individual-based data on informal employment for 147 developing, emerging and developed economies, and the Organisation for Economic Co-operation and Development's (OECD) Key Indicators of Informality based on Individuals and their Household (KIbIH) database, available for 43 developing and emerging economies. Both refer to the ILO's definition of informal employment. The resulting comprehensive portrait of informally employed individuals and their dependents shows distinct patterns that policy makers must take into account in order to effectively tackle the challenge of vulnerability in the informal economy.

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Today, the informal economy absorbs six out of ten workers and eight out of every ten economic units in the world. Informal economy workers and economic units were the most affected by measures imposed to contain the spread of the virus during the coronavirus disease (COVID-19) crisis. This disproportionate impact on the informal economy led, in the second quarter of 2020, to a one-off “formalisation” of the labour market in many countries, which was in fact associated with the destruction of informal jobs rather than with their formalisation. Today, challenges faced by informal workers before the COVID-19 pandemic-induced crisis remain, but the COVID-19 crisis and the spectrum of overlapping crises and potential future shocks have given a new sense of urgency to the formalisation agenda, given the benefits that formality can bring to workers, sustainable enterprises and societies.

## Informality is a widespread, multidimensional and persistent phenomenon

Informality is a widespread, multidimensional and persistent phenomenon. It also has multiple (interrelated) dimensions with regard to jobs, enterprises, and its contribution to the economy. Contrary to expectations however, it has not disappeared over time, or significantly diminished with economic growth alone.<sup>1</sup> In 2019, prior to the COVID-19 pandemic, nearly 2 billion people were working in the informal economy, representing 58% of the world’s employed population and 50% of the world’s employed population excluding those working in agriculture (ILO, 1993<sup>[1]</sup>; ILO, 2003<sup>[2]</sup>; ILO, 2023<sup>[3]</sup>).<sup>2</sup> Globally, more than 80% of enterprises operate in the informal economy and it is estimated that informal gross domestic product (GDP) fluctuates between 15% and 35% of total GDP, depending on the region (Deléchat and Medina, 2021<sup>[4]</sup>; World Bank Group, 2021<sup>[5]</sup>).

The COVID-19 crisis has merely heightened the relevance of informality, as many countries are still reeling from its economic and social effects. Supply shocks, induced by disruptions to supply chains, ongoing geopolitical tensions, and more frequent natural disasters, have contributed to rising inflation and uncertainty globally. Workers in the informal economy, those at the lower end of income distribution, in insecure forms of work have been among the hardest hit due to the volatility of their employment and labour incomes and their lack of, or inadequate, access to social protection.

This chapter focuses on the informality of jobs. It discusses how the structural factors that define a country’s labour market, such as the composition of employment, influence both the level and profile of informality in each country, at the national level. It then focuses on the characteristics of individual jobs that are highly correlated with informality, such as a non-standard employment. It also considers characteristics of individuals, such as age and gender, that can further increase the likelihood of informal employment. Finally, it considers the impact of the COVID-19 crisis, where data permit, across all of these dimensions and it sets the scene for emerging challenges discussed in subsequent chapters.

In particular, while traditional forms of informal jobs persist, changes in the organisation of work and production, such as the development of the platform economy (Chapter 5), “fissuring” and the creation of increasingly elaborate (and often cross-border) supply chains (Chapter 4); increases in non-standard forms of employment, such as on-call and casual work, result in growing forms of employment associated with a high risk of informality.

### Box 2.1. Differentiating between the informal economy and informal employment

The informal economy refers to all economic activities, excluding illicit activities, by workers and economic units that are, in law or in practice, not covered or insufficiently covered by formal arrangements (ILO, 2015<sup>[6]</sup>).

The definition of informal employment used in the report differentiates between three groups of workers: (i) employees, (ii) employers and own-account workers, and (iii) contributing family members.

- i) Employees are considered to have informal jobs if their employment relationship is, in law or in practice, not subject to national labour legislation, income taxation, social protection or entitlement to certain employment benefits (advance notice of dismissal, severance pay, paid annual or sick leave, etc.). In statistical terms, employees are considered informally employed if their employer does not contribute to social security on their behalf or, in the case of a missing answer, if they do not benefit from paid annual leave or sick leave.
- ii) Employers (with hired workers) and own-account workers (without hired workers) are considered informally employed if they run an economic unit in the informal sector (a non-incorporated private enterprise without a formal bookkeeping system or not registered with relevant national authorities). In the case of the question not asked or a missing answer, the enterprise is considered part of the informal sector if there is no fixed place of work or it employs five employees or fewer. This threshold can vary, depending on the reporting structure of country questionnaires.
- iii) Contributing family workers are informally employed by definition, regardless of whether they work in formal or informal sector enterprises.

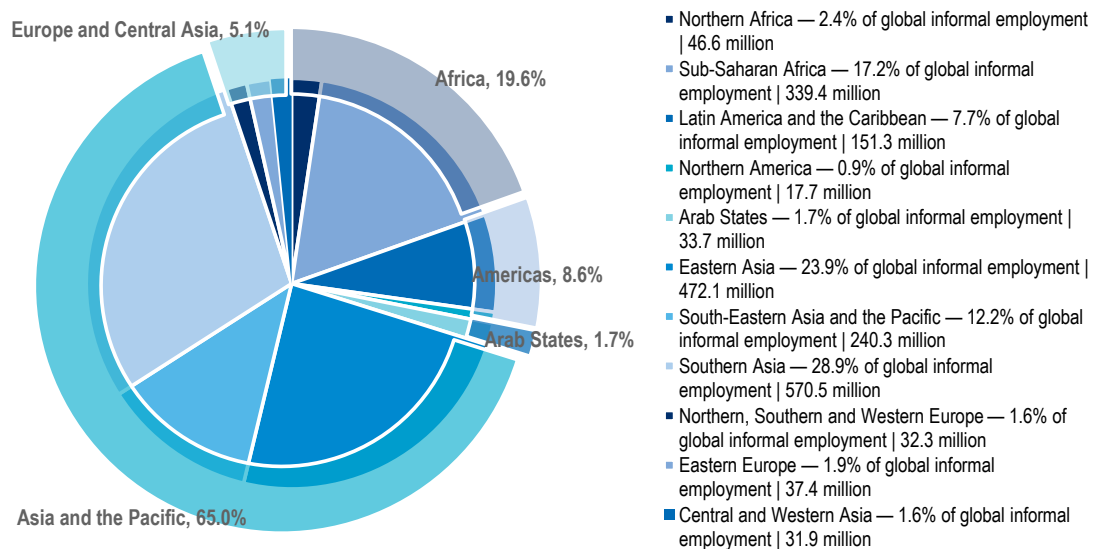
Estimates of informal employment presented in this report follow the Resolution concerning statistics of employment in the informal sector (ILO, 1993<sup>[1]</sup>) and the Guidelines concerning a statistical definition of informal employment (ILO, 2003<sup>[2]</sup>). Some adjustments to the definition of informal employment are currently being discussed for adoption during the next International Conference of Labour Statisticians (ICLS) in 2023. The revised definition will take into account the introduction of the broad concept of work and the more restricted definition of employment in the 19th ICLS resolution (ILO, 2013<sup>[7]</sup>). In addition, it will consider the different categories of status in employment, as defined by the International Classification of Status in Employment (ICSE-18) (ILO, 2018<sup>[8]</sup>) such as the new category: dependent contractors.

## Informality is strongly linked to the degree of economic and institutional development

The informal economy is strongly linked to the degree of economic and institutional development as well as the structure of the economy and the labour market. As a result, while the informal economy exists everywhere, it is more prevalent in low-income countries where it constitutes 89.0% of total employment, compared to 81.6% in lower-middle-income countries, 49.7% in upper-middle-income countries and 15.9% in high-income countries. From the perspective of many who work in the informal economy, informality is first and foremost a means to survive – often the only solution to earn a living. Within this context, the vast majority (65.0%) of workers in informal employment live and work in Asia and Pacific, largely on account of the People's Republic of China (hereafter: China) and India (Figure 2.1). One in five informal workers work in Africa; it is followed by the Americas (8.6%, including 7.7% in Latin America and the Caribbean), Europe and Central Asia (5.1%) and the Arab States (1.7%). Sub-Saharan Africa, Southern Asia and

South-Eastern Asia and Pacific are the three sub-regions in which informal workers are over-represented when figures are compared to the distribution of global employment.

Figure 2.1. Distribution of global informal employment by sub-region, 2019



Source: (ILO, 2023<sup>[3]</sup>).

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The percentage of informal employment is highest in Africa, but with significant differences between countries in the region. While about 84.3% of workers in Africa rely on the informal economy (Figure 2.2), the share of informal employment across countries in the region ranges from 15.1% in Seychelles to more than 90% in two out of five African countries for which data are available. Southern Africa has a lower level of informality (44.0%) due to a combination of relatively higher levels of socio-economic development, higher proportions of wage employment in total employment, lower employment-to-population ratios, and above-average shares of social protection expenditure as a percentage of gross domestic product (GDP) (ILO, 2021<sup>[9]</sup>).

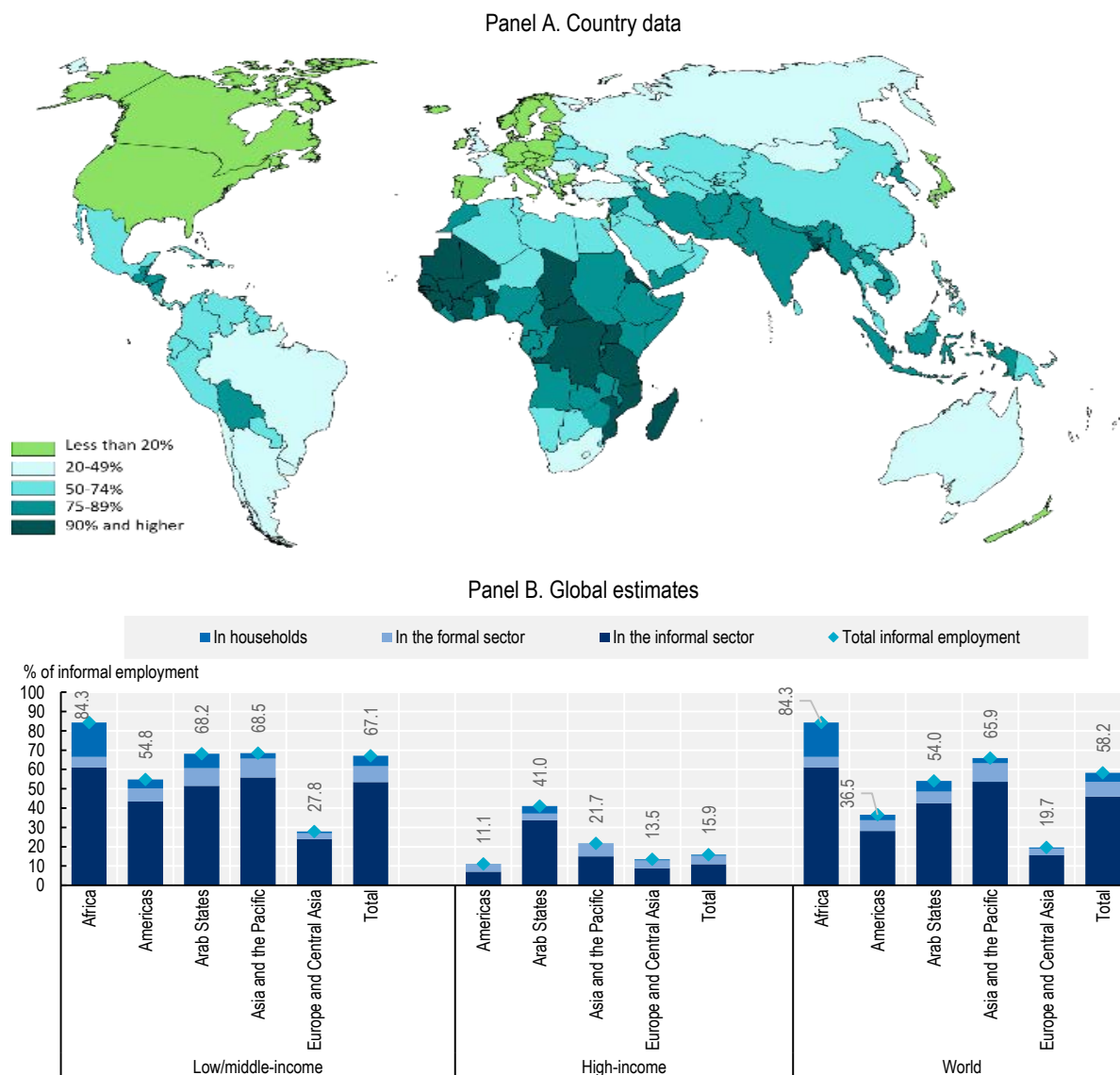
In Asia and Pacific where 65.9% of workers are in informal employment, similar variations emerge within the region. The rate of informal employment ranges from less than 20% in developed countries in the region, such as Australia or Japan, to close to 90% or more in Cambodia, India, Lao People's Democratic Republic and Bangladesh. The Arab States have the third-highest level of informal employment (54%), followed by the Americas (9.8% in Northern America and 53.6% in Latin America and the Caribbean). In the Americas, there is also significant variation across the region, ranging from 24.5% in Uruguay to between 30% and 40% in Costa Rica and Chile, close to 80% in Guatemala and above 80.0% in the Plurinational State of Bolivia, Honduras and Nicaragua. In Europe and Central Asia, informal employment constitutes about 19.7% of total employment: 13.5% in high-income countries and 27.8% in middle-income countries. In Albania, Armenia, Kyrgyzstan and Tajikistan, at least one-half of workers hold informal jobs.

Since 2005, among countries for which data are available and recognising the possible bias associated with this subgroup, the majority show a decline in informal employment, as a share of total employment (Figure 2.3).

Several countries in Latin America, Europe and Asia are representative of this trend, often as a result of a combination of institutional policies and changes in economic structure (Chacaltana and Leung, 2020<sup>[10]</sup>). In contrast, informality and notably, informal employment, has remained at consistently high levels in a number of countries (Figure 2.3, Panel A) and is even increasing in others (Figure 2.3, Panel B).

**Figure 2.2. Informal employment dominates in the Global South**

Share of informal employment in total employment including agriculture (2019)



Note: A common set of operational criteria is systematically used to identify workers in informal employment and those employed in the informal sector. Own-account workers and employers are in informal employment if they run informal sector economic units (non-incorporated private enterprises without formal bookkeeping systems or not registered with relevant national authorities). Employees are in informal employment if their employer does not contribute to social security on their behalf or, in the case of missing answer to the question in the household survey that the employer does not contribute, if they do not benefit from paid annual leave and paid sick leave. Contributing family workers are in informal employment by definition (ILO, 2003<sup>[2]</sup>; ILO, 2018<sup>[11]</sup>).  
Source: (ILO, 2023<sup>[3]</sup>).

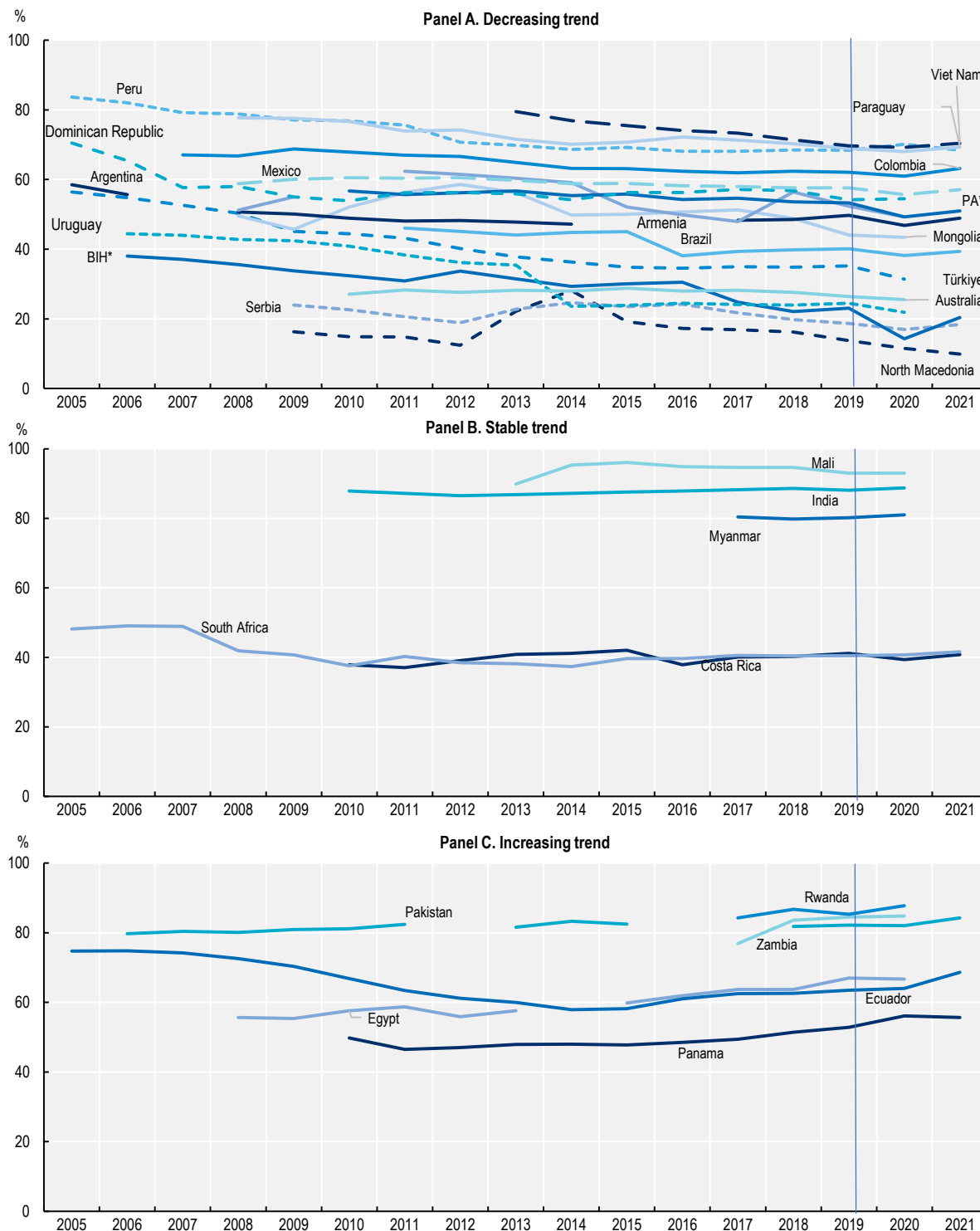
The COVID-19 crisis dramatically changed the traditional role played by the informal economy during crises. In the early stages of the pandemic-induced crisis, in countries with large informal economies, informal employment did not play its traditional countercyclical role of absorbing displaced workers from the formal economy. In many such countries, informal workers were more likely than formal workers to lose their jobs or be forced into inactivity for several reasons: widespread informality pervaded in sectors heavily affected by lockdown and containment measures; the possibility of telework was limited; the relative ease of terminating informal employment relationships; and a higher incidence of informal workers in smaller enterprises, which struggled to survive longer periods of inactivity and had less (or no) access to support measures, including worker retention schemes (ILO, 2020<sup>[12]</sup>; ILO, 2020<sup>[13]</sup>; ILO, 2022<sup>[14]</sup>).

According to the available data, the number of informal jobs dropped by 20% at the height of the crisis, about twice the rate of that for workers in formal employment (Figure 2.4) (ILO, 2020<sup>[13]</sup>). The decline of informal employment, as a share of total employment, led, in the second quarter of 2020, to a one-off formalisation of the labour market in many countries associated with the destruction of informal jobs rather than their formalisation. After the initial losses, informal employment recovered faster than formal employment, especially towards the end of 2021. By the last quarter of 2021, the recovery in informal employment had overtaken that of formal employment.

Three transitions underpinned the growth of informal employment in 2021. First, many informal workers returned to their economic activities. Second, new entrants, previously outside the labour force, entered informal employment, often as casual workers, own-account workers or unpaid family workers, to offset losses in household income. Third, it is possible that some previously formal jobs became informal. In the absence of formal employment opportunities, formal wage earners or formal business owners sought any opportunity to earn income, including in the informal economy. A complete understanding of this trend remains underway, but evidence of its importance has already emerged in some sectors such as construction, the wholesale and retail trade and food and accommodation activities (ILO, 2020<sup>[12]</sup>). High and persistent levels of uncertainty have not been conducive to investment or sustainable hiring in the formal economy. This lack of sufficient formal job opportunities presents a serious challenge for any hope of an inclusive recovery from the COVID-19 crisis.

**Figure 2.3. Trends in informality in selected countries**

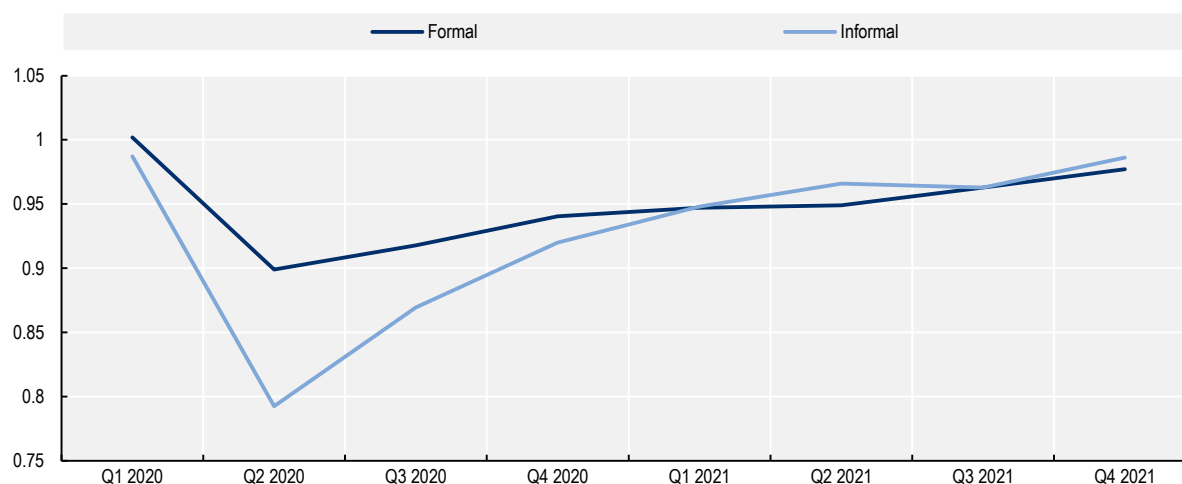
Share of informal employment in total employment, including agriculture



Note: See note under Figure 2.2, Panel A. \*PA: Palestinian Authority. \*BIH: Bosnia and Herzegovina.  
 Source: (ILO, 2023<sub>[3]</sub>).

**Figure 2.4. Evolution of informal and formal employment (adjusted for population aged 15-64)**

Reference quarters in 2019 = 1



Note: Estimates based on trends in the number of formal and informal jobs in Argentina, Bolivia (Plurinational State of), Brazil, Chile, Costa Rica, Dominican Republic, Ecuador, Guyana, North Macedonia, Mexico, Palestinian Authority, Peru, Paraguay, Saint Lucia, South Africa, Uruguay and Viet Nam. See individual country results in (ILO, 2020<sup>[12]</sup>). *A review of country data. Impact of the Covid-19 pandemic on informality: Has informal employment increased or decreased?* Missing observations are imputed using time-fixed effects in a panel regression of countries without missing observations.

Source: Author's computations.

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Looking at the countries for which data are available for the period 2020-21, it is still too early to observe a clear trend towards formalisation or informalisation of the labour market (represented by an overall decrease or increase in the share of informal employment) and even less of informalisation of former formal jobs (indicated by the transition of formal jobs to informal jobs, as analysed from panel data). Nevertheless, based on the number of formal and informal jobs in 2021, relative to their levels in 2019, three types of countries emerge.

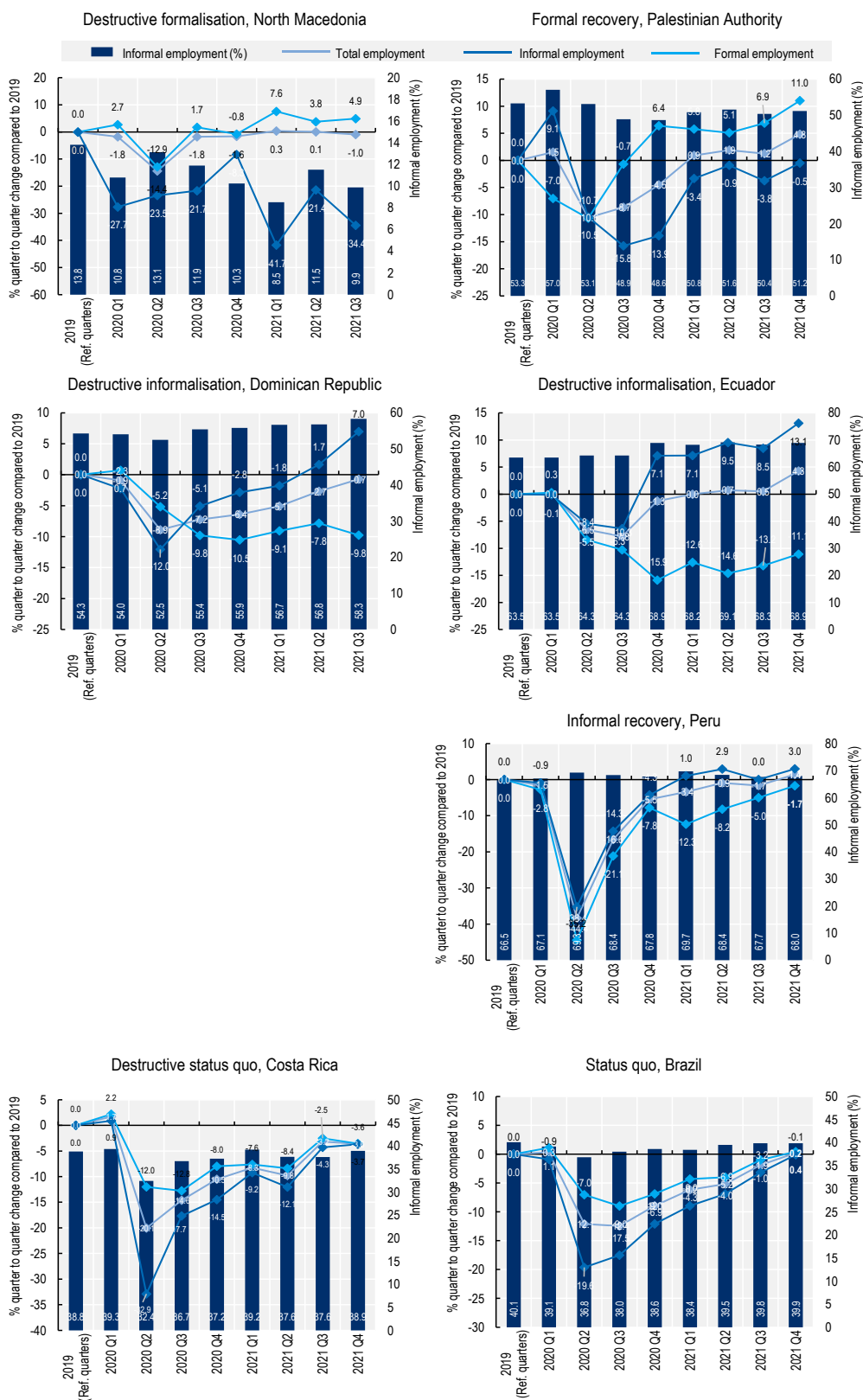
In one set of countries the labour market formalised. Formalisation occurred through different pathways. In one subset of countries (for example, North Macedonia, Uruguay, and Viet Nam), formalisation occurred through a decline in total employment, with the significant decrease in informal jobs not fully compensated by the recovery in formal jobs (destructive formalisation) (Figure 2.5). By contrast, in Chile and the Palestinian Authority, the labour market formalised as total employment exceeded 2019 levels. In these countries, formalisation occurred as informal job losses were offset by growth in formal jobs (formal recovery).

In another group of countries, the labour market informalised. Total employment nearly recovered to 2019 levels in the Dominican Republic and exceeded the 2019 level in Ecuador and Peru. In all three countries, informalisation occurred as informal employment growth exceeded formal employment growth (informal recovery). However, in the Dominican Republic and Ecuador, by 2021, the number of informal jobs had grown to exceed informal employment levels in 2019. Meanwhile, formal jobs remained well below 2019 levels, with no indication of any sign of recovery (destructive informalisation). By contrast, in Peru,<sup>3</sup> by the end of 2021, while the number of informal jobs was slightly higher than in 2019, formal employment was both close to previous levels and growing (informal recovery).

In a third group of countries, the share of informal employment in total employment in 2021 remained the same as in 2019. In Costa Rica, while total employment declined, losses in formal and informal jobs were similar (destructive status quo). By contrast, in Argentina, Brazil, Mexico and Paraguay, total employment recovered to 2019 levels, with a concomitant recovery in both informal and formal jobs (status quo).




Figure 2.5. Formalisation or informalisation of the labour market during the COVID-19 crisis in selected countries



Note: Countries in which overall employment growth is negative are shown on the left-hand side of each panel. Countries in which overall employment growth is positive are shown on the right-hand side of each panel.

Source: (ILO, 2020<sub>[12]</sub>).

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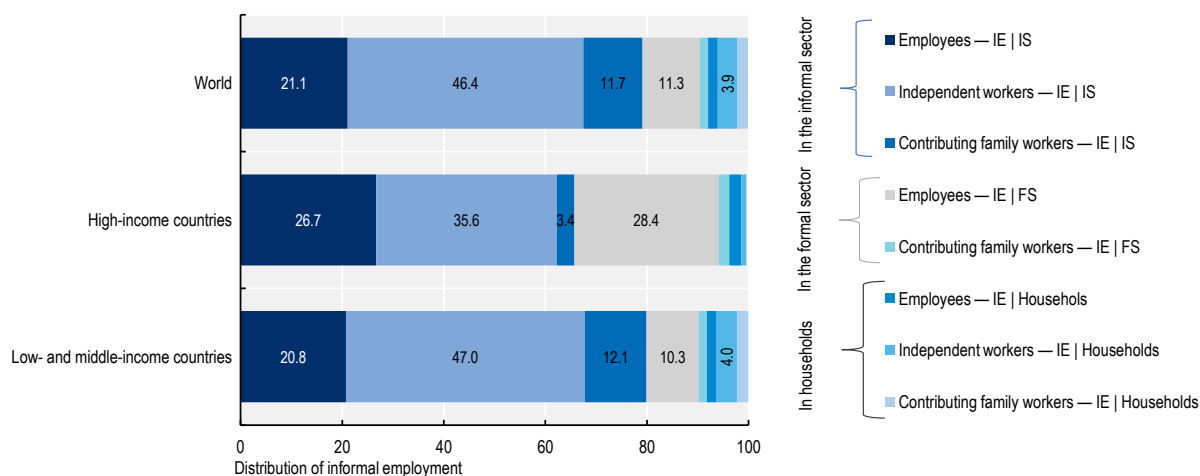
## Informality encompasses a variety of forms across and within economies

From street vendors to undeclared workers in formal enterprises, from small farmers to wage employees in informal enterprises, from home-based workers to casual workers, the employment characteristics of informal workers are very diverse. Concomitant with this diversity of workers is the assortment of businesses they operate, as well as the households and enterprises in which they work (Figure 2.6). In particular, while in 2019, the majority (79.2%) of informal workers were employed in the informal sector, informal enterprises vary regarding their size, degree of coverage and compliance with laws, and level of productivity, among other factors. Understanding this diversity of workers, in combination with that of their employers and/or the businesses they operate, and identifying the prevalent forms of informality, are key to achieving formalisation with the appropriate mix of policy responses (ILO, 2021<sub>[15]</sub>).

Policies and interventions that support the formalisation of enterprises are indispensable to ensuring both independent workers' and employees', employed in the informal sector, access to formal jobs. Strategies to support the formalisation of enterprises include: measures to support their legal recognition as an economic entity, measures to enhance compliance with obligations, and measures to set the conditions for sustainable formalisation, including, importantly, measures to address low productivity (ILO, 2021<sub>[16]</sub>). Such measures represent the main pathway to formal jobs for independent workers owning or operating their own informal economic unit (46.4%). Policies aimed at formalising enterprises are also a necessary condition for the formalisation of jobs of employees employed in the informal sector (21.1%) (i.e. their access to adequate labour and social protection). The formalisation of enterprises also concerns contributing family workers (11.7%), as a means to improve their working conditions (rather than access formal employment).

**Figure 2.6. Prevalent forms of informal jobs depending on income group of countries**

Composition of informal employment by status in employment and type of unit of production



Note: IE | IS= Informal Employment (IE) in the Informal Sector (IS); IE | FS = Informal Employment in the Formal Sector (FS); IE | Households: Informal Employment in Households.

Source: (ILO, 2023<sub>[3]</sub>).

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Informality also includes informal employees who work in formal enterprises (11.3%, including many undeclared workers) and in households (1.3%, domestic workers). The proportion of informal jobs in formal enterprises is nearly three times higher in high-income countries (28.4%) than in low- and middle-income countries (10.3%). For all informal employees, in the formal and informal sectors or in households, formalisation involves: the extension of legal coverage by labour and social protection laws to those excluded or insufficiently covered; the provision of an adequate level of legal protection (levels of benefits, eligibility conditions and modalities to comply); and effective compliance with laws and regulations (ILO, 2021<sup>[15]</sup>).

## Structural factors in the labour market influence the extent and characteristics of informality

The incidence of informality, as well as the characteristics of informality in a country, are partially determined by the level of development and structural factors that define a country's labour market. Structural factors refer to the composition of employment, at the national level or for specific groups, and encompass: the prevalence of vulnerable employment statuses, the dominance of specific sectors, and the composition of enterprise sizes that are most at risk of informality. In addition however, a number of individual job characteristics, such as employment status, full-time or part-time employment, or a permanent or temporary employment contract, also influence the likelihood that a job will be informal. For this reason, in order to address informality effectively, the incidence of informality should be considered in conjunction with other dimensions of employment. This section provides an overview of how informality intersects with some of these dimensions.

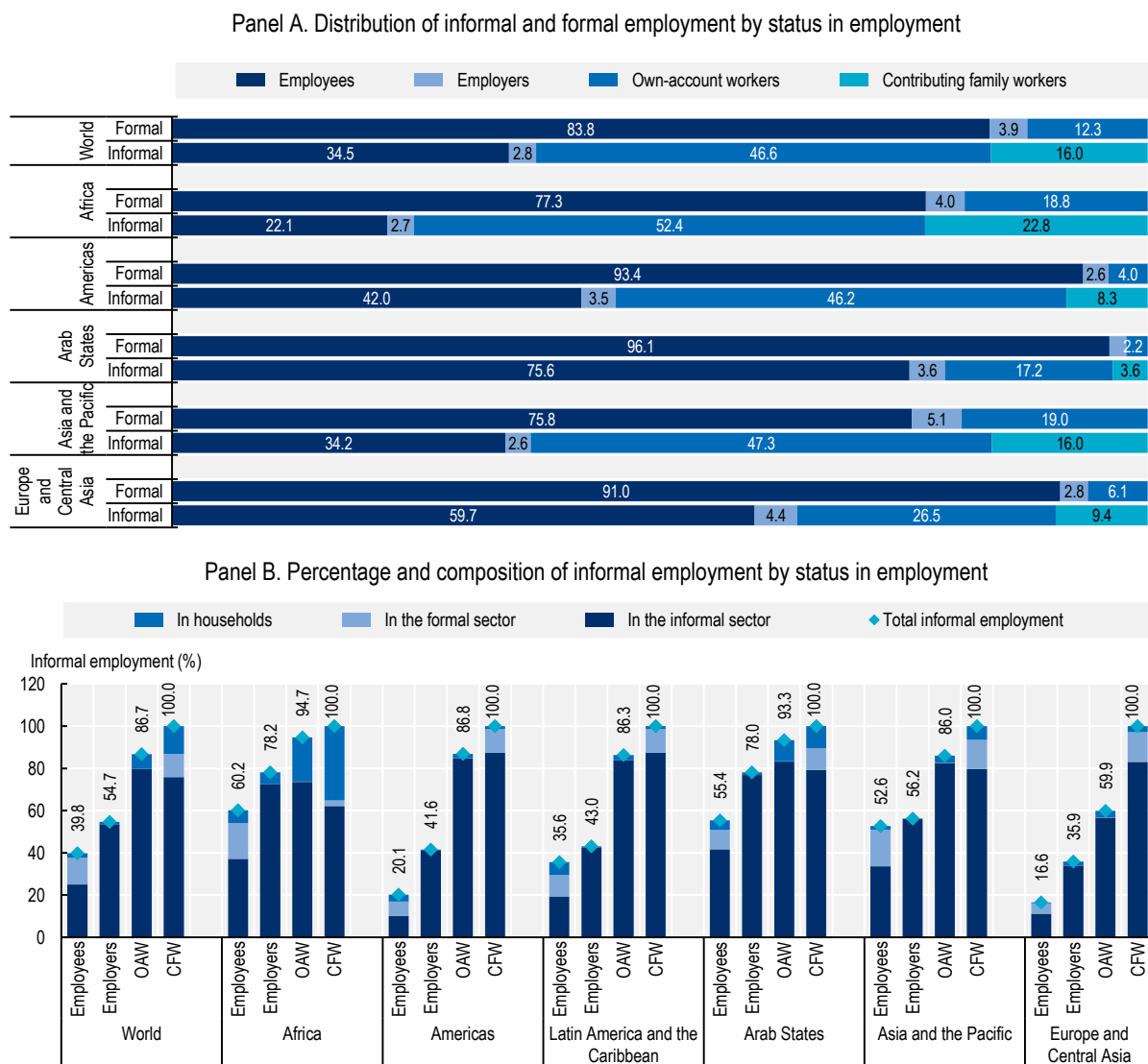
### ***Own-account workers are most at risk of informality everywhere, but with variation by level of development***

Globally, own-account workers represent the majority of informal workers (46.6%), followed by employees (34.5%), contributing family workers (16.0%) and employers (2.8%) (Figure 2.7, Panel A). Taken together, own-account workers and contributing family workers, both vulnerable statuses, comprise 62.7% of informal employment, which is almost five times their representation among workers in formal employment (12.3%) worldwide.

The level and structure of informality are largely influenced by the overall composition of employment. In low-income and lower-middle-income countries, this is characterised by the prevalence of vulnerable employment statuses, dominance of specific sectors (agriculture, wholesale and retail trade, and manufacturing) and over-representation of small- and low-productivity economic units (micro and small enterprises). In low-income countries, vulnerable employment statuses (own-account workers and contributing family workers) represent close to eight out of ten workers and more than eight out of ten informal workers, 75.2% in Africa and 63.2% in Asia and Pacific. In high-income countries, by contrast, the majority of informal workers are employees in undeclared or unprotected work (62.6%) or disguised self-employed whose employment relationship is not recognised (Williams, 2020<sup>[17]</sup>).

Apart from contributing family workers, who all have informal jobs by definition, own-account workers are the most at risk of having informal jobs. The majority, 86.7% of own-account workers (including, disguised self-employed) and 54.7% of employers own and operate an informal economic unit. By contrast, four out of ten employees are informally employed. This proportion ranges from 16.6% in Europe and Central Asia to more than 60% in Africa. Among informal employees, 62.9% work in informal sector units, 31.8% work in fully formal enterprises and 5.9% are domestic workers. Given the various levels of exposure to informality by employment status, an over-representation of own-account workers and contributing family workers in countries or in certain sectors or categories of workers contributes to the overall extent of informality in those countries and categories of workers.

**Figure 2.7. Own-account work is the dominant form of informal employment followed by informal wage employment (2019)**



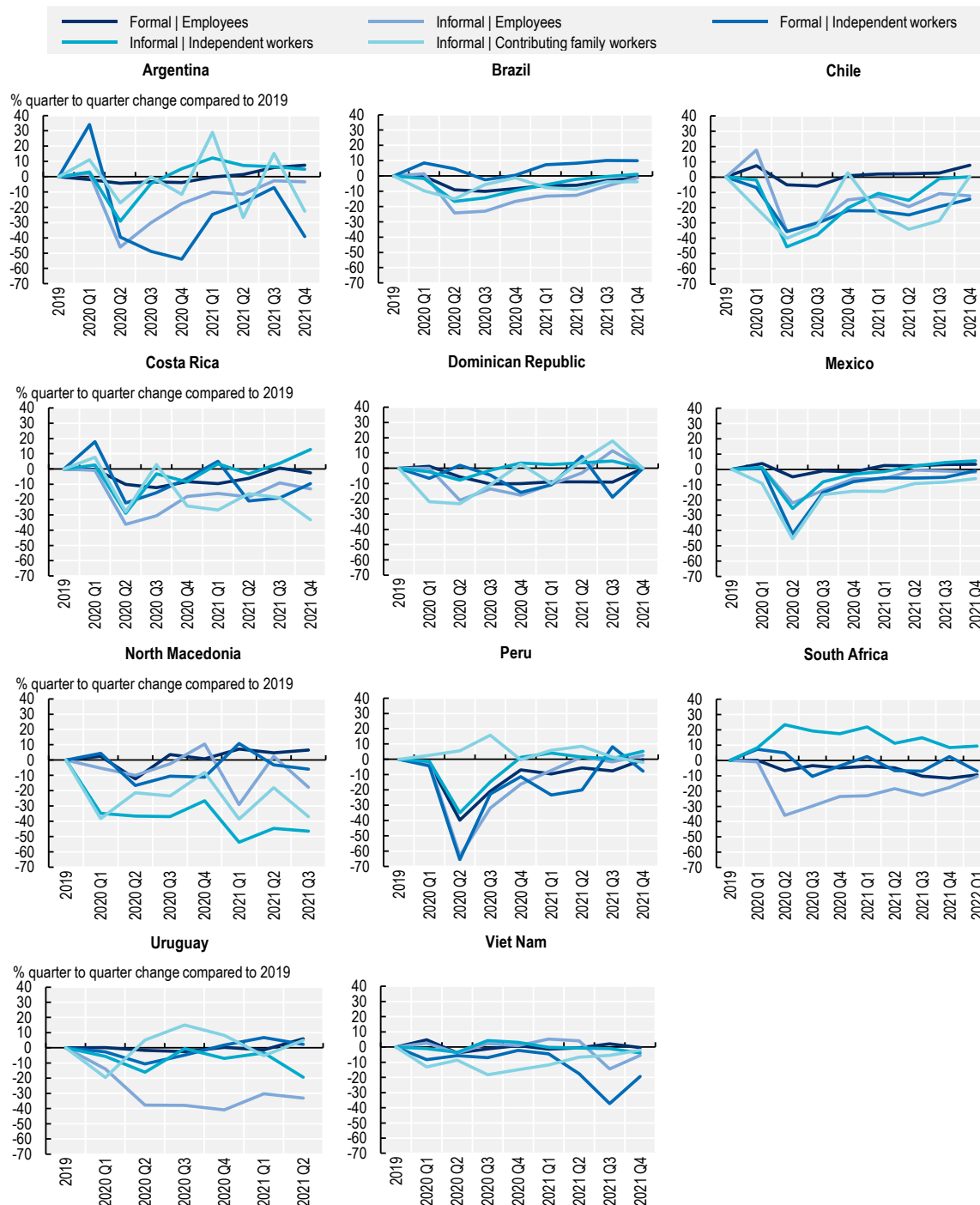
Note: OAW = own-account workers. CFW = contributing family workers.

Source: (ILO, 2023<sup>[3]</sup>).

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Informal employees were, and in some countries remain, more affected by the COVID-19 crisis than their formal wage counterparts, but also relative to independent workers employed in the informal sector. Using data from a sample of ten middle-income countries, analyses indicate that in the initial stages of the pandemic, informal employees were three times more likely than formal employees to lose their jobs. In subsequent stages, formal wage workers returned to work, while informal wage employment has remained below pre-crisis levels. Figure 2.8 highlights the differentiated impact of the crisis on employees and independent workers, at different stages of the pandemic-induced crisis (ILO, 2022<sup>[18]</sup>).

**Figure 2.8. Trends in the number of workers (informal and formal) by status in employment compared to 2019 in selected countries**



Note: Figures present the percentage change in the number of workers in formal or informal employment in a given quarter in 2020 or 2021 compared to the same quarter in 2019 (pre-COVID-19 pandemic) in order to take into account possible seasonal variations. The figure shows, for illustrative purposes only, a subset of the countries for which data are available.

Source: (ILO, 2022<sup>[18]</sup>).

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At the height of the pandemic-induced crisis (second quarter of 2020), job losses among employees in informal employment were much higher than among employees in formal employment in 22 out of the 25 countries with available data (ILO, 2022<sup>[18]</sup>). The percentage decline in the number of jobs among informal wage workers compared to their formal counterparts was up to ten times higher in Argentina and Uruguay. Informal wage workers were also more affected than independent workers (employers and own-account workers) in the informal sector in the majority of countries. South Africa and Argentina illustrate this situation, which concerns 18 out of the 25 countries studied. A smaller set of countries experienced the opposite situation, with independent workers more adversely affected in countries such as Chile, Mexico and North Macedonia.

In subsequent stages of the crisis, formal wage workers returned to work, while informal wage employment remained below its pre-crisis level in 11 out of the 13 countries (with some data available until 2021). Argentina, Chile, Costa Rica, Mexico, North Macedonia and Uruguay clearly illustrate this trend. By contrast, the number of formal and informal independent workers over the period was far more volatile. These descriptive trends (rather than panel data) provide some indication of the risk of informalisation of the labour market and to some extent of previously formal jobs. In a number of countries, the growth in informal jobs exceeded the growth in formal jobs (as well as the absolute level of informal jobs) in 2019. This evidence suggests a trend towards the informalisation of independent workers (Argentina, Chile, Costa Rica, Dominican Republic, Mexico or Viet Nam) and/or employees (Dominican Republic and Peru).

### ***Workers in non-standard forms of employment are particularly exposed to informality***

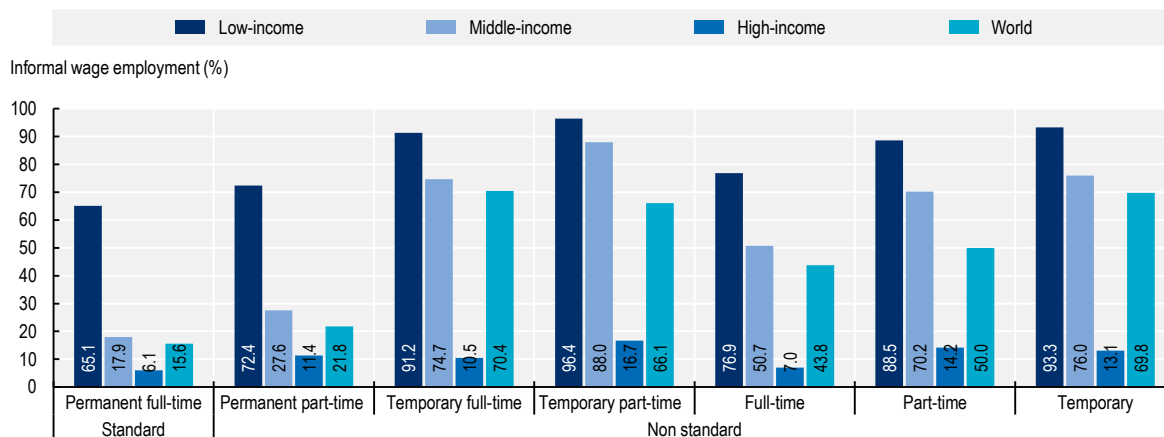
Compared to workers in open-ended full-time employment, employees in non-standard forms of employment<sup>4</sup> (i.e. forms of employment that differ from full-time dependent employment with a permanent contract) are significantly more likely to be in informal employment (ILO, 2016<sup>[19]</sup>) (Figure 2.9). Globally, in 2019, 15.6% of employees in permanent full-time employment had an informal job, defined as one offering no employment-related social and labour protections. Among part-time and temporary employees, however, 50.0% and 69.8%, respectively, were informally employed. For those employed in temporary part-time work, the rate of informal employment amounted to 66.1%.

Workers in temporary and part-time employment are prone to informality because they are, in some cases, either outside the scope of laws and regulations relating to social security or do not meet the qualifying thresholds, in terms of length of employment or number of hours worked. In some countries, temporary workers are excluded from social security coverage. This is particularly the case for workers engaged in project or task-based work (ILO, 2020<sup>[20]</sup>). Regarding part-time work, some countries restrict workers' eligibility by stipulating a minimum number of hours of work, which has the effect of excluding some part-time employees from the coverage of social protections. Domestic workers who perform a limited number of hours per week or per day for different employers have been particularly affected by such thresholds<sup>5</sup> (ILO, 2021<sup>[21]</sup>; ILO, 2022<sup>[22]</sup>). Such non-explicit indirect exclusions, resulting from the inability to meet minimum qualifying conditions, are numerous but not as widespread as the ineffective implementation of legislation for reasons that include the lack of employment contracts, employer financial constraints, heavy or inappropriate compliance modalities, lack of awareness, or deliberate non-compliance (ILO, 2015<sup>[23]</sup>).

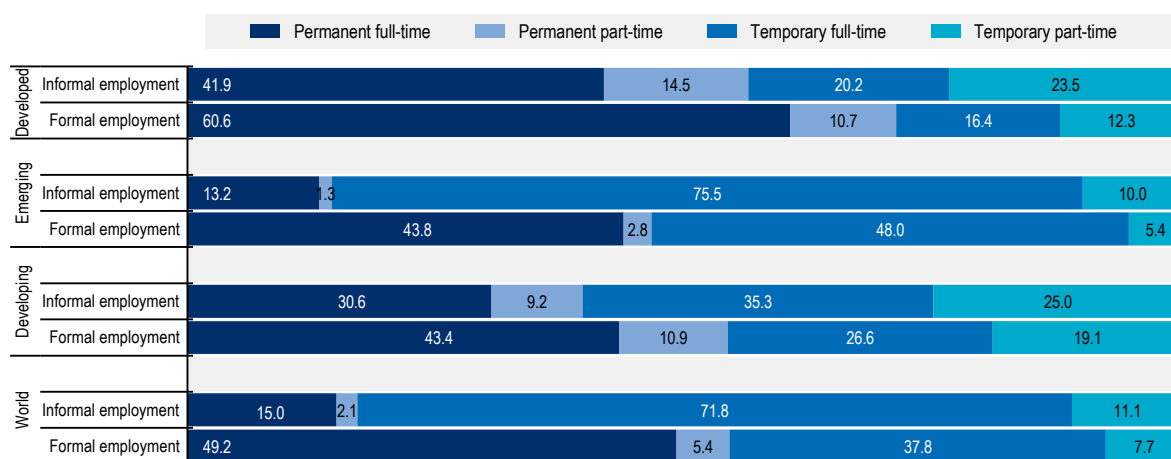
By considering the relative importance of temporary employment among employees according to the formal or informal nature of the employment, the use of temporary or casual employment is also close to twice as high among workers in informal wage employment (82.9%) compared to formal wage workers (45.5%); it is also highest among informal wage workers in emerging countries and more prevalent among men than among women (Figure 2.9, Panels B and C).

**Figure 2.9. Informal employment is widespread in temporary employment in developing and emerging countries**

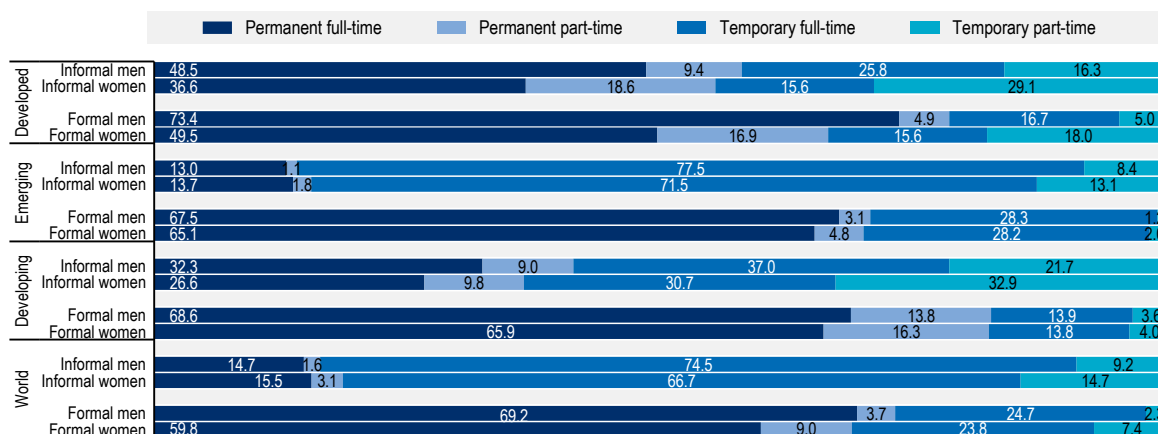
Panel A. Share of informal employment among employees, by type of employment (2019)



Panel B. Distribution of informal and formal wage employment by type of employment arrangement




Panel C. Distribution of informal and formal wage employment by type of employment arrangement and gender



Note: Estimates based on data for 113 countries representing more than 70% of global wage employment. Harmonised definition of informal employment and employment in the informal sector.

Source: (ILO, 2022<sub>[18]</sub>).

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An additional and growing category of workers excluded from the results above (Figure 2.9), but included as a non-standard form of employment and at high risk of informality, are those in between the “binary divide” many legal systems create distinguishing employees from independent employment (Countouris and Freedland, 2013<sup>[24]</sup>). This grey area includes “disguised employment relationships” and “dependent self-employment” that are most prevalent in labour-intensive industries such as transport, construction, business services, and cleaning (Jorens, 2008<sup>[25]</sup>; Thornquist, 2013<sup>[26]</sup>). Labour intermediaries and elaborate subcontracting chains are common in these industries and contribute to disguised employment relationships as they serve to hide workers’ employment status (Pedersini and Coletto, 2009<sup>[27]</sup>; Lukiyanova, 2015<sup>[28]</sup>). The various forms of “platform” work discussed in Chapter 5 have also been associated with a growth in disguised employment relationships.

Due to the informal nature of informal employees’ jobs, it can be assumed that for many the temporary or permanent nature of their employment relationship is not formally defined; rather, it is based on a tacit agreement or perception. Bearing this caveat in mind, three trends emerged during the COVID-19 crisis. First, at the onset of the crisis (through the second quarter of 2020), in Argentina, Chile, Costa Rica, South Africa informal employees were more adversely affected than formal employees, irrespective of whether they were employed on a temporary or permanent basis (Figure 2.10). Second, at the height of the crisis, formal temporary employees were significantly more affected than formal employees with a permanent job. Third, symptomatic of a climate of uncertainty, among informal employees, the recovery was primarily fuelled by abundance of temporary jobs, while the number of permanent informal jobs remained well below 2019 levels.

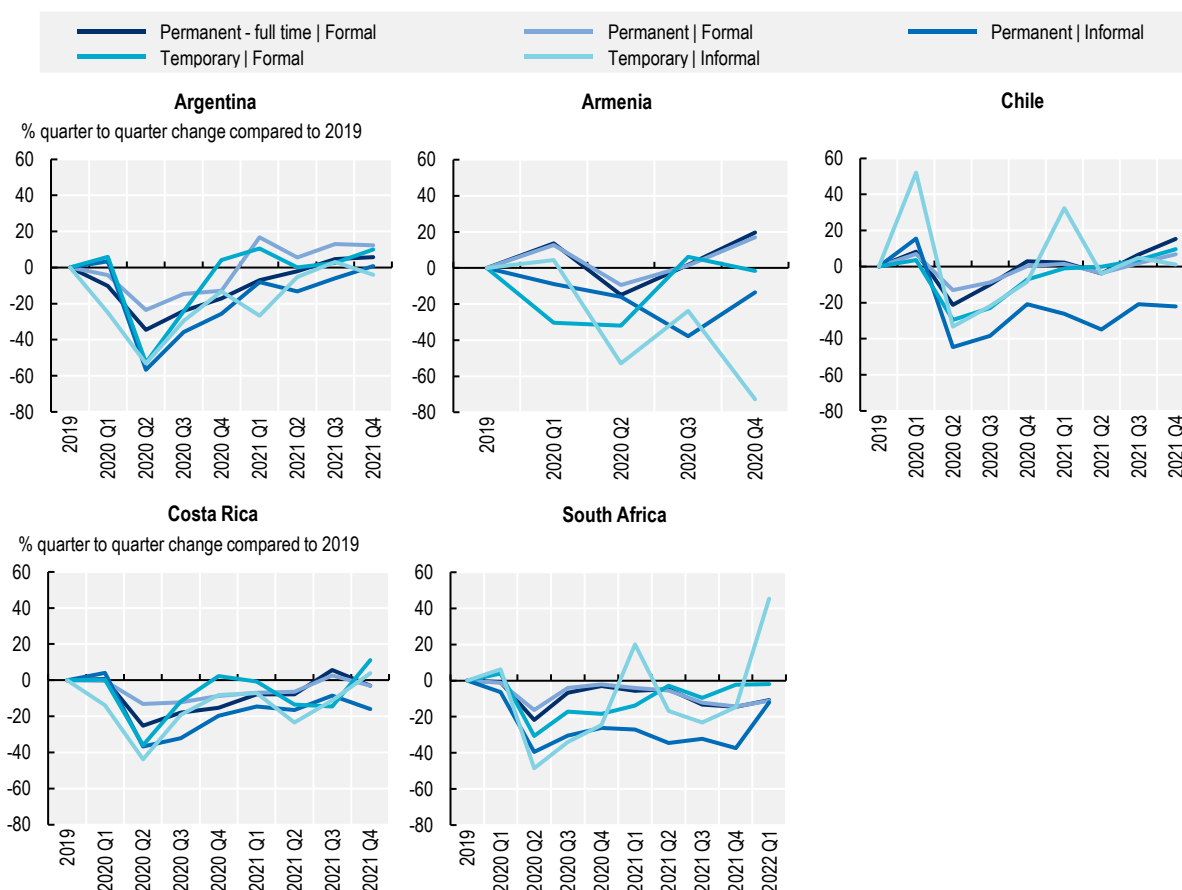
Another category of employment that is also sometimes considered as a form of non-standard employment is homework (ILO, 2016<sup>[19]</sup>). Globally, there were about 260 million home-based workers in the world in 2019 (ILO, 2021<sup>[29]</sup>). This included industrial home work (goods production undertaken by homeworkers either as part of, or replacing, factory production, but also artisanal production, such as in the making of handicrafts); telework (employees who use information and communications technologies to perform their work remotely on a regular or permanent basis); and home-based digital platform work (discussed in Chapter 5). Nearly 86% of home-based workers live in developing and emerging economies. In low- and middle-income countries, 90% of home workers work informally (ibid). The percentage of informality among home-based workers ranges from 98% in both Southern Asia and the Middle East and North Africa to 63% Eastern Europe, Southern Europe and Central Asia (Bonnet et al., 2021<sup>[30]</sup>).

Home-based workers have their homes as workplace, which has a significant bearing on the recognition of these workers and their workplaces, ensuring decent working conditions, and providing public support. During the COVID-19 crisis, homeworking related to teleworking has expanded. In contrast, home-based workers who do not use Internet in their work, including traditional self-employed and industrial outworkers, as well as the contributing family workers who depend on them for work, suffered the greatest loss of work and income, as compared to other categories of homeworkers (Bonnet et al., 2021<sup>[30]</sup>).



**Figure 2.10. Trends in the number of permanent and temporary wage workers (informal and formal), compared to 2019**

Percentage change



Source: (ILO, 2022<sup>[18]</sup>).

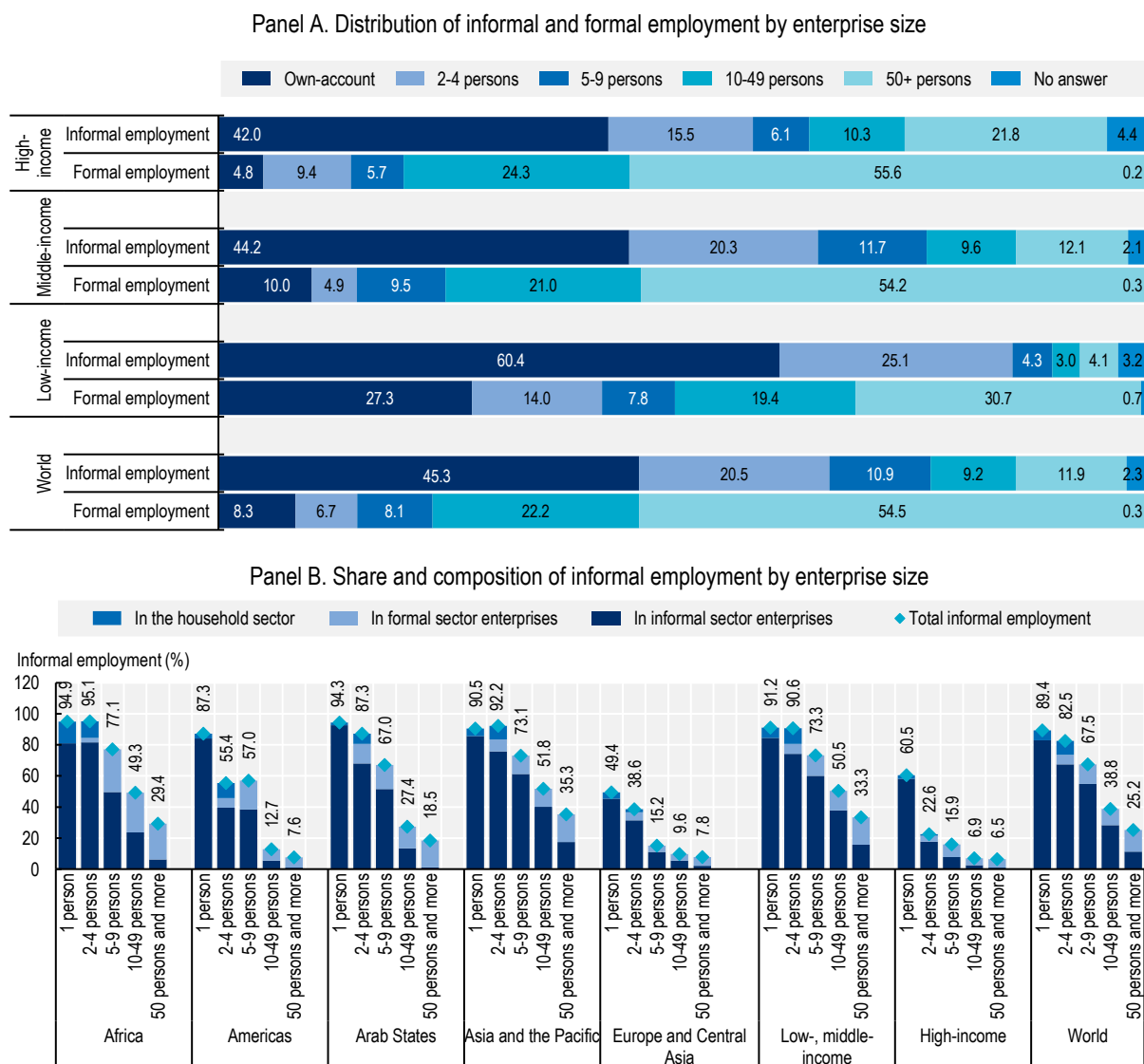
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### ***Most employment in small enterprises is informal, but informal employment in large formal enterprises is significant***

Smaller enterprises, including own-account workers, constitute the bulk of total employment globally, but especially in low- and middle-income countries. Units with fewer than ten workers accounted for 55.5% of total employment globally and as high as eight out of ten workers or more in low- and lower-middle-income countries and in Africa. High-income countries as well as Europe and Central Asia show a different picture: enterprises with fewer than ten workers account for one-quarter and one-third, respectively, of total employment.

Turning to the share of informal employment by size of enterprise, employment in small economic units – as dependent workers or as business owners – is more likely to be informal than in larger enterprises. Globally, the share of informal jobs decreases as the size of an economic unit increases. While 89.4% of own-account workers operate informally, informal employment decreases to 82.5% in enterprises employing between two and five persons, and to 25.3% in enterprises employing 50 persons or more.

**Figure 2.11. Most employment in small enterprises is informal, yet informal employment in large formal enterprises is significant**



Note: Estimates based on data for 129 countries representing 86% of the world's employed population. Harmonised definition of informal employment and employment in the informal sector.

Source: (ILO, 2023<sup>[3]</sup>).

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As a result of small enterprises' greater use of informal employment, enterprises with fewer than ten workers account for 76.7% of total informal employment globally and up to 90% or more in low-income countries and in Africa. By contrast, in high-income countries or in Europe and Central Asia, these enterprises comprise about 65% of informal employment (Figure 2.11, Panel A). These results imply that informal jobs are also in larger enterprises, including in formal enterprises, despite these enterprises' greater ability to interact with government administration, and also despite their productivity and administrative capacities. Globally, one-quarter of people employed in large enterprises have informal jobs; the majority are employed by formal enterprises. These workers lack recognition of their employment relationship or a contract that provides social protection and other benefits. Excluded from this estimate is

the large number of informal economy workers employed through a disguised employment relationship, subcontracted by formal enterprises and misclassified as own-account workers (ILO, 2016<sub>[19]</sub>).

### ***Informal employment has a strong sectoral dimension***

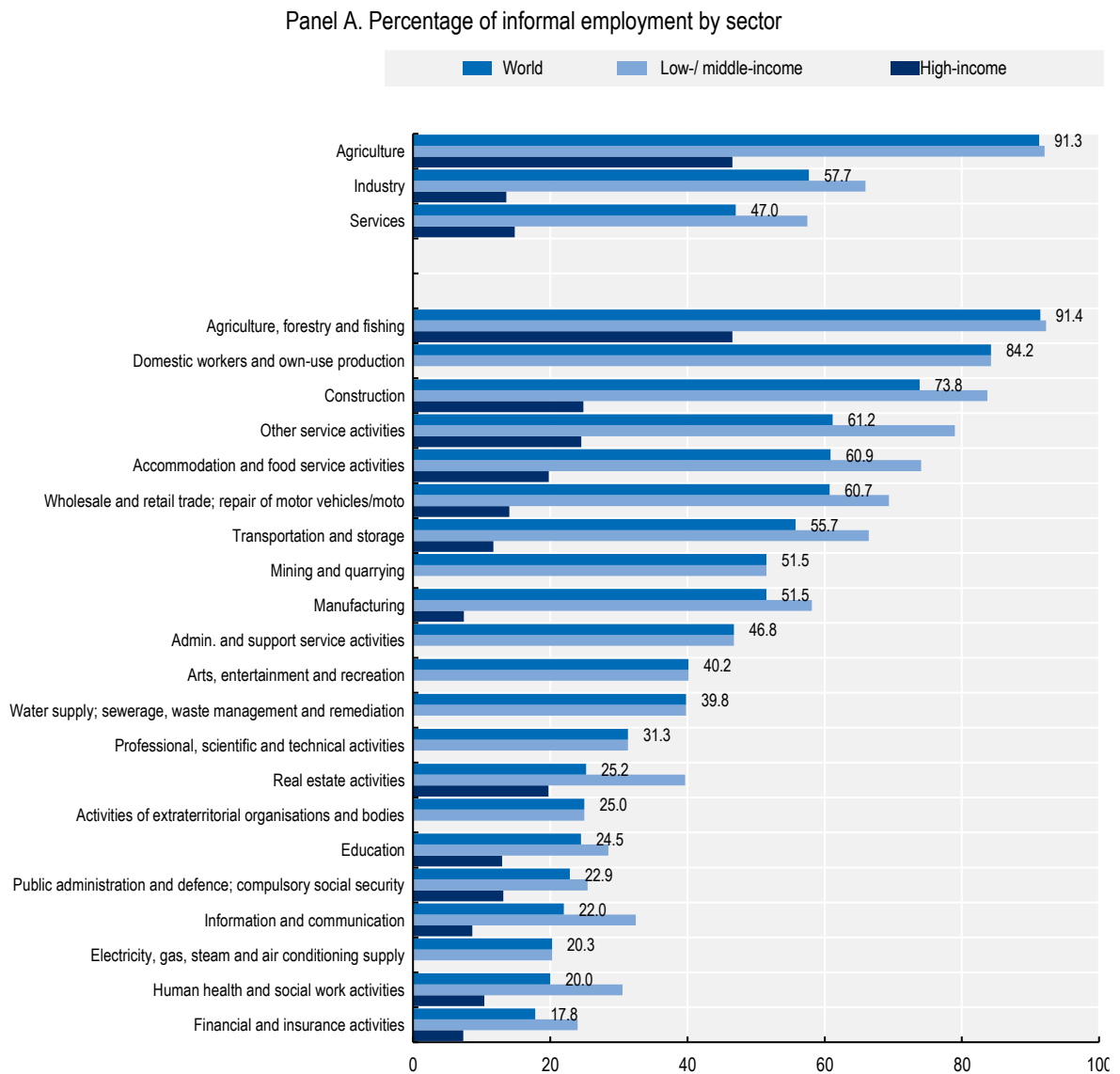
Six sectors have informal employment rates that exceed the global average (58.2%): nine out of ten workers in agriculture; more than eight out of ten workers in the domestic work sector (ILO, 2021<sub>[21]</sub>) and household production for own use; close to three out of four workers in the construction sector; and three out of five in accommodation and food service activities, wholesale and retail trade, repair of motor vehicles and motorcycles, and other services activities (Figure 2.12, Panel A).

Some of those sectors also employ the largest number of informal workers (if not the majority). Globally, 33.0% of all informal workers work in agriculture. This proportion reaches 62.1% in low-income countries, 57.1% in Africa, but only 9.2% in high-income countries. The wholesale and retail trade sector employs the second largest number of informal workers. This sector includes the numerous street vendors, small shops and workshops in fixed or non-fixed places in most low- and middle-income countries (14.0% globally but one in five informal workers in the Arab States or in Latin America and the Caribbean). The manufacturing sector (12.3% of total informal employment but higher in Asia and Pacific) and the construction sector (11.5%) are also large sources of informal employment. In aggregate terms, agriculture's contribution to informal employment decreases, and the services sector's contribution to informal employment grows as a country's level of development increases (Figure 2.12, Panel B).

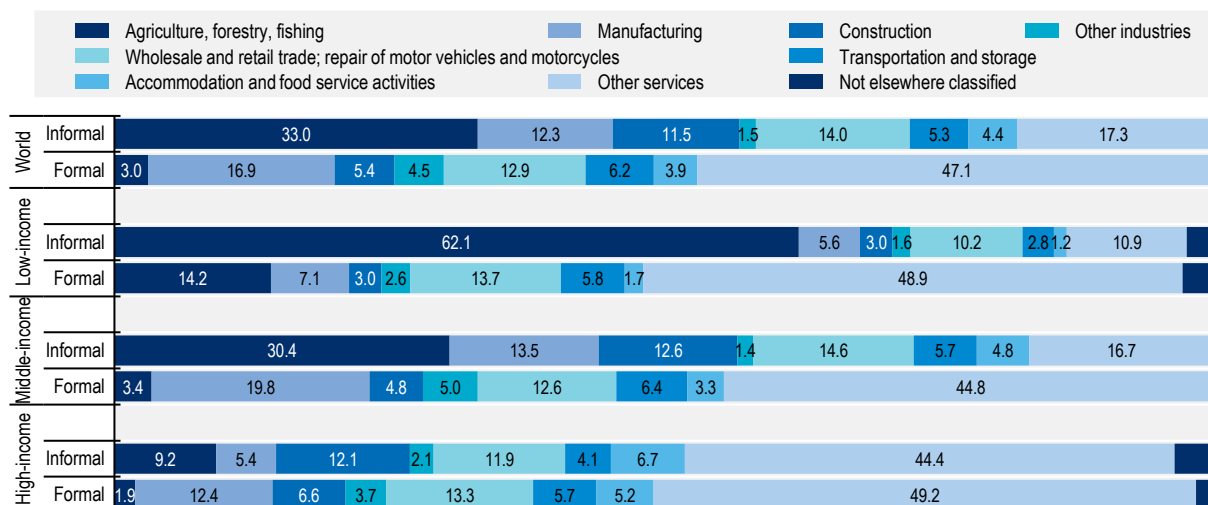
Figure 2.12, Panel C, shows the sectors where women (in formal or in informal employment) are over-represented, relative to men (see right-hand side of the figure), and those where men are over-represented, relative to women (see left-hand side of the figure). There are two key trends. First, there is clear evidence of gender segmentation in informal employment across the sectors. This is exemplified by the width of the bars, which would equal zero if gender segmentation was absent. Second, across the globe, public administration, education and health, accommodation and food service activities, wholesale and retail trade, domestic work, manufacturing and agriculture, are sectors where women in informal employment are over-represented in comparison to men. For example, the proportion of domestic work and own-use production sector among women in informal employment is 3.4 percentage points higher than the corresponding proportion among men informally employed. By contrast, men in informal employment are over-represented in the construction sector, transportation and storage, and other industries.

However, this global picture conceals differences by country income level. For instance, at the global level, agriculture and manufacturing represent higher shares among women informally employed (1.4 and 2.7 percentage points more respectively) relative to men employed informally. By contrast, in high-income countries, the opposite trend emerges; the representation of those two sectors among men informally employed exceeds (by 2.2-2.3 percentage points) the representation of women in the same sectors. In addition, similar to informal employment, gender segmentation also exists, to a lesser extent, in formal employment across the sectors. The greatest segmentation, however, occurs in high-income countries across formal and informal employment.

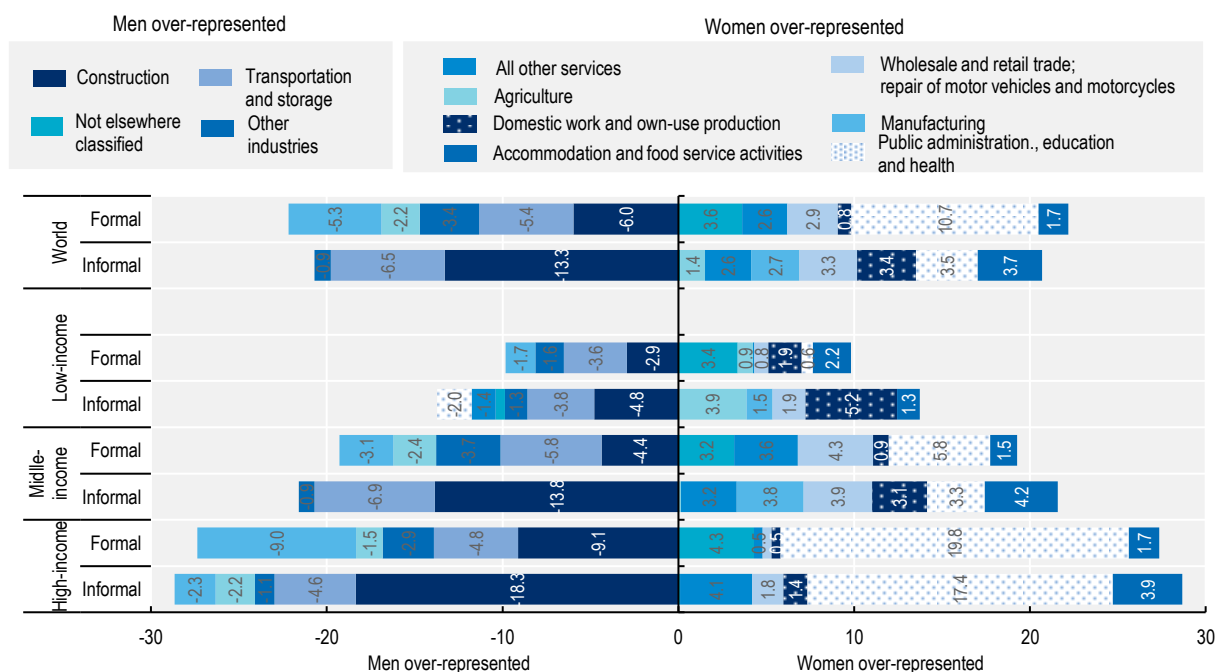
Figure 2.12. The sectoral dimension of informality



Panel B. Distribution by sector



Panel C. The sectoral distribution of employment through the gender lens



Note: Estimates by International Standard Industrial Classification (ISIC) at 1-digit level based on data for 102 countries representing 77% of the world's employed population. Harmonised definition of informal employment and employment in the informal sector. In Panel C, the length of bars shows the extent of gender segmentation, measured by the difference between women and men as a proportion of total (female or male) workers (in informal employment and in formal employment, respectively) in given sectors. A positive value (on the right-hand side of the figure) means that the proportion of women in employment in a particular sector is higher than the corresponding proportion of men employed in the same sector. By contrast, negative values as shown on the left-hand side of the figure reflect sectors in which men are over-represented. Source: (ILO, 2023<sub>[3]</sub>).

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The effect of the COVID-19 crisis also had a strong sectoral dimension (Figure 2.13). Heavily affected sectors include those where informal workers tend to be disproportionately represented: the wholesale and retail trade sector, construction, manufacturing, accommodation and food service activities. Two of these

sectors – accommodation and food service activities – also form part of the broader tourism industry, which was disproportionately affected by the COVID-19 pandemic due to lockdowns and travel restrictions (ILO, 2022<sup>[31]</sup>). Workers in agriculture were also affected, as they faced difficulties selling their products in urban markets, despite being considered at lower risk and playing the role, in some countries, as the employer of “last resort sector” (ILO, 2020<sup>[32]</sup>).

Focusing on these sectors and analysing the respective situation of workers in formal and informal employment over time, between the second quarter of 2020 and the third and fourth quarter of 2021, the results from 22 countries present a picture of major upheaval (Figure 2.14).

At the beginning of the COVID-19 pandemic, in the second quarter of 2020, workers in informal employment were more affected by job losses than workers in formal employment, in 13 to 17 out of the 22 countries considered, depending on the sector. The percentage decline in the number of informal jobs was the largest in accommodation and food service activities (-36.5% decline in the number of informal jobs, compared to -26.8% for formal jobs), followed by construction and the wholesale and retail trade. In the early stages of the crisis, agriculture played the role of “employer of last resort” in only a few countries (such as Peru and Armenia); this may also have occurred in other low- and lower-middle-income countries where reliable data are unavailable for this period.

By the end of 2020 (Figure 2.14, Panel A), the situation varied between sectors and for workers in formal and informal employment. The impact of the COVID-19 pandemic on employment had persisted in accommodation and food service activities, relative to other sectors. Moreover, workers in both formal and informal employment were affected, even at the end of 2021.

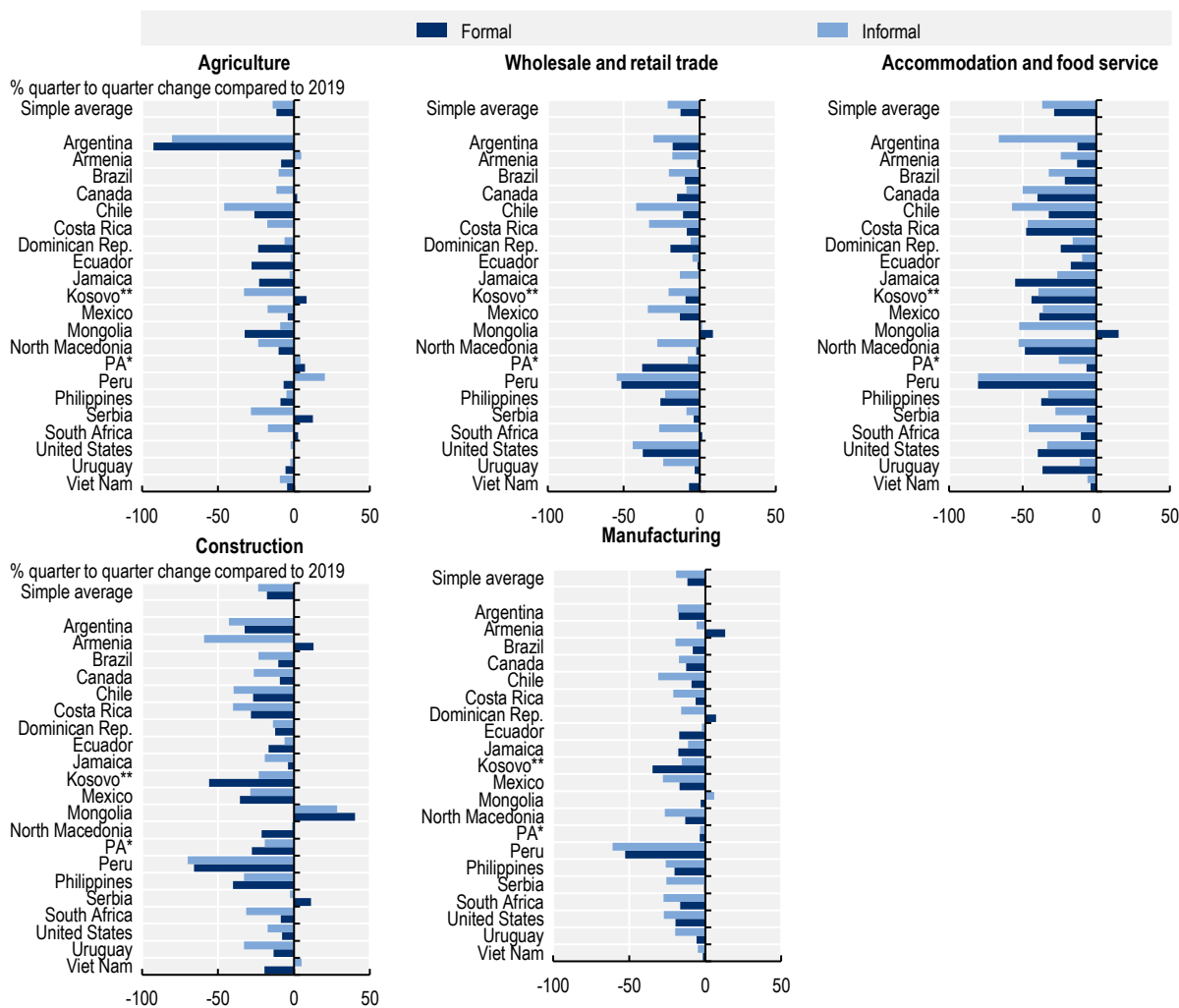
Some workers returned to work in the agricultural sector, mainly in formal jobs, which could be the result of strategies adopted to compensate for the disruption of food supply chains, especially in emerging countries (OECD, 2020<sup>[33]</sup>).

While trends towards informalisation remain uncertain at the national level, trends in some sectors are clear. For example, at the end of 2020, in the manufacturing and construction sectors in Serbia and Argentina, sectoral employment levels were equal to or exceeded those in 2019; however, the growth in informal jobs exceeded the increase in formal jobs, leading to informalisation of both sectors. Some signs of informalisation in the labour market further emerged in the last quarters of 2021 in Chile, the Dominican Republic and Peru, notably in the construction sector (Figure 2.14, Panel B).

The COVID-19 crisis has also revealed the extent to which our societies depend on “key workers” – those that provide essential goods and services that enable societies to function. “Key workers” include food systems workers; health workers; retail workers; security workers; manual workers; cleaning and sanitation workers; transport workers; and technicians and clerical workers. Globally, 51.0% of “key workers” are informal, and up to 64.0% in low-income countries (ILO, 2023<sup>[34]</sup>). Ensuring their protection is not only a matter of rendering societies more resilient, but is also a matter of social justice.

**Figure 2.13. Trends in the number of jobs (informal and formal) in the second quarter of 2020 compared to 2019**

Percentage change in selected sectors



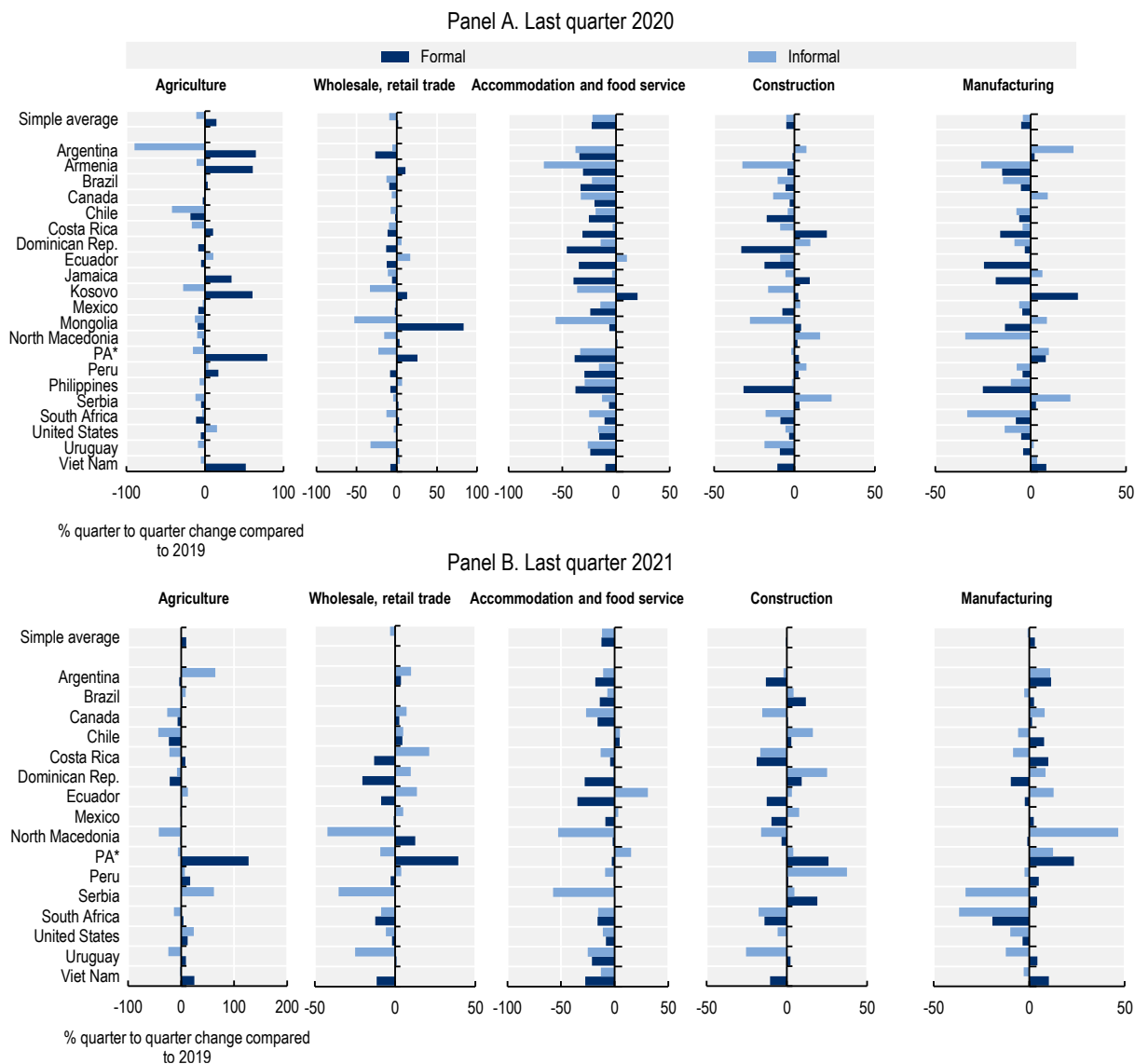
Note: \* PA refers to the Palestinian Authority. \*\* This designation is without prejudice to positions on status, and is in line with United Nations Security Council Resolution 1244/99 and the Advisory Opinion of the International Court of Justice on Kosovo's declaration of independence.

Source: (ILO, 2020<sub>(12)</sub>).

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Figure 2.14. Trends in the number of jobs (informal and formal) after the second quarter of 2020 compared to 2019

Percentage change in selected sectors



Note: PA refers to the Palestinian Authority.

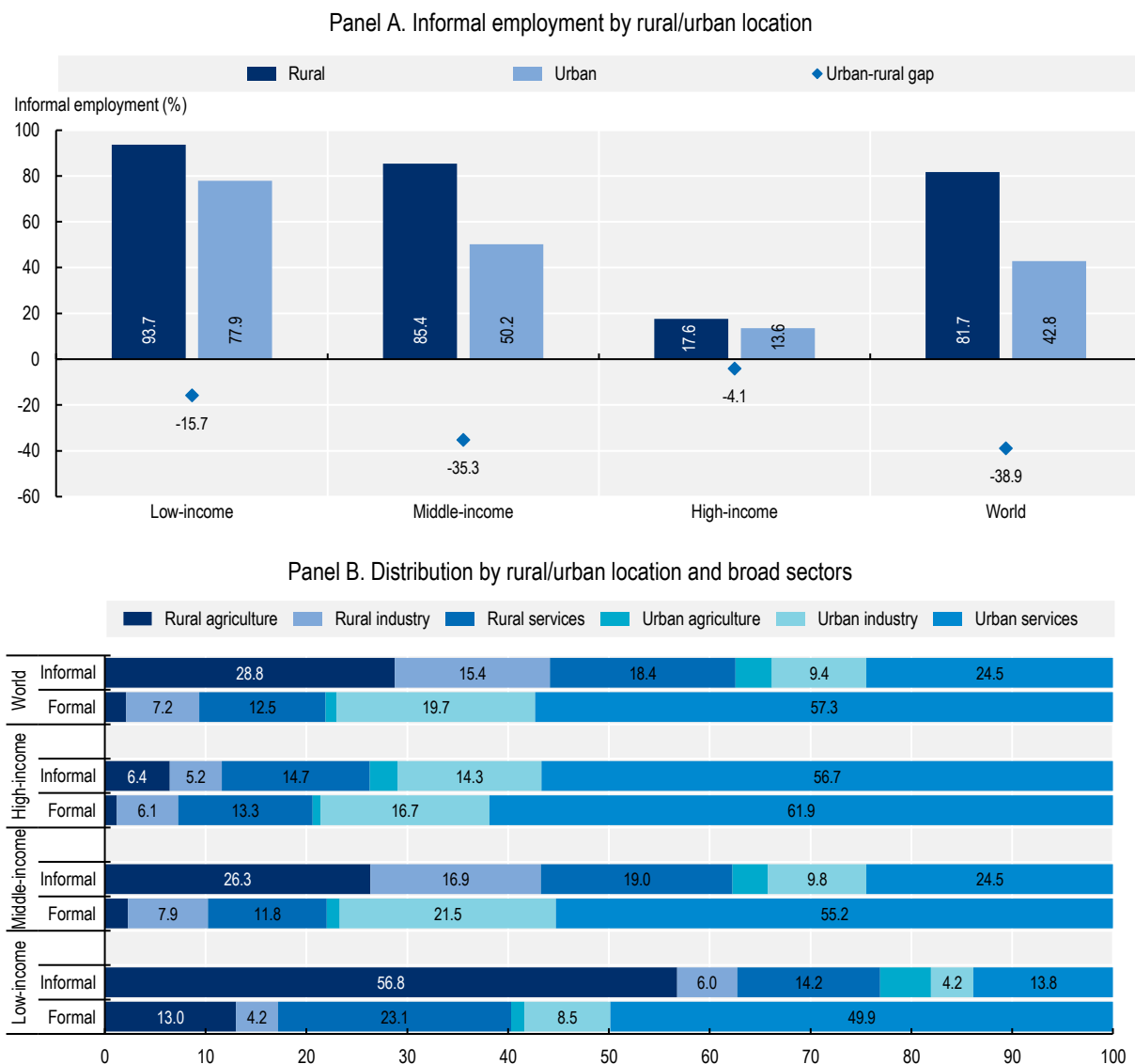
Source: (ILO, 2020<sup>[12]</sup>).

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## Informality has a strong rural dimension

Figure 2.15. Informality has a strong rural dimension



Note: Estimates based on data for 121 countries representing 88% of the world's employed population. Harmonised definition of informal employment and employment in the informal sector.

Source: (ILO, 2023<sup>[3]</sup>).

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People in rural areas are almost twice as likely as those in urban areas to be in informal employment: 81.7% versus 42.8% (Figure 2.15, Panel A). Moreover, 62.5% of workers in informal employment live in rural areas, while 78.1% of those in formal employment live in urban areas (Figure 2.15, Panel B). Workers in informal employment in agriculture represent just above 45% of global rural employment but as high as 73.8% of rural employment in low-income countries. However, the high rate of informality among agricultural workers only partially explains differences in the urban-rural informality rates. Other factors include the institutional and economic environment (e.g. limited access to public infrastructure and

services, and differences in quality of services and local governance); personal and employment characteristics of the rural population (including higher incidence of poverty, lower education levels or an over-representation of individuals with an employment status that is at high risk of informality); or traditions and rural actors' perceptions of laws and regulations and social norms (Jonasson, 2012<sup>[35]</sup>; Weng, 2015<sup>[36]</sup>). Activities in rural areas, in particular in agriculture, are often “regulated” by the co-existence of customary rules and formal rules, and strong social trust among producers and traders, which enables the creation of informal institutions. In this context, informal activities are perceived as equally or even more legitimate than formal practices. In the absence of strong organisations and effective consultation processes between the state and rural actors, formal arrangements (regulations, laws) perceived as an unwelcome imposition are likely to face some resistance or “deliberate ignorance”.

## Vulnerable groups are disparately exposed to informality

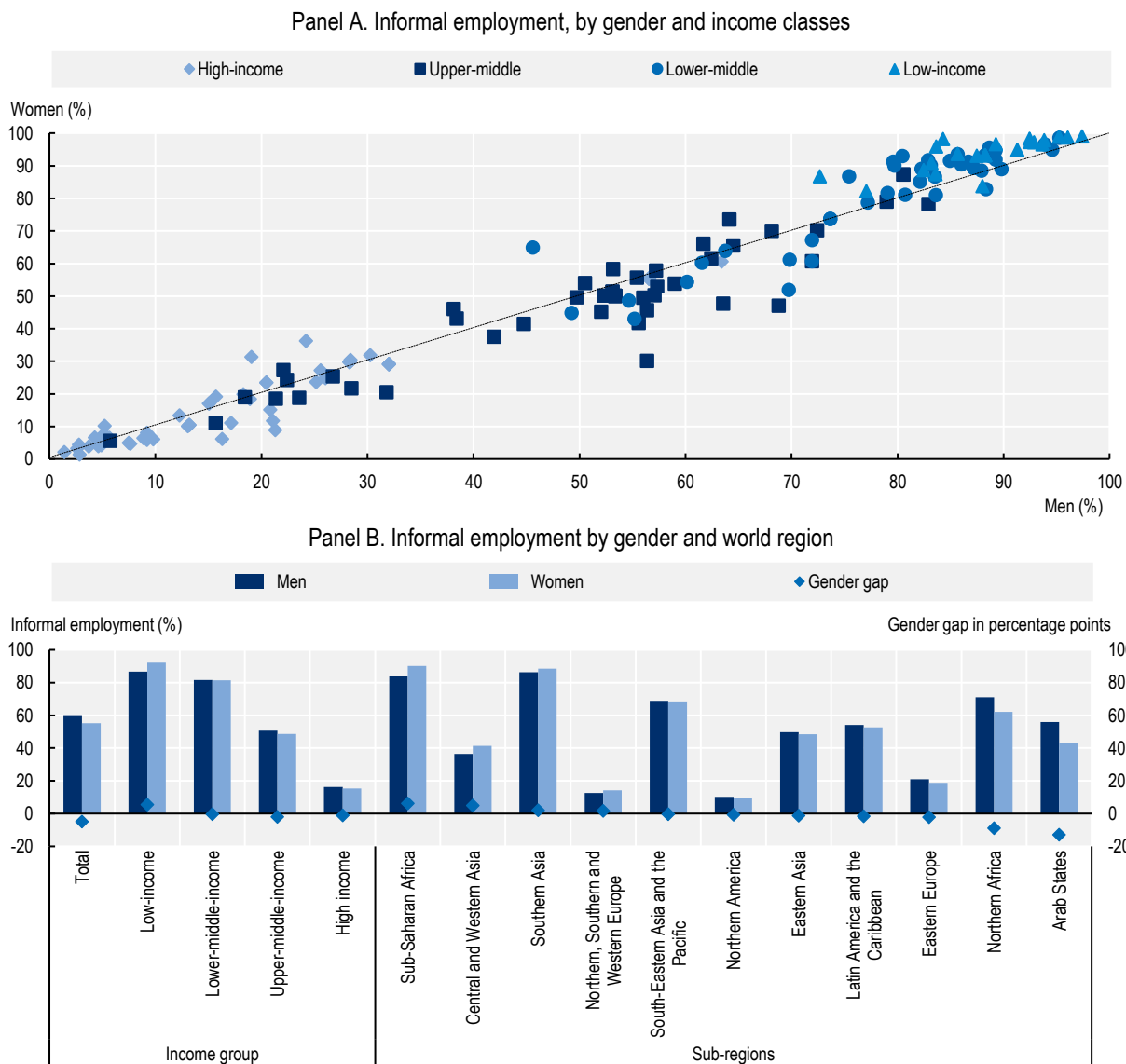
Certain individual characteristics can predispose an individual to informal employment, often due to factors outside of their control that usually precede entry into the labour market. Societal norms play a role in limiting access to education or participation in the labour market, particularly for girls and young women. Discrimination based on gender, age, religion or ethnicity further impede certain groups' access to the labour market, as well as opportunities for professional advancement that are disproportionately available in formal employment. This section analyses the differential impact that informality engenders based on individual characteristics.

### ***Globally, informal employment is a greater source of employment for men, but there are large disparities across countries***

Worldwide, informal employment is a greater source of employment for men (60.2%) than for women (55.2%) (Figure 2.16, Panel B). The global estimate, however, reflects the influence of major countries, such as China, where men face greater exposure to informality. The gender difference at the global level also results from structural effects associated with low female labour force participation rates in some countries (as seen in Pakistan or India), which attenuate the effect of their high female informal employment rates in the global and regional estimates.

At the country and regional levels however, there are large disparities by gender. In a small majority of countries for which data are available (56%), the share of women in informal employment exceeds that of men. Informal employment is a greater source of employment for women than for men in the following regions: sub-Saharan Africa, Central and Western Asia, Southern Asia and in Northern, Southern and Western Europe and in most low- and lower-middle-income countries. By contrast, the percentage of informally employed men is substantially higher than the percentage of women workers in the Arab States and North Africa, where the female employment-to-population ratio is much lower than the male ratio. In this region, the minority of women employed are over-represented in the public sector, as well as in occupations and types of enterprises that are more likely to be formal. In most regions, women who work in informal employment are among the most vulnerable groups in the informal economy.

Figure 2.16. Women are more at risk of informality than men in more than one-half of countries



Source: (ILO, 2023<sup>[3]</sup>).

StatLink  <https://stat.link/pmvoa>

Women tend to be under-represented among informally working employers (1.5% as compared to 3.6% for men), and among informally working employees (31.7% as compared to 36.2 % for men). In contrast, they are over-represented among contributing family members (27.7% as compared to 9.1% for men). When informally employed, women are also more likely to work from home compared to men (20.7% as compared to 5.8% for men in low- and middle-income countries) with obvious consequences in terms of visibility and representation. More generally, these differences were among the main sources of lower average earnings, greater risk of poverty, and greater vulnerability for women in the informal economy, as compared to men well before the COVID-19 crisis (ILO, 2023<sup>[3]</sup>).

The overall trends in informal employment of men and women observed since early 2020 mask considerable differences between gender. Women working informally have been, and continue to be, disproportionately affected by the COVID-19 crisis, as shown in Figure 2.17, Panel A. The share of

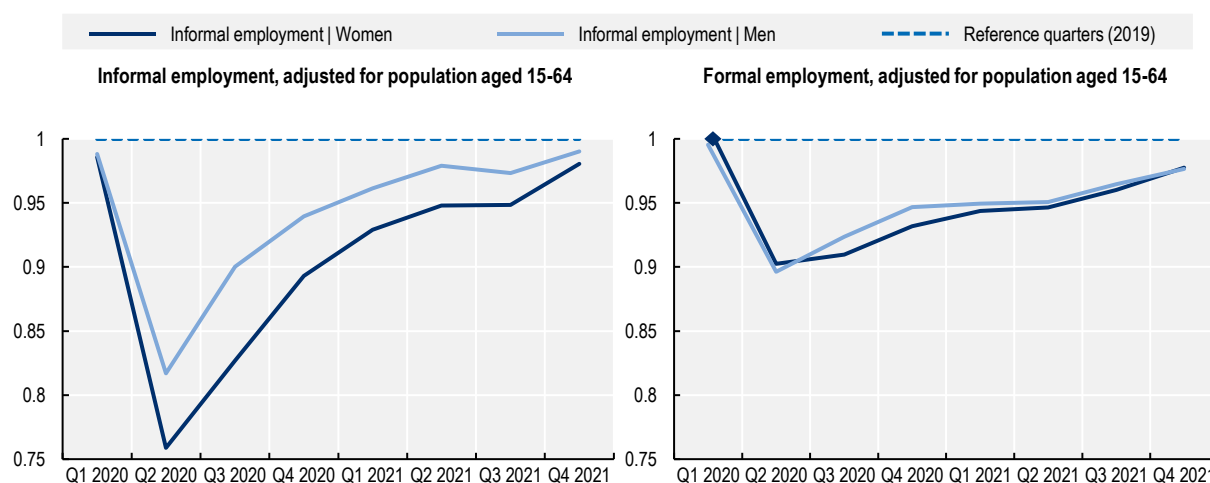
informally employed women declined by 24% in the second quarter of 2020 Q2; during the same period, the comparable figure for men was 18%. However, among formally employed workers no such trend emerged; during the same period, formal employment declined by about 10% for men and women. These trends suggest that informality not only exacerbated workers' vulnerability to the COVID-19 shock but it also widened gender employment gaps during the pandemic.

Why have women in informal employment been more affected than their male counterparts? First, the over-representation of informally employed women in hard-hit sectors (ILO, 2020<sup>[32]</sup>; ILO, 2020<sup>[37]</sup>) explains their disproportionate employment losses. Second, meeting increased care demands, induced by the pandemic, while remaining in paid employment, required working arrangements such as telework, leave or temporary absences, that were harder for informal workers to access (Garrote Sanchez et al., 2021<sup>[38]</sup>). Given the larger proportion of time spent by women in unpaid care work, both before and during the pandemic (ILO, 2018<sup>[39]</sup>; UNWOMEN, 2020<sup>[40]</sup>), both factors drove women out of the labour force.

In contrast, trends in formal employment by gender reveal no such pattern (Figure 2.17, Panel B). The fact that globally 40% of formally employed women work in “low-risk sectors”, compared to 34% of their male counterparts, certainly mitigated possible gender differences in other sectors. The findings suggest that better working conditions and improved access to flexible working arrangements have the potential to meaningfully reduce gender inequality in the labour market (ILO, 2022<sup>[14]</sup>).


**Figure 2.17. Evolution of informal and formal employment by sex**

Reference quarters in 2019 = 1



Note: Estimates based on trends in the number of formal and informal jobs in Argentina, Bolivia (Plurinational State of), Brazil, Chile, Costa Rica, Dominican Republic, Ecuador, Guyana, North Macedonia, Mexico, Palestinian Authority, Peru, Paraguay, Saint Lucia, South Africa, Uruguay and Viet Nam. See individual country results in (ILO, 2020<sup>[12]</sup>). *A review of country data. Impact of the Covid-19 pandemic on informality: Has informal employment increased or decreased?* Missing observations are imputed using time-fixed effects in a panel regression of countries without missing observations.

Source: Authors' computations.

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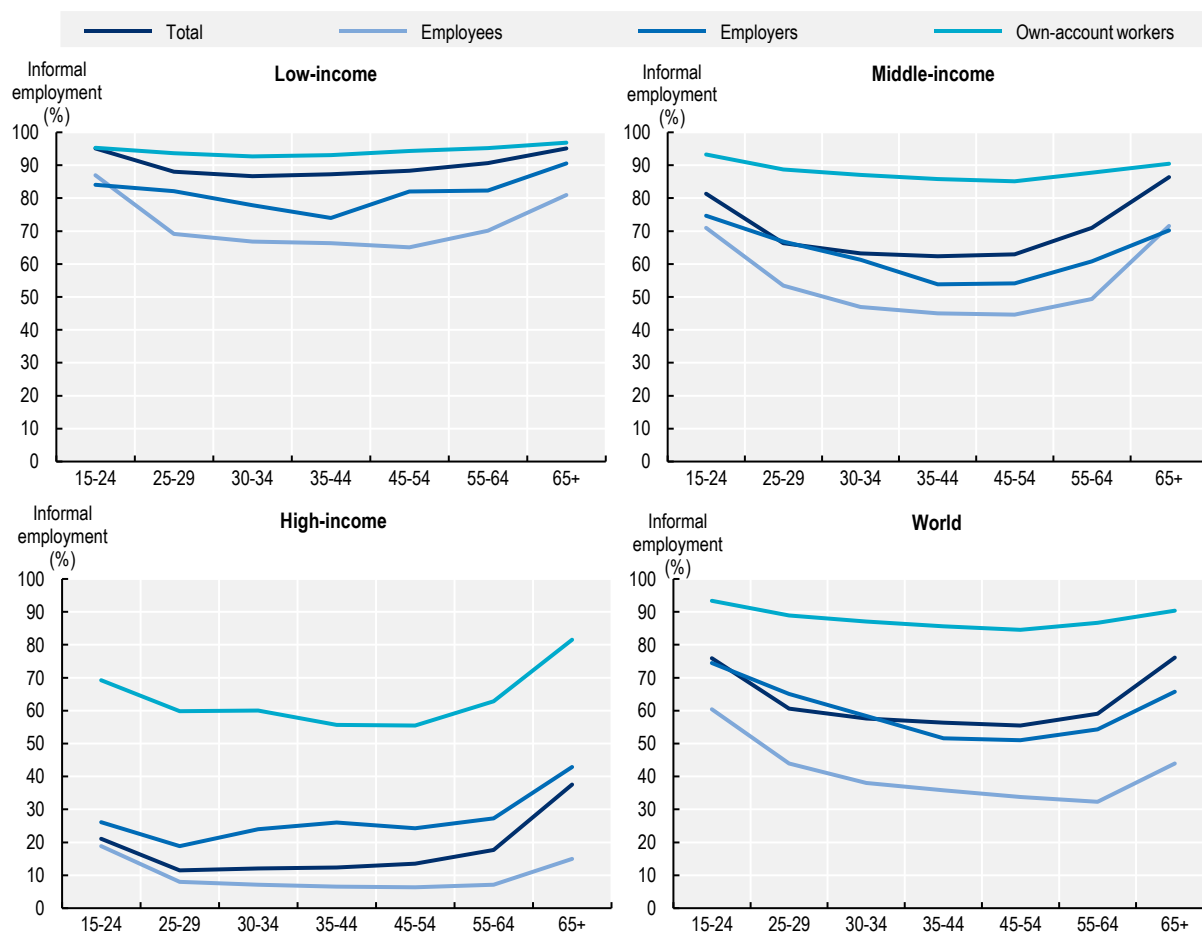
### **Young and older workers are more exposed to informality**

There is substantial variation in the level of informal employment over the life cycle, with young and older workers disproportionately affected. Globally, more than three-quarters of young and older workers are in informal employment, compared with 55.1% of those aged 25-64. When employed, young people are

concentrated in types of work that make them particularly susceptible to income and job losses during a crisis. In 2019, 75.9%, or 429.7 million of the world's young workers were in informal employment. This implies that some 325 million young people are in informal employment worldwide, of which more than one-half are living in sub-Saharan Africa or Southern Asia. The proportion of informal jobs held by young people rises to 95.1% in low-income countries and to 90.3% in lower-middle-income countries (Figure 2.18). It is the highest in Africa (94.8%), Asia and Pacific (81.9%) and the Arab States (81.3%).


**Figure 2.18. Informal employment rates are highest for young and older workers**

Informality age profile by employment status – world and country income groups (2019)



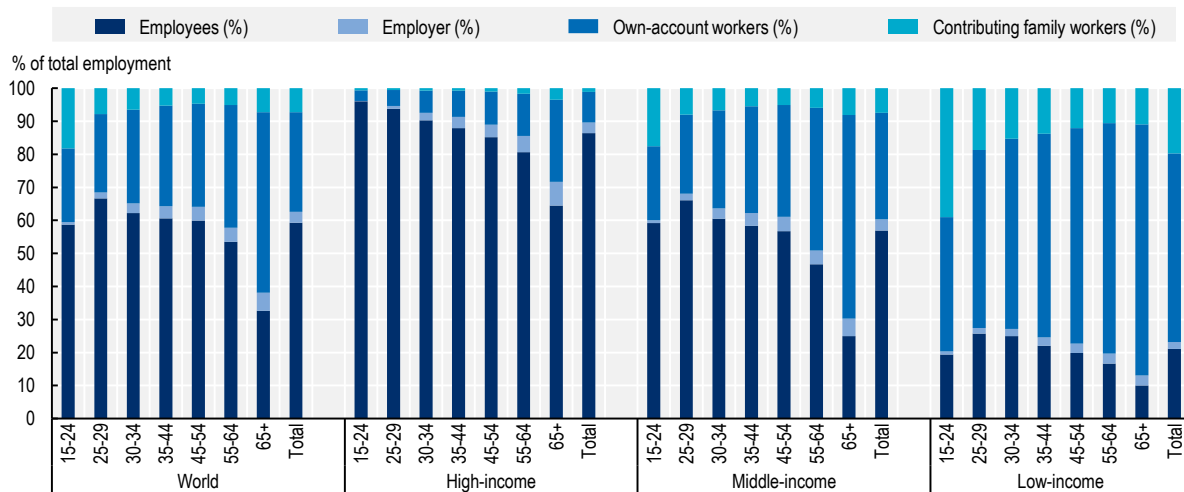
Note: Global and regional estimates based on data for 146 countries representing 92.6% of the world's employed population and on country data for the latest available year. Contributing family workers are in informal employment, independently of the formal or informal nature of economic units and of age.

Source: (ILO, 2023<sup>[3]</sup>).

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**Figure 2.19. Distribution by employment status varies over the life cycle**

Distribution of employment over the life cycle, by employment status (2019)



Note: Global and regional estimates based on data for 146 countries representing 92.6% of the world's employed population and on country data for the latest available year. Contributing family workers are in informal employment, independently of formal or informal nature of economic units and of age.

Source: (ILO, 2023<sup>[3]</sup>).

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The overall share of informal employment varies over the life cycle. The share of informal employment held by a given age group decreases rapidly with age, but then increases at older ages, notably after statutory retirement age (Figure 2.18). However, these rates also vary by employment status: rates of informality reach their lowest levels for employees and, to some extent, employers, whereas they remain almost flat and greater than 80% for own-account workers. These trends are intertwined (Figure 2.19); the youngest and oldest workers are over-represented in employment statuses at the highest risk of informality. For example, a disproportionate share of young people comprises contributing family workers, while own-account workers constitute a disproportionate share of older workers (aged 65+).

Trends in informality by age and employment status also vary by level of economic development. In developing countries, informality is largely influenced by own-account employment, which represents the majority of employment, and tends to offer limited opportunities for transition to formal employment; employee and employer categories tend to have more opportunities for formalisation. In emerging countries, there are also more opportunities among employees and employers as they age. By contrast, similar to the trend observed in developing countries, own-account workers' prospects for formalisation are more limited, in the absence of dedicated interventions or changes to the macroeconomic context. In developed countries, formality among employees is high overall. Among employers and own-account workers, there is also a clear transition towards formality that increases with age and experience (at least until retirement age) (Chacaltana, Bonnet and Leung, 2021<sup>[41]</sup>).

Not surprisingly, given the higher risk of informality among young and older workers, they were also disproportionately affected by job losses during the pandemic. By the second quarter of 2020, young people were among the most affected in all the countries under review (Figure 2.20), except the Dominican Republic; in most selected countries, young people in informal employment were affected even more than their formal counterparts. The COVID-19 crisis affected (and continues to affect) young people in three

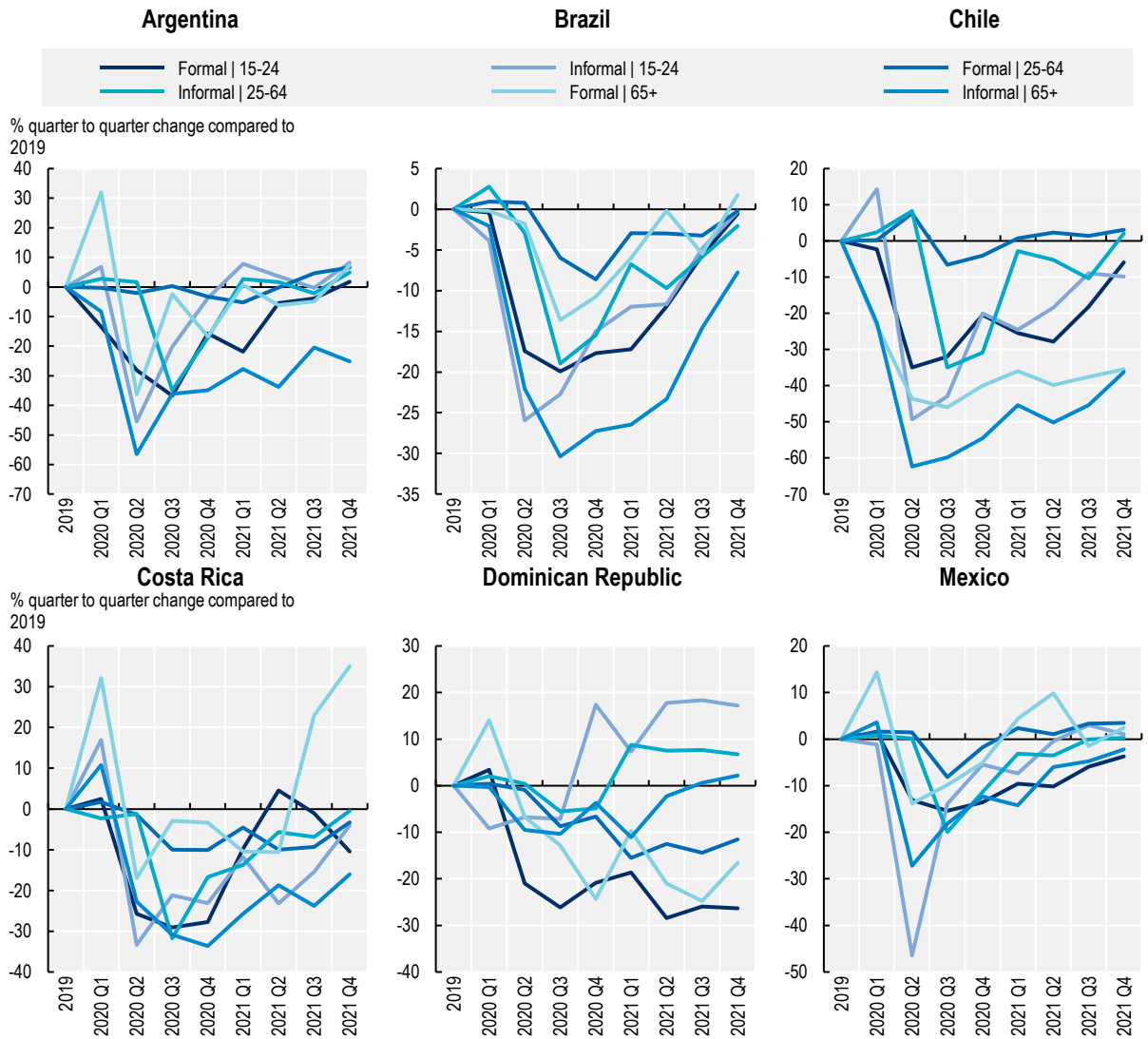
ways: (1) disruptions to education and training, reducing potential employment opportunities and earnings in the future (ILO-UNESCO-World Bank, 2020<sup>[42]</sup>); (2) massive job losses for those in employment, and (3) the emergence of greater obstacles to finding work, (re-)entering the labour market and trying to transition to better jobs. It is estimated that 178 million young workers around the world – more than four in ten young people employed globally – were working in hard-hit sectors when the COVID-19 crisis began. Already before the crisis, three in four young workers had informal jobs, implying that they lacked the requisite social and labour protection that would enable them to attenuate the impact of the pandemic-induced crisis on their incomes. In addition, more than 267 million young people were not in employment, education or training (NEET), including almost 68 million unemployed young people (ILO, 2020<sup>[13]</sup>).

The subsequent stages of the crisis reveal trends which varied by country for young and older workers. In Argentina, Brazil, Mexico and Peru, both young and older workers in informal employment faced the greatest job losses at the height of the crisis. While the return to employment was relatively rapid among young people, reaching 2019 levels by 2021, the number of informal jobs for older workers remained well below pre-crisis levels, suggesting that some of them, discouraged, dropped out of the labour market. Drop-out and unemployment also affected young people in some countries, resulting in lower employment levels among young people at the end of 2021 in Costa Rica, Northern Macedonia, South Africa, Uruguay, and Viet Nam. In the latter three countries, this encompassed both informal and formal youth employment.

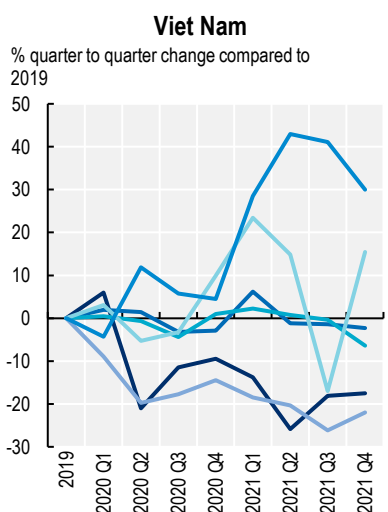
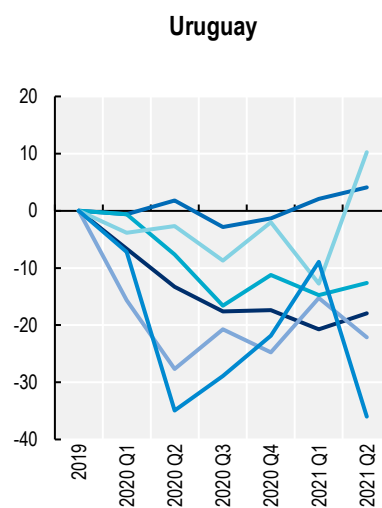
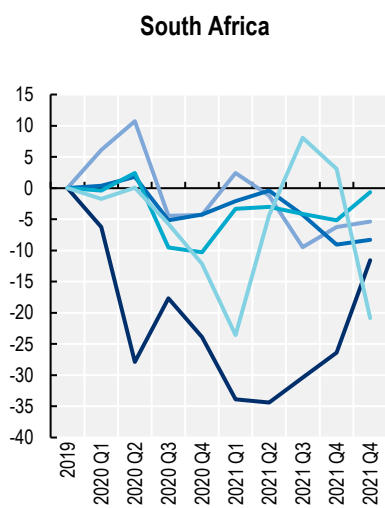
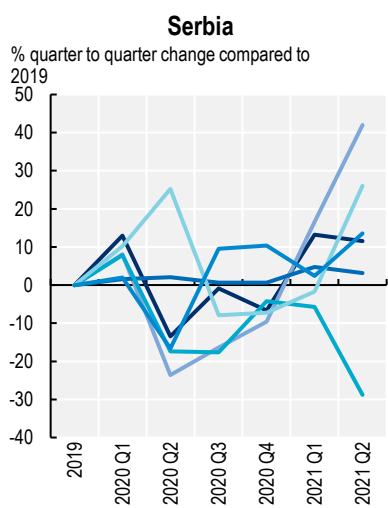
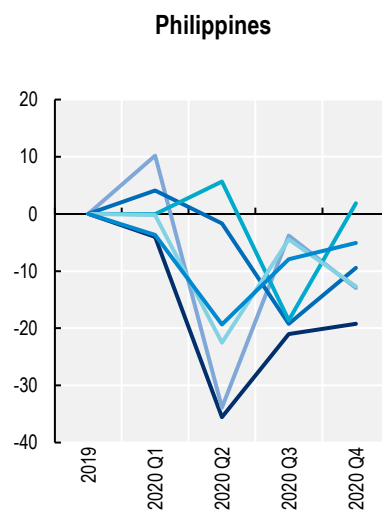
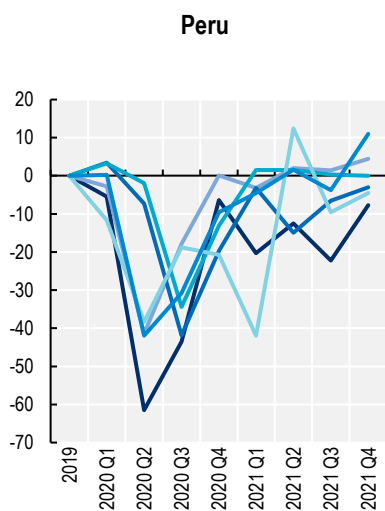
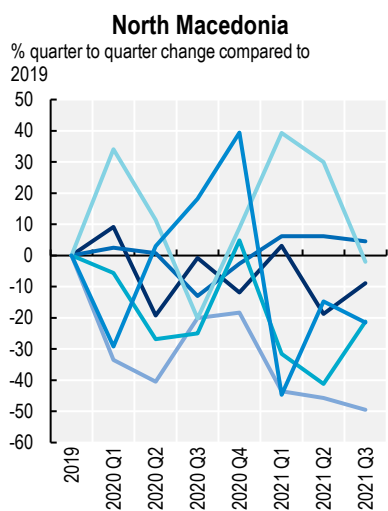
Finally, youth employment trends in the Dominican Republic, and to a lesser extent in Mexico, Peru, the Philippines, and Serbia, seem to indicate a transition towards informalisation of the labour market for young people. In these countries the growth of informal jobs exceeded that of formal jobs and, in addition, the absolute number of informal jobs surpassed that in 2019.

Figure 2.20. Evolution of informal and formal employment by age group in selected countries

Reference quarters in 2019 = 1







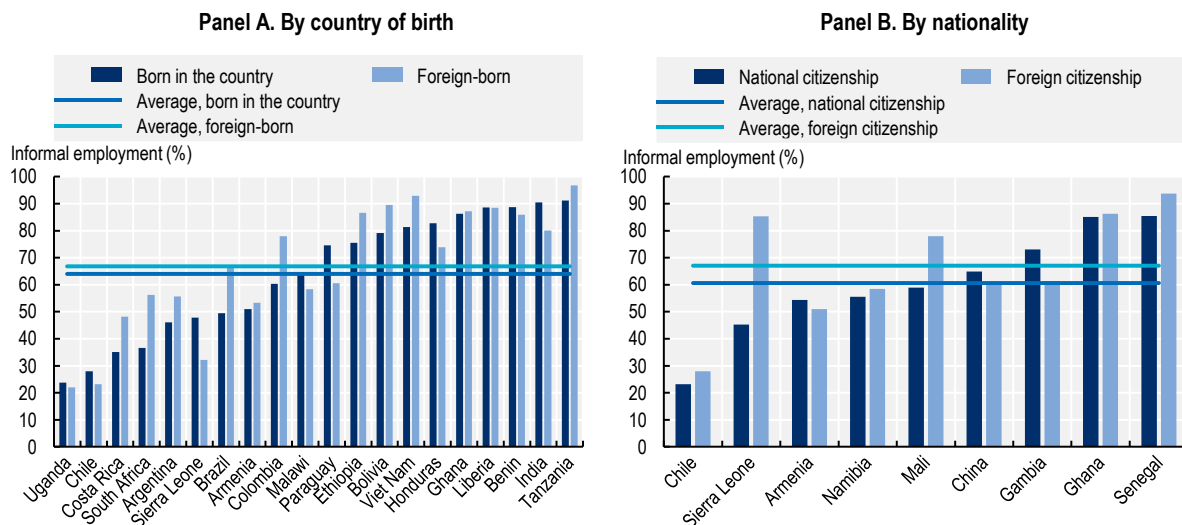
Source: Authors' compilation based on (ILO, 2020<sup>[13]</sup>; ILO, 2022<sup>[18]</sup>; Barford, Coutts and Sahai, 2021<sup>[43]</sup>).

## Informal employment is a greater source of employment for immigrants as compared to non-immigrants

The total number of international migrants increased by over 50% between 1990 and 2022, although they continue to constitute a tiny proportion of the world's population. In 2018, there were 164 million migrant workers worldwide (ILO, 2021<sup>[44]</sup>). The vast majority of them (67.9%) were living in high-income countries, 18.5% in upper middle-income countries, 10.1% in lower middle-income countries and 3.4% in low-income countries. Migrant workers constitute 18.5% of the workforce of high-income countries, but only 1.4-2.2% in lower-income countries.

Even if the situation differs across countries and their migration histories, migrant workers are typically more likely to be employed in informal jobs than workers in native-born populations. In developing countries with available data (Figure 2.21), the average incidence of informal employment is three percentage points lower for native-born workers than for foreign-born workers; it is seven percentage points lower for workers who are citizens of the country in which they live than for non-citizen workers. In some countries, such as Argentina, Bolivia, Brazil, Colombia, Costa Rica, Ethiopia, and South Africa, there is a more than a 10 percentage point difference in the informality rate among native-born and foreign-born workers. This is likely to reflect a relatively higher level of development in these countries than in neighbouring ones; it is also likely to reflect the higher share of migrant workers and refugees in the total pool of foreign-born workers than in other countries where the pool of foreign-born workers is more likely to be composed of family members.

Figure 2.21. Informality rates, by types of immigration status



Note: There are two complementary ways to infer a migration status of an individual. One is to look at whether individuals are native- or foreign-born, another is to look at their nationality or citizenship. Often, household data contain questions about only one aspect, but not the other. Cross-country disparities by nationality reflect not only the share of persons who are most likely to be foreign-born, but also the country-specific laws that allow acceding to citizenship and the working rights that are often associated with it.

Source: (OECD, 2021<sup>[45]</sup>), available at: <https://www.oecd.org/dev/key-indicators-informality-individuals-household-kiibih.htm>.

StatLink  <https://stat.link/3f6mxb>

Immigrants are more likely to be found in informal jobs for several reasons (ILO, 2016<sup>[46]</sup>; OECD/ILO, 2018<sup>[47]</sup>; ILO, forthcoming<sup>[48]</sup>). First, migrants who come as workers are often employed in seasonal jobs which are particularly prone to informality. Second, they are likely to be employed in sectors that feature a

higher share of informality, including agriculture, construction, or care and cleaning. Third, for migrant workers who crossed borders outside of formal migration work schemes, there is a great pressure to find work quickly to repay migration costs or remit money home, all while paying for their housing in the destination country – housing that they typically do not own. This increases the pressure to find any job available, including informal employment. For a particular type of migrants – refugees – the laws of the receiving countries often do not allow them to work, at least not immediately, which means that the only way to complement their income is often through informal jobs. Finally, there are also issues of work permits, language, skill transferability and discrimination which make it all the more difficult to find formal jobs in markets where formal jobs are already tight. In developing countries and certain sectors, formal jobs may mainly be reserved for those migrants who arrive with formal visa and work arrangements already in place.

Russia's war of aggression against Ukraine which has been waging since February 2022 is likely to increase the incidence of informal employment in Ukraine and in countries receiving Ukrainian refugees and lately also for Russians fleeing mobilisation.

### **The household perspective remains key to better understanding vulnerability in the informal economy**

As highlighted in the OECD/ILO report (OECD/ILO, 2019<sup>[49]</sup>), a more detailed insight into the well-being consequences of informality can be obtained if not only the individual dimension but also the household dimension of informality is considered. A household perspective on informality enables us to understand how the informal status of its working members affects other households' members. This in turn enables us to assess the extent to which informal workers' vulnerability is passed on to their dependants. Conversely, the household perspective enables a better understanding of how varying degrees of formality can ensure better protection of other household members, and determine whether there is scope for protecting them through formalisation of the working adults.

If several members of a household are employed differently – formally or informally – households with more than one employed member may have varying levels of informality.

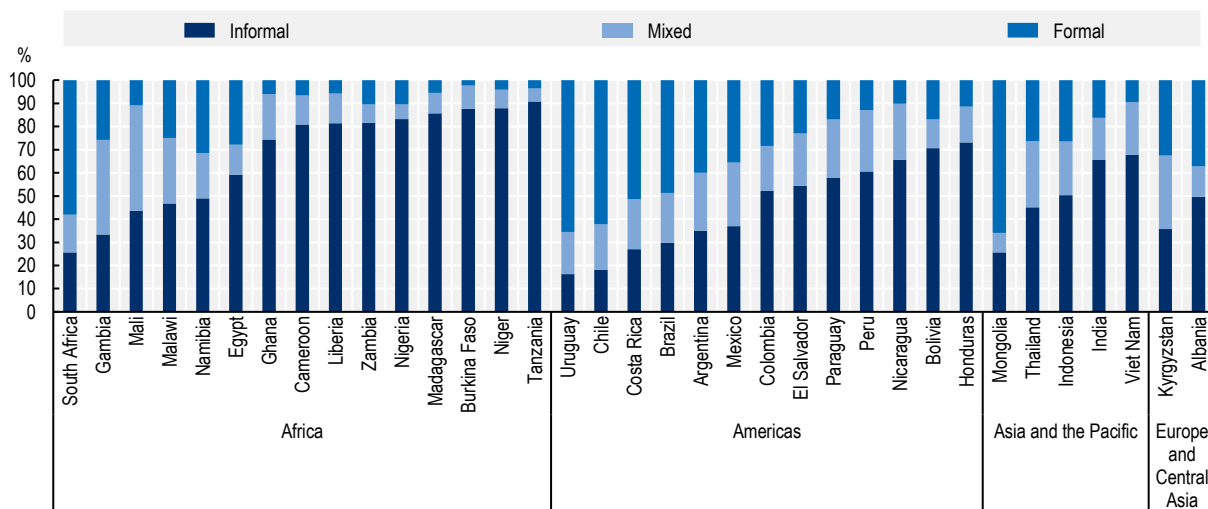
Formally employed workers are more likely than informal workers to be entitled to labour-based social protection. Formal employees have the right to employment-based benefits, such as paid sick leave and annual leave, retirement pensions, and in some countries where such benefit exists and depending on contract modalities, access to unemployment benefits. They also enjoy protection by labour laws, such as occupational safety, standard working hours, and minimum wages where these legal provisions exist. In turn, formal independent workers usually benefit from advantages associated with the legal recognition of their activity, including better income security.

Some of these benefits can protect dependents of formally employed household members either directly – such as by entitling them to, for instance, to medical insurance – or indirectly, through a spillover effect of more evenly spread incomes, lower risks of health and income shocks, and lower cumulated employment-related fatigue. During the pandemic, children of formally working parents also often benefitted from the fact that their formally employed parents had more opportunities to telework within reasonable working hours, thus also having the possibility of dedicating time resources to child education when schools were closed. All of these reasons combined provide a strong rationale for going beyond individual circumstances and for monitoring household-based indicators of informality.

On the eve of the pandemic, in 26 out of 37 developing countries with available data (Figure 2.22), the distribution of the overall population was dominated by completely informal households (i.e. with all working members employed informally). Mixed households were dominant in two countries only: the Gambia and Mali. The degree of informality of households varied across countries and regions was linked to the overall

rate of informality in an economy: it was highest in countries where overall informality was also high. Most of the households with all formally employed members were found in Latin America; and apart from there was only found in South Africa and Mongolia. In contrast, most of the households with all informally employed members were found in Africa: with up to 91% of the population living in households with all informally employed members in Tanzania; the comparable figure in Niger and Burkina Faso was 88%, and in Madagascar 86%. The disproportionate effects of the pandemic on informal workers is likely to have changed these distributions.

Figure 2.22. Distribution of overall population, by degree of informality of households (circa 2019)



Note: Includes all sampled households with at least one worker. Mixed households always have at least two workers.

Source: (OECD, 2021<sup>[45]</sup>), available at: <https://www.oecd.org/dev/key-indicators-informality-individuals-household-kiibih.htm>.

StatLink  <https://stat.link/l3re0p>

## Key policy messages

Formalisation is not an objective in itself but is a necessary condition for ensuring decent work, poverty reduction and greater equality among people. It is also a condition for fairer competition between more productive and sustainable enterprises. Formalisation also benefits society as a whole because it enhances government scope of action, notably by increasing public revenue and strengthening the rule of law. In so doing, it also contributes to building fairer societies by distributing rights and obligations among its members more equitably. This is a necessary condition, but is insufficient when transition to formal jobs does not translate into a transition to decent jobs. This chapter presented evidence on recent trends in informality and showed that it is a pervasive characteristic of labour markets across the world. While it represents the majority of employment in low- and middle-income countries, it represents about one-fifth of employment in high-income countries.

The chapter also presented evidence on the differential impact that the pandemic-induced crisis had on the informal economy. While at the beginning of the pandemic informally employed workers disproportionately lost their jobs, cross-country trends diverged as countries normalised to living with COVID-19. In some countries, informal employment drove overall employment recovery, while in other countries it lagged formal employment recovery and even contributed to total employment losses. Going beyond trends in the number of jobs, the COVID-19 crisis has amply highlighted and exacerbated the

vulnerabilities and deprivations of informal workers and enterprises, including the lack of social protection. The impact has been most extreme for female workers and has reinforced gender disparities, including in the distribution of unpaid care.

Some characteristics related to employment conditions and enterprises make workers more susceptible to informal employment. Own-account workers are most likely to be informally employed and constitute the largest share of informal employment globally; the majority of digital platform workers (see Chapter 5) and subcontracted workers employed in the lower tiers of supply chains (see Chapter 4) fall into this category. Other non-standard forms of employment, such as temporary employment, are also over-represented among informal jobs. Small enterprises, as well as agriculture and industry, employ a disproportionate share of informal workers. Furthermore, certain groups of individuals, such as young workers and older workers (aged 65+) are also more likely to work informally.

Widespread informality is often the result of the inability of the economy to create formal quality jobs. Moreover, it is a symptom of the inability of institutions to deliver and improve people's lives. It is also the symptom of the need for a renewed social contract built on trust, inclusion, protection and participation of all workers, including those in the informal economy (as further discussed in Chapter 3). Cross-country differences in informality are indeed also a function of the multiplicity of institutions, social norms, cultures, and levels of economic development across the globe. These differences are equally reflected in the diversity of policy responses required to address informality, as identified through the International Labour Organization's (ILO's) Theory of Change on the transition from the formal to the informal economy (ILO, 2021<sup>[15]</sup>) and the Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204).

Strategies to support transitions to formality should be grounded in an in-depth understanding of the informal economy and the impact of various policies within different groups of workers and forms of informality. The informal economy is not a monolith. There is a need to deepen the understanding of the factors and diversity of characteristics of the informal economy and it is important to consider the various levels of vulnerability (as well as protections) within the informal economy.

Integrated strategies aimed at addressing multiple drivers (institutional, policy and others) of informality work best. Decades of country experience have shown that multiple strategies can be applied to facilitate the transition to formality, including policies and measures that affect the environment/context, policies that affect the transversal drivers of informality, policies targeting specific sectors, technology choices, categories of enterprises or groups of workers, and types of informality. Effective formalisation strategies combine interventions to increase the ability of the formal economy to create decent work opportunities to absorb workers and economic units currently in the informal economy; and interventions to strengthen incentives as well as the ability of people and enterprises to enter the formal economy, including by increasing employability. This two-way logic presupposes actions at two levels: at the level of workers and enterprises in the informal economy, and also at the level of the political, policy and institutional environment. Actions at the two levels should be designed with the consultation and participation of informal economy actors (through organisation-building, voice and representation).

In this context, social protection policies have a key role to play. They should be developed with the objective of increasing employability and facilitating the transition to the formal economy while benefitting from it. Better access to decent employment and higher levels of social protection through contributory schemes increase domestic resources, including for the provision of basic social protection, which in turn constitutes an enabling factor for workers' transition to formality.

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## Notes

<sup>1</sup> Unfortunately, due to the lack of large time-series data on informality, there is still little empirical evidence on this relationship, with some contrasted results depending on studies and contexts (Chacaltana, Bonnet and Garcia, 2022<sup>[52]</sup>). (Kucera and Xenogiani, 2009<sup>[52]</sup>) correlate GDP and share of non-agricultural informal employment and conclude that, “at least in the medium term, economic growth does not necessarily lead to a fall in informal employment”. (Jütting and de Laiglesia, 2009<sup>[52]</sup>) present data by region over three decades from 1975 to 2007, for selected countries in Latin America and South and East Asia and conclude that, over this period, growth was accompanied by increasing, not falling, non-agricultural informal employment. Wu and Schneider use data from 158 countries from 1996-2015 and estimates of the shadow economy suggest that the relationship between the shadow economy and GDP is non-linear and instead they propose a U-shaped relationship. The implications if this non linearity, according to the authors, is that the shadow economy is able to coexist with different levels of development and does not disappear in the long term (Deléchat and Medina, 2021<sup>[4]</sup>).

<sup>2</sup> To ensure comparability across countries, and to avoid the gradual but not universal adoption of the more restrictive definition of employment (19th ICLS resolution) (ILO, 2013<sup>[7]</sup>) the global and regional estimates presented in this chapter follow the old definition of employment that notably include subsistence agriculture.

<sup>3</sup> Peru is one of the few countries with available data where informalisation has occurred since the start of the pandemic. The labour market has become more informalised as informal employment growth has exceeded formal employment growth throughout the period from mid-2020 to end-2021.

<sup>4</sup> Non-standard forms of employment comprise four employment arrangements that deviate from the “standard employment relationship” (i.e. other than full time, indefinite and part of a subordinate relationship between an employee and an employer) (ILO, 2016<sup>[19]</sup>).

<sup>5</sup> For example, in 2015 Brazil adopted a law that required employers to register domestic workers with social security schemes only if they worked for more than two days a week. In the Netherlands, households that employ domestic workers for fewer than four days a week are not required to pay taxes on wages or social insurance premiums, which means that domestic workers are excluded from social insurance (ILO, 2021<sup>[21]</sup>).



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