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Extending social protection to informal economy workers: Lessons from the Key Indicators of Informality based on Individuals and their Household (KIiBiH)

Alexandre Kolev, Justina La and Thomas Manfredi



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Extending social protection to informal economy workers

Lessons from the Key Indicators of Informality based on
Individuals and their Household (KIbIH)

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Abstract

This paper exploits the information available in the *OECD Key Indicators of Informality based on Individuals and their Household (KIIBIH)* to shed light on several elements that could help inform national strategies for the extension of social protection to workers in the informal economy. It provides an assessment of current social protection coverage of informal workers throughout a large sample of developing and emerging economies and proposes a statistical framework to examine country-specific data, upon which a strategy for extending social protection to informal workers could be articulated. While the paper does not intend to provide detailed country-level recommendations, it highlights a number of important findings and policy directions as regards the way to extend non-contributory and contributory schemes to informal workers.

JEL classification: I31, I38, J46.

Keywords: Informal employment, social protection.

Résumé

Ce document de travail se fonde sur les informations tirées des *Indicateurs clés de l'OCDE sur l'informalité en fonction des individus et leurs ménages (KIIBIH)* pour mettre en lumière un certain nombre d'éléments nécessaires à la mise en place de stratégies pour l'extension de la protection sociale aux travailleurs de l'économie informelle. Il dresse un état des lieux de la couverture actuelle des travailleurs informels en matière de protection sociale à partir d'un large échantillon d'économies en développement et émergentes, et propose un cadre statistique pour exploiter les données spécifiques aux pays et à partir duquel pourrait s'articuler une stratégie d'extension de la protection sociale aux travailleurs informels. Bien que ce document de travail n'ait pas pour but de fournir des recommandations de politiques publiques détaillées par pays, il met en avant une série de résultats et d'orientations en matière de politique publique visant l'extension des systèmes contributifs et non-contributifs aux travailleurs informels.

Classification JEL : I31, I38, J46.

Mots clé : travail informel, protection sociale.

Foreword

In low- and middle-income countries, the livelihoods of a majority of people depend on the informal economy. This in essence leaves a majority of economic agents and their dependents outside the realm of public policy. In the informal economy, the lack of access to appropriate risk management instruments, combined with large poverty and occupational risks, push many informal economy workers into income insecurity or make them vulnerable to income poverty.

To help governments, firms and workers invest in the social protection of informal workers and inform policy guidance on formalisation, more information is needed about the diverse needs of informal workers that vary according to their individual and household characteristics.

This paper uses the *OECD Key Indicators of Informality based on Individuals and their Household (KIIBIH)* database to shed light on key elements that could inform national strategies for the extension of social protection to workers in the informal economy. In doing so, it offers a statistical framework for further, detailed country studies on the way to extend contributory and non-contributory social protection schemes to informal workers.

These findings add to the work by the OECD Development Centre on informality and social protection in countries at different stages of development. We hope these findings will make the case that extending social protection to informal economy workers is possible, and as such, help countries identify ways to deliver on the promise of the Sustainable Development Goals, especially Target 1.3, to implement national social protection systems for all.

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1. Introduction

In low- and middle-income countries, the livelihoods of a majority of people depend on the informal economy. Through a range of market and non-market activities, actors in the informal economy contribute to the functioning of their economy and society at large. Yet, informal economy workers often fall outside the purview of public policy because their contributions are not well understood, recognised, or valued. This leaves many economic agents and their dependents outside the realm of some public policy, among which social protection. In the informal economy, the lack of access to appropriate risk management instruments, combined with low and irregular income and occupational risks, push many informal economy workers into income insecurity or make them vulnerable to income poverty.

In recent years, several steps have been taken to recognise the reality of the informal economy and address some of its adverse effects on well-being. The adoption in June 2015 of the ILO Recommendation 204 on the transition from the informal to the formal economy, and the inclusion of a direct reference to formalisation in Target 8.3 of the UN Sustainable Development Goals are the most visible examples.

More recently, the COVID-19 crisis and related lockdown measures adopted by several governments have further highlighted the vulnerabilities of the vast informal economy (ILO, 2020^[1]; ILO, 2020^[2]; Guven, Jain and Joubert, 2021^[3]). In the absence of social protection, many workers in the informal economy had difficulties to make a living and feed their families. A recent WIEGO study on the impact of the crisis on informal workers found that by mid-2021, workers were earning only 64% of their normal income (Alfers et al., 2022^[4]). At the same time, they were among those worst hit by lockdown measures and many of them worked in the hardest-hit sectors (ILO, 2020^[5]).

Although many governments have taken emergency measures by extending existing or establishing new social protection schemes and programmes (ILO, 2020^[2]; WIEGO, 2020^[6]), most of these measures were short-term emergency programmes and often not sufficient to address the longer-term needs of informal economy workers (ILO, 2020^[1]). Today, the extension of social protection to informal economy workers remains a critical challenge in many countries in the world and it has important implications for future policy development and sustainability.

Looking forward, to help governments, firms and workers invest in the social protection of informal workers and contribute to formalisation, in-depth information that captures the heterogeneity of informal economy workers and that considers the broader context of their households is very much needed. The *Key Indicators of Informality based on Individuals and their Household (KIIBIH)* database seeks to address this need. The KIIBIH is a new database compiled by the OECD Development Centre and is of primary interest for policy makers engaged in the formalisation agenda and the extension of social protection. The KIIBIH relies on household surveys and provides harmonised and comparable indicators across countries related to informal employment measured at the level of individuals and their household. Currently, the database covers 42 countries.

The aim of this paper is to shed light on some key elements that could help inform national strategies for the extension of social protection to workers in the informal economy using the information of the KIIBIH database. The paper does not intend to provide detailed country-level recommendations, it instead provides a cross-country analysis to develop a framework that could serve as an entry point for further in-depth country diagnoses. Relevant policy questions include: What is the actual social protection coverage

of informal workers in the sample of countries covered by the KIlbIH? What could be the different criteria and options to extend social protection to informal economy workers, considering the information available in the KIlbIH on informal workers and their households?

Section 2 starts by presenting the data and the methodology. Section 3 looks at the coverage of contributory and non-contributory schemes across different types of informal workers. Section 4 displays detailed portraits of informal workers and their households that could lay the foundations for the extension of social assistance and social insurance to workers in the informal economy and, in some cases, their de-facto formalisation. The last section concludes with some concrete directions for the development of national strategies for the extension of social protection to workers in the informal economy and the formalisation of their job.

2. Data and methodology

The *Key Indicators of Informality based on Individuals and their Household (KIIBIH)* database is a new OECD database that provides information on informal workers and their households in emerging and developing countries (OECD, 2021^[7]). Building upon household surveys, the KIIBIH database provides comparable indicators and harmonised data on informal employment, and the well-being of informal workers and their dependents. It currently covers 42 countries across North and sub-Saharan Africa, Eastern Europe and Central Asia, Asia and the Pacific, Latin America and the Caribbean. However, in this paper, the sub-set of KIIBIH countries included in the analysis covers only fifteen African countries, twelve LAC countries, five Asian and Pacific countries and three Eastern European and Central Asian countries for which enough information on social protection is available.

In this paper, we look primarily at the population of informal workers. The definition of informal employment issued by the KIIBIH database follows, as far as survey questionnaires allow, the operational definition currently recommended by the ILO, following standards from the 15th and 17th ICLS. As per recommended criteria, employees are in formal employment when their employer contributes to a statutory pension scheme on their behalf or, in the absence of information, when they benefit from paid annual leave and paid sick leave; and employers and own-account workers are formal when they belong to the formal sector (i.e. their economic unit is registered with the competent authorities). Contributing family workers are always considered informal. Figure 1 illustrates the operational definition that is used by the ILO and the KIIBIH database to classify workers as either formal or informal.

Based on the information available, the definition of social protection coverage in the paper includes contributory pensions, employment-based health insurance, universal health programmes, unemployment insurance, and/or unconditional/conditional cash transfers. Social protection is then further divided into two sub-categories:

- Contributory social protection constitutes contributory (usually employment-based) pensions, employment-based health insurance, unemployment insurance.
- Non-contributory social protection constitutes unconditional and conditional cash transfers, including non-contributory pensions.

While in reality social protection programmes are far more expansive and cover many more programmes than the ones included here, as for instance maternity, sickness, family, employment injury, invalidity, we only added the categories for which we have sufficient data and considered to be part of the basic tenants of contributory or non-contributory social protection (the most widespread programmes).

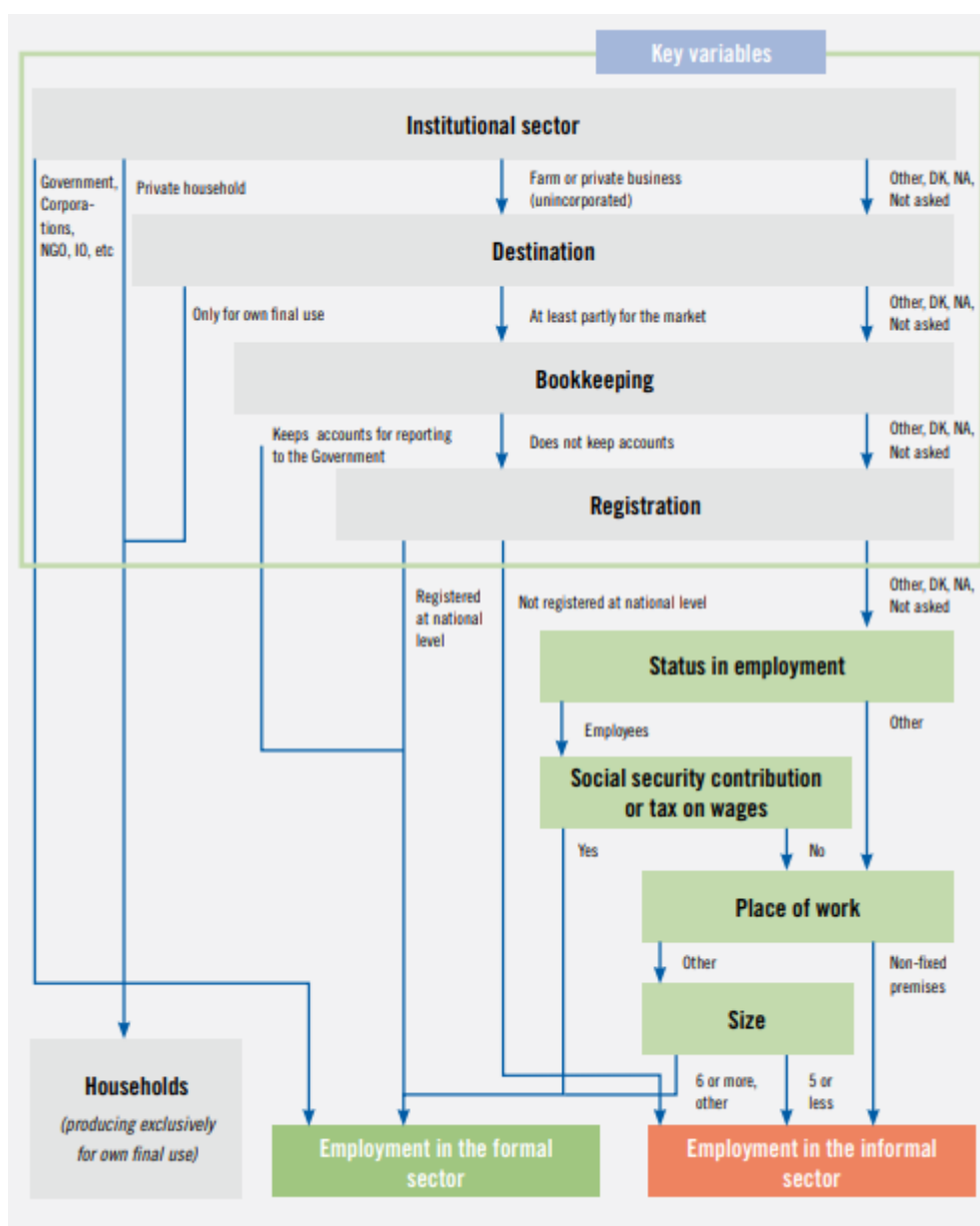
Due to the nature of the underlying data, the data on social protection coverage presented in this paper is estimated based on reported direct beneficiaries of social protection programmes or contributors to contributory schemes and indirect beneficiaries. We are able to identify direct beneficiaries when survey respondents report benefiting from social protection programmes at the individual level (typically available for contributory schemes). However, in many household surveys, information on social protection benefits is collected at the household level (usually for non-contributory schemes). Indirect beneficiaries, therefore, refer to those individuals belonging to a household that has reported receipt of one or more social protection programmes. Furthermore, some of the underlying surveys combine data collection at the

individual and household level. We opt to include both direct and indirect beneficiaries to maximise the amount of information that we can report.

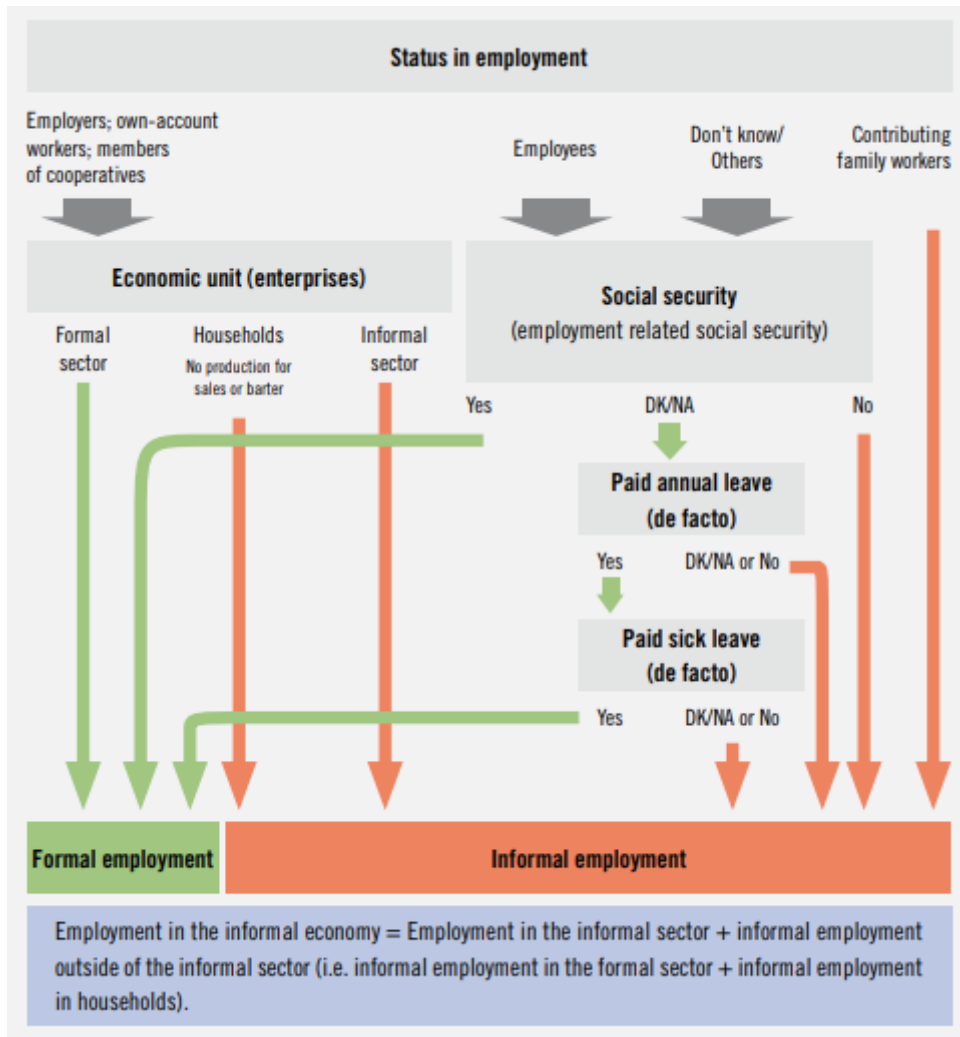
Certain caveats accompany this approach, however. While the KIIBIH database is based on household surveys, questions on social protection programmes vary between survey questionnaires from different countries and the information on social protection is not necessarily consistent across survey instruments. There may also be overestimation of coverage due to taking both direct and indirect beneficiaries. Additionally, it is important to recognise that the data provided are estimated rates of coverage of certain types of social protection, and that household surveys rarely have information on specific programmes. To address some of these constraints, only a subset of the countries covered by the KIIBIH database is used in order to ensure comparability and consistency on social protection variables across surveys.

Figure 1. Definition of informal economy

A. Definition of informal sector



B. Definition of informal employment



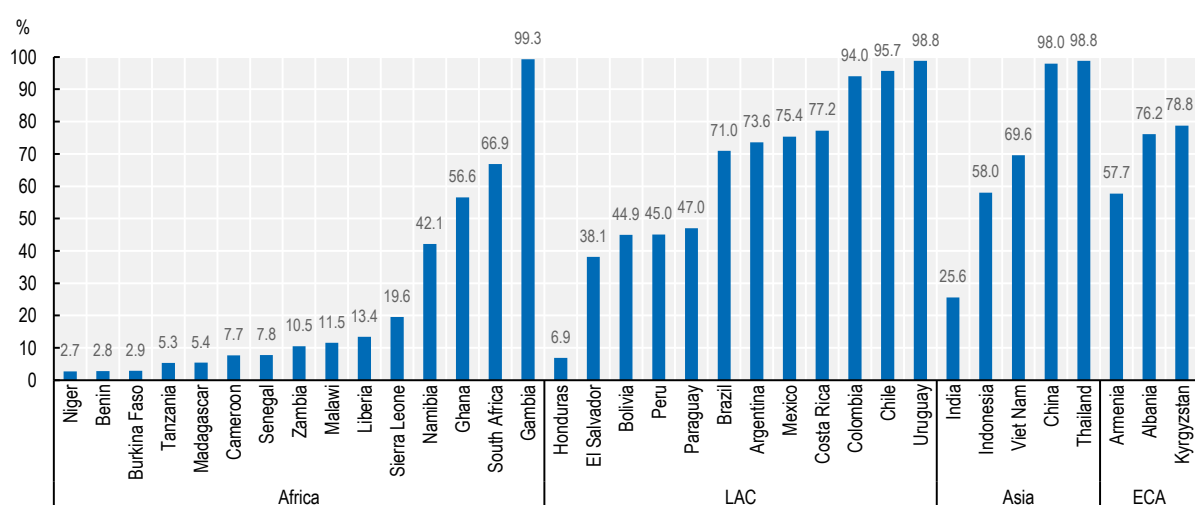
Source: ILO (2018^[8]), *Women and men in the informal economy*.

3. Social protection coverage among informal economy workers

In contrast to the data available on the formal economy, relatively little is known about the social protection coverage in the informal economy and its distribution across different categories of informal workers. In this section, we start by comparing the coverage of contributory and non-contributory schemes between informal and formal workers. We then explore how individual and household characteristics may influence the social protection coverage gap of different categories of workers in the informal economy. However, we do not intend to discuss targeting issues nor the adequacy of all benefit levels, as these would go beyond the scope of this paper.

Figure 2. Social protection of workers lags in some parts of the world, yet thrives in others

Percentage of workers contributing to and/or benefiting from at least one form of social protection



Note: Social protection programmes include contributory pensions, employment-based health insurance, unemployment insurance, universal health programmes, and unconditional and conditional cash transfers (including non-contributory pensions). Coverage rates are calculated for direct and indirect beneficiaries of social protection programmes and contributors to social insurance programmes. Surveys for some countries do not include specific questions on all the programmes, and this can affect cross-country comparisons. It is important to note that coverage rates provided here for any particular country are only estimated to the best extent possible given data quality and are not necessarily indicative of adequate targeting or adequate benefit levels. In many of the countries discussed here, social protection coverage refers to whether an individual is a direct beneficiary or contributor or indirect beneficiary of at least one social protection programme within the past month or past year.

Source: Authors' calculations based on (OECD, 2021[7]), *Key Indicators of Informality based on Individuals and their Household (KIIBIH) database*, <https://www.oecd.org/dev/key-indicators-informality-individuals-household-kiibih.htm>.

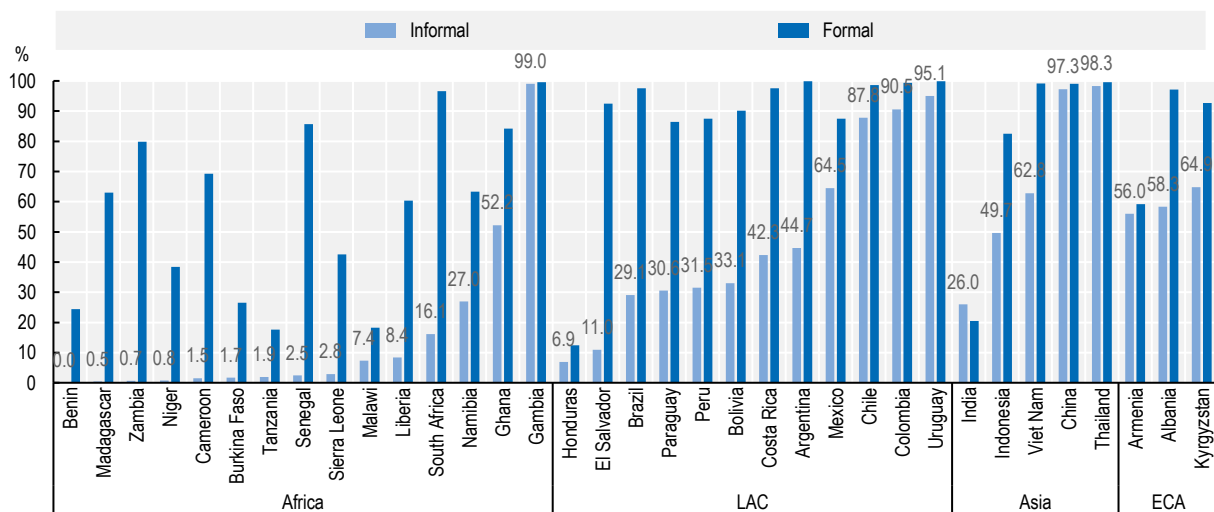
Evidence from the KIIBIH indicates that social protection coverage of workers is often inconsistent and sparse throughout the world, but the story varies by countries. The percentage of workers who benefit from a social protection programme, directly or indirectly, is lowest in the sample of African countries, and

relatively higher in the sample of Latin American, Eastern European and Central Asian countries, and in the sample of countries from Asia and the Pacific (Figure 2). This echoes common knowledge about the availability of social protection in countries from different regions: African countries have fewer resources to sustain social protection systems, and programme coverage is therefore lower. In our Eastern Europe and Central Asia sample of countries, some forms of social protection have become ubiquitous, such as mandatory private funded pensions. In many parts of Asia, social protection is typically low, but a large mix of programmes yield high coverage estimates (see footnote of Figure 2). In Latin America, social protection systems are generally well-funded with a variety of programmes ranging between insurance, transfers, and other forms of protection.

KIIBIH estimates further illustrate the large social protection gap between formal and informal workers. More than 70% of formal workers in the countries surveyed, expressed a simple average across countries, benefit from or contribute to at least one of the following programmes: contributory pension, employment-based health insurance, universal health programmes, unemployment insurance, or cash transfers (hereafter, collectively constituting *social protection coverage*) (Figure 3). In comparison, about 37% of informal workers benefit or are covered from one of the same programmes. There are also large disparities across regions and countries. Coverage is particularly low amongst African countries, and much higher in Latin American, Asian and Eastern European countries.

Figure 3. Informal workers are half as likely as formal workers to contribute and/or benefiting by social protection

Percentage of informal workers and formal workers contributing to and/or benefiting from social protection



Note: Social protection programmes include contributory pensions, employment-based health insurance, unemployment insurance, universal health programmes, and unconditional and conditional cash transfers (including non-contributory pensions). Coverage rates are calculated for direct and indirect beneficiaries of social protection programmes and contributors to social insurance programmes. Surveys for some countries do not include specific questions on all the programmes, and this can affect cross-country comparisons.

Source: Authors' calculations based on (OECD, 2021^[7]), *Key Indicators of Informality based on Individuals and their Household (KIIBIH) database*, <https://www.oecd.org/dev/key-indicators-informality-individuals-household-kiibih.htm>.

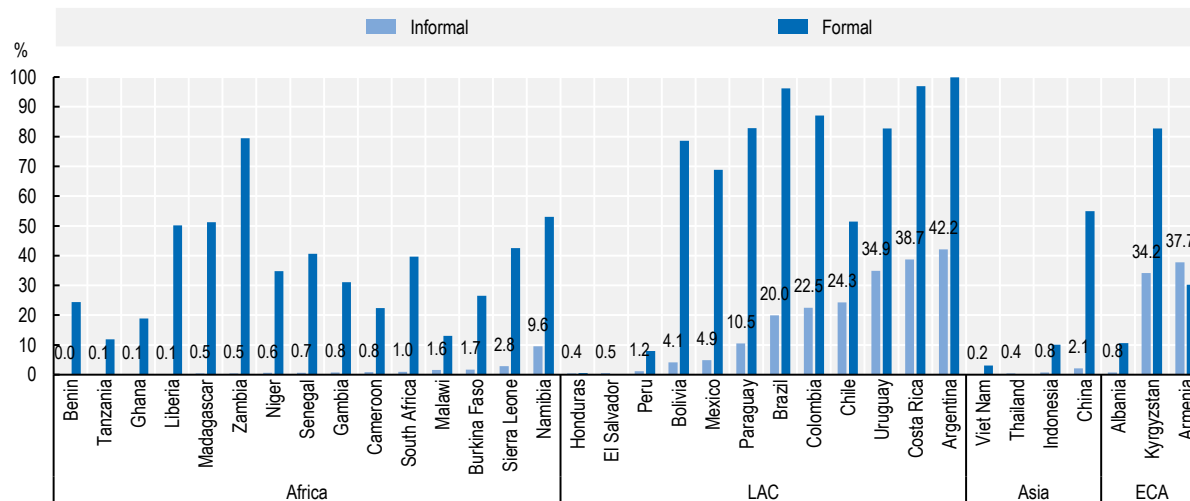
To a large extent, the social protection gap between formal and informal workers reflects a disadvantage of informal workers as regards contributory schemes. As shown in Figure 4 indeed, formal workers are much more likely to be covered by contributory programmes (43.7%) than informal workers (8.9%). This can be seen as self-evident given the way informal workers are defined, in particular the fact that the main criteria for classifying formal wage workers is contributing to employment-based social protection, with

some contribution made by the employer. At the same time, it is due to different contributory capacities and access. Informal workers are in fact usually unable to access contributory schemes either because they are excluded from the scope of social security or because they are excluded from it in practice, due to the non-payment of contributions and lack of capacity to contribute to them, among other things. Yet, informal workers can (and as evidenced, do) benefit from some contributory schemes, thanks to certain programmes¹ that have effectively lifted access barriers for such workers while facilitating their transition to formality (Güven et al. and ILO, 2020^[9]).

In contrast, non-contributory programmes tend to be spread more equally across workers irrespective of their formal/informal status. This may well reflect the fact that informal workers are more likely to receive lower pay and more likely to live under the poverty line. In case of well-targeted social assistance programmes, they should therefore rely more on government assistance (non-contributory programmes) to meet basic needs compared to formal workers. This is confirmed by the data, but the extent varies by countries and regions. In the sample of African countries, 29.4% of formal workers and 17.2% of informal workers benefited from non-contributory programmes; in the sample of Asian countries, 62.3% of formal workers benefited and 66% of informal workers benefited from non-contributory programmes (Figure 5). The sample of Latin American countries presents a notable exception, wherein the country average non-contributory programme coverage of informal workers (33.1%) by far outstrips coverage of formal workers (24.7%), probably reflecting the extension of cash transfers to poor households who are more likely to be in the informal economy.

Figure 4. Formal workers are more likely to contribute and/or benefiting from contributory schemes than informal workers

Percentage of informal workers and formal workers contributing to and/or benefiting from by contributory social protection



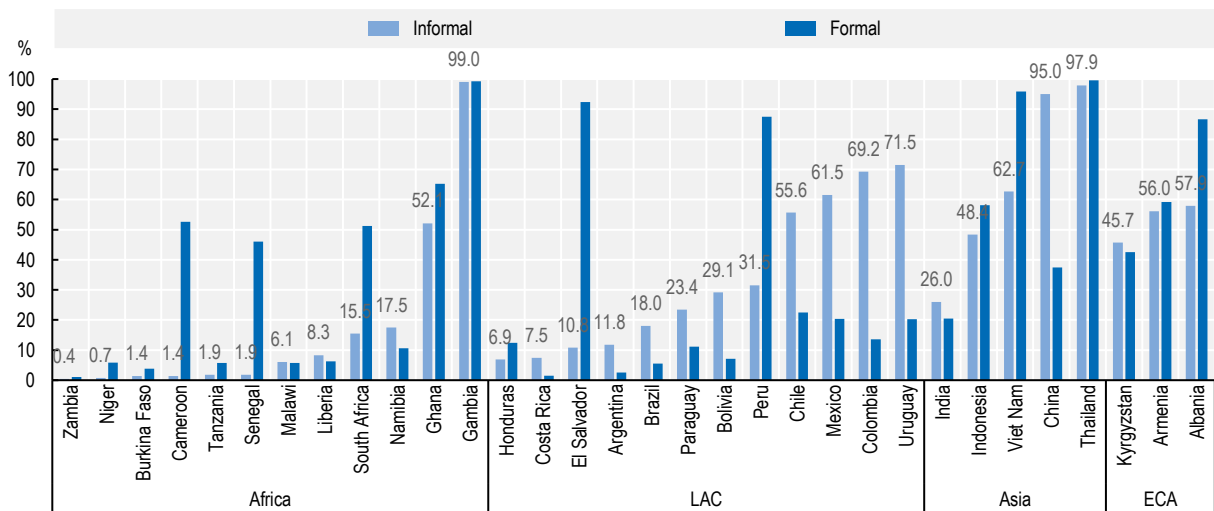
Note: Contributory social protection programmes include contributory pensions, employment-based health insurance, unemployment insurance. Coverage rates are calculated for direct and indirect beneficiaries of social protection programmes and contributors to social insurance programmes. Surveys for some countries do not include specific questions on all the programmes, and this can affect cross-country comparisons.

Source: Authors' calculations based on (OECD, 2021^[7]), *Key Indicators of Informality based on Individuals and their Household (KIIBIH)* database, <https://www.oecd.org/dev/key-indicators-informality-individuals-household-kiibih.htm>.

¹ For example, monotax schemes and others. Further discussion to follow later in the paper.

Figure 5. Non-contributory programmes may cover more informal workers than formal workers

Percentage of informal workers and formal workers benefiting from non-contributory social protection



Note: Non-contributory social protection programmes include universal health programmes, unconditional and conditional cash transfers (including non-contributory pensions). Coverage rates are calculated for direct and indirect beneficiaries of social protection programmes and contributors to social insurance programmes. Surveys for some countries do not include specific questions on all the programmes, and this can affect cross-country comparisons.

Source: Authors' calculations based on (OECD, 2021^[7]), *Key Indicators of Informality based on Individuals and their Household (KIIBIH) database*, <https://www.oecd.org/dev/key-indicators-informality-individuals-household-kiibih.htm>.

Status in employment can be expected to have an influence on social protection coverage, as well. This is especially the case for contributory schemes, as the status in employment may impact the regularity of work and earnings, and statutory access to insurance-based schemes. Yet, the KIIBIH data show that in countries for which information is available, the overall social protection (contributory and non-contributory) coverage rates of informal workers do not seem to be markedly different across employment status.

This is also true when looking at coverage rates separately for contributory and non-contributory schemes. For contributory schemes indeed, in many countries only informal employers tend to have a higher coverage rate (17.8% on average), compared to other statuses in employment, like informal employees (8.7%), informal own-account workers (11.6%) and contributing family workers (9.3%). This trend is more pronounced in the sample of countries in Africa, Latin America, and Asia (Figure 6, Panel A). For non-contributory schemes, the difference across employment status is also limited. Own-account workers and contributing family workers have only a slightly higher coverage rate (above 35%), compared to that of employees and employers (close to 33%) (Figure 6, Panel B).

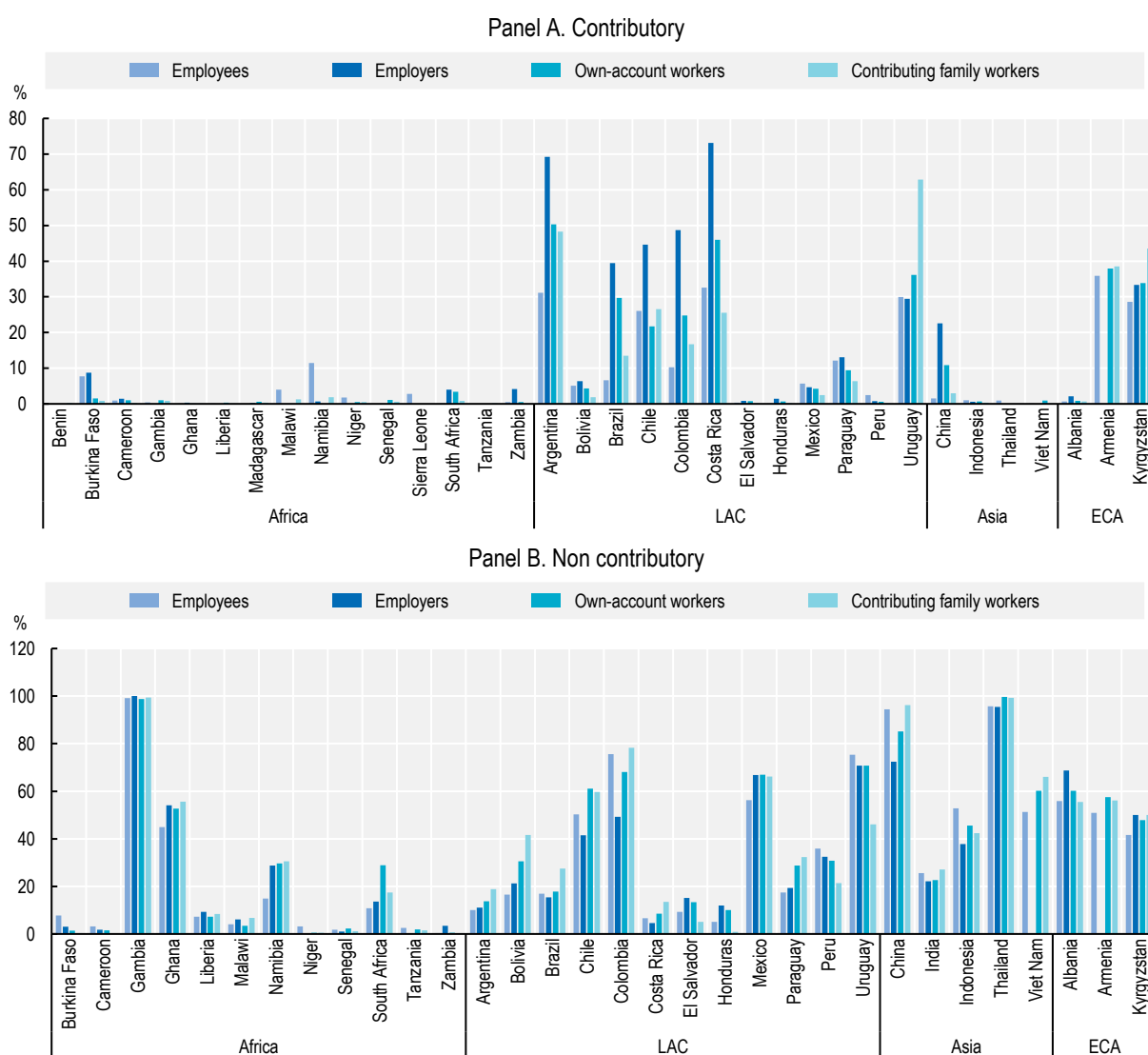
To some extent, the result for non-contributory schemes, which are mainly cash transfers, is not surprising as one may expect that the coverage rate would be highly correlated with the level of income more so than by the actual status in employment.

As regards contributory schemes, however, it may reflect altogether a relative improvement in statutory access in some countries, and the remaining difficulty for many informal workers in other countries to join contributory schemes. It is clear indeed that in some countries in LAC and Asia, a number of self-employed and contributing family workers have been able to enrol in insurance schemes, while some informal employees were able to either formalise (i.e. contribute to employment-based social protection, with some contribution made by the employer), to enrol in voluntarily contributory schemes, or to be covered through other household members. In the People's Republic of China (hereafter "China"), enrolment in programmes such as pensions for flexible employees, enterprise annuities, and commercial pension

insurance on a voluntary basis allow for the coverage of a great number of informal workers. Interestingly, a non-negligible number of contributing family workers also report contributing to some form of social insurance, such as a retirement pension or a health insurance plan, lending further support to the potential for innovative forms of contributory social protection. At the same time, in many other countries, contributory coverage rates of informal workers are very small. These schemes are indeed either voluntary individual schemes for which very few employees and family workers would have the capacity or the willingness to contribute (as they would be substituting for their employers' contribution), or enterprise-based forms of coverage where only employers may actually be contributing or registering.

Figure 6. Coverage of contributory and non-contributory schemes among informal workers can be non-negligible in some countries, even for non-employees

Percentage of informal workers contributing and/or benefiting from insurance schemes by status in employment

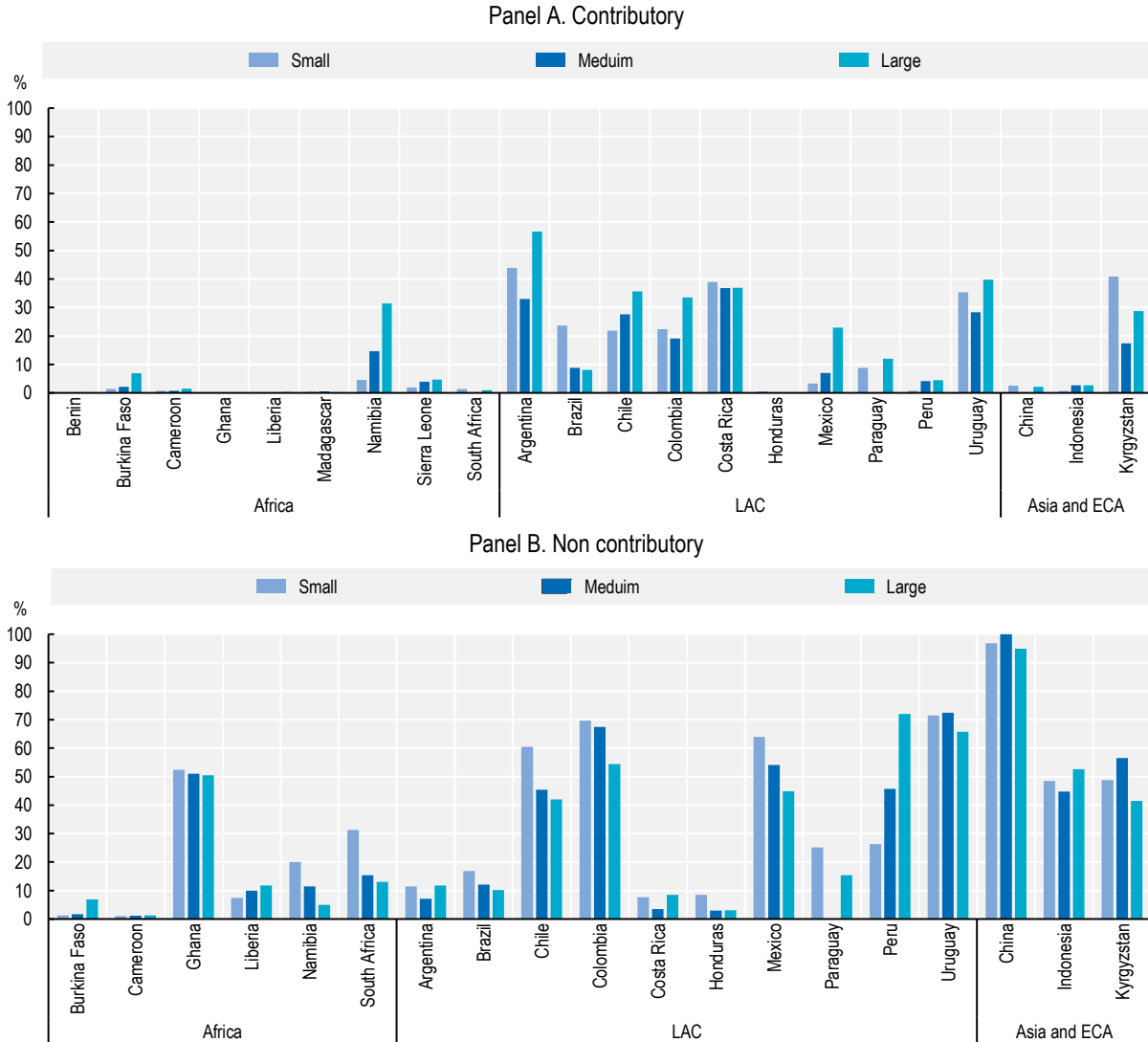


Note: Coverage rates are calculated for direct and indirect beneficiaries of social protection programmes and contributors to social insurance programmes. Contributory social protection programmes include contributory pensions, employment-based health insurance, unemployment insurance.

Source: Authors' calculations based on (OECD, 2021^[7]), *Key Indicators of Informality based on Individuals and their Household (KIIBIH) database*, <https://www.oecd.org/dev/key-indicators-informality-individuals-household-kiibih.htm>.

Figure 7. Informal workers in large firms are more likely to have some form of insurance, and less likely to rely on government assistance

Percentage of informal workers contributing to and/or benefiting from social protection in firm size category



Contributory social protection programmes include contributory pensions, employment-based health insurance, unemployment insurance. Non-contributory social protection programmes include universal health programmes, unconditional and conditional cash transfers (including non-contributory pensions). Coverage rates are calculated for direct and indirect beneficiaries of social protection programmes and contributors to social insurance programmes. Surveys for some countries do not include specific questions on all the programmes, and this can affect cross-country comparisons. Due to inconsistency in measurement of firm size in the relevant the household surveys, it was impossible to fully harmonise firm size categories. The exact number of employees in each category varies by country, but it is generally 0-5 persons in micro/small firms, 6-20 persons in medium firms, and 21 and more persons in large firms.

Source: Authors' calculations based on (OECD, 2021^[7]), *Key Indicators of Informality based on Individuals and their Household (KIbIH) database*, <https://www.oecd.org/dev/key-indicators-informality-individuals-household-kiibih.htm>.

Firm size is another factor that influences both the likelihood of being covered by social protection and the type of social protection. According to the KIbIH data, most informal workers operate in a micro, small or medium-sized firm (MSME), with five or less employees. 73.1% of informal workers, expressed as a simple average across countries, are concentrated in micro and small enterprises and 11.3% work in medium-sized firms (6-20 employees). MSMEs play an important role in developing economies, but they

are often less productive and employ workers with fewer skills than larger firms. They are thus more likely to struggle to offer decent wages and employment-based social protection. Moreover, low wages and lack of access to social protection has a negative impact on productivity and the enterprise's profitability and ability to sustain the costs of formalisation. Hence, informal workers in MSMEs may rely more on non-contributory forms of social protection, and be less likely covered by contributory forms of social protection.

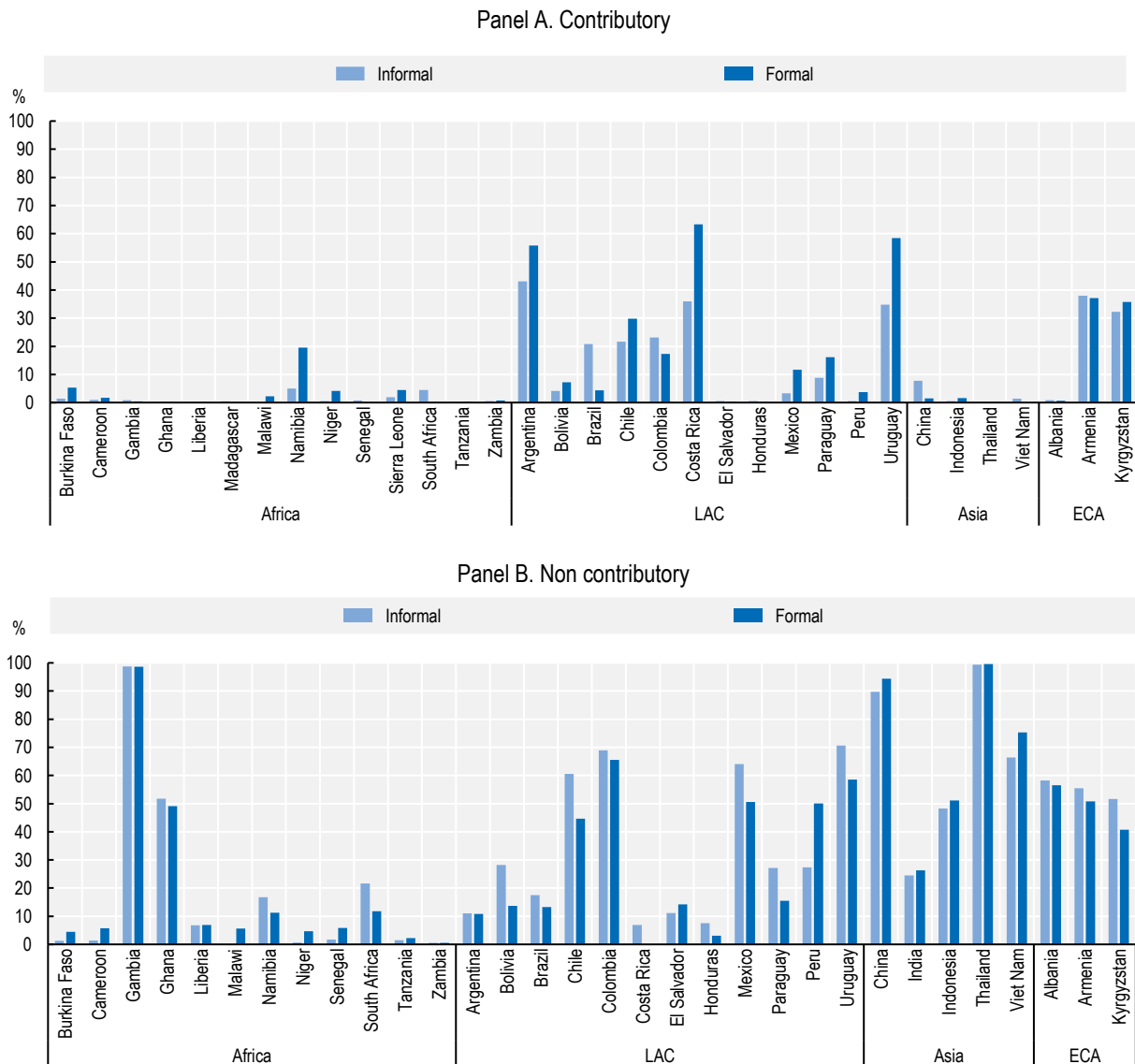
Indeed, informal employees in large firms are relatively more likely to be covered by some form of insurance (contributory schemes) and less likely to benefit from government assistance (non contributory schemes) (Figure 7). An average of 15.7% of informal workers in large firms, expressed as a simple average across countries, reported coverage by at least one contributory scheme in our sample of countries, compared to 11.6% of informal workers in micro/small firms, and 11.5% of informal workers in medium firms (Figure 7, Panel A). 31.9% of informal workers in large firms benefited from a non-contributory programme, compared to 35.2% of informal workers in micro/small firms, and 33.5% of informal workers in medium firms (Figure 7, Panel B).

Disparities can also arise depending on whether informal economy workers are operating in the formal sector or in the informal sector. On the one hand, given that compliance and the enforcement of labour regulations is low in the informal sector, informal workers that operate in the informal sector may face more barriers to enroll in contributory schemes than informal workers in the formal sector. On the other hand, if informal workers in the informal sector experience greater poverty than informal workers in the formal sector, the incidence of social assistance recipients among informal workers may be higher in the informal sector than in the formal sector.

We find indeed that while informal workers in the formal sector may have higher chances of benefiting from at least some social protection, there are differences in coverage between contributory and non contributory schemes. Informal workers in the formal sector have a wider coverage of contributory schemes (12.4%) than those in the informal sector (9.8%) (Figure 8, Panel A). In contrast, non-contributory schemes are slightly more accessible by those in the informal sector (35.4%) than for those in the formal sector (33.6%) (Figure 8, Panel B). In other words, contributory social protection seems to be relatively easier to access for informal workers in the formal sector, and harder for those in the informal sector, even if wide heterogeneity exists across countries. Inversely, non-contributory programme coverage seems to be higher among informal workers in the informal sector, as opposed to informal workers in the formal sector.

Figure 8. Informal workers in the formal sector are better covered by social protection

Percentage of informal workers contributing to and/or benefiting from social protection in the informal/formal sector



Note: Contributory social protection programmes include contributory pensions, employment-based health insurance, unemployment insurance. Non-contributory social protection programmes include Universal health programmes, unconditional and conditional cash transfers (including non-contributory pensions). Coverage rates are calculated for direct and indirect beneficiaries and contributors to social insurance programmes. Surveys for some countries do not include specific questions on all the programmes, and this can affect cross-country comparisons.

Source: Authors' calculations based on (OECD, 2021^[77]), *Key Indicators of Informality based on Individuals and their Household (KIIBIH) database*, <https://www.oecd.org/dev/key-indicators-informality-individuals-household-kiibih.htm>.

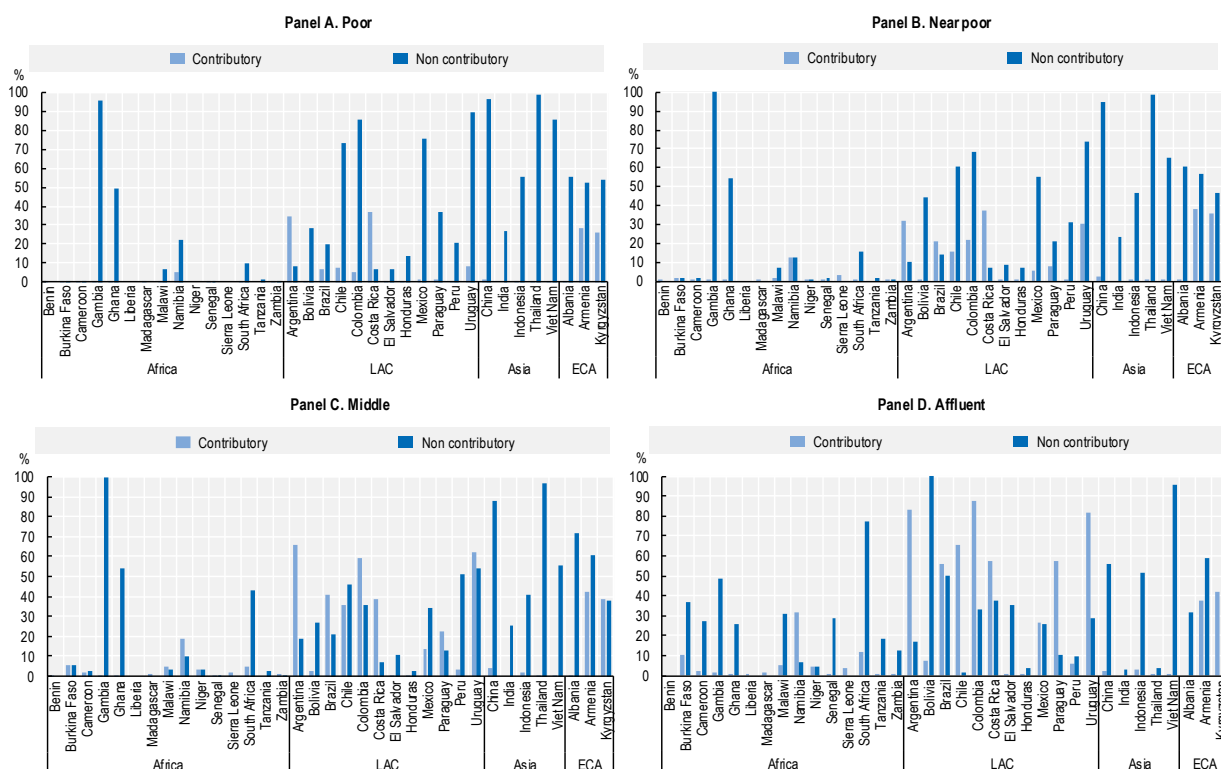
Informal workers benefit differently from social protection depending on their income classes,² as well. Contributory schemes tend to benefit richer informal workers more than poorer ones, while non-contributory schemes typically benefit poorer informal workers rather than richer ones (Figure 9). Overall, in our sample of countries, only 5% of poor informal workers are covered by some type of contributory scheme, compared to 20.4% of affluent informal workers. Likewise, 39.3% of poor informal workers are

² Income status here is also inclusive of some countries for which consumption information is used as a proxy.

covered by a non-contributory programme, in comparison with 31.4% of affluent informal workers that benefit. Coverage levels also differ by countries. In the sample of countries from LAC and Asia, non-contributory programmes appear better channeled towards the most vulnerable informal workers, whereas in the sample of African countries affluent informal workers are more covered by both contributory and non-contributory schemes.

Figure 9. Contributory schemes tend to benefit the better off, while non-contributory schemes are relatively pro-poor

Percentage of informal workers contributing to and/or benefiting from social protection by economic class category



Note: Contributory social protection programmes include contributory pensions, employment-based health insurance, unemployment insurance. Non-contributory social protection programmes include universal health programmes, unconditional and conditional cash transfers (including non-contributory pensions). Coverage rates are calculated for direct and indirect beneficiaries of social protection programmes and contributors to social insurance programmes. Surveys for some countries do not include specific questions on all the programmes, and this can affect cross-country comparisons. Economic classes are based on four absolute per capita per day welfare thresholds, which differ by income level. LIC: Poor, Int. USD 2.15/day or less; Near poor, Int. USD 2.15-4/day; Middle, Int. USD 4-8/day; Affluent, Int. USD 8/day or more. LMIC: Poor, Int. USD 3.65/day or less; Near poor: 3.65-7/day; Middle, Int. USD 7-20/day; Affluent, Int. USD 20/day or more. UMIC and HIC: Poor, Int. USD 6.85/day or less; Near poor, Int. USD 6.85-15/day; Middle, Int. USD 15-70/day; Affluent, Int. USD 70/day or more.

Countries included in each regional average: (Africa) Burkina Faso, Cameroon, Gambia, Ghana, Madagascar, Malawi, Namibia, Niger, Senegal, South Africa, Tanzania, Zambia; (LAC) Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, El Salvador, Honduras, Mexico, Paraguay, Peru, Uruguay; (Asia) China, India, Indonesia, Thailand, Viet Nam; (ECA) Albania, Armenia, Kyrgyzstan.

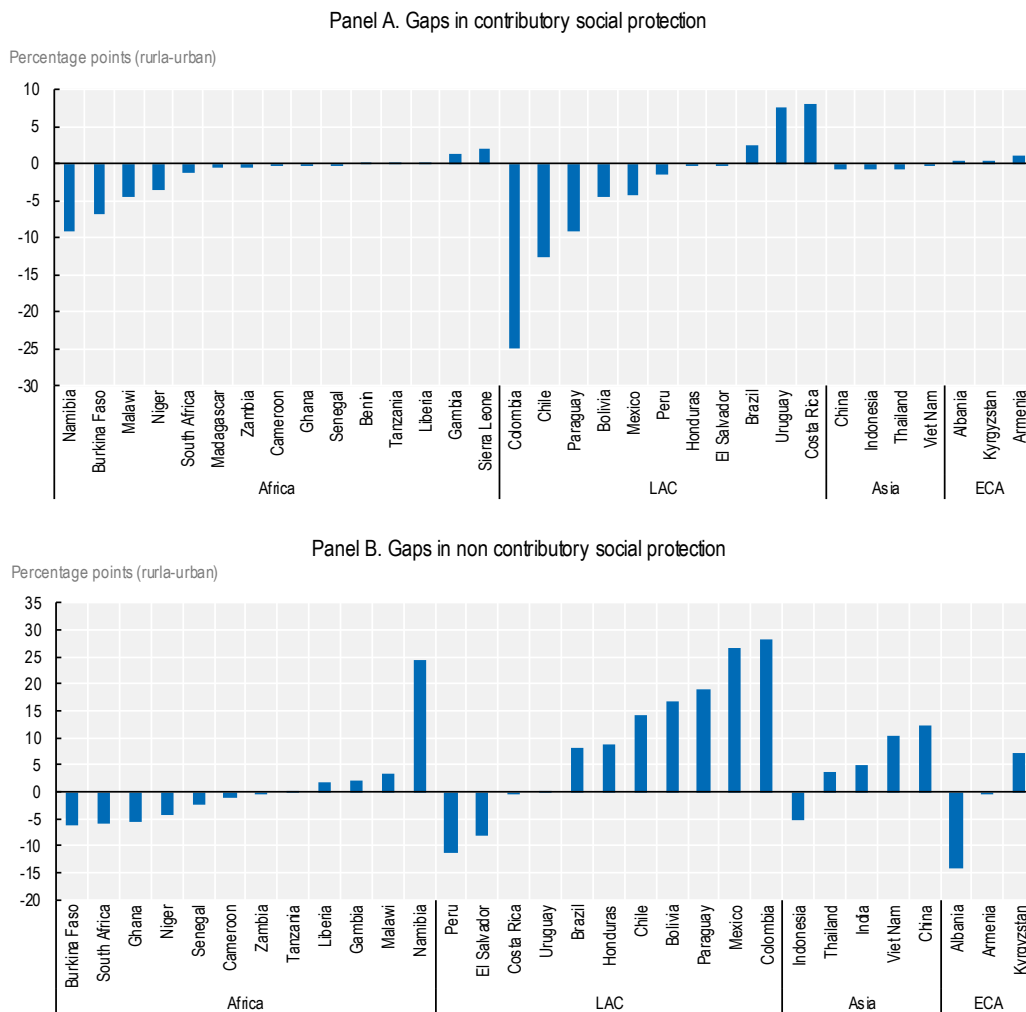
Source: Authors' calculations based on (OECD, 2021^[7]), *Key Indicators of Informality based on Individuals and their Household (KIIBIH) database*, <https://www.oecd.org/dev/key-indicators-informality-individuals-household-kiibih.htm>.

Informal workers also appear to benefit from different types of social protection when they live in rural versus urban areas. Urban informal workers have better access to contributory programmes, but rural informal workers are better covered by non-contributory programmes (Figure 10). Indeed, in two out of three countries for which information is available, urban informal workers were more likely to benefit from

contributory programmes than rural informal workers (Figure 10, Panel A). Rural informal workers report better coverage by cash transfer schemes than urban informal workers by nearly the same ratio (58% of the countries for which information is available (Figure 10, Panel B). These results likely mirror a large rural-urban income gap, with much of the rural labour force precariously employed in agriculture, as well as the greater difficulty in rural areas to distribute and manage contributory schemes, and to inform eligible participants about contributory schemes.

Figure 10. Informal workers benefit from different types of schemes in rural and urban areas

Difference in contributory and non-contributory social protection coverage between rural and urban informal workers

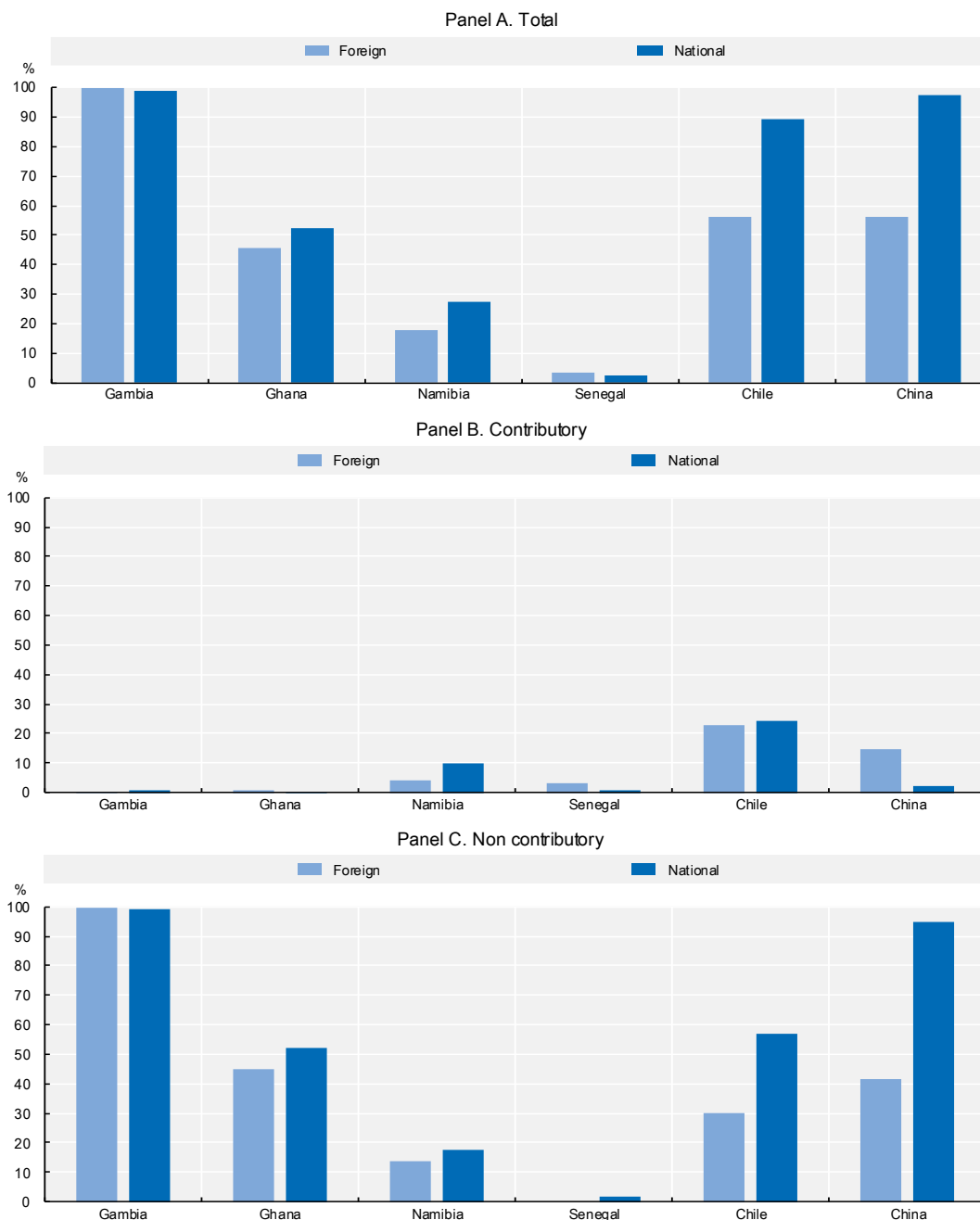


Note: Contributory social protection programmes include contributory pensions, employment-based health insurance, unemployment insurance. Non-contributory social protection programmes include universal health programmes, unconditional and conditional cash transfers (including non-contributory pensions). Coverage rates are calculated for direct and indirect beneficiaries of social protection programmes and contributors to social insurance programmes. Surveys for some countries do not include specific questions on all the programmes, and this can affect cross-country comparisons. Difference in coverage rates (measured in percentage points) is taken by subtracting the coverage of urban informal workers from the coverage of rural informal workers.

Source: Authors' calculations based on (OECD, 2021^[7]), *Key Indicators of Informality based on Individuals and their Household (KIIBIH) database*, <https://www.oecd.org/dev/key-indicators-informality-individuals-household-kiibih.htm>.

Figure 11. Migrant informal workers have poorer access to social protection compared to national informal workers

Percentage of foreign and native informal workers receiving social protection



Note: Contributory social protection programmes include contributory pensions, employment-based health insurance, unemployment insurance. Non-contributory social protection programmes include universal health programmes, unconditional and conditional cash transfers (including non-contributory pensions). Coverage rates are calculated for direct and indirect beneficiaries of social protection programmes and contributors to social insurance programmes. Surveys for some countries do not include specific questions on all the programmes, and this can affect cross-country comparisons. “Foreign” and “national” workers are identified by the reported citizenship of the survey informant.

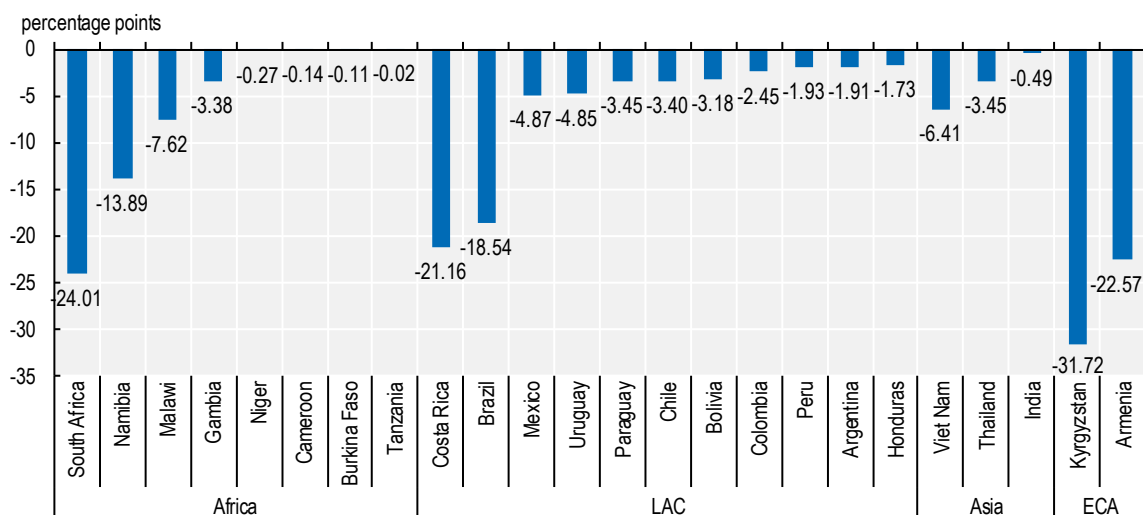
Source Authors' calculations based on (OECD, 2021^[7]), *Key Indicators of Informality based on Individuals and their Household (KIbIH) database*, <https://www.oecd.org/dev/key-indicators-informality-individuals-household-kiibih.htm>.

Additional considerations include accounting for informal migrant workers, which can complicate their access to social protection. Using KIIbIH data, we find a relative disadvantage in accessing social protection between foreign informal workers and native informal workers. Compared to nationals, foreign informal workers are less likely to benefit from social protection. Such a gap does not seem to reflect a disadvantage in terms of contributory schemes, however (Figure 11, Panel A). Since few informal workers have access to contributory schemes, the differences in contributory coverage between foreign informal and national informal workers tend to be small. Rather, the relative overall social protection disadvantage of foreign informal workers mirrors a gap in non-contributory schemes (Figure 11, Panel B), which is particularly visible in countries where access to non-contributory schemes is more important. For instance, in China and Chile, foreign informal workers were about half as likely to benefit from non-contributory programmes compared to nationals.

Another important consideration when examining coverage, is accounting for the extent to which social assistance contributes to poverty reduction. In several countries, social transfers are too low and do not substantially reduce the incidence of poverty among informal workers. According to the KIIbIH data, cash transfers are estimated to have reduced the share of informal workers living in poverty by 7.6 percentage points on average, with important regional differences (Figure 12). In two of our ECA countries, poverty reduction for informal workers was the most pronounced: social protection transfers reduced the headcount poverty ratio by 18.1 percentage points. In contrast, among three Asian countries, spending on government transfers only reduced poverty by 3.5 percentage points. Government transfers had a moderate impact on poverty in eight African countries (6.2 pp) and similarly in eleven Latin American countries (6.1 pp).

Figure 12. There are large country differences as regards the extent to which government transfers are reducing the poverty headcount ratios among informal workers

Difference in the reduction of the poverty headcount ratio among informal workers pre and post cash transfers



Note: Social protection here refers to government cash transfer amounts reported by each survey. Poverty measured at international lines in Int. USD by country income level. The reduction in the poverty headcount ratio is the difference in the poverty rate before and after government's transfers.

Source: Authors' calculations based on (OECD, 2021^[7]), *Key Indicators of Informality based on Individuals and their Household (KIIbIH) database*, <https://www.oecd.org/dev/key-indicators-informality-individuals-household-kiibih.htm>.

4. Options to extend social protection to informal economy workers

While the previous section has documented the extensive gaps in social protection of informal workers, it has also made it clear that extending social protection to informal economy workers, for some also by means of formalisation, is possible and it will need to be built around a combination of contributory and non-contributory schemes. Country experiences show that hardly any country has achieved both universal coverage and adequate benefit levels by offering only one of these types of social protection. Under any circumstances, universal social protection will most likely be achieved over time through a progressive expansion, even if some examples of rapid large-scale expansions of non-contributory schemes, such as universal pensions (Bolivia) or universal health (Chile) do exist.

The strategy countries will pursue to achieve universal social protection will be determined by their unique circumstances and enabling conditions. Despite differences in each country case, the starting point should be the same: this progressive expansion must be rooted in a comprehensive understanding of the situation of different groups of workers, the risks they face and the different factors contributing to the lack of coverage and their vulnerability.

The KIIBIH database offers a mix of individual and household level information on workers, their dependents, and their welfare conditions. With this mix of information, it is possible to draw detailed portraits of informal workers, and thereby identify relevant options to extend social protection to informal economy workers and help countries define their own extension strategies.

In this section, we review some key characteristics of informal workers and their households, such as their own socio-demographic characteristics, or those of their families, and discuss how such information can serve as a basis for developing country strategies to enhance coverage of informal workers through a mix of non-contributory and contributory schemes.

Finding the right combination of non-contributory and contributory schemes

Looking at the distribution of informal workers by income can yield information to determine the appropriate mix of schemes in social protection extension strategies. This is especially important for deciding upon the delivery mechanism of means-tested social assistance schemes, and other contributory and non-contributory programmes.

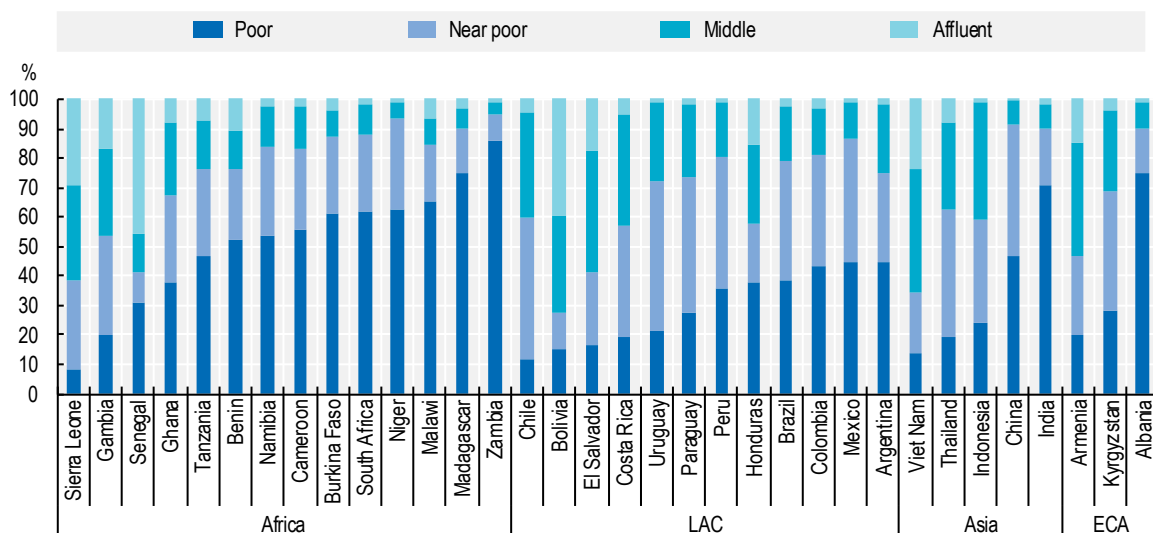
The KIIBIH database offers a typology of informal workers by income class that could be used as one criterion for analysing and deciding which types of schemes to extend to which workers (e.g. means-tested non-contributory schemes, subsidised contributory schemes, non-subsidised contributory schemes). What is remarkable is that in many countries, the extension of anti-poverty programmes would cover a large share of informal workers. From the KIIBIH data, and using international poverty lines for comparison purposes, we estimate indeed that about 86% of the informal workers of Zambia would be covered if anti-poverty programmes managed to entirely cover poor informal workers (at Int. USD 2.15/day), with similarly large numbers for Madagascar (74.9%), India (70.7%), and more (Figure 13).

Yet, while there is a strong consensus for using non-contributory, tax-financed programmes to reduce the social protection gap of the poor, this is not necessarily the case for informal workers with contributory capacity. In designing an approach to increase coverage of non-poor informal economy workers, countries face a host of difficult decisions, including whether to offer universal entitlements or use other coverage mechanisms, such as voluntary or mandatory social insurance; how to develop processes for identification and registration; and how to make existing social insurance schemes attractive to collect voluntary contributions, and whether to subsidise contributory schemes and for whom.

The KIIbIH data show that depending on the country, the extension of contributory schemes would still need to include a significant proportion of the remaining non-poor informal workers. Out of these “non-poor” informal workers, between 27.7% (Sierra Leone) and 94.8% (Zambia) are in the middle or affluent class and could potentially be enrolled in non-subsidised contributory schemes (Figure 13). Yet, 8.8% (Zambia) to 50.4% (Uruguay) of informal workers belong to the near poor category and would most likely need to be supported through subsidised contributory schemes, as their contributory capacity to pay contributions on a regular basis may not be sufficient.

Figure 13. Informal workers are predominately poor, but some are at the richer end of the income distribution

Percentage of informal workers by income class



Note: Economic classes are based on four absolute per capita per day welfare thresholds, which differ by income level: LIC: Poor, Int. USD 2.15/day or less; Near poor, Int. USD 2.15-4/day; Middle, Int. USD 4-8/day; Affluent, Int. USD 8/day or more. LMIC: Poor, Int. USD 3.65/day or less; Near poor: 3.65-7/day; Middle, Int. USD 7-20/day; Affluent, Int. USD 20/day or more. UMIC and HIC: Poor, Int. USD 6.85/day or less; Near poor, Int. USD 6.85-15/day; Middle, Int. USD 15-70/day; Affluent, Int. USD 70/day or more.

Source: Authors' calculations based on (OECD, 2021^[7]), *Key Indicators of Informality based on Individuals and their Household (KIIbIH) database*, <https://www.oecd.org/dev/key-indicators-informality-individuals-household-kiibih.htm>.

Extending social protection through non-contributory schemes

Non-contributory schemes do not require contributions from protected persons but are mostly financed directly from the government budget – that is, from general taxation, other state revenues or in some cases external grants or loans. There are many types of non-contributory programmes, such as universal schemes for all residents (e.g. a national health service), categorical schemes covering certain broad groups of the population (e.g. a social pension or universal child benefit schemes) or means-tested social

assistance schemes that provide benefits for groups of the population living in poverty (usually based on a means test, a proxy means test or other targeting mechanism).

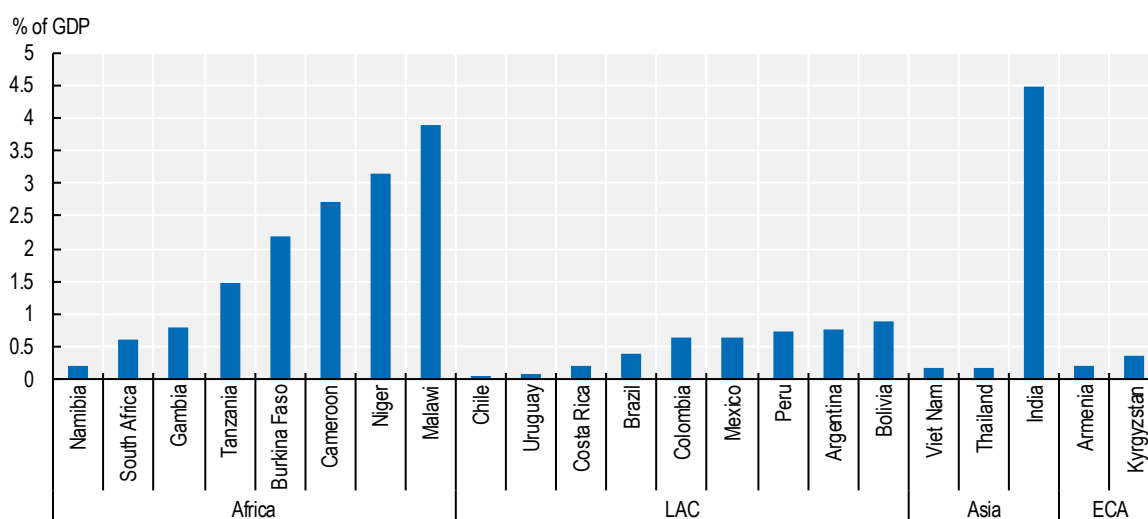
Non-contributory schemes play a key role in ensuring a basic level of protection within the social protection system, for poor and vulnerable groups who do not have access to any other mechanisms. For that reason, non-contributory schemes are an essential component of any nationally defined social protection floor.

The role of cash transfers to lift informal workers out of poverty

Cash transfers can play an important role in the fight against poverty among informal workers, although they often come with a number of challenges in terms of targeting, labour market incentives, and errors of inclusion/exclusion. Based on KIIBIH data, we estimate that to close the poverty gap among informal workers through social assistance, between roughly 0.03% to 4.5% of GDP would need to be spent yearly in addition to current spending on social protection (Figure 14). These numbers are consistent with previous estimations on closing the annual poverty gap (Cichon, 2018^[10]).

Figure 14. Closing the poverty gap for informal workers is not always exorbitantly expensive

Estimated yearly amount needed to close the poverty gap for informal workers in year of survey



Note: The poverty gap is the ratio by which the mean income of the poor falls below the poverty line. Mean poverty gap is estimated based on international poverty lines and current GDP, corresponding to 2017 PPP conversion rates and country income level, for the year of each country's survey.

Source: Authors' calculations based on (OECD, 2021^[7]), *Key Indicators of Informality based on Individuals and their Household (KIIBIH) database*, <https://www.oecd.org/dev/key-indicators-informality-individuals-household-kiibih.htm>.

The role of child benefits and social pensions

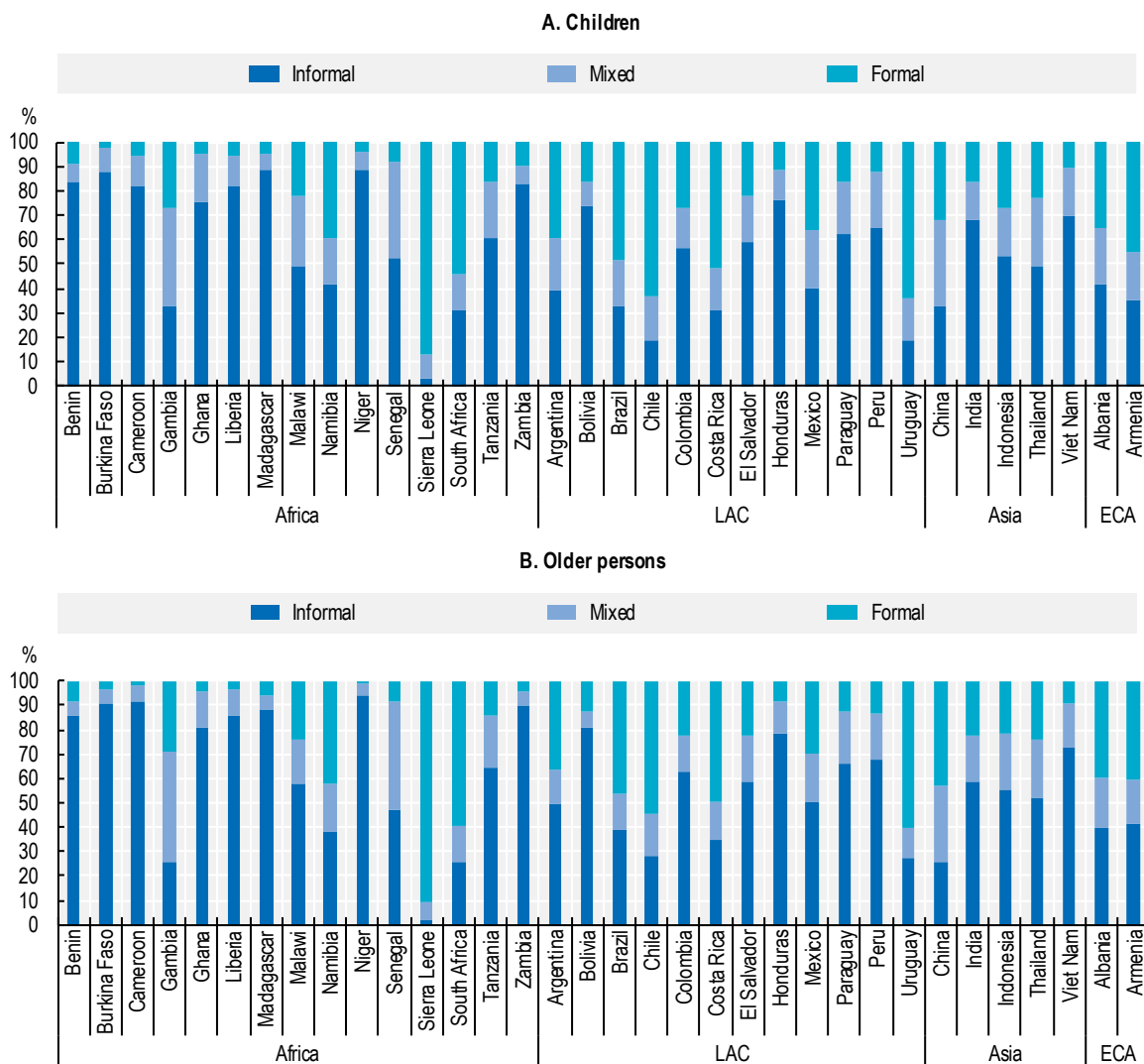
Could the extension of priority benefits such as child benefits and social pension be beneficial for informal workers and their households? To answer this question, it is critical to examine the demographic composition of households of informal workers. This can indeed be an important way to identify the extent to which extending child benefits and social pensions could become an effective way to support the extension of non-contributory schemes to informal workers.

In the KIIBIH, just over half of children (54.6%) and older dependents (57.2%), live in households where all workers are informal (Figure 15). This points to the centrality of child benefits and social pensions as a supplementary mechanism to extend social protection to informal workers and to reduce the vulnerabilities

of informal workers' households. In boosting the provision of benefits to children and older persons, governments have indeed another way to act to reduce the vulnerability of those economically dependant on informal workers.

Figure 15. Children and older persons live disproportionately in informal households

Distribution of children (0-15)/older persons (65+) by degree of household informality



Note: Children are household members aged 0-15; older persons are household members aged 65+.

Source: Authors' calculations based on (OECD, 2021^[7]), *Key Indicators of Informality based on Individuals and their Household (KIIBIH) database*, <https://www.oecd.org/dev/key-indicators-informality-individuals-household-kiibih.htm>.

To sum up, the KIIBIH data confirm that the extension of more universal tax-financed programmes, such as those providing child benefits and social pensions, could disproportionately benefit workers in the informal economy and their families (ILO and UNICEF, 2023^[11]). Moreover, one advantage of such benefits is that they are more predictable than means-tested benefits while being largely pro-poor and can help informal workers and their families to plan. They may also increase trust in public institutions and help contribute to the registration of workers, facilitating formalisation. Such categorical transfers could nonetheless entail some non-negligible transfers to possibly non-poor households, which may ease overall

population buy-in for those transfers but make them fiscally expansive. Finally, the level of non-contributory benefits tends to be less generous than contributory benefits. Extending contributory programmes to informal workers thus remains a critical feature of the road towards universal social protection.

Extending social protection through contributory schemes

Contributory social protection schemes constitute a key element of the extension of social protection to informal workers. Contributory schemes are based on the payment of contributions by the workers and, in the case of employees, by their employers in the case of employment related contributory schemes, which give rise to entitlements or acquired rights. As such, they play an important role in the financing of social protection systems and can reduce the fiscal pressure on the government budget by offering a reliable and stable financing mechanism. Moreover, the level of protection offered in contributory schemes is usually higher than for many non-contributory schemes.

In most developing countries, the coverage of existing contributory schemes remains limited to formal waged or salaried employment assuming a defined employment relationship based on a written contract and remunerated through regular salaries or wages and with contributions shared between workers and employers. However, several contributory schemes also include other categories of workers, such as employers and own-account workers. A crucial step in the extension of contributory social insurance to the informal economy has been the extension of social and labour rights to domestic workers through a mix of enforcement and simplification measures; inclusion of self-employed workers in social insurance schemes through adapted mechanisms and simplified registration, tax and contribution payment mechanisms; adaptation of contribution calculation and payment modalities to the characteristics of workers and employers; harnessing digital and mobile technology to facilitate access to social protection; and extension of pension coverage through existing or new schemes adapted to the needs of self-employed workers.

As countries look at the ways to extend contributory schemes to informal workers, they need to address several policy choices. One question is whether the extension of contributory schemes can be linked to an identifiable employment relationship between an employer and a dependent worker. Another question is whether informal economy workers can afford to enrol in contributory schemes. There is also the related question about the extent to which the extension of contributory schemes can be best achieved through voluntary or mandatory enrolment, and through labour law enforcement. These are not easy questions to answer, but one critical way to inform the decision-making process is to start looking at the potential role of employer-employee contributions in the informal economy, the contributory capacity of informal workers, and the distance of informal workers vis-à-vis the formal economy.

Finally, in contexts where a significant number of informal workers live with formal workers and where transitions in and out of informal employment may happen, issues related to the extension of social insurance to informal workers through other household members formally employed and of the portability of contributory schemes throughout the life cycle of workers need to be addressed.

The scope for employer-employee contributions

Status in employment is an instructive indicator for examining which actors shall have the responsibility to contribute to social insurance. It is also useful to determine the extent to which both employers and employees could contribute to social insurance. As shown in Figure 16, most informal workers in KIIbIH countries are own-account workers (39.0%) and employees (32.5%). This suggests first that for a significant share of the informal worker population, the extension of contributory schemes can be linked to an identifiable employment relationship between an employer and an employee, making co-payments from the side of both employers and employees a priori a possible option. Second, the results show that the

development of contributory schemes also needs to include programmes that can be attractive to a large segment of informal own-account workers with no co-payment possibilities.³

Figure 16. Most informal workers are employees and own-account workers

Distribution of workers by status in employment



Note: In Viet Nam, no way to distinguish between employers and own-account workers.

Source: Authors' calculations based on (OECD, 2021^[7]), *Key Indicators of Informality based on Individuals and their Household (KIbIH)* database, <https://www.oecd.org/dev/key-indicators-informality-individuals-household-kiibih.htm>.

The contributory capacity of informal workers

Recent experiences with the development of social insurance schemes for informal workers show that affordability issues need specific attention in the design of such schemes. Looking at the individual contributory capacity of informal workers as well as that of their household is therefore critical. Figure 17 presents the earnings categories of informal workers to investigate the individual contributory capacity of informal workers. It reveals that a large number of informal workers are low-paid workers,⁴ – about 53.7% on average among our sample of countries. For such workers the contributory capacity will be limited and contributory schemes would probably need to be subsidised and/or complemented with employers contribution when possible. Yet, the data also reveal that a non-negligible proportion of informal workers – between 17.6% and 61.4% depending on the country – are medium or high paid workers and may have some capacity to contribute to social insurance schemes.

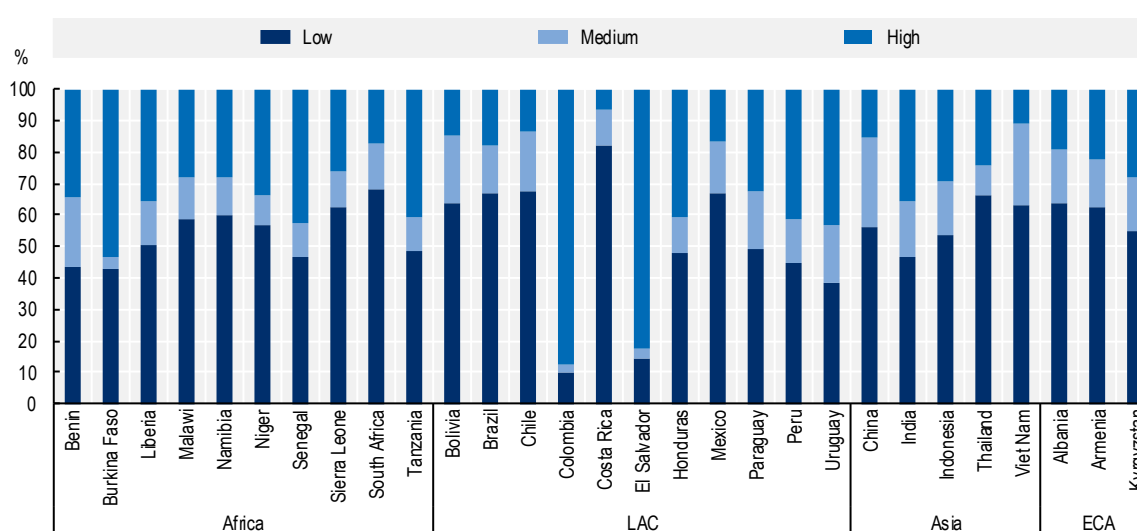
³ Co-payment could actually be a possibility for some informal workers classified as own-account workers that may indeed be dependant contractors according to the new ILO definition of employment.

⁴ Low-paid workers are defined as those with earnings below 50% of the median earnings level.

The affordability of existing schemes for informal workers will also vary depending on their status in employment, which may influence the regularity and predictability of earnings. Looking at the earnings categories of informal workers by status in employment, we see that informal employers are most likely to be part of the top end of the overall earnings distribution. Contributing family workers are most likely to be at the bottom end in all regions. Informal employees and own-account workers tend to be located towards the middle, with regional differences: in ECA and Asia, a greater proportion of informal employees tend to be low paid. Additionally, being that certain social insurance programmes tend to base contributions on earnings, this indicator could be useful for gauging capacity to contribute towards insurance schemes like pensions.

Figure 17. Many informal workers are low earners

Percentage of informal workers by earnings category



Note: Earnings categories are defined based on the total earnings distribution: low earnings are from the bottom of the distribution to 50% of the median earnings level; medium earnings are from 50% of the median to 150% of the median; high earnings are 150% of the median and above. Source: Authors' calculations based on (OECD, 2021^[7]), *Key Indicators of Informality based on Individuals and their Household (KIbIH) database*, <https://www.oecd.org/dev/key-indicators-informality-individuals-household-kiibih.htm>.

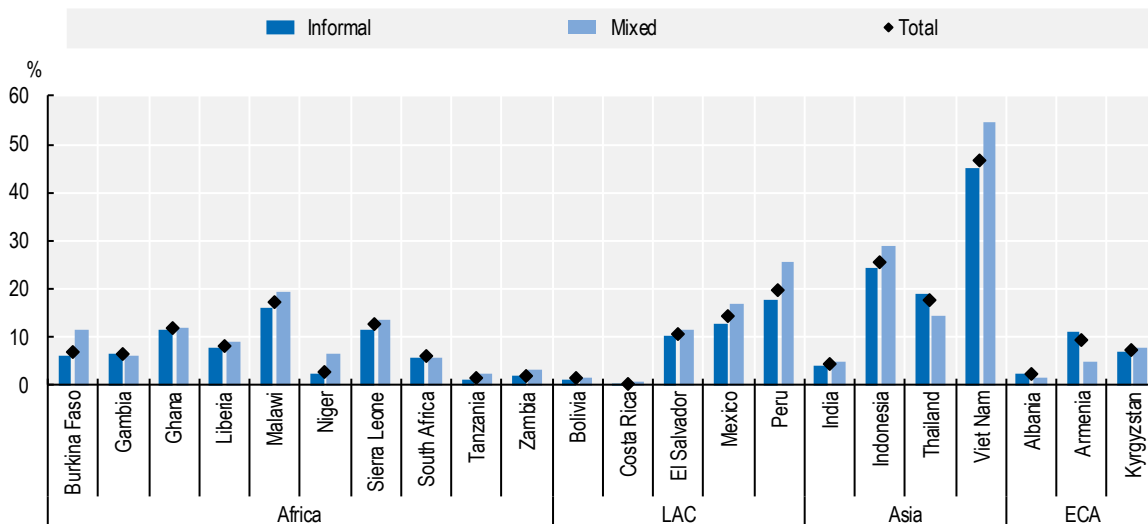
Remittances may also influence the contributory capacity of informal workers at the household level, while providing an innovative source of financing for voluntary contributory schemes (Kolev and La, 2021^[12]). Considering that remittances act as an informal insurance (Beuermann, Ruprah and Sierra, 2016^[13]; Geng et al., 2018^[14]), the very receipt of remittances may be a sign that recipient households have a demand for social protection. Among relatively well-off recipient households, moreover, this demand may be financially solvent and channelled towards formal contributory schemes. In the case of Colombia, for instance, recent evidence shows that remittances are an important source of income that increases enrolment in contributory social insurance schemes among informal workers (Cuadros-Meñaca, 2020^[15]). Moreover, remittance receipt can be considered to provide useful information on capacity to contribute to other social insurance schemes, such as health insurance.

An important question, therefore, is to what extent and under which conditions informal workers that receive remittances and that do not qualify for social assistance may be willing and able to channel some of their resources to enrol in formal social insurance schemes. According to the KIbIH data, around 10.5% of informal workers live in a household that receives remittances and that is food secure (Figure 18). This suggests that a mutually beneficial solution to the exclusion of informal workers from contributory schemes

and the financing of the extension of national social insurance schemes for these workers, may lie in the development of informality-robust social insurance schemes targeting middle-class informal economy workers that receive remittances.

Figure 18. Informal workers that receive remittances have some capacity to pay for social protection

Percentage of informal workers living in households that receive remittances and which are food secure



Note: Capacity to pay is estimated based on household food security (share of household consumption or expenses on food are less than 50%) and non-poor status (based on national lines).

Source: Authors' calculations based on (OECD, 2021^[7]), *Key Indicators of Informality based on Individuals and their Household (KIIBIH) database*, <https://www.oecd.org/dev/key-indicators-informality-individuals-household-kiibih.htm>.

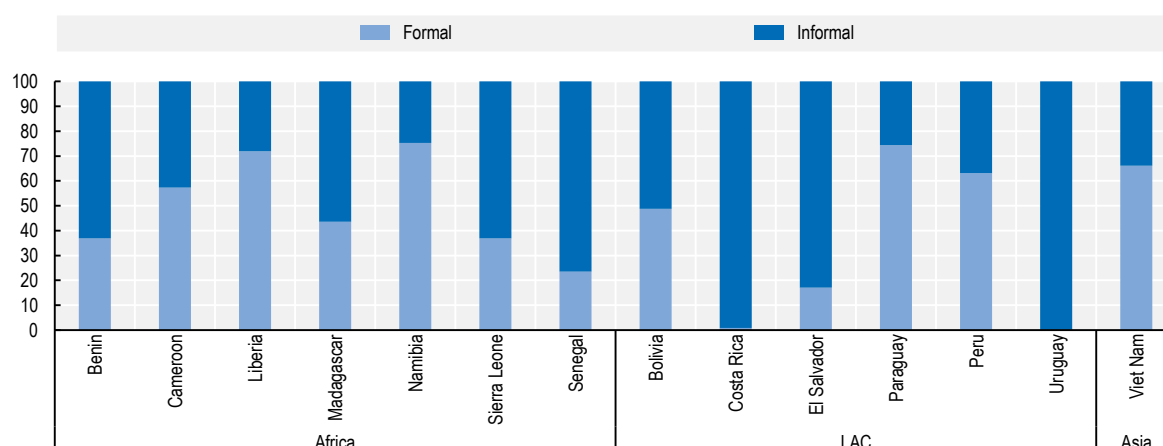
The role of labour law enforcement

Labour law enforcement, understood here as the state possibility to make firms and workers that fall under the labour law comply with labour regulations, is often considered as one important pathway for the extension of social protection to informal workers and formalisation. Yet, how much hope shall policy makers place on the extension of social protection through enforcement largely depends on a combination of factors, including the depth of the legal social security coverage of different categories of workers but also the extent to which informal workers have some contributory capacity; how close they are to the formal economy; and the level of institutional capacity.

Enforcement measures may be more effective in expanding contributory coverage in countries with greater institutional capacity and legal social security coverage of workers in different employment status, and if they target informal workers with contributory capacity and informal workers in the formal sector (mostly employees as per the definition of informal employment in the formal sector). As discussed above, evidence from the KIIBIH indicates that the contributory capacity of informal workers tends to vary across countries. We estimate that in our sample of countries, from 3.5% to 82.3% of informal workers may have some individual contributory capacity (Figure 17), while others may have some contributory capacity at the household level as they live in affluent households and in households that receive remittances. Other KIIBIH estimates further suggest that in many countries, the share of informal economy workers who work in the formal sector and may be not so far from the formal economy is important. On average across countries, about 43.5% of informal employees work in the formal sector; the remaining 56.5% work in the informal sector (Figure 19).

Figure 19. Informal employees can be found in both the informal and formal sector

Distribution of employees who are informal



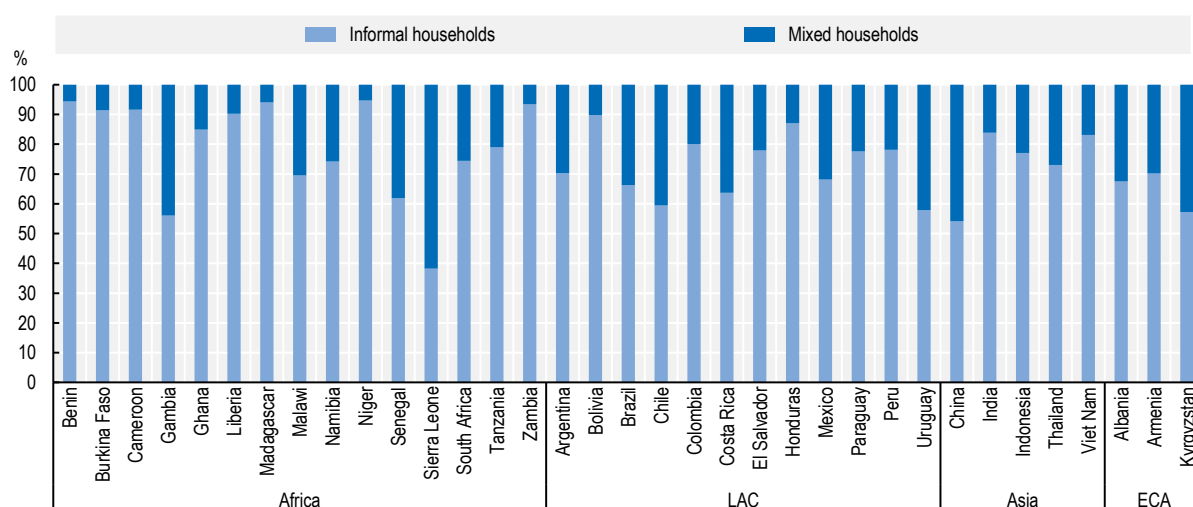
Source: Authors' calculations based on (OECD, 2021^[7]), *Key Indicators of Informality based on Individuals and their Household (KIbIH)* database, <https://www.oecd.org/dev/key-indicators-informality-individuals-household-kiibih.htm>.

The scope to be covered through formally employed household members

In principle, a small share of informal workers could benefit indirectly from the social protection coverage provided by formally working household members. About one-fourth of informal workers live in households with other formal workers (about 24.9%, Figure 20) and could *a priori* be covered indirectly by certain social protection schemes that they would not otherwise have access to (such as health insurance and old-age pensions). In Latin America, for example, certain programmes like survivor pensions are paid for through contributions from the formal workers' salary but can benefit any informal workers that are part of the household unit once the formal worker has passed away.

Figure 20. Informal workers are most likely to live with others who work in the informal economy, less so with formal workers

Distribution of informal workers by degree of household informality

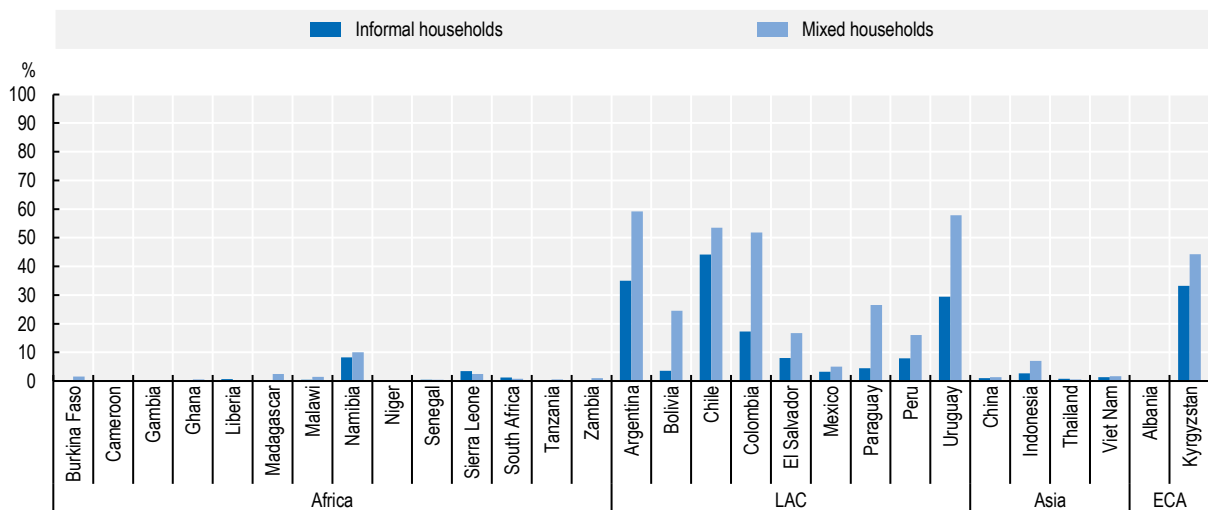


Source: Authors' calculations based on (OECD, 2021^[7]), *Key Indicators of Informality based on Individuals and their Household (KIbIH)* database, <https://www.oecd.org/dev/key-indicators-informality-individuals-household-kiibih.htm>.

In the KIBIIH dataset, indirect access to social insurance through other formally working household members can be seen for example in health insurance coverage for informal workers. In a few countries, employment-based health insurance allows for formal workers to add household members to their insurance plans, effectively covering them where they might not be entitled to any other insurance (Figure 21). According to KIBIIH data, health insurance coverage of informal workers in mixed households is higher than coverage of informal workers in informal households across many countries: for example, in Argentina, 59.2% of informal workers in mixed households benefit from some form of employment-based health insurance coverage as opposed to 35% of informal workers in informal households. Likewise for Namibia (8.2% in informal and 10.1% in mixed), Indonesia (2.6% in informal and 7% in mixed) and Kyrgyzstan (33.2% in informal and 44.3% in mixed).

Figure 21. Social protection to formal workers can benefit informal workers in shared households

Percentage of informal workers covered by employment-based health insurance



Source: Authors' calculations based on (OECD, 2021^[7]), *Key Indicators of Informality based on Individuals and their Household (KIBIIH) database*, <https://www.oecd.org/dev/key-indicators-informality-individuals-household-kiibih.htm>.

However, a social protection strategy prefaced solely on the potential for informal workers to benefit from formal workers' coverage is not in line with a rights-based approach ensuring adequate and comprehensive protection across the life cycle, may imply adverse incentives for formalisation and may not be the best-adapted for the challenges of today. In countries where informality is most prevalent, indeed, informal workers tend to live only with other informal workers. Moreover, not all social protection programmes benefiting formal workers (contributory programmes) can be opened to other household members.

The portability of social insurance benefits

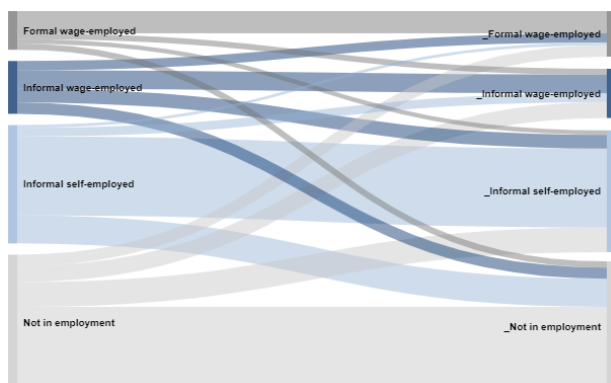
While it does not describe most of the workforce, some individuals tend to transition between status in employment and in and out of informality and the workforce. Figure 22 shows the magnitude of employment transitions between different labour market states in selected countries for which information is available. While many workers in Indonesia, Malawi, Peru and South Africa tend not to transition over time, a sizeable number do transition but not always predictably so. Given that labour market transitions are largely varied in that they occur in many different directions, the portability of contributory schemes between different statuses in employment becomes critical to reduce the likelihood that workers go uncovered after transitioning to other job opportunities. Moreover, contributory social protection should aim at

managing fractional contribution histories and additionalities (whether it is possible to cumulate contributory and non-contributory benefits). The lack of adequate incentives generates indeed serious issues for those who switch from one employment status to another.

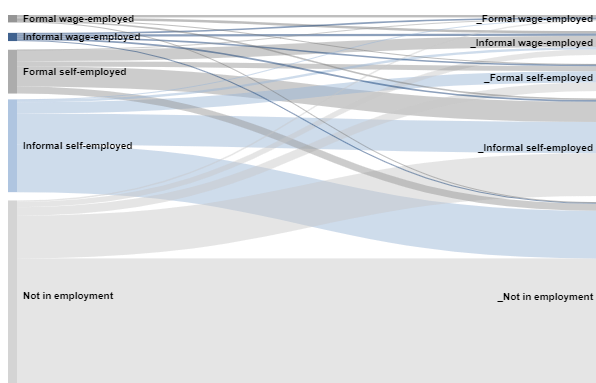
Figure 22. Transitions of workers out of the labour market, into formality or informality vary and occur often

Percentage of population (15+) and their labour market status at n and $n+1$

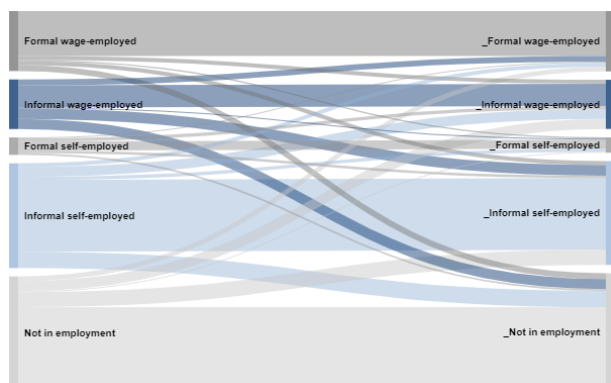
A. Indonesia



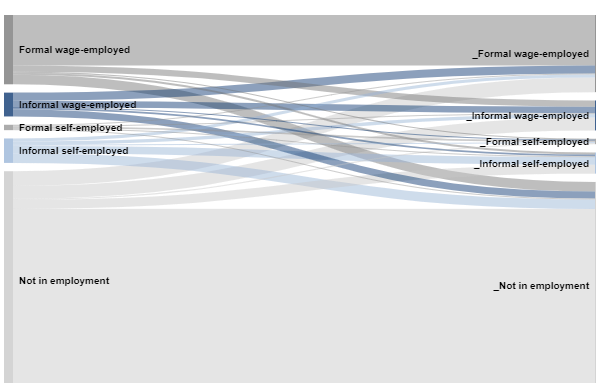
B. Malawi



C. Peru



D. South Africa



Note: In Indonesia, formal self-employed workers could not be classified due to data constraints. Data refers to 7-year time spells for Indonesia (three waves covering 2000-14); 3-year time spells for Malawi (four waves covering 2010-19); 1-year time spells for Peru (five waves covering 2016-20); and 2-year time spells for South Africa (five waves covering 2008-16). Estimates are generated for transitions between two consecutive time periods (ex.: 2000-07 and 2007-14 for Indonesia); reported is the average for all spells by country.

Source: (Aleksynska, La and Manfredi, 2023^[16]), "Transitions to and from formal employment and income dynamics: Evidence from developing economies", *OECD Development Centre Working Papers*, No. 349.

Overall, these results confirm that a variety of constraints at the individual or household level must be confronted when drafting a strategy to extend contributory social protection to informal workers. Aside from the barrier of affordability, some informal workers may be living in totally informal households, others may face difficulties in meeting the administrative requirements; other categories of informal workers may simply not be covered by the applicable legislation, or the social insurance schemes may not be adapted to the specific needs of informal workers in different work and household environments.

5. Conclusion

This paper has sought to exploit the information available in the *OECD Key Indicators of Informality based on Individuals and their Households (KIIBIH)* to shed light on several elements that could inform national strategies for the extension of social protection to workers in the informal economy. It provides an assessment of current social protection coverage throughout a large sample of developing and emerging economies and proposes an initial statistical framework to examine country-specific data, upon which a strategy for extending social protection to informal workers could be articulated. While the paper does not intend to provide detailed country-level recommendations, it highlights several important findings and policy directions.

First, the results show that on average among our sample of countries a non-negligible proportion of informal workers are covered in some capacity by social protection, but a more detailed analysis is needed to understand the reality behind such aggregate numbers. Not all informal workers are covered equally, and coverage rates among informal workers vary across countries and according to whether the social protection is contributory (insurance schemes) or non-contributory (cash transfers).

By and large, informal workers are at a particular disadvantage when it comes to accessing contributory social protection (old age pensions, employment-based health insurance, and unemployment insurance). Yet, exclusion from contributory schemes is not spread equally across all informal workers. Some characteristics are associated with higher risks. Exclusion can be particularly pronounced for low-income workers that do not have sufficient individual or household contributory capacity to pay contributions on a regular basis. Despite policy initiatives designed to promote inclusion, informal workers belonging to large firms still have a better chance of accessing contributory schemes than those in micro, small and medium-sized firms (MSMEs). Employment status further emerges as one feature that influences contributory coverage, although its influence is less pronounced among informal workers compared to formal workers: among the informal, informal employees, own-account workers and contributing family workers are less likely than employers to benefit from contributory schemes. Finally, informal workers in the formal sector are slightly more likely to benefit from contributory schemes than those in the informal sector.

As regards non-contributory schemes, however, the KIIBIH data points to a more equal access for workers, regardless of their formal/informal status. As informal workers tend to be concentrated on the poorer end of the income distribution, they tend to be eligible for a number of means-tested cash transfer programmes. Yet, in several countries, social assistance coverage of informal workers remains very low, in particular in urban areas and for foreign citizens. Access to non-contributory programmes also varies largely across countries in different regions: informal workers in the sample of African countries have less options than their counterparts in other parts of the world. Among poor informal workers, moreover, the actual level of benefits received in several countries appears too low to reduce significantly the poverty gap.

Second, the KIIBIH data show significant progress in the extension of social protection to informal economy workers but additional efforts are needed to tackle the long-standing vulnerability challenge of informal workers. A strategy to extend social protection to informal economy workers will vary depending on the country context but will generally need to consider two important objectives: (i) closing the social protection gap among the poor through non-contributory schemes; and (ii) extending contributory schemes to non-poor informal workers through a mix of subsidised schemes for the near poor and non-subsidised schemes for those that have the capacity to contribute.

Third, our results highlight some well documented and lesser-known areas where the extension of non-contributory programmes would largely benefit informal workers. On the one hand, we found large country differences as regards the extent to which government cash transfers are reducing the poverty headcount ratios among informal workers. In addition, the financing efforts needed to close the poverty gap among informal workers through social assistance vary substantially across countries. We estimate that, depending on the country, between roughly 0.03% and 4.5% of GDP would need to be spent yearly in addition to current spending on social protection to lift informal workers out of poverty. On the other hand, there is robust evidence that the extension of more universal tax-financed programmes, such as those providing child benefits and social pensions, could disproportionately benefit workers in the informal economy and their families, especially the most vulnerable. However, considering that non-contributory gaps are largely determined by limited resources and may come with labour disincentives, any strategy to extend social assistance to informal workers shall also aim to: (i) identify realistic and sustainable options to generate fiscal space to extend social assistance; (ii) seek a parallel extension of contributory programmes to informal workers and facilitate the transition to formality of both enterprises and workers for whom this is a realistic option. Any attempt to expand social assistance shall also seek efficient delivery mechanisms, which target beneficiaries in a better way through means testing, categorical benefits or geographic targeting, and that limit administrative and overhead costs.

Fourth, the KIIbIH data highlight important progress with – and avenues for – the extension of contributory schemes. On the one hand, for a significant share of the informal worker population, the extension of contributory schemes can be linked to an identifiable employment relationship between an employer and an employee. At the same time, the data reveal that a non-negligible proportion of informal employees may have some capacity to contribute to social insurance schemes and are already close to the formal economy. For such categories of informal workers, a realistic option could be to promote social insurance contributions from the side of both employers and employees and to create incentives for formalisation. Our results also indicate that the development of contributory schemes would need to be attractive to relatively large segments of informal own-account workers with no co-payment possibilities. This can be done as shown by the large number of countries worldwide that were able to cover a significant share of self-employed workers in addition to employees (ILO, 2021^[17]).

Still, one of the policy choices that governments need to make for those with capacity to pay is whether the extension of contributory coverage should be mandatory or voluntary, considering that the latter is usually associated with very low take-up and riddled with moral hazard and adverse selection challenges. On the other hand, our data also point to a large segment of informal workers with limited capacity to pay. For such informal workers, subsidised contributory schemes may well be the only option if they cannot qualify for means-tested social assistance.

Finally, in some countries, the KIIbIH data further show that some informal workers live with other formal workers and that a non-negligible proportion of workers happens to transit in and out of informal employment. In this context, exploring the possibility to extend some contributory schemes (e.g. health insurance and old-age pensions) to informal workers through other household members formally employed and ensuring the portability of contributory schemes throughout the life cycle of workers merit policy attention.

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