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Social Protection and Labor Market Policies for the Informally Employed: A Review of Evidence from Low- and Middle-Income Countries

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Social Protection and Labor Market Policies for the Informally Employed: A Review of Evidence from Low- and Middle-Income Countries

Yashodhan Ghorpade,¹ Camila Franco Restrepo and Luis Eduardo Castellanos

ABSTRACT: This paper provides conceptual definitions and distinctions between formalization, worker protection and productivity enhancement, and examines the impact of social protection and labor market policies in achieving these inter-related yet distinct policy goals. Focusing on empirical evidence from low- and middle-income countries collated from over 200 reviewed studies, reports, and documents, we find that workforce formalization is best achieved through macroeconomic and firm-level policies and through the extension of social insurance programs to the informally employed. Other social protection and labor market programs may only contribute marginally and indirectly to formalization. Workers' protection is best enhanced through social insurance, social assistance, economic inclusion, and health benefits programs, and not as much through voluntary savings schemes, microinsurance, or wage subsidies on their own. Finally, we find that workers' productivity can be enhanced through social assistance and economic inclusion programs, and the provision of childcare services. Contrary to expectations, labor market programs such as short-term job search assistance, vocational training, and job search assistance do not appear have a sustained impact on labor productivity among the informally employed. We outline guidelines and considerations for adopting the right mix of policies for pursuing formalization, protection, and productivity objectives, depending on the characteristics of workers and the economy, and argue for the prioritization of enhancing worker protection and productivity over pursuing formalization for its own sake.

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1. Introduction

According to the International Labour Organization (ILO, 2018), around two billion people, or 60% of all workers worldwide, are in the informal economy. They are typically poorer than their counterparts in formal employment and face greater risk and uncertainty in employment. An estimated 1.6 billion (60%) of these workers were severely impacted by the COVID-19 pandemic (ILO, 2020). Further, in the aftermath of the pandemic and the resulting global economic contraction, the share of informal workers is likely to have increased in several low- and middle-income countries. Supporting informally employed workers is therefore critical for durable economic recovery and fighting against poverty.

Social Protection, comprising social assistance, social insurance, and labour market programs, can play a critical role in supporting informally employed people to achieve both greater protection against the risks they face as well as greater productivity in their work. It can also directly contribute to the process of transition from informal to formal employment. **This paper reviews the evidence on the effects of social protection and related programs on the formalization, protection and productivity of informally employed workers, to identify best practices, and derive lessons for enhancing their wellbeing.**

We specifically examine the evidence with respect to workers in informal employment. While firm and economy-level policies affect the formalization of enterprises, which in turn has implications for informal employment, our review focuses on policies that affect informally employed workers. We do not address the formalization of economic units or firms.

The paper is organized as follows: section 2 provides definitions of key terms used in this review and presents a conceptual framework linking social protection instruments and policies with the Protection, Productivity and Formalization of informally employed workers. Section 3 describes the scope of the review along specific guiding questions that underpin it. Section 5 described the methodology used to conduct the review. Section 5 presents findings across three outcomes of interest for policy instruments: Formalization, Worker Protection and Worker Productivity, deriving lessons and best practices across each program type/ instrument in 25 different boxes. Section 6 summarizes the findings of the review while Section 7 concludes with lessons for policy.

2. Definitions and Conceptual Framework

We begin by discussing some of the concepts referred to in this paper. Table 1 provides a glossary of terms along with sources. In addition to the more standard definitions provided in Table 1, we provide our working definitions of key concepts; informal employment, protection and productivity that we use in the remainder of the paper.

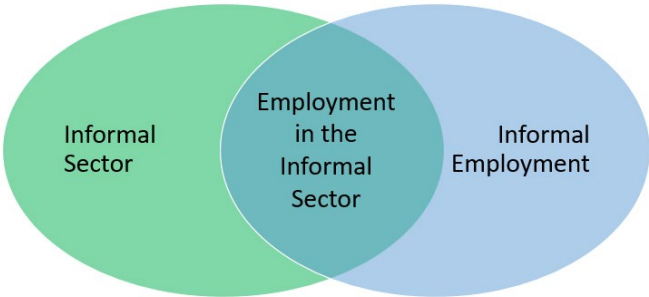
Table 1. Glossary of Terms

Term	Definition	Source
Active Labor Market Programs/Policies (ALMPs)	<p>Programs designed to help individuals acquire skills and connect them to labor markets.</p> <p>Active labour market policies (ALMPs) are publicly financed interventions intended to improve the functioning of the labour market by inducing changes in labour demand and supply, as well as their matching process. (McKenzie, D, 2017)</p>	World Bank (2018)
Economic Inclusion (EI) Programs	Economic inclusion programs are a bundle of coordinated, multidimensional interventions that support individuals, households, and communities in their efforts to increase their incomes and assets.	Andrews et al. (2021, p. 16)
Formal Employment	Formal employment refers to persons who are employed and are not in informal employment, according to the definition below. Formally employed workers may also be thought of as being “observable” to government authorities through administrative systems.	ILO (2022a)
Formal Sector	(a) Government, all corporations and non-profit institutions, embassies, international organizations, and (b) production units working for profit, maintaining accounts, registered at the national level, or with fixed working premises and 6 or more workers.	ILO (2022a)
Informal Employment	Persons who are: (a) Employees who are not protected by national labour legislation in that job, (b) Entrepreneurs in a unit of production that is considered informal, where entrepreneurs refer to employers, members of producers’ cooperatives and own account workers (if what is produced is for sale); or (c) Contributing family workers.	ILO (2022a)
Informal Sector	Comprises employers or production units that: Work <i>mainly</i> for profit, do not keep accounts or only keep accounts for personal use, are not registered at the national level, are unincorporated, have place of work without fixed premises, or have five or fewer employees.	ILO (2022a)
Labor productivity	Labor productivity refers to the efficiency in the use of human resources, measured at the macro level by the total volume of output produced per unit of labor, and proxied at the individual level by the earnings of workers from labor.	Authors
Social Assistance	Noncontributory interventions designed to help individuals and households cope with chronic poverty, destitution, and vulnerability.	World Bank (2018)
Social Insurance	Contributory interventions that are designed to help individuals manage sudden changes in income because of old age, sickness, disability, or natural disaster.	World Bank (2018)

Social Protection	Systems, policies, and instruments help individuals and societies manage risk and volatility and protect them from poverty and destitution.	World Bank (2012)
Unemployment Assistance	Noncontributory (and typically tax-financed) cash benefit to compensate for unemployment	Authors, based on OECD
Unemployment Insurance	(Typically, contributory) Programs that seek to protect individual workers against the risk of income loss during joblessness, smoothing consumption between unemployment and employment spells, and mitigate the risk of wage losses upon re-employment.	ILO (2017a)
Wage subsidy	Payments to employers or workers that reduce the cost of labor or increase take-home pay.	Almeida et al, (2014)

Informal employment, as defined by the ILO and described in table 1, comprises people in employment who are not protected by national labour legislation in that job, own account workers / entrepreneurs in production units that are not in the formal sector, and contributing family members of household enterprises. It is distinct from employment in the informal sector, as it relates to the terms of employment whereas the latter relates to the characteristics of the production unit. There are indeed cases of formal sector units employing workers informally, as well as cases where informal sector units may employ workers according to terms that are enshrined in national legislation and therefore qualify as formally employed.² This distinction is represented graphically in the Venn diagram shown in Fig.1 below, showing some, but not complete overlap between the two concepts, informal sector, and informal employment. Fig 2 depicts a flowchart to identify an operational definition of informal employment, depending on the type of employment, as well as a range of other factors.

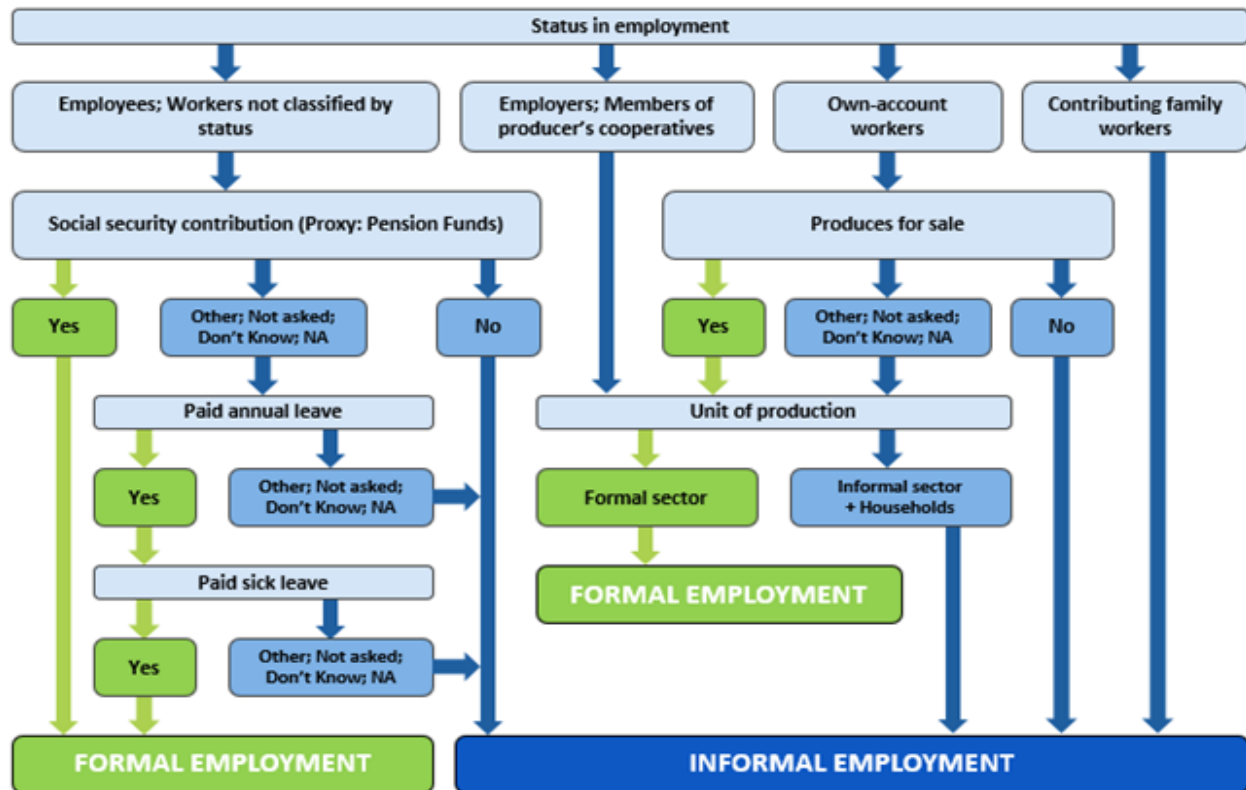
Fig. 1 Statistical Components of Informality



Source: Partially retrieved from [ILO](#)

² While this is not a very commonly observed arrangement, it is important to mention this for the conceptual distinction between (in)formal sector and (in)formal employment.

Fig. 2. Operational Definition of Informal Employment (per ILO 2022)

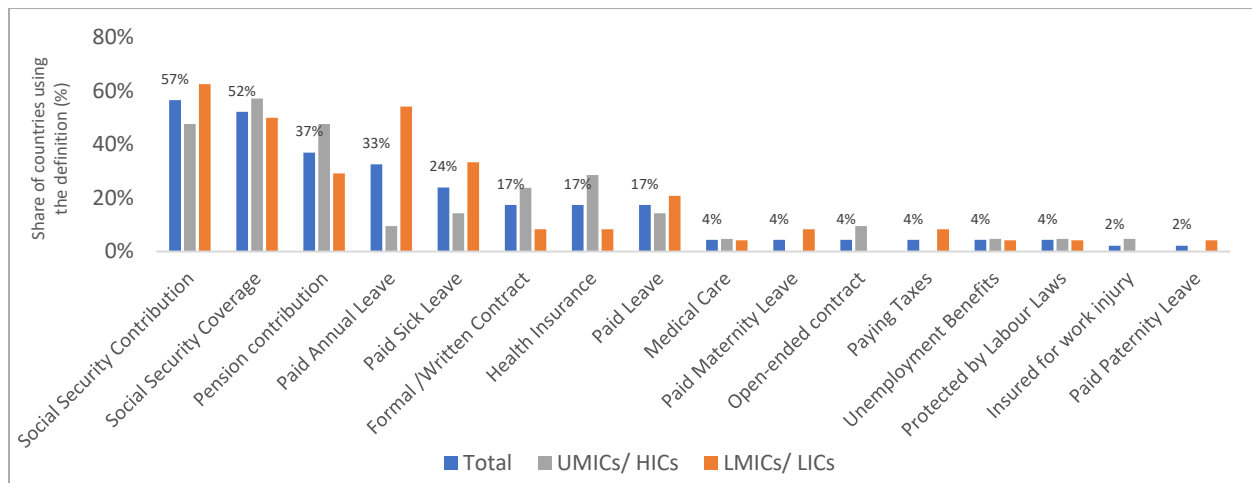


Source: ILO (<https://ilostat.ilo.org/resources/concepts-and-definitions/description-informality/>)

What criteria do countries tend to use to classify sectors or employment as formal or informal? We analyze the specific criteria included in the official definitions of these concepts for 46 countries for which such definitions were available (and reported in OECD/ILO 2019). We coded the terminology used in the official statistical definitions of informal sector/employment into the specific criteria displayed on the X-axis of Fig. 3. While some concepts, such as social insurance coverage are expressed using different terminology in different countries, we have chosen to retain the distinct terms used in countries even though they may often refer to a common concept.³

³ Specifically, while some countries choose to privilege contributions for social security as a marker of formal employment, others may term the benefits that may accrue from such contributions in the form of social insurance coverage as the main marker for formal employment. Similarly, some countries' definitions invoke contributions for social security coverage while others focus more specifically on (typically retirement) pensions contributions.

Figure 3. Indicators used to define formal/ informal employment



Source: Authors’ analysis using OECD/ILO (2019) and national statistical offices.

Note: Calculations are based on a total of 46 countries across the world.

As figure 3 shows, social security (coverage, or contributions which are in fact made for future coverage) and pensions feature as the most common criteria included in the definitions of informal employment. This is followed by measures of different categories of paid leave (especially in LMICs and LICs), formal/ written employment contracts, and access to other benefits (such as health insurance and medical care). This underlines the importance of social insurance coverage, broadly defined as the most important factor across countries that would determine whether employment is formal or informal. **For the remainder of this paper, we, therefore, use a working definition of informal employment as comprising those forms of employment that do not offer workers any form of protection through social insurance instruments such as retirement pensions, workplace injury insurance, or health insurance.** While recognizing that other types of benefits, such as paid leave or contracts are essential for workers’ wellbeing, for definitional simplicity, we focus on access to social insurance coverage as the most critical (and most commonly mentioned) feature to characterize informal employment – largely because of the protection it affords to workers.⁴ On the other hand, forms of employment that provide workers access to social insurance, and in the process make them “observable” to the government,⁵ are considered formal employment.

As outlined in the Introduction, in this paper, we examine how social protection and related policies and programs can affect the protection and productivity of informally employed workers. **By protection, we refer to risk reduction / mitigation measures available to workers, against the costs of health shocks, workplace injuries and accidents, unemployment, income shocks and the loss of earning ability in old age.** These measures may include social insurance

⁴ From hereon we use the terms informally employed, informally employed workers, and workers in informal employment interchangeably.

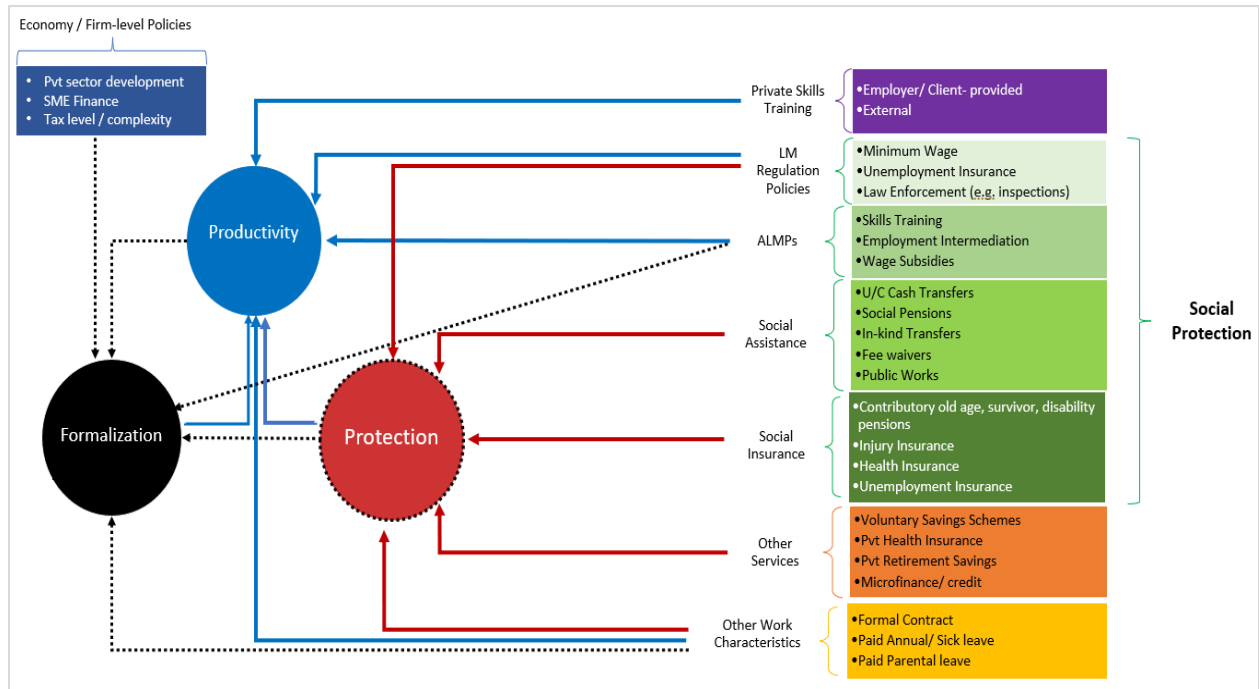
⁵ Which they otherwise may not always be

and social assistance instruments, as well as a range of public and private savings, insurance, financial and other programs that offer some degree of protection to workers against these risks.

Labor productivity refers to the efficiency in the use of human resources, measured at the macro level by the total volume of output produced per unit of labor, and proxied at the individual level by the earnings of workers from labor.

Formalization refers to a process by which informally employed workers are brought under the ambit of national legislation, registration or regulatory frameworks that make them observable to government or other regulatory agencies. Such ‘observability’ may emerge through measures such as social insurance coverage that extend protection to workers, but may also be achieved through other means such as licensing, certification, or access to enforceable (written) contracts which may not necessarily and directly lead to better worker protection. Hence, a distinction between formalization and protection; while workers’ protection may be enhanced by being brought under national legislation (say, through their inclusion in social insurance schemes), measures such as private provision of insurance or Voluntary Savings Schemes may extend protection to workers without leading to formalization. We also view formalization as a means to enhance worker protection, and while it may be an important goal in itself, this paper also examines how to improve workers’ protection and productivity even without necessarily affecting the in/formal status of work. This is partly because, in many countries and jurisdictions, substantial gains can be made in terms of extending protection to workers even in the absence of formalization, as the latter may require more time and coordinated effort across actors. Secondly, we also underline potential pitfalls in pursuing aggressive formalization strategies which could have unintended consequences without necessarily advancing the protection of workers. Finally, while many workers (and indeed production units) may not be able to make the transition to formal status in the short- to medium-run (OECD/ILO, 2019), enhancing their protection and productivity can, in fact, prepare them to make such a transition, while helping improve their living and working conditions in the meanwhile. The similarities and distinctions between protection and formalization are further elaborated in Fig. 4 below, which also depicts the conceptual framework of this paper.

Fig. 4. Protection, Formalization, and Productivity: Conceptual Linkages with Social Protection



Source: Authors' analysis

3. Research Questions and Scope of the Review

Our focus in this review is on understanding which policies, interventions, or strategies have worked for formalizing, protecting, and enhancing the productivity of informal workers, and under what conditions? We assess policy and program instruments related to macroeconomic, firm-level, social protection, and industrial policies. We first begin with an assessment of cross-cutting and macro-level policies that affect the three outcomes of interest related to workers: formalization, protection and productivity. We then sequentially examine policies that affect each of these three outcomes separately. In many cases, a set of policies may affect more than one outcome. For instance, active labor market policies may affect both, worker protection and worker productivity. In such cases, we examine the policies under the heading of the outcome that we assess as being most closely related to the policy under consideration. Figure 5 below illustrates the organization of the results of this review paper, grouping policies under specific outcomes among formalization, protection and productivity, as well as indicating policies that are more cross-cutting or foundational with respect to affecting informal employment.

Figure 5. Policies examined against each Objective: Formalization, Protection and Productivity

Policy Instrument / Action	Area of Impact		
	Formalization of Employment	Workers' Protection	Workers' Productivity
<i>Macroeconomic and firm-level policies</i>			
Private Sector Development Policies	✓		
Access to Finance for SMEs	✓		✓
Lower Tax Burden	✓		
<i>Labor Market Policies and Programs</i>			
Vocational Training Programs	✓		✓
Wage Subsidies and Hiring Quotas	✓	✓	✓
Minimum Wage Policy	✓		
Unemployment Insurance	✓	✓	✓
Job Search Assistance	✓		✓
Law Enforcement viz. labor standards, restrictions on hiring and dismissal	✓		
<i>Social Protection Programs</i>			
Social Insurance (SI) Programs	✓	✓	✓
Social Assistance	✓	✓	✓
Economic Inclusion Programs	✓	✓	✓
<i>Other Programs</i>			
Health Benefits	✓	✓	
Voluntary Savings Schemes		✓	
Group Microinsurance		✓	
Childcare Services			✓

✓ Indicates policy instrument or action that has been assessed for the particular area of impact (i.e. formalization, protection or productivity) in this review

4. Methodology

The set of articles, books, reports, and working papers reviewed in this paper document results draws on two distinct sources: (i) peer-reviewed journal articles, and (ii) working papers, policy briefs reports, and books from strategic institutional repositories. We reviewed documents that met three main criteria: (i) containing recommendations, lessons, and good practices regarding informal employment; (ii) focusing on developing countries; (iii) focusing on informal employment. We used the EconLit document database used to search peer-reviewed journals and books. The query for our search had three types of terms: identifying the geographical location of the studies in developing countries, limiting the literature to recommendations, lessons, good practices, and others for synonyms of informal employment. The query consisted of 712 documents between 1988 to 2021 in English and Spanish. We read the title and abstracts to select the final sample of articles, excluding those focused on firms, descriptive statistics or estimations with no recommendations or lessons. Additionally, we excluded articles that solely examined the

correlates or determinants of informality and literature specific to high-income countries. This resulted in a final stack of 80 articles and book chapters.

In addition to this, we also examined working papers, reports, and briefs in the repositories of the global institutions and agencies that research and publish on employment and labor market issues. The sources referenced for this included [OECD iLibrary](#), [World Bank Group Open Knowledge Repository](#), [ILO Digital Repository](#), and [IADB Publications^{\[1\]}](#); after revising the titles and abstracts under the same exclusion criteria mentioned above, we narrowed down on 115 such documents / studies.

We then developed an analytical matrix based on the review of these articles and papers with basic categories for document identification (article title, author, journal/repository title, year of publication). The analytical variables situate the document in a country or region and its relevance to answering our central question: which policies, interventions, or strategies have worked for formalizing, protecting, and enhancing the productivity of informal workers? Also, to categorize the type of evidence responding to some key questions: is the document evaluating an intervention to protect or reduce the number of informal workers? How generalizable are the results (which type of evidence is created)? What was the original objective of the document: to document policies to reduce informality and protect informal workers or to increase their productivity or others? Finally, we also categorized the type of recommendations made.

The reviewed documents include 39 records before 2010; 120 papers written between 2010-2020, 60 over 2020- 2022, and 3 forced inclusions for 2023. Of all the documents, 88 were journal articles, 61 working papers, 51 reports, 24 books with seven chapters of books, and three blogs and presentations included as summarized relevant conclusions. 22 documents are in Spanish, one in Portuguese, and the remaining in English. Latin America and the Caribbean is the region with most of the documents, with 105, followed by literature written for multiple countries in different regions (61), Sub-Saharan Africa (19), and ASEAN countries (12).

Most analyzed documents mention that they studied previously implemented policies (143), and the remaining focused on policy proposals or recommendations, not specifically evaluating or analyzing an implemented policy (84). The evidence comes from two kinds of methods, quantitative methods (125) through econometric analysis (53), quantitative evaluations (34), statistical analysis (20), and theoretical modeling (17); and qualitative methods and literature-desk review (105) through case studies (46), literature review (42), recommendation documents or policy briefs (14), and behavioral and qualitative methods approaches (3).

5. Results

We organize the results from our review along the three main outcome areas of interest: the formalization, protection and productivity of informal workers, respectively. Under each of these areas of interest we examine the evidence on the effects of alternate policies and instruments on these outcomes, drawing and summarizing lessons and good practices.

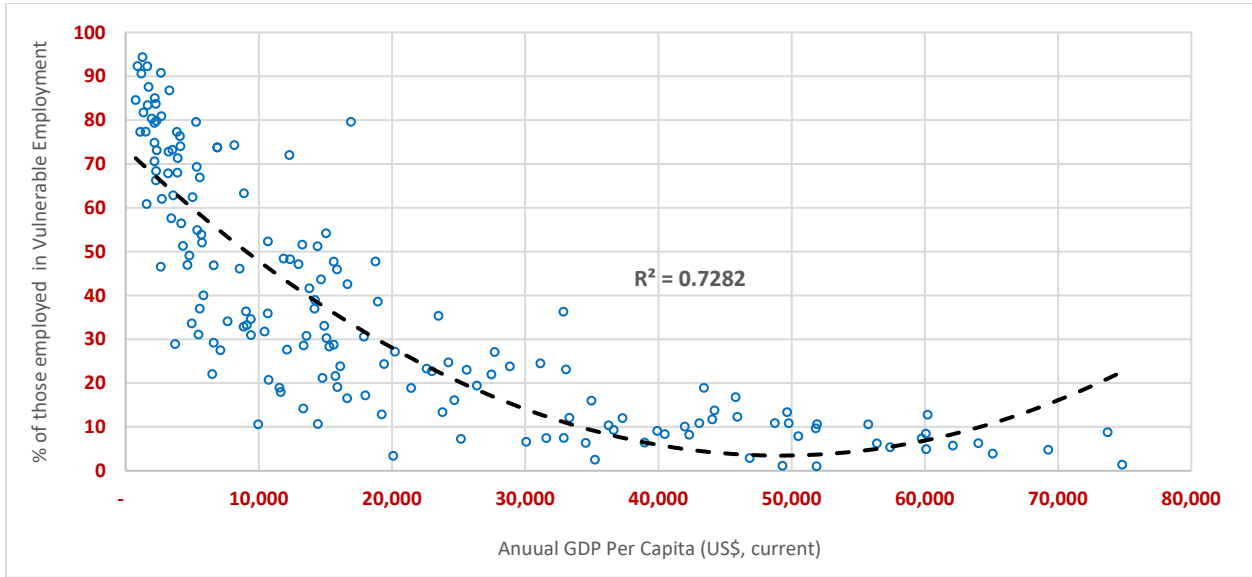
5A. Formalization

As set out in section 2, by formalization, we refer to a process by which informally employed workers are brought under the ambit of national legislation, registration or regulatory frameworks and thereby make them observable to government and other regulatory authorities. These processes may typically refer to coverage through social insurance schemes but may extend in some cases to having written or binding legal contracts, registration with relevant authorities (for tax, licensing or other purposes), access to paid leave, and related benefits. When formalization is achieved through the extension of social insurance coverage, it may simultaneously enhance worker protection. However, formalization may not always lead to greater worker protection if, for instance, it is achieved only by the registration of informal workers with local/ national authorities without any meaningful improvement in the ability of the workers to face and respond to economic shocks and fluctuations.

Before examining the impact of specific policies, we discuss the role of economic growth as an enabler of the formalization of employment. **High per-capita income and sustained economic growth are typically necessary, though not sufficient conditions for greater formalization of employment.** Economies with low levels of income and low growth tend to have high rates of informal employment, whereas the countries with the lowest rates of informal employment tend to be high-income countries. However., the relationship between per-capita income and the rate of vulnerable employment⁶ is not strictly linear. As Fig. 6 below shows, there is considerable variation in the level of informal employment by country, particularly at lower and middle levels of GDP-per capita. Economic growth, as measured by the change in per-capita GDP appears to have a weak negative effect on changes in vulnerable employment (Fig. 7). These findings underline the importance of country-level GDP per capita and its growth rate as important correlates of informal employment, but also indicate their limitations in driving formal employment alone, as several other factors also potentially explain the wide variations in informal employment even between countries at the same level of income per capita or similar rates of economic growth.

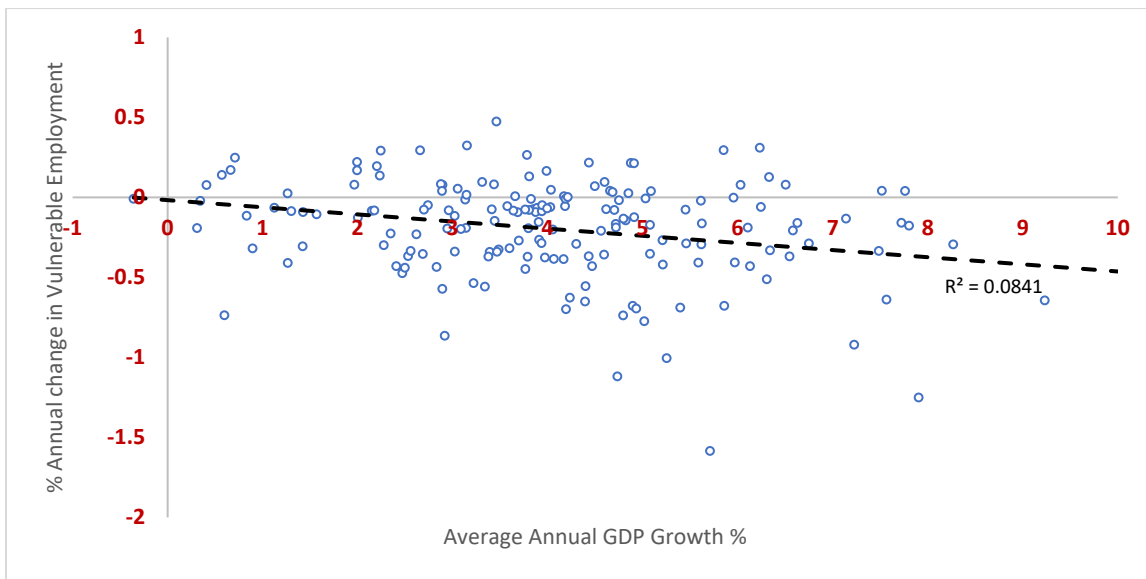
⁶ Here we use the ILO's measure of Vulnerable Employment, defined as comprising contributing family workers and own-account workers as a share of total employment, for international comparability.

Fig. 6. Vulnerable Employment (%), by GDP per capita PPP (current US\$), 2019



Source: Authors' calculations using World Development Indicators Database. The scatter plot includes observations for 170 economies. Vulnerable employment is defined as comprising contributing family workers and own-account workers as a percentage of total employment (ILO). Estimates are based on data obtained from International Labour Organization, ILOSTAT at <https://ilostat.ilo.org/data/>.

Fig. 7. Average Annual Percentage Change in Rate of Vulnerable Employment v/s Average Annual Percentage change in GDP per capita: 1995 – 2019



Source: Authors' calculations using World Development Indicators Database. The scatter plot includes observations for 175 economies. Vulnerable employment is defined as comprising contributing family workers and own-account workers as a percentage of total employment (ILO). Estimates are based on data obtained from International Labour Organization, ILOSTAT at <https://ilostat.ilo.org/data/>.

Across countries, studies show mixed evidence on the mechanisms through which economic growth affects the formalization of employment. Vietnam experienced a reduction in the share of informal employment by 8.6 percentage points within a decade, from 81.9 percent in 2007 to 73.3 percent in 2017.⁷ These changes reflect Vietnam's employment-driven economic growth model and institutional transformation that marked a shift from agriculture to manufacturing and services (ILO, 2020). In Latin America, the international commodity price boom has been associated with high growth rates as the foreign cash flow increased, leading to extensive significant formalization between 2010 and 2015. Nevertheless, one of the mechanisms noted by Saavedra & Chong (1999) stresses that growth tends to increase the participation of the service sector in the economy, in which informal employment is more common. (ILO, 2020)

It is also essential to consider the bidirectional relationship between growth and informality; while economic growth can create conditions for formal employment, persistent informal employment may in turn slow economic growth. Loayza et al., (2009), drawing on analysis in Latin American, suggest that informality harms growth and increases poverty. Other countries, like Mongolia, have identified the costs of informality related to poor returns on skills and education, stagnant or deficient economic performance, and lack of opportunities for the youth (ILO, 2017b).

Lessons Learned and Good Practices 1

- Economic growth may be a necessary but is not sufficient condition for the formalization of employment. As economic growth may not always and directly translate into lower informal employment, employment policies should be integrated into growth strategies and should not be considered a residual product of economic growth performance alone.
- To advance formalization of the workforce, policies should seek to encourage economic transformation from traditionally informal employment-dominated sectors, such as agriculture, to the historically formal sectors such as large-scale manufacturing.
- Governments should apply active pro-cyclical employment policies to take advantage of good economic performance and growth to employ new formal workers and formalize existing informal workers.
- While pursuing higher economic growth driven by the services sector, governments should be mindful of the potential stagnation of formal employment and therefore also adopt specific employment policies to encourage formal employment.

We now examine the effects of macroeconomic and firm-level policies that affect the incentives for, and the ability of workers to remain within or outside formal employment. These include conditions for private sector development, firm growth incentives, and access to finance among

⁷ If agriculture is excluded, the result is even more robust.

SMEs. By affecting workers' incentives and ability to enter formal employment, these factors in turn also affect the size of the informal workforce across countries. As this review focuses on informal employment, we do not examine the effect of these cross-cutting factors on the formal/informal *status of firms* per se, except in their role to mediate the impact of these factors on informal *employment*.

Many policies and programs may seek to explicitly enhance the formalization of workers, either by helping informal workers to transition to formal employment, or by creating opportunities for formal employment for new jobseekers. Other programs may have more indirect effects on formalization. We first examine the effects of macroeconomic and firm-level policies that affect the incentives for, and the ability of workers to, remain within formal employment; specifically looking at economic growth, private sector development and SME finance-related policies. We then sequentially examine the evidence of a range of labour and employment-related policies including wage subsidies (Fortuny & Al Husseinim, 2010); hiring quotas (ILO, 2015b); training / internship programs that provide stipends (Ibarrarán et al., 2015, Alzua et al.2016, Attanasio et al., 2017) ; and fiscal incentives and discounts on the payment of the social security (ILO, 2015b).

Private Sector Development Policies

Some local infrastructure development programs that focus on the informal sector through local contractors have enhanced the creation of formal jobs. In South Africa, under *the Gundo Lashu Program*, the Limpopo provincial government tried to incentivize the evolution of new local infrastructure firms by identifying and implementing rural infrastructure programs. This initiative aimed to use local resources instead of international companies to build roads and bridges. As a result, 24 local companies were contracted to build roads, bridges, and related infrastructure. Through this process, local companies became familiar with public bidding procedures and could win new contracts resulting in increased local formal employment (ILO, 2013). Similarly, in Bogotá, Colombia, informal bus operators were incorporated into formal operating companies linked to the TransMilenio, the primary public transport system in the city, to provide trunk and feeder routes service under contract. Despite some initial transition problems, the formalization scheme appears to be generally successful, surprising many analysts (Venter, 2013).

Local infrastructure development, when combined with other reforms relating to business development and easing compliance with laws can also encourage formal employment. In Durban, South Africa, the government recognized that the informal economy, like the formal economy, would require access to services and infrastructure. The city worked with informal economy workers to improve local infrastructure, strengthen business development and microfinance services, and streamline the licensing system. As a result of this combination of measures, informal economy workers were found to be transitioning to better opportunities in

the markets and, most likely, also to formal markets even if they hadn't fully transitioned to formal employment status (ILO, 2013) .

Improved administrative procedures, incentives for formalizing enterprises, modernizing the operation of regulatory institutions and remove perverse incentives for firms to remain small and informal can enable the creation of formal employment. Formal firms are also more likely to create formal jobs. Implementing streamlined organizational and managerial practices through tax exemptions and grace periods can generate better conditions for the formalization of small firms, which in turn can enhance their sustainability and potentially enable them to become formal (Debanes et al., 2021). A study in Mexico (Dougherty & Escobar, 2019) suggests that reducing the cost to start a business has a non-linear effect on informal employment, conditional on the prevalence of microenterprises. It found that easing the cost of doing business increased the probability of having a formal job, particularly for workers of small firms. In Brazil the government instituted a new tax exemption and simplification system for micro and small companies in 1996 (the Simples Law), which included a progressive tax structure and a tax collection simplification that formalized around 500,000 microenterprises and created a million jobs in five years (ILO, 2013). Another example of this type of policy was the Colombian 2012 tax reform that reduced employer-paid payroll contributions from 29.5% to 16%. Various studies find that this reform positively impacted job creation and formal wages. For example, Cardenas et al. (2021) found that formal employment increased by more than 3% and that formal wages salaries increased by about 1.9% (Cardenas et al., 2021) . However, one should also be mindful of potential pitfalls of special regimes for formalizing firms under which wage employment may be disguised as self-employment without any substantial improvements in the terms of employment for workers, including specifically, self-employed workers' earnings, which may fall below minimum wage thresholds (Levy and Cruces, 2021).

Lessons Learned and Good Practices 2

- As many developing countries are transitioning to the modernization of their supply chains, infrastructure, and transport systems, creating specific strategies to formalize rural vendors or informal transport operators through integrating modern solutions can be a win-win policy.
- Using workfare programs as a short-term policy to provide jobs to vulnerable workers and as a systematic long-term mechanism to allow local firms to grow and start contracting with the state and with large firms can also lead to higher formalization.
- Efforts to improve local infrastructure, strengthen business development and microfinance services, and streamline the licensing system in informal markets can improve informal workers' and vendors' access to formal markets, which in turn can increase the likelihood of their formalization.
- Reducing the cost of doing business, simplifying legislation and tax collection, and avoiding excessive regulation of the economy can enable formalization. Simpler regulatory and institutional frameworks to reduce informality have proven effective in enhancing formal employment, particularly in small and medium firms.

SME Finance

Evidence suggests that financial development, as efficiency and effectiveness of the financial system, makes it easier for informal sector workers to join the formal sector. It also reduces the hurdles of accessing external financial instruments that incentivize households and firms to invest, thereby increasing their productivity. Several measures of financial development are significantly associated with less informal activity. Among 150 economies from 1980 to 2009, faster broad money growth and a smaller differential between lending and deposit interest rates (indicative of greater financial development) were associated with statistically significantly smaller informal economies, even when controlling for institutional quality and factors such as central bank independence (Bittencourt et al., 2014). In a study across 137 countries, Bose et al. (2012) found that greater efficiency and depth in the banking sector were associated with lower informality. Both theory and empirical evidence suggest that advanced financial development is associated with a smaller informal economy, but the direction of causality remains a matter of debate as financial development and formality may be mutually-reinforcing (Ohnsorge & Yu, 2021).

Lessons Learned and Good Practices 3

- Policies that promote efficiency and depth in the banking and financial sector can lead to both, lower levels of informal employment, and higher investments by firms and workers which can enhance their productivity.
- Deepening the financial development for SMEs to facilitate access to credit, savings, and investment for informal enterprises to promote their formalization.

Vocational Training

The most successful forms of vocational training programs with respect to increasing formalization, typically combine a comprehensive set of interventions, including classroom and on-the-job training, wage subsidies to employers, and stipends. There is considerable evidence that many such programs, particularly in Latin America, have successfully prevented young students from beginning their careers through informal employment and have instead pursued formal employment.

In Brazil, the Active Labor Market Program (ALMP), *Lei do Aprendiz*, provided payroll subsidies to firms hiring and training young workers under temporary contracts with the objective to enable successful transitions from school to work (ILO, 2015b). This program effectively increased the chances of better-paying and more stable jobs in the formal sector, and also reduced short- and long-term job turnover (Corseuil et al., 2013).

In the Dominican Republic, the *Juventud y Empleo (JyE)* program implemented in 2001 targeted youth (16 to 29 years of age) living in poor neighborhoods, that were not in active education or employment. The program offered 225 hours of courses for skill training, following which, private enterprises hired the trainees. Notably, private training institutions (Centros Operativos del Sistema, COS) were responsible for registering the trainees and identifying the private hiring institutions (through internships). Participants received a small stipend of approximately US\$3 per day during the program and insurance against workplace accidents. Evaluations of JyE have found that it positively affected the formality of employment, and that the results were sustained and improving over time (Ibarrarán et al., 2015)

Likewise, the *Entra21* program, in Cordoba, Argentina, worked as a job training program for low-income youth. Participants, selected through a public lottery, were offered a combination of classroom-based life skills training, vocational training, and short-term internships in private firms. Courses were offered in fields such as catering and cooking, sales and administration, and factory work. These courses were divided into modules of 100 hours of technical classroom training, 64 hours of life-skills training, and 16 hours for specific skills related to each type of course. Firms receiving interns from the program received a small monetary incentive to cover workplace insurance. They were required to employ the intern for up to 4 months, pay a proportion of the minimum wage, provide a workplace trainer, and issue a training certificate at the end of the internship period. The program results were positive and included gains of around eight (8) percentage points in the likelihood of securing formal employment in the short term, although in this case, the effects seemed to dissipate in the medium- and long-term. (Alzua et al., 2016).

Finally, we examine the impact of *Jovenes en Acción (JeA)*, a Colombian training and job placement program, that provided a combination of classroom training, on-the-job training, internships, and a “project of life” to participating unemployed youth aged 18 to 25 from the poorest families in Colombia. It was administered by Entidades de Capacitación (ECAP), private

institutions for whom a part of the overall payment conditional on the student completing a three-month apprenticeship with participating firms; and further bonus payments were conditional on firms hiring trainees on a formal contract after their internship. Program evaluations have demonstrated positive impact in terms of an improvement in the proportion of youth working in the formal sector, their contributions to social security, and their earnings in the formal sector. These impacts were similar for men and women and were stronger for larger firms (Attanasio et al., 2017).

As informal employment is particularly high among youth from weaker socioeconomic and educational backgrounds, programs that seek to target unemployed or underemployed youth for training programs often provide a stipend to participants. Providing stipends to complement training programs has a more significant impact on the likelihood of securing formal employment than other programs (Freije, 2001). A successful feature of programs that achieve higher rates of women's participation and completion of training programs is the inclusion of a higher level of stipends for women with children under seven, which probably helps them avoid dropout from the program (Attanasio et al., 2017). Attanasio et al. (2017) also recommend that implementing mandatory payments to the interns of companies would incentivize more significant investment in their skills and increase the likelihood of the company hiring them after the end of their internships.

In addition to the components of training programs, the quality of training provided and its relevance to trainees are also critical for such programs to have an impact on worker formalization. In West and Central Africa, conventional training centers and technical schools have been found to be ineffective in improving job quality for informal sector workers because they have a high cost and poor quality. The training did not suit the participants' socioeconomic context as courses typically last over a long period of time and tend to disregard the informal sector's needs to cope with technological changes (Hann & Serrière, 2002). In contrast, in Nigeria, Tanzania, and Kenya, good experiences with training programs were possible only when they started to involve informal sector workers early in the design and implementation of training projects. In these countries, technical training programs raised the participants' likelihood of transitioning to the formal sector and having above-average productivity (Hann & Serrière, 2002).

Other policies that complement vocational training particularly for youth informality in employment, include developing a supportive environment for micro-enterprises (Fortuny & Al Husseinim, 2010); making skills training institutions more responsive to labor market demand (Ibarrarán et al., 2015); in-depth counseling (ILO, 2012); and enhanced credit access for young entrepreneurs (ILO, 2017a). Evidence also suggests that improving the general conditions of living of the target populations of training programs (typically disadvantaged youth) through healthcare, social protection, and family care programs, among other means to provide a social protection floor (ILO, 2015b), and policies related to work-loss compensations, unemployment insurance, and short work pay also improve the prospects of formal employment (Fortuny & Al Husseinim, 2010).

Lessons Learned and Good Practices 4

- Vocational Training programs can lead to greater formalization if they are well-designed and targeted and include complementary forms of support such as stipends to enrolled youth and wage subsidies to employers.
- Programs should take target trainees' constraints and considerations into account when deciding the content and modality of delivery for training curricula, the provision of stipends, and the balance between classroom and on-the-job training.

Wage Subsidies and Hiring Quotas

Wage subsidies and hiring quotas have often sought to encourage youth employment, but there is insufficient evidence on their impact on formalization, unless combined with other interventions. Some Latin American countries have complemented internship promotion policies with mandatory quotas for hiring interns and other groups with traditionally high unemployment rates. In Chile, the law establishes that medium-size and large firms must offer training-focused internships to youth 14 to 19, equivalent to between 5 % and 15 % of their total staff. Similarly, Brazil's internship law also establishes mandatory quotas for hiring interns (ILO, 2015a). Some of the allocations aimed to benefit specific populations, such as disabled workers in formal employment. Currently, 12 countries have quota laws ranging from 2% to 5% of the payroll. To extend labor market opportunities to persons with disabilities, Bolivia, Egypt and Jamaica established recruitment quotas or created programs that assist them in starting an enterprise (Nguyen & Meira, 2019). A recent study by Aşık et al. (2022), found that a subsidy scheme for employers' social security contributions in Turkey led to a positive impact on formal employment in small firms, and that this effect was driven by the formalization of existing employees (rather than hiring new employees). This suggests that there may be substantial scope of incurring deadweight losses through subsidized social security contributions for employers whereby subsidies do not create incentives for generating new (formal) employment but can reclassify workers as formally employed.

Brazil also had an Internship Law to boost youth's opportunities for formal employment in subsequent years and helped participants secure permanent work contracts. This law defined subsidies and minimum quotas for hiring young interns to facilitate their transition to formal employment from school and focused on on-the-job training to complement classroom learning. In particular, the law established that medium-sized and large enterprises should offer internship-based training to youth aged 14 to 24, equivalent to between 5% and 15% of their payroll. A similar law in Mexico provided fiscal incentives to firms that hire youth who had never held a formal job and had never contributed to social security, to help cover the employer's social security expenses (ILO, 2015a). However, in the absence of impact evaluation and cost-benefit studies, it is hard to comment on the eventual success and efficacy of such measures, including

unintended labor market distortions that may be created by the level of incentives offered to employers.

Traditionally vulnerable groups may not always benefit from wage subsidy as much as those who are already better placed to compete in the labor market. In Chile, the *Subsidio al Empleo Joven* (subsidies for youth employment) program offered monetary benefits to young workers and employers of up to 30 percent of the minimum wage. The subsidy gradually tapers off with wage increases until it is finally eliminated. While the program has shown positive results for older cohorts among the target male youth, it has not significantly impacted women and the youngest (Universidad de Chile, 2011). The results indicate that even though subsidies positively impacted employment overall, the policy benefited those who were already in a better position to compete in the labor market than more vulnerable groups (ILO, 2015a). An evaluation of a program combining training with a wage incentive paid to secondary school graduates in Mexico found positive effects on formal employment and permanent formal jobs over a two-year period after the program. The program was found to disproportionately benefit those with binding reservation wages (Abel et al., 2022)

Lessons Learned and Good Practices 5

- Policymakers should attempt to combine wage subsidies and hiring quotas with other complementary interventions such as training
- Wage subsidies and hiring quotas may not be the most suitable for the most marginalized groups that face substantial labour market barriers and disadvantages but are more useful for those who are already better able to compete on the labour market.
- Subsidies for employers' social security contributions may sometimes encourage them to hire workers formally, though the incentives to formalize existing workers rather than create more employment may undermine intended (formal) employment-creation objectives.
- Wage subsidies may especially benefit recipients with higher reservation wages ex-ante.

Job Search Assistance

As part of Active Labor Market Programs (ALMPs), Job Search Assistance programs, including Public Employment Services (PES) can sometimes contribute to the formalization of employment, but such results are neither uniform nor guaranteed across programs. Job search assistance aims to promote information and transparency in the labor market by providing services to match employers and jobseekers and reduce job search frictions and costs. While most evaluations of ALMPs show that programs involving job search assistance and in-depth mentoring are particularly effective in increasing participants' productivity (ILO, 2012), the evidence on their impact on formalization is mixed. For example, an assessment of the Public Employment Service (PES) in Colombia found that its job matching services increased participating jobseekers' probability of finding a formal and more productive job (Pignatti-

Morano, 2016). In Peru, while Chacaltana, J & Sulmont (2003) found a positive effect of Public Employment Services on both wages and employment prospects of participants, Vera (2013) found that the program increased spells of unemployment. In Brazil, while the PES did increase the likelihood of jobseekers finding formal jobs, during their period of unemployment many jobseekers used personal and informal channels to find new jobs and often found work in the informal sector while waiting for a better option in the formal economy (Pignatti-Morano, 2016). In Mexico, Flores-Lima (2010) argues that PES positively affected earnings and formality but did not increase the probability of finding a job. In Uruguay, PES appear to be more suited to highly educated workers with access to formal jobs than for low-skilled workers (Pignatti-Morano, 2016).

The impact of Job Search Assistance programs on formalization of employment, however, depends crucially on the structure of the economy as well as the quality of functioning of the programs/ services. In settings characterized by a high level of informal jobs, PES may not be able to affect employment formalization on their own. Many jobs in developing countries are in the informal economy, so vacancies are not recorded or registered with the PES. ILO (2012) argues that PES have often not been able to keep up with the changing requirements of the labor market or offer targeted packages of services that meet young people's needs. For instance, in the Middle East and North Africa, PES are generally weak due to which jobseekers and employers see little benefit in availing of them. Weak PES are unable to provide job seekers with reliable and up-to-date information on job opportunities, often due to low financial, infrastructure, and technological capacities. (Pierre & Scarpetta, 2004) argue that to be effective, PES must create close links between job seekers, employers, and labor intermediation offices (public employment services and private agencies).

Lessons Learned and Good Practices 6

- Public Employment Services are more likely to match applicants to formal jobs in more advanced economies with low rates of informal employment; they may be less suitable when informal employment is high.
- The efficacy of PES in enhancing formalization depends considerably on their quality and capacity and the extent to which they can signal a good ability to match jobseekers with good quality formal jobs.

Unemployment Insurance (Passive Labor Market Policy)

Some studies have found a positive impact of unemployment insurance on the formalization of workers. A theoretical model Bosch & Esteban-Pretel (2015) developed for Mexico shows that introducing unemployment benefits increases formal employment. However, the measures should be accompanied by a reduction in the cost of formality, such as lower employment taxes and firing costs. A theoretical modelling exercise for Malaysia established that an Unemployment Insurance (UI) system would have only a small negative effect on unemployment if benefits are

not large, through the reallocation of workers from wage to self-employment, while resulting in higher wages in both the informal and formal sectors (Margolis et al., 2012). Finkelstein, Shapiro & Sarzosa (2013) explore unemployment benefit transfer conditioned to training through a theoretical model with data from Latin America's and find positive results in terms of reducing informal self-employment among low-skilled workers. Some empirical studies have also found evidence of the positive effects of unemployment insurance on formalization. A reform that reduced the eligibility for unemployment insurance in Argentina in 2006 led to a lower likelihood of workers transitioning to informal employment among those with UI coverage than among those without (González-Rozada et al., 2011). A study in Chile found that despite its low take up, UI incentivized workers to seek formal employment (Sehnbruch et al., 2020). However, design parameters of UI schemes are critical to their effects on formalization. In Brazil, Gerard & Gonzaga (2021) find that the probability of finding a new formal job increases with unemployment insurance provision and peaks immediately after benefits cease. A shorter duration of coverage of more generous UI benefits may therefore be critical for not creating many incentives for workers to take up undetected (informal) work even as they continue to enjoy UI benefits (González-Rozada, M., & Ruffo, H.; 2022).

Lessons Learned and Good Practices 7

- Unemployment insurance can increase the incentives to seek formal employment, especially if accompanied by other measures that reduce the incentives for informal employment. They may also be conditioned on attending training programs, for greater impact.
- The probability of finding a formal job tends to be higher closer to the exhaustion of UI benefits.
- Shorter durations of UI benefits may be preferable to avoid unintended incentives for workers to take up undetected, informal work even as they receive UI benefits.

Minimum Wage Enforcement (Passive Labor Market Policy)

The minimum wage level and its relation to the share of informal workers in an economy is one of the central debates across the world with no conclusive evidence on the nature of this relationship. This section summarizes the evidence explicitly addressing the minimum wage experience in Brazil, Colombia, México, Honduras, Bolivia, Indonesia, some countries in Sub-Saharan Africa, Europe, and in other emerging economies. The literature broadly examines the impact of minimum wages on the effects on i) wages, ii) (in) formalization, and iii) the level of employment.

The evidence of the effect of minimum wage enforcement/ revisions on wages is not globally conclusive. Khamis (2013), in quasi-experiment research, shows that minimum wage increases lead to salary increases among informal but not among formal workers. Similar results have been found by Maloney and Nunez-Mendez (2003) in Mexico. This may be potentially because of the 'lighthouse effect' whereby revisions in the formal minimum wage have a signaling effect on

prevailing wages in informal employment. Minimum wages become a sort of reference wage even for the informally employed, with some studies suggesting that the light house effect of minimum wages is stronger at the lower end of the wage distribution and closer to the time of its revision (Kaplan and Perez-Arce, 2006). In contrast, in Honduras, Ham (2017) finds evidence of formal sector wages increases, in response to minimum wage increases. Nonetheless, a 10% increase in the minimum wage decreases the likelihood of being a formal employee by 8% and raises the probability of informal employment by about 5%, resulting in a shift from wage-earning employment to self-employment. Consequently, even though salaries in the formal sector may increase, the net effect of the informal sector on wages is negative, which may be due to the reduction in formal employment. The empirical evidence on the effect of minimum wage increases on formal/ informal wages remains inconclusive.

Similarly, the evidence of the impact of minimum wages on formalization is mixed. Davalos et al. (2020), in Bolivia, found that besides increasing the gender wage gap, a rise in the minimum wage negatively affects the likelihood of formalization. In Colombia, three studies established that minimum wage policies have deepened the labor market segmentation into formal and informal sectors (Peña, 2013; World Bank, 2010) and have increased labor informality (Arango & Florez, 2021), both through higher unemployment among formal workers and through a shift from formal salaried work to self-employment (World Bank, 2010). Similarly, Pierre & Scarpetta (2004) show that the minimum wage hike increases the underreporting of wages, thereby reducing compliance, and in some cases potentially encouraging informality. On the other hand, (Hohberg & Lay, 2015) found that minimum wage does not affect the likelihood of becoming formally employed in Indonesia. Campos-Vázquez et al. (2017)'s panel data exercise indicates that the "probability of being an informal (formal) worker falls (rises) among those affected by the wage rise policy."

Finally, the impact of minimum wage increases on the level of employment are also unclear. The rise of minimum wages had a negligible effect on overall employment in Colombia (Arango & Florez, 2021) and no impact on jobs in Brazil, México, and South Africa (Campos Vázquez et al., 2017; Dinkelmann & Ranchhod, 2012; Lemos, 2009) .

Table 2. **Inconclusive:** Findings on the Impact of Minimum Wage Increases on Labor Market Outcomes

Outcome	Evidence
(Real) Wages of informal workers	Salaries increased for informal workers, no increase for formal workers (Argentina, Mexico). (Khamis, 2013; Maloney and Nunez-Mendez, 2003) Salaries increased for formal workers, not for informal (Honduras). (Ham, 2017)
(In) Formalization	Negative effect on formalization (Bolivia, Colombia, emerging economies). Davalos et al. (2020); Peña (2013); World Bank (2010); Arango & Florez (2021); Pierre & Scarpetta (2004). Decrease the probability of being informal (Mexico). (Campos Vázquez et al., 2017). No effect on formalization (Indonesia). Hohberg & Lay (2015)
The general level of employment	Minor effect on informal employment (Colombia). Arango & Florez (2021). No effect in employment (Brazil, México, South Africa). Lemos (2009), Campos Vázquez et al., (2017), Dinkelman & Ranchhod (2012)

In examining the effect of minimum wages on labor market and formalization outcomes, each country's enforcement capacity must be kept in mind. When enforcement is weak, a rise in minimum wages may have a higher chance of encouraging informality. In India, Gudibande & Jacob (2020) found that legislation extending the Minimum Wage law to domestic workers increased real wages in the short-run, with no effect in the long-term, while it had no (short- or long-term) impact on the likelihood of being employed as a domestic worker. The persistence of domestic workers' wages below minimum wages in the long term is attributed to weak enforcement. In general, the more complex and stricter the enforcement of labor regulation, the more ineffective is the compliance (Pierre & Scarpetta, 2004). ILO suggests a simple design of minimum wages to balance workers' and their families' needs with economic realities (ILO, 2015a). Authors such as Alvarado et al. (2021) argue that using the minimum wage as a metric for the welfare of the poorest (who are more likely to be informally employed) does not always help and instead could often work against them.

Lessons Learned and Good Practices 8

- There is no final conclusion about the effect of minimum wage changes on informality.
- Reliance on minimum wages should be informed by the country/ region's established capacity for enforcement; without sufficient capacity to enforce minimum wages, countries may experience unintended consequences and outcomes contrary to objectives.
- Keep the design of minimum wages simple and periodically verify compliance. Complex systems may result in lower levels of compliance; and therefore, increases in the minimum wage may lead to increased informal employment.
- Do not use Minimum wages to index salaries in economies with high informality as this may increase market segmentation.
- Overall, minimum wage changes should not be motivated by formalization objectives and should instead be driven by other, well-substantiated reasons, particularly the extent of employer market power (monopsony).

Differentiated Minimum Wages (by region, occupation or age)

In their theoretical exercise for Colombia, Arango & Florez (2021) argue that the regional heterogeneity of labor market outcomes is based on the hypothesis that the MW is higher than the regional productivity. According to the authors, the United States, Mexico, and Panamá have regional minimum wages. Finland, Italy, Mexico, and the United Kingdom have minimum wages differentiated by production sectors. The Czech Republic and France have age and occupation minimum wages differentiated. Chile has 75 percent of the minimum wage for those younger than 18 and those over 65. The differential wage by age might be a policy to explore very carefully in countries that have limited enforcement capacity. In such countries, the implementation of sub-minimal youth wages in practice may lead to unintended consequences on youth employment in the informal sector. This is due to the possibility of higher untaxed income and the lack of significant differences in earnings between skilled and unskilled workers compared to the formal market (Fawcett, 2002).

Law Enforcement

Informal employment is typically more prevalent where the regulatory framework is burdensome and law enforcement is weak (Loayza et al., 2009). Econometric analysis by Chong et al. (2008) suggests that more heavily regulated economies tend to grow less and be more informal. They further argue that the quality of regulation law (the overall institutional framework) makes a big difference: better institutions help mitigate and even eliminate the adverse impact of regulation on economic growth. For workers, firms, and formal labor inspectors, complicated laws are often hard to understand and therefore comply with. Thus, simple labor regulation improves compliance.

While strong regulatory and enforcement capacity can reduce informal employment, they do so only in the presence of other enabling factors including economic growth, job creation, and

the presence of mechanisms for dispute resolution. The ILO recommends policies such as labor inspections for supporting compliance with legal instruments and work standards (Freije, 2001; ILO, 2015c; Loayza et al., 2009). Countries like Singapore are often invoked as successful examples of regulatory enforcement globally because their formalization pathway is defined by firm state control of labor market institutions. This includes a tripartite mechanism⁸ to provide a suitable environment for investment, competitiveness, and economic growth. Regulatory instruments have played an essential role in Singapore's development as an aspect of the government's strategy to attract foreign investments. However, these have been benefited from complementary factors including an active developmental state, foreign investments and investor-friendly policies, sustained economic growth, incentives and simplified procedures of compliance for firms, and employment-linked social protection (Debanes et al., 2021). Similarly, while Almeida and Carneiro (2012) find that enhanced labor inspection in Brazil did lead to lower informality in Brazil, this took place in the presence of an effective and binding minimum wage in the formal sector. More generally, studies have shown that labor market outcomes are inversely correlated with the stringency of labor regulation, and that the 'intensity of enforcement' is critical for effective regulation (Kanbur and Ronconi, 2018).

Simplified but active and effective labor inspection regimes can contribute more to formalization than approaches to inspection that are either passive or create conditions for rent-seeking. In 1995, Brazil created an institution for labor inspection and standardized labor inspection with schedules, targeted outcomes, and financial incentives. These policies did not affect job destruction (Abras et al., 2018). Similarly, according to ILO, through the Ministry of Labor, Ecuador restructured labor inspection offices in 2009. The process consisted of the resignation of long-serving inspectors and the hiring of more and new inspectors with higher salaries. Inspectors increased from 65 in 2006 to 245 in 2011. The inspection offices changed their previous passive role (by simply receiving complaints) to an active one, with a plan for inspections across the country through seven regional directorates (ILO, 2015b). While Turkey strengthened its law enforcement through fines and more robust inspection in 2006, Saracoglu (2020) shows that Turkey's informality rates would have gradually and naturally declined even without these measures. A World Bank study in 2012 found that around 8.5% of enterprises had been inspected, and the chances of having a new visit from another inspector increased significantly. When these enforcement conditions are warranted, non-compliance costs disincentivize informality (Brandt, 2011).

However, an overzealous enforcement of laws and formalization strategies may sometimes be counterproductive. This may be particularly true when formalization of employment is solely pursued as an end without regard to other critical outcomes related to workers' protection and productivity. For instance, efforts to ban informal street vendors in the center of Mexico City in

⁸ Involving workers', employers', and government representatives

the 1990s caused very few to transition to formal status, instead leading to most vendors either moving to other areas or shutting down their businesses (Jütting et al, 2008).

Creating awareness of policies and regulations can sometimes be more effective to encourage formalization than simply pursuing cases of non-compliance for punishment. Many efforts to enforce the law assume that workers and firms are aware of its requirements. De Stefano et al. (2021), found that in-person visits to define business and tax registration were more effective than disseminating information through more impersonal means.

Lessons Learned and Good Practices 9

- Defining a simple regulatory framework that makes law enforcement and understanding easier for workers and firms can be beneficial.
- Avoid burdensome and complex labor regulation design, especially when there is weak enforcement.
- Define specific institutions monitoring and inspecting compliance with laws. Change labor inspection from a passive to an active role, seeking and checking on firms and not waiting for complaints to respond to.
- Standardize labor inspection with clear schedules and targeted outcomes.
- Use in-person visits to explain the business, tax registration, and labor regulation to workers and firms.
- Launch campaigns to explain employees' and employers' rights and responsibilities, specifically for hazardous occupations.

Reducing the Tax Burden and Simplifying Tax Compliance

The relationship between tax burdens and informal employment is complex; governments often view the informal sector as an untapped source for potential tax revenue, even as high or cumbersome taxes may disincentivize the take-up of formal work. Many developing countries have tried to collect taxes directly from the informal sector (defined in terms of productivity), as it constitutes a considerable share of GDP (roughly one-third of GDP in emerging market and developing economies; Ohnsorge and Yu, 2023) and therefore represents a foregone source of revenue. A study by Dube and Casale (2016) on the effects of presumptive taxes on small firms in African countries found that the total revenue potential of taxing the informal sector is rather low, mostly because of difficulties in and the high costs of designing and administering appropriate tax regimes for the informal sector (Dube & Casale, 2016).

We find substantial evidence from multiple countries for the positive effect of tax burden reductions on the formalization of work. In a detailed meta-analysis, Jessen & Kluge's (2021) found that tax incentive interventions display more positive results than all the interventions for formalizing workers; reducing taxes promotes formalization. In addition to lowering payroll

taxes, authors like Brandt (2011) suggest removing different types of benefits such as childcare, housing, and recreational services included in security packages and instead recommend that such benefits should be included in tax-financed services for the general population, not linked to employment. In Latin America, theoretical models show that the informal sector's size correlates positively with tax burden and labor-market restrictions (Contreras et al., 2008; Loayza, 1996). Kugler et al. (2017) found evidence that the probability of formal employment and the likelihood of transitioning into registered work increased after a substantial reduction in payroll taxes in Colombia between 2013 and 2014. The results are most significant for smaller firms and those with earnings close to the minimum wage. This evidence is backed by Rodriguez de Luque (2014), who established that reductions in tax rates and increases in the control exercised over companies can reduce the size of the informal sector. Bosch & Cárdenas (2020) recommend a sequenced process for reducing high tax burdens beginning with the reduction of payroll taxes and social security contributions, followed by reducing firing costs and salary bonuses, and finally decreasing other salary costs. However, practical aspects of the reduction of taxes must simultaneously balance fiscal considerations with an understanding of their long-term effects on labor market outcomes, including those related to formalization.

Reducing heavy tax burdens can also help enhance low wage workers' wellbeing. An analysis of OECD countries found that social contributions paid by minimum-wage earners exceed income taxes, leading to high overall tax burdens. Given considerable tax burdens even at the lowest wage levels, tax policy measures can impact the net earnings available to low-wage workers. Nevertheless, since 2000 tax rates for minimum-wage earners have declined. Such targeted tax reductions improve the incomes of minimum-wage workers as employers cannot lower wages in response (Immervoll, 2007).

Simplifying tax compliance through administrative reforms and the use of digital and other technologies can also be effective. Jessen & Kluve (2021) found that registration and information policies have less significant effects on formalization than other policies, such as reducing taxes and providing financial incentives. However, the literature recommends exploring bureaucracy simplification to pay taxes and register along with reduction in the rates and levels of taxes payable. Some countries like Chile have adopted digital solutions from the tax administration perspective, but there are still challenges in streamlining other necessary procedures (Contreras et al., 2008).

In addition to reducing taxes and simplifying tax compliance processes, psychological motivators for tax and registration compliance also affect formalization. In 2004 Argentina adopted a transitory Simplified Regime for Small Taxpayers called Monotributo Social (MS) for independent workers and small firms (cooperatives). However, Castelao-Caruana (2016) found that although this regime reduced registration costs and simplified the formalization process of disseminating the benefits, the absence of a tax culture and biased perceptions resulted in poor outcomes. This example of MS highlights the need to identify tax culture, perceptions, and level of taxation, viz. the income of (often low productivity) firms and workers to design and implement effective tax regimes.

Lessons Learned and Good Practices 10

- Tax incentives related to regulation reductions and easing fiscal burdens are among the most impactful policies to formalize production units and workers.
- Reducing payroll taxes for special groups such as self-employed workers and workers with low income can encourage their formalization.
- Instituting or increasing taxes on small firms could create incentives for tax evasion.
- Streamlining procedures to register firms and workers and to pay taxes can be helpful. The ease of compliance with laws and tax burdens may be as important as the levels of tax payable in determining the take-up of formal employment.
- Simpler taxation regimes are insufficient if there is low tax morale, or if firms, or workers cannot afford to pay the levels of tax. Information campaigns to improve the perception of contributors and to dispel myths about taxes can be helpful.

Social Assistance Programs

Many policymakers are concerned about the potential negative effect of social assistance programs on labor market outcomes in general, and informal employment in particular, despite the absence of systematic evidence that back such apprehensions. Such concerns are often invoked in the case of means-tested social assistance programs where the loss of social assistance benefits can disincentivize the take-up of formal jobs (Ribe et al., 2012). Baird et al. (2018) find that conditional and unconditional cash transfer programs do not in general make a difference to adult labor market outcomes, apart from some transfer programs for refugees and for the elderly, who may reduce their labor supply as a result of the transfers. However, they also find evidence for the labor supply augmenting effects of cash transfers that are part of job search assistance or business establishment support programs. Overall, they do not find evidence of cash transfer receipts reducing labor supply. Similarly, Bosch & Cárdenas (2020) found that although the COVID-19 pandemic accelerated the implementation of unconditional transfers, given the need to compensate informal sector workers for their reductions in income, these programs did not affect the employability of beneficiaries.

A few studies have found a positive effect of cash transfer programs on the intensive and extensive margins of informal work. Studies have found that in the case of the PANES program in Uruguay (Amarante et al. 2011; Bergolo and Cruces, 2018), the Universal Child Allowance (AUH) in Argentina (Garganta and Gasparini, 2015), cash transfers in Turkey (Alcan et al., 2016) and the Bono de Desarrollo Humano program in Ecuador (Gonzalez-Rozada and Pinto, 2011), there was a negative effect on the likelihood of taking up formal employment. In the case of Bolsa Familia in Brazil, De Brauw et al. (2015) found a positive effect on the intensive margin of informal employment i.e., through additional hours of informal work. Núñez (2010) argues that several features of the *Familias en Acción* cash transfer program in Colombia, including poor targeting, the lack of exit or graduation strategies, and the poor quality of benefits and services created incentives for greater informal employment. The level of benefits offered by cash transfer programs is a critical determinant of the extent to which they may affect incentives to take up formal employment. Gasparini et al. (2009) studied Argentina's Program Jefes de Hogar (PJH), launched following the 2002 economic crisis, and found that while it initially increased informal employment, as the nominal value of the transfer diminished relative to formal sector wages, the effect on informality diminished as well.

On the other hand, many studies across countries have found no clear evidence of cash transfer programs increasing informal employment. We first examine the case of the *Bolsa Familia* program in Brazil that covers families in poverty with pregnant women, nursing mothers, children, and adolescents aged 0 to 15 years, and families under the extreme poverty line regardless of their demographic composition. A concern among the program's critics was that given *Bolsa Familia* targeting, beneficiaries were incentivized to work in the informal sector (with their incomes hidden from government agencies) to remain eligible for cash benefits. However, Barbosa & Corseuil (2014) found that *Bolsa Familia* did not in fact affect the distribution of jobs in informal or formal markets or allocated hours across sectors. In the case of the *Brasil Carinhoso* program, launched in 2012, that provides cash transfers to households in extreme poverty and with children under 6, Nazareno (2016) found that the program *decreased* informality among targeted households, likely by alleviating liquidity constraints faced by heads of households in their job search efforts.

In Colombia, *Familias en Acción*, a conditional cash transfer program implemented from the 2000s targeting children from poor's families' effectively increased the recipient children's height, body mass index (BMI), visits to the dentist, food security indicators, and years of education and decreased the age for entering school (Llano, 2014). While an earlier study found no evidence of these programs affecting labor outcomes in the long run (Attanasio et al., 2004), a more recent study found that the program increased the likelihood of formal employment among men from eligible households by 3.4 percentage points, but had no effect among women (Attanasio et al., 2021). In 2001, after an acute economic crisis, Argentina implemented a sizeable social program called the *Programa Jefes de Hogar* (PJH), providing cash transfers to unemployed households with children at school, dependents with disabilities, or with partners who are pregnant. Gasparini et

al., (2009) found that in the early stage of the program participants moved more slowly into formal employment than non-participants. They also note that when the gap between the market wages and the transfer was narrow, participants moved at a slower pace to formal markets in comparison to non-participants; and that as monitoring was not robust in identifying informal workers, many participants did not have the incentive to become formal. In 2009 Argentina launched the Universal Child Allowance program as a cash transfer scheme for unregistered workers with children. The program covered 15% of total households with a benefit per child, and the benefit size is about 8% and 15 % of the mean household income - a significant level to potentially disincentive labor market formalization. However, there is no evidence that registered (formal) workers were incentivized to become informal by the program's benefits (Garganta & Gasparini, 2015). Campos-Vazquez, and Knox (2013) find no evidence of the Seguro Popular program in Mexico being correlated with an increase in informal employment and relate these to other factors instead. Similarly, Azuara and Marinescu (2013) find no effect of the Mexican *Oportunidades* program on informal employment.

Lessons Learned and Good Practices 11

- Overall, there is no consensus on the effects of social assistance programs on increasing informal employment. While most studies find no persistent effects of cash transfer programs on the intensive or extensive margins of informal employment, many other studies do. The nature of the effect would depend on factors such as the level of social assistance benefits relative to wages, the accuracy of targeting, and effectiveness of implementation.
- In some cases social assistance may incentivize formal employment by lifting liquidity constraints on recipients (formal) job search efforts.
- Programs that are well targeted, offer benefits that are not very close to prevailing wage levels, incorporate a graduation model, and are well run are more likely not to create any incentives for informal employment.

Healthcare programs

The design of health insurance coverage schemes can sometimes unwittingly influence households' and individuals' choice of pursuing formal or informal jobs. The design of many health insurance schemes in many Latin American countries, where entire families are provided health insurance coverage if one member is formally employed, created incentives for other family members to pursue or remain in informal employment (Perry et al., 2007, pp. 46; Galiani and Weinschelbaum, 2006). Spouses and secondary household workers who opted to enter formal employment generally had to pay for health coverage to which they were already entitled through the household head's affiliation. This double payment for a single benefit created a powerful incentive to choose informal jobs (Fortuny & Al Husseinim, 2010). The reforms of health systems in Colombia, Mexico, and Uruguay in the 1990s and 2000s have been studied in much detail. In 1991, health coverage was made universal in Colombia through a contributory scheme

for formally employed workers and a subsidized (noncontributory) regime for informally employed workers and poor households. Both regimes offered the same benefits and access to the health system for their beneficiaries. In the contributory scheme for formally employed workers, the system also covered their immediate family members with no extra cost. Ramirez Gallego et al. (2015) found that people in the subsidized health regime were 44% more likely to be informally employed. Camacho et al. (2014) found the introduction of this regime to be associated with an increase in informal employment by 4%. In Uruguay, uninsured persons were provided free health services by the Ministry of Public Health, and formally employed workers had to contribute to their social security scheme to access private healthcare institutions. Cruces & Bergolo (2013) found that extending access to private health insurance to formal workers' dependents augmented the general willingness of workers to contribute to the social system and in the process be classified as formally employed. Nevertheless, studies also indicate that when analyzing households rather than individual preferences, there were incentives for only one household member to work formally (Bérgolo & Cruces, 2011).

Much of the debate on the literature on the effect of health insurance benefits on informal employment draws on the experience of Mexico's *Seguro Popular* program that offers a complete package of health insurance benefits for workers without access to formal social security, comprising primary, secondary, and tertiary care. An evaluation by del Valle (2021) of *Seguro Popular* concluded that the program's effect of increasing access to health coverage decreased the likelihood of informally employed workers abandoning the labor market. This effect was mainly driven by women, secondary earners, and caregivers who were less likely to transition to inactivity due to health shocks among household dependents. Similarly, Azuara & Marinescu (2013) found no effect on the overall share of informality. Other authors also stressed that the program did not affect the decision of workers to remain or become informal, which could have been an unintended consequence (Campos-Vazquez & Knox, 2013). In contrast, while Bosch and Campos-Vazquez (2014) found no significant effects on general employment, they found evidence of a negative impact on the number of employers and employees formally registered in small and medium firms (of up to 50 employees). A review of literature by Bosch et al. (2014) summarizing all the studies addressing the impacts of *Seguro Popular* on informality concludes that results have been mixed, and there is no clear consensus.

Lessons Learned and Good Practices 12

- Policymakers need to consider possible labor market effects when designing employment-linked health benefit regulations/ policies.
- Health coverage for family members of contributing workers may have two different effects: i) incentives for workers to become formal as their families will be covered; ii) disincentives of family members to get formal jobs as they are already covered, especially if additional family members working in formal jobs have to pay extra for the same level of benefit coverage.

Economic Inclusion Programs

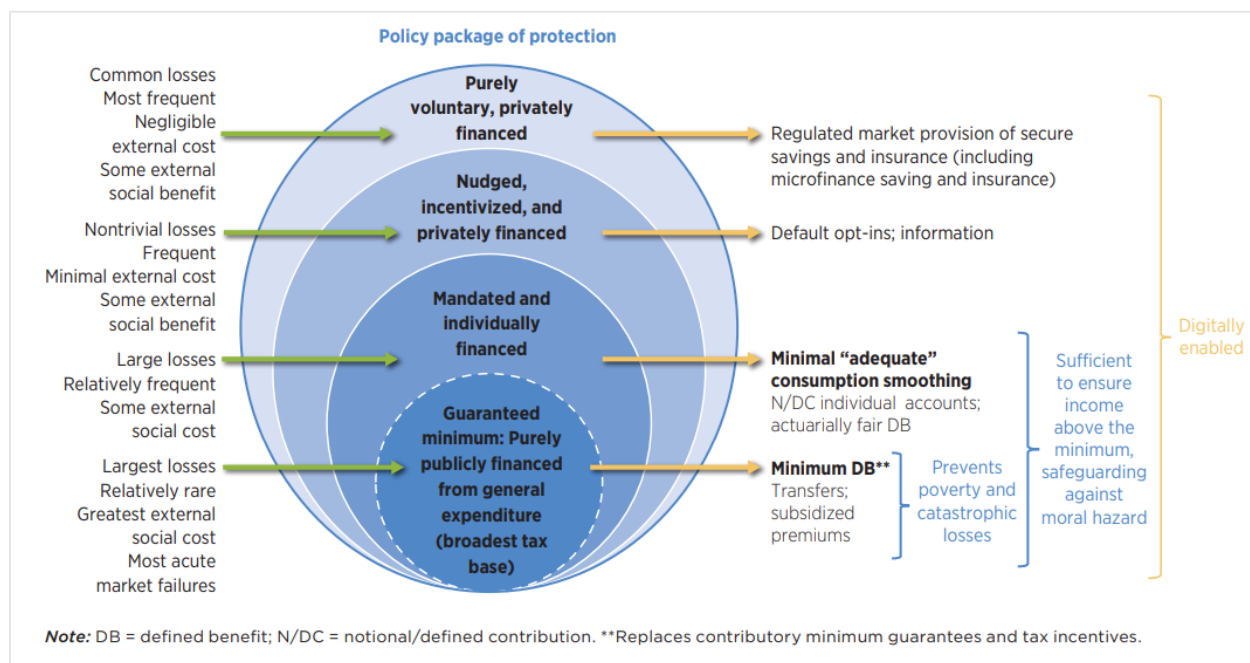
There is limited, if any evidence, of the impact of Economic Inclusion (EI) programs on formalization, and in fact many EI programs specifically recognize the need to support individuals who may not be able to transition easily to formal employment. EI programs are a bundle of coordinated, multidimensional interventions that support individuals, households, and communities in their efforts to increase their incomes and assets. As they tend to operate in rural, poorer, and more remote areas, multiple projects seek to reduce transaction costs and enhance market access by forging new relationships between farmers/ producers and other economic actors such as buyers. Although many producer organizations initially operate in the informal sector, EI projects can support a gradual transition toward formalization and establish formal connections with other market actors, such as financial service providers and private training providers (Sparkman et al., 2022). Even though the evidence on the formalization effects of EI programs is limited, such interventions can help enhance productivity even if workers are not able to fully transition to formal employment (see discussion in sections 5B and 5C).

5B. Protection

Workers in informal employment (and their families / dependents) face a range of vulnerabilities in, and outside of their work, for which they also often lack effective means of response, and which formalization efforts alone may not sufficiently address. The uncertainty and volatility of income, high risk of impoverishment, high and unmitigated exposure to the risk of workplace injuries and health hazards, unsecured access to worksites and areas of operation, threats of extortion, bribery and harassment and the pronounced likelihood of unemployment or underemployment are among the many such vulnerabilities to which workers in informal employment are exposed. Policies that aim to achieve formalization of workers alone may not be sufficient (or in some cases even necessary) to address the protection needs of the informally employed. The protection of the informally employed requires a dedicated set of policy instruments and actions.

Effective protection policies require a careful understanding of the risks and vulnerabilities faced by the informally employed, in terms of their magnitude/ severity of potential losses, the frequency of risks, and the extent to which they pose social (rather than only private) costs and arise due to market failures. Packard et al. (2019) lay out a compelling framework for differentiated policy instruments for extending protection, beginning with publicly financed, guaranteed minimum policies to protect the poorest, followed by mandated and individually financed instruments, nudged, incentivized and finally, private financed initiatives and purely private/ voluntary, by decreasing order of the severity of potential losses, shock frequency, social costs, and market failures see Fig. 8 below). This framework is very helpful to determine the approach to extending protection to the informally employed based on their characteristics; while the poorest and most vulnerable (who are typically un/under-insured) will require publicly financed support through instruments such as targeted cash transfers, the relatively much better off among the informally employed would benefit more from instruments such as voluntary savings schemes or privately financed insurance products. Mandated protection through social insurance schemes can enable better consumption smoothing among those in between while ensuring against moral hazard risks that arise with public provision of the guaranteed minimum. It is also a useful instrument to overcome challenges associated with workers' own myopia which may cause them to under-invest in insurance even when it may be beneficial to them, and with the failure of the market to provide adequate insurance at a price that workers can afford (Packard et al. 2019).

Fig. 8. A Policy Packages for Protection – by loss severity, frequency, social costs and market failure



Source: Taken from Packard et al. (2019), pp. 9.

Across countries, efforts to protect the informally employed have focused on enhanced coverage through social insurance schemes, as well as the use of social assistance and other tax-financed instruments for those who may remain out of the ambit of formal employment. Informally employed workers often lack access to social protection, particularly social insurance mechanisms. The challenge then is to simultaneously extend, among the informally employed, social assistance to the poorest and most vulnerable and those likely outside social insurance coverage, and mandated social insurance to as many workers as can be covered.

Generally, the extension of social security through social insurance aims to protect workers with some contributory capacity, such as domestic workers (e.g. South Africa) or to include self-employed workers in social insurance schemes (e.g. Algeria and the Philippines). Countries also finance the extension of non-contributory social protection (mainly social assistance) mechanisms through tax revenues in the form of cash transfers, health services, and cash and social services for groups such as the elderly and people with disabilities. Some countries have integrated both approaches, such as Argentina with child and maternity benefits, Brazil with a rural pension scheme and the Bolsa Familia cash transfer program, and Cabo Verde, and South Africa, that combine social insurance and large grants programs (ILO, 2021).

In this section we examine the evidence on different policy instruments on their ability to extend protection to the informally employed. We focus first on social protection measures (comprising both social insurance and social assistance programs), and then on related instruments such as healthcare, voluntary savings schemes, and group-based microinsurance

programs, following the discussion of the hierarchy of protection needs as depicted in Fig. 8 and described in Packard et al. (2019). Related to the discussion on instruments that can be used to extend protection to the informally employed, Annex 1 describes the policy measures taken up by countries during the COVID-19 pandemic for protecting informally employed workers.

Social Insurance

Social insurance programs can provide critical protection to workers against a range of risks in the short and long-term. Social insurance programs comprise mandated contributory mechanisms that provide workers support in cases of workplace injuries, retirement, the cost of health care, and unemployment. As coverage under social insurance schemes is often a condition for workers to be classified as formally employed, extending social insurance can simultaneously achieve formalization and protection objectives - even as a sufficient condition for formalization (such as enrolling in a social insurance scheme) may not automatically translate into a commensurate or adequate level of protection, if the benefits of the scheme are insufficient or not accessible or realized. Nonetheless, social insurance programs can be critical for helping individuals manage risks and smooth income (World Bank, 2022a). As an example, a study by Petermann and Sommer (2019) shows that social security cushioned workers against welfare losses by 1.4 percent of expected future lifetime consumption, and that such effects were stronger for poorer and relatively older workers.

Extending social insurance coverage to informal workers often requires careful profiling and assessment of the contributory capacity among different groups of informal workers to identify the appropriate means of including them in schemes. In most countries, informally employed workers are considerably heterogeneous in terms of their sectors of activity, geographical concentration, and demographic and educational characteristics. Profiling informal workers can help identify different approaches for interventions to protect workers. For those workers who have a relatively higher contributory capacity as well as similar educational and demographic characteristics to formal workers, pursuing the extension of contributory social insurance schemes may be worthwhile. Recent studies have demonstrated innovative ways to assess the contributory capacity of informally employed workers, such as clustering methods (Rother et al., 2022) and survey-based discrete choice experiments (Ghorpade et al., 2023). ILO (2021) provides examples of countries that have sought to extend contributory schemes to informal workers with high contributory capacity through a combination of legislative and program design changes, that typically widen eligibility to new groups of workers (such as domestic workers in South Africa and self-employed workers in Algeria and the Philippines) or expand integrated tax and social insurance contribution ('monotributo') regimes (as in Argentina, Uruguay, Brazil) to streamline tax and social security contributions. In cases where informal workers may be assessed as having some but not sufficient contributory capacity, the government may seek to subsidize contributions, adapt contribution rates, or alter contribution schedules to extend such workers' inclusion in contributory social insurance schemes (Güven et al, 2021).

Finally, those assessed as having lower contributory capacity may often instead be referred to social assistance programs and tax-financed social pensions (ILO 2021).

Integrated social insurance systems that seek to balance actuarial fairness with subsidies for the poor and the informally employed tend to be less distortionary than universal noncontributory pensions. The expansion of noncontributory social pensions to enhance coverage among the informally employed has been attempted in several countries. However, Winkler et al., (2017) argue that such approaches may have unintended effects in terms of increasing labor market segmentation and may also be financially unsustainable. They further state that an integrated social insurance system (as in Chile's pension system) which includes both an actuarially fair contribution system with targeted subsidies for those who cannot afford social insurance contributions tends to be superior. Finally, they also argue in favor of contributions being linked to individuals and not to jobs (and therefore for portability of contributions for an individual across jobs/ employers) and for transparent redistribution mechanisms under which beneficiaries are aware of required contribution levels corresponding to each benefit level.

The design features of social insurance schemes, particularly their benefits and costs (as perceived by informal workers) can greatly influence their uptake (World Bank, 2010 – Colombia). For example, Becerra (2023) finds that a reduction in future benefits following a pension reform in Colombia led to a switch from formal to informal employment as early as nine years before reaching the minimum retirement age, without any change in the labor force participation rate. Other design and implementation features that can enhance uptake of contributory social insurance schemes include providing accessible registration, simplified payment regimes, benefits that meet informal workers' short- and long-term needs, and tailored outreach and communications to target workers (Barca and Alfery, 2021). Offering a diversified range of social insurance products can also help target different types of potential subscribers among the informally employed (Güven 2019).

Allowing flexibility in the frequency of contribution is an important consideration for designing appropriate social insurance schemes for informal workers. While those in formal employment typically have regular salary payments that allow regular social security contributions at monthly or other such frequency, informal workers often have irregular income streams which may not be amenable to fixed monthly contributions. Allowing flexibility in the frequency of contributions can potentially help encourage informal workers to benefit from social insurance scheme. For example, the Mbao pension scheme in Kenya introduced flexible payment options that allow informal workers to make contributions anywhere and anytime, including through easily accessible platforms using mobile phones. Similarly, in 2016, Uganda launched two social insurance schemes for informal workers that do not require regular or fixed contributions (Güven, 2019).

Outreach to the informally employed for enrollment in social insurance schemes can be challenging, though digital technologies, the use of existing platforms and informal workers' associations, and the creative use of everyday contact points can be leveraged to expand coverage. For digital platform workers, some countries such as Uruguay and Indonesia have introduced automatic deductions for social security contributions (ILO 2021). This approach may hold promise for many types of digital platform workers who find jobs and receive payments through digital platforms, allowing a potential observation of earnings and therefore also enrollment of platform workers in social insurance schemes and a commensurate deduction of contributions from their earnings for coverage.

Guven (2019) and Hu and Stewart (2009) recommend using multiple routes to reach out to informal workers in rural areas through an extended use of everyday contact points such as post offices, banks, credit unions, etc. (as is being done in India), or using alternate financial providers (as is the case in Bangladesh and the Philippines). Formal unions of informal workers are less common and visible than those of organized, formal workers, which somewhat limits the ability to leverage tripartite mechanisms involving established and recognized workers' unions as representatives of informal workers. While many informal workers are not part of formal unions, social security or even social assistance databases and registries, many have informal associations and networks for social or collective bargaining purposes. Many of these associations also have active online presence and use social media networks such as WhatsApp groups and Facebook pages. Proactive outreach to informal workers for potential enrollment in social insurance schemes can benefit from mapping and liaising with such existing networks. Finally, communication and outreach materials should be appropriate for the target audience in mind to be able to convey key messages simply and clearly, as many informal workers may have low levels of education and limited access to certain (mainly digital) means of communication (Holmes and Scott, 2016).

Lessons Learned and Good Practices 13

- Extending social insurance to informal workers can have critical benefits for the protection against a range of shocks, though the challenge is for deciding how to extend coverage to them and make sure they retain active coverage over time.
- The benefits of social insurance programs for informal workers need to be sufficiently attractive and relevant to their needs; this requires policymakers and SI agencies to undertake detailed studies of the risks and vulnerabilities faced by them and offer suitable benefit packages.
- Profiling of informal workers is critical to assess their contributory capacity and willingness to pay for social insurance contributions. This can help identify which types of workers may need subsidized or matching contributions for SI coverage.
- SI benefits should allow for portability across jobs and employers.
- Policymakers should seek to develop and use an integrated social insurance system which includes both an actuarially fair contribution system and targeted subsidies for those who cannot afford social insurance contributions.
- SI agencies should consider allowing greater flexibility in the frequency, volume, and modality of SI contributions, particularly for the self-employed, to increase their appeal among informal workers.
- SI agencies may need to undertake targeted and suitable outreach to informal workers using appropriate media, tapping into official and unofficial networks of informal workers by sector geography or demographic groupings, and partnering with associations of workers and with digital platforms. The content of outreach messaging should be relevant to the requirements and interest of the audience.

Unemployment Insurance (Passive Labour Market Policy)

Unemployment insurance provides workers income support during periods of unemployment, based on past levels and duration of contribution, and typically for a maximum set duration of time. Unemployment insurance mechanisms may present a moral hazard challenge to returning to a formal job where the contribution level and the benefit size are key parameters (Bosch & Esteban-Pretel, 2015). Gerard & Gonzaga (2021) found that efficiency cost concerns of unemployment benefits are lower in informal economies since formal re-employment rates are lower and informality is higher. A larger share of workers could draw Unemployment Insurance benefits absent any moral hazard.

Lessons Learned and Good Practices 14

- Unemployment insurance schemes may have mixed effects depending on the level of the contributions and the benefits. The challenge lies in assessing the true state of unemployment or underemployment among the informally employed.
- A more feasible approach may be to allow workers to tap into a defined maximum share or level of their accumulated social insurance contributions to meet contingencies arising from unemployment.

Health Benefits

Health benefits that are often part of the bundle of protections offered through formal jobs can extend protection to formal workers, and their families against a range of health shocks and conditions that could otherwise diminish their productivity and wellbeing. Acharya et al. (2012) show, empirically and theoretically, that health coverage has a positive impact on the quality of life. Free or subsidized health insurance coverage (sometimes bundled with other benefits) is a common means of extending protection to informal workers and their families. These have proven to be effective in mitigating the risk of a heavy financial burden of the costs of healthcare and can be extended to large segments of the informal economy. For example, within four years of implementation, the *Seguro Popular* program in Mexico covered 95% of the country's disease burden, including almost 200 interventions and over 300 drugs (Campos-Vazquez & Knox, 2013). *Seguro Popular* was the most significant example of "non-contributory" health insurance in Latin America, with more than 52.6 million beneficiaries as of 2021. Gakidou et al., (2006) found that the program helped reduce the depth of poverty exacerbated by health spending; its beneficiaries were more likely to use health services and were less exposed to "catastrophic health expenses."

The impact of health insurance on protection outcomes depends crucially on the level of uptake and financing available for such schemes. Acharya et al. (2012) note that despite the positive effect of health coverage schemes on wellbeing outcomes, the impact of such schemes is somewhat limited as their uptake is less than expected. Some plans achieved significant financial protection, but there is no significant impact on the utilization and health status. These findings call for greater information campaigns to communicate how health coverage schemes work and the benefits of the early use of health services for prevention, to enhance uptake. Another limitation pertains to the insufficiency of financing, particularly for universal health insurance schemes in high informality countries. Indonesia universalized its National Health Insurance System in 2014, effectively extending protection to all low-income workers. Nevertheless, one of the main challenges was the lack of sustainable premium payment by informal workers, partly due to the instability of their earnings, but also because of limited ability of the government to enforce payments, which has rendered the program financially unsustainable (Dartanto et al., 2020).

Lessons Learned and Good Practices 15

- Universal health coverage can generate conditions to support human development, if it is of good quality and is accessible. Universalizing health coverage needs be accompanied by campaigns for disease prevention and encouraging the early use of health services.
- Tax-financed health coverage can help avoid labor market distortions associated with coverage of entire families through the formal job of one member but may on the other hand pose a higher fiscal burden.

Voluntary Savings Schemes

The lack of reliable post-retirement or old age incomes for informal workers from formal contributory pensions has led to a marked interest in the potential of Voluntary Savings Schemes to provide support in old age and post-retirement lives, in the manner that retirement pensions support those retiring from formal employment. Different countries have experienced a range of features to encourage old-age voluntary savings beyond regular pension schemes: automatic transfers (Mexico), lotteries combined with a 'deposit deadline' (Colombia), behavioral interventions using technology, matching contributions (Rwanda), favorable interest rates, and flexible micro schemes for workers unable to make fixed contributions (Güven, 2019). Behavioral interventions in countries like the United Kingdom, New Zealand, Italy, and United States have found positive enrollment effects in setting the enrollment to a voluntary saving scheme as a default option. Nevertheless, studies have found that individual voluntary pension schemes are unlikely to have adequate coverage, and consequently, it is essential to rethink the role of employers in them (Rudolph, 2016). Equally important is the need to assess the efficacy and progressivity of public spending that subsidizes voluntary savings schemes.

While voluntary savings schemes have been implemented in several emerging countries, they may be more useful as a complementary old-age insurance system rather than as the main savings instrument for informal workers. Voluntary saving schemes have features that differentiate them from mandatory saving schemes. First, the workers decide if they want to contribute to the system independent of their income. In that sense, coverage mostly depends on the worker's willingness and capacity to contribute, which is typically lower for informal workers. For instance, in Colombia, voluntary saving schemes are administered by private institutions that invest the contributors' money depending on their risk profile and charge them an intermediation fee. This design has proven to be somewhat problematic as studies have shown that the saved money is usually insufficient to generate a reliable pension. The resources may run out relatively quickly and leave beneficiaries unable to meet their financial needs in their old age (Cayón Fallón et al., 2011). Participation in voluntary saving programs may therefore be low in schemes with low-interest rates, flawed or inappropriate design features, and low levels of old-age benefits.

The design features of voluntary schemes are critical for their uptake and continued participation among informal workers. The Mbao Pension Scheme launched in Kenya is designed to promote savings for retirement among low-income informal sector workers. A key feature is the ease of payment: participants can contribute anywhere and anytime over a mobile phone. Members may withdraw savings at least three years after their first contributions. However, the total of accounts associated with this Pension scheme has declined over the years (Güven, 2019). In Indonesia, the largest gig platform – GoJek – developed the SWADAYA program, a partnership between the platform, the social security scheme, and a private bank to simplify driver registration and payment to the system. Through the social security scheme, gig workers access a bundle of benefits including accident and life insurance, workplace accident

cover, medical treatment, and wage, death, and funeral compensation (Barca & Alfery, 2021). In the Philippines, the AlkanSSSy financing mechanism has shown some positive early results; the program consists of a social security scheme in which workers can make a low daily contribution (of around 0.20 USD) on the days of the month they can until they reach the monthly minimum contribution (De et al., 2020).

The design of voluntary savings schemes should consider the importance of the prevalent savings culture and citizens' perceptions and expectations. In many countries, workers tend to have lower savings because of over-optimism, low trust, and time-inconsistent preferences making it more challenging to adhere to different program rules. Therefore, behavioral nudges and measures to enhance financial literacy are often combined with saving products. For instance, *Beneficios Económicos Periódicos* (BEPS), a saving program in Colombia, introduced text messages to help users reach a determined savings goal. Mexico has introduced the attendance of financial education courses as a condition to receive social assistance benefits (World Bank & AFD, 2021).

Lessons Learned and Good Practices 16

- Voluntary savings schemes can be a useful supplement to retirement incomes but are unlikely to meet workers' income needs during retirement entirely. Schemes with higher-interest rates, suitable design features, and high levels of retirement benefits are more likely to appeal to informal workers.
- Voluntary Savings Schemes that include easy payment modalities, allow flexible contribution schedules and offer a range of different benefits (including insurance coverage) are more likely to see greater interest and uptake among workers.
- Combining voluntary savings schemes with financial literacy training and appropriate behavioral nudges can enhance their uptake and usefulness.

Social Assistance

Social assistance including cash or in-kind transfer programs seek to provide a basic minimum level of support to poor and vulnerable households against poverty, food insecurity and a range of economic shocks. In addition to household welfare outcomes of recipients, cash and in-kind transfer programs may also affect households' labor allocation and labor market participation decisions. Cash Transfers may be conditional, in which the transfers receipts are made conditional upon on the recipient undertaking specific actions or demonstrating specific behavior (such as children attending schools, or mothers attending nutrition training sessions), or unconditional, which do not require compliance to specific behaviors for recipients to access benefits.

Overall, there is robust evidence that cash transfer programs can provide poor and vulnerable households, including those in informal employment, protection against shocks, and thereby improve wellbeing outcomes. Canedo et al. (2023) found that a one-off emergency cash transfer program targeted at informal workers in Mexico improved household food security and

subjective wellbeing outcomes during the COVID-19 pandemic. In fact, the effectiveness of cash transfer programs in providing support to poor and vulnerable households in times of distress was a primary reason for their preponderance across countries as part of governments' COVID-19 economic response measures, including programs covering over 2 billion informal workers globally that had hitherto not been covered by social assistance programs (Gentilini et al., 2020). Other studies have demonstrated the impact of cash and in-kind transfer programs in protecting poor and vulnerable households against shocks and in crises (Doocy and Tapis, 2016; Baily and Harvey, 2015).

Besides cash transfers, public works programs can also be used to provide income support to informal workers in times of need, and especially during crises. While economic crisis response measures such as extending credit to firms, wage subsidies and unemployment insurance typically benefit only formally employed workers, even measures such as emergency cash transfers more likely benefit those who are already part of existing program or social registries. Informal workers are often left out of the ambit of these types of support measures (for example in Malaysia; World Bank Malaysia 2021). In such cases public works can prove effective, especially for low-skilled workers in the informal sector (Carranza et al., 2020). Public works programs when carefully designed and implemented enable consumption smoothing to informal workers in times of downturns, as has been seen in the case of the global financial crisis of 2008-09 (Azam et al., 2012), the COVID-19 pandemic (Gentilini et al, 2022), as well as in more regular downturns caused by seasonal variations in the availability of work (Klonner and Oldiges, 2022; Imbert and Papp, 2015). While public works programs are especially effective at meting short-term contingencies, their impact on wellbeing indicators in the longer term may, however, be more limited (Leight and Mvukiyehe, 2023).

Lessons Learned and Good Practices 17

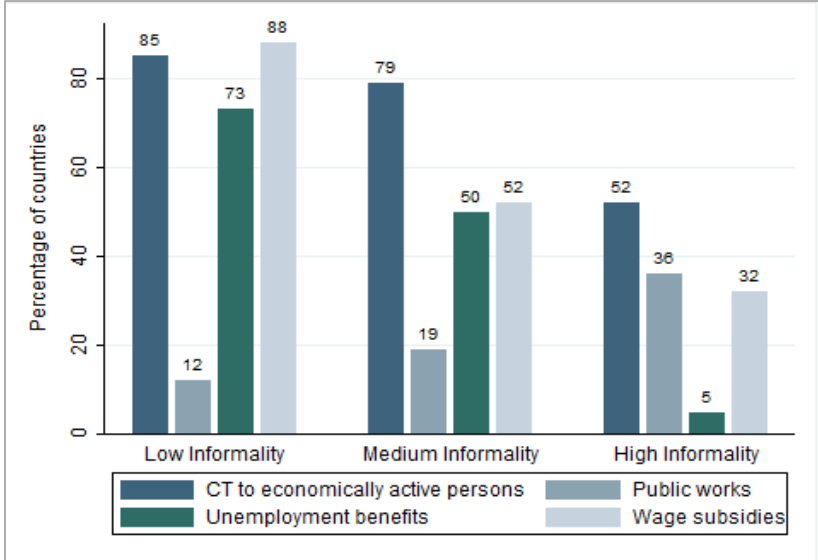
- Cash transfer programs can be effective in enhancing the protection of informally employed workers, especially those from poorer households to which social assistance programs are typically targeted. Cash transfers were by far the most popular policy instrument across countries to support informally employed workers during the COVID-19 pandemic (see Annex 1).
- Labor intensive public works can be effective in providing temporary or short-term relief to informally employed workers.

Wage Subsidies

Wage subsidy programs have demonstrated an ability to provide temporary support to formal workers, especially during economic downturns, but their coverage in high informality economies, and of informally employed workers is generally low. Wage subsidy programs have been used widely, especially in middle- and high-income countries, during periods of economic contraction, such as the 2008-09 global financial crisis and the COVID-19 pandemic.

These policies can help prevent or reduce the extent of worker layoffs by firms during downturns and can thus be effective for worker protection goals. For example, Bruhn (2016) found that employment rates were higher, and post crisis employment recovery faster in industries that were eligible for wage subsidies during the global financial crisis than in comparable industries that were not. During the COVID-19 pandemic, wage subsidy measures were part of the economic response in 117 countries, though they were less popular in countries with higher levels of informality (see Fig. 9 below). While 88% of low informality economies (which indeed tend to be higher income economies) initiated wage subsidies, their prevalence in low- and mid-informality countries was considerably lower, at 32 and 52 percent, respectively (Gentilini et al., 2022). While wage subsidies usually benefit those already in formal employment, during the COVID-19 pandemic, some countries, such as Tonga, introduced wage subsidy programs for informally employed workers as well. Others, including Albania, Timor Leste and Jordan introduced wage subsidy programs that were conditional on formalizing workers (ibid.). While these are interesting examples of extending wage subsidies to protect informal workers, their actual performance and efficacy remain to be studied.

Fig. 9. Percentage of countries with at least one of the income support policies by level of informality



Source: Taken from Gentilini et al. (2022), pp. 25

Lessons Learned and Good Practices 18

- In middle- and high-income countries with relatively lower levels of informal employment, wage subsidy programs can be useful to restore employment and cushion workers against labor market shocks.
- Wage subsidies tend to benefit those already in formal employment, in some country cases these programs have been extended to the informally employed.

Group-based Micro Insurance

Collective insurance or registration agreements through trade unions, cooperatives, or rural producers' associations can be a way to overcome hurdles to extending coverage of social security among the informally employed. These collectives, themselves formal or otherwise, can operate as intermediaries between social security institutions and informal or own-account workers, and address the critical challenge in identifying, enrolling and supporting the informally employed who are otherwise hard to reach using formal mechanisms (Barca & Alferys, 2021). For instance, in the Dominican Republic, a trade union-supported association called Mutual Association of Solidarity Services (AMUSSOL) offers access to a social insurance scheme for vulnerable and self-employed workers. The AMUSSOL was created in 2005 and works with 129 organizations of informal workers. It operates as a bridge for workers who should be in the contributory-subsidize regime but are excluded from it in practice. AMUSSOL collects social contributions and transfers them (minus a 1 % fee for intermediary expenses) to the public social security system. In return, members gain access to employment injury coverage, old-age, disability, survivor pensions, and healthcare insurance for themselves and their families (ILO, 2021).

Other examples of collective registration with public social insurance schemes can be found in Ecuador, Costa Rica, India, Argentina, and Colombia. In Ecuador, the Peasants' Social Insurance covers informal workers in agriculture. It includes maternity and health coverage for the whole family in case of the insured person's old age, death, or invalidity. Agricultural workers can register individually or through an organization that collects contributions and transfers them to the Social Security Institute of Ecuador. The scheme is financed through contributions by the insured, cross-subsidization by employers and employees registered in the general insurance scheme, contributions by public and private insurance entities, and a state subsidy. The program serves as the primary social security mechanism for rural workers, extending coverage to an impressive 73% of insured individuals in rural areas (ILO, 2021). In Costa Rica, own-account workers can join organizations and entered collective insurance schemes with the social insurance system since 1984. The organization negotiates group contributions and is responsible for collecting those contributions from the insured and transferring them with a monthly report to the social insurance institution (*Caja Costarricense de Seguro Social -CCSS-*). The CCSS Board of Directors is responsible for establishing guidelines, approving increases in contribution scales, and solving disputes. Collective agreement registrants have the same rights as those based on employed workers. Contribution levels are set according to the specific activity performed by the registered workers of the organization and depending on the contributory capacity of the registered group. This mechanism has proved favorable for rural development in Costa Rica, especially for organized own-account workers in the agricultural sector and for female farmers (ILO, 2021). In India, the Self-Employed Women's Association works as a trade union aiming at helping women in informal employment move into formal employment and easing their social security coverage. It has supported workers producing *bidis* (indigenous cigarettes) to access

social protection by implementing a group insurance system and by establishing "viable provident funds and welfare boards" (Nguyen & Meira, 2019).

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- Promote spaces for creating cooperatives and workers' organizations to facilitate low-income and informal workers links to contributory social insurance mechanisms depending on each individual's capacity. Such organizations can increase trust, help enforce workers' contributions, and improve financial sustainability.
- An enabling financial sector regulation may be necessary to promote and deepen the market for microfinance and microinsurance services.
- Support and monitor cooperatives and workers' organizations instead of strictly enforcing compliance with the law, especially among low-income workers.

Economic Inclusion Programs

Economic inclusion (EI) programs are multidimensional and coordinated interventions that use a package of policies to address the economic constraints of vulnerable groups searching to provide tools that help them improve their well-being, exit from poverty, and become economically self-sufficient in the long term (Sparkman et al., 2022). While some interventions mentioned in this section (such as cash transfers) have also been discussed separately, they are integral components of comprehensive EI programs with unique impacts on various outcomes, including general impacts on welfare and protection. EI programs primarily focus on improving the poorest households' skills, income, and assets with coordinated interventions for a time-bound period. A typical EI program tends to provide at least five components which may include a one-off transfer of a productive asset, regular cash transfers, savings facilitation, skills training, psychological support, access to finance, coaching, linkages to market support, behavioral interventions through small nudges, regular training, or frequent visits from social workers (Premand, 2022).

A systematic review of EI programs, conducted for the State of Economic Inclusion Report 2021 (Andrews et al., 2021), indicates that these programs often have positive and significant outcomes on employment, income, revenue, asset ownership, consumption, savings, psychosocial well-being, child health, and malnutrition. Approximately 60% of the considered studies demonstrated favorable impacts on these indicators. These interventions have effectively increased household resilience to shocks by diversifying livelihoods and income sources, providing regular and predictable transfers, providing information on and access to risk-mitigating products and strategies, facilitating savings, providing access to affordable credit, and fostering social networks, all of which are critical for enhancing the resilience of poorer households against a range of shocks (Andrews et al., 2021).

Finally, the bundling of interventions under EI programs have been shown to have a greater impact on households' income, asset ownership, consumption, and food security outcomes than individual interventions (Andrews et al, 2021). While the multidimensional approach⁹ of such programs may make their implementation more complicated (Chaudhary, 2022), EI programs have gained significant popularity in recent years and are worth exploring due to their ability to simultaneously address the multiple and interconnected sources of household vulnerability.

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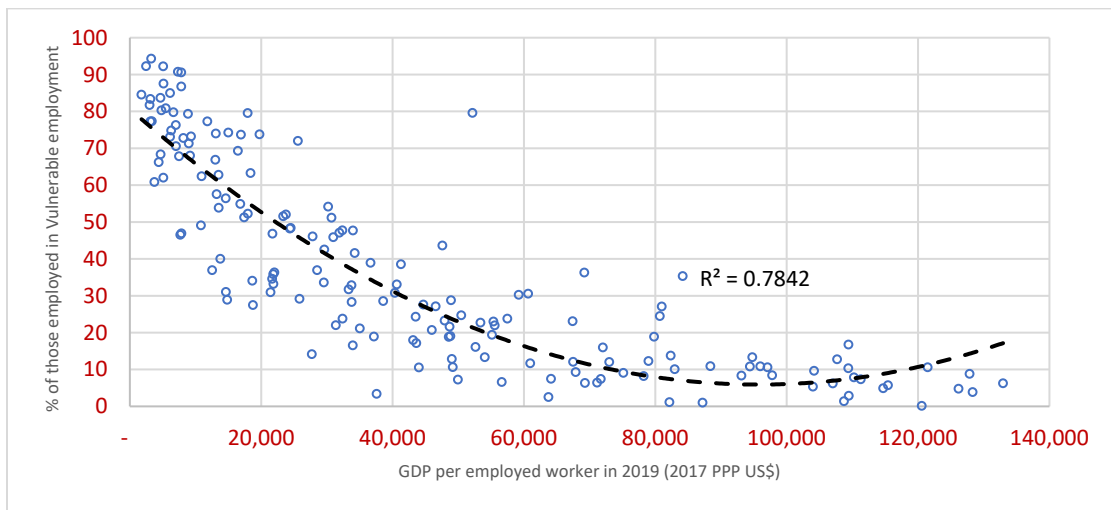
- Given the multiple constraints vulnerable people face, multifaceted Economic Inclusion programs can boost the potential effect of one-dimension interventions and generate long-term impacts on their beneficiaries' well-being and social integration.
- Each component of the intervention should be carefully designed to improve outcomes.
- Bundling complementary interventions such as cash transfers, inputs for production, skills training and psychological support may achieve a higher impact on reducing household vulnerability than individual interventions.
- Create an extensive network of technical partners to implement and evaluate large-scale government interventions.
- Implement complementary behavioral and psychological support tools to increase programs' cost-effectiveness and absolute impact. Program impact may be attenuated if program designers do not account for the behavioral effects.
- Tailor EI packages to meet the local context and integrate target groups' vision and needs.
- Design flexible programs to adapt activities based on new findings and changing circumstances quickly.
- Avoid duplication in efforts. Organizations supporting economic inclusion approaches tend to work in silos which may limit the potential for shared learning.
- A robust understanding of their cost and return on investment can make the case for EI programs and support their implementation and scale-up.

⁹ A literature review found that EI programs are very diverse and can implement several combinations of components like cash transfers, public works, in-kind transfers, near cash, lump-sum cash grant, productive asset, matching grants, support for natural resource management and adaptation to climate change, access to financial services, market integration/ linkages, on-the-job training, vocational training, skills training, coaching/mentoring, insurance, or loans. (Chaudhary, 2022)

5C. Productivity

Informal employment and low productivity are often mutually reinforcing; the low productivity of workers often prevents them from accessing formal jobs, and high informality reduces the availability of productive jobs. Fig. 10 below shows the strong negative relationship between productivity, measured as GDP per employed worker and the share of vulnerable employment in the economy, across countries. In this section, we discuss the evidence on the impact of policies that seek to enhance the productivity of informal workers. Specifically, we examine ALMPs, vocational training programs and childcare services. While ALMPs were also discussed in section 5A, with respect to their impact on achieving formalization of the workforce, here we focus on good practices for ALMPs to enhance worker productivity.

Fig. 10. Vulnerable Employment (%), by GDP per employed worker PPP (2017 US\$), 2019



Source: Authors' calculations using World Development Indicators Database. The scatter plot includes observations for 171 economies.

Vocational Training

Across several countries, vocational training programs, that impart skills with the aim of enabling trainees to readily secure jobs, have been viewed as policy instruments to enhance the productivity of the workforce. Upgrading the skills of informally employed workers can potentially improve their prospects for finding better and more remunerative work, and also for performing their work more efficiently, thereby enhancing productivity. Vocational training may be pursued both, before individuals join the workforce, and while they are employed. Programs may be of varying durations and may be pursued part- or full-time. They typically involve a combination of classroom-based and on-the-job instruction.

While an aggregate cost-benefit assessment of vocational training programs is difficult to conduct due to methodological and data limitations, most short-term training programs do not have a pronounced impact on employment or earnings. A review of the impact of ALMPs by McKenzie (2017) shows that vocational training programs in general have very modest impacts on employment,¹⁰ and even smaller ones on income. Another meta-analysis by Kluve et al. (2016) shows that less than a third of youth employment programs globally have a significant impact on either employment or earnings. These dismal outcomes of most programs are in turn due to flaws in design, the poor quality and relevance of many training programs, or indeed because those who may benefit the most from these programs (the poorest and lowest skilled) do not typically participate in them. Another potential pitfall pertains to early tracking of students into Vocational training; without a sufficiently strong base of foundational skills, or clear career preferences among students, early tracking into vocational streams may limit students' overall human capital acquisition and future abilities to acquire more skills (World Bank, 2018b).

The few studies that have found positive impacts of vocational training programs on worker productivity provide valuable lessons for the design and implementation of effective policies. Attanasio et al. (2015) find that even 10 years after attending a vocational training under the *Jóvenes en Accion* program in Colombia, participants had 11.8 percent higher earnings compared to the control group, and were also more likely to have a formal job. Similarly, a study on the *Juventud y Empleo* program in the Dominican Republic found positive impact on employment and earnings among the program's target population; low skilled and low-income youth (Card et al., 2011). Sala and Silva (2013) find that in Europe, an additional hour of training per employee increased productivity by 0.55%. Training programs that provide a combination of technical, on-the-job and life-skills training have been found to have positive impact in a range of countries, such as Kenya (IYF, 2013), Nepal (Chakravarty et al., 2016) and Brazil (Calero et al., 2014).

A review of global experience points to some common features of successful vocational training programs. These include firm partnerships between training institutes and (potential) employers (Conway and Giloth, 2014), inputs from employers on the content of training curriculum (World Bank, 2018) providing a package of skills covering technical and soft skills with workplace learning (World Bank, 2018), providing extra services or combining alternate interventions (Kluve et al., 2016), combining classroom-based instruction with practical training, targeting disadvantaged groups (Bandiera et al, 2020; Chakravarty et al., 2016), including a stipend to offset low-income informally employed workers' opportunity costs of participating in training (Freije, 2001).

¹⁰ For instance, only 2.3 of every 100 people trained will receive a job that they otherwise wouldn't have been able to.

Lessons Learned and Good Practices 21

- Vocational training programs cannot remedy the lack of strong foundational skills; and care should be taken not to track students very early on into a vocational training stream before they can acquire sufficient foundational skills.
- Vocational training programs can enhance worker productivity only if they simultaneously provide classroom and practical training, a package of technical and socio-emotional skills, stipends for participants, or are offered as part of a combination of interventions.
- These programs tend to be more useful when employers provide inputs on the content of training curricula and when there are partnerships between training institutes and potential employers. Their impact tends to be greater for participants from disadvantaged groups.
- In general, these programs tend to work better for providing short-term support rather than affecting long-term earnings.

Wage Subsidies

While wage subsidy programs are quite popular in many middle and high-income countries, there is no clear evidence of high take-up when targeted to individuals, or of sustained impact on employment or earnings. Programs that seek to use wage subsidies to encourage formal employment tend to experience low take up as employers are hesitant to commit to retaining such workers beyond the period of the subsidy (Galasso et al, 2004, Levinsonh et al, 2014). On the other hand, a program in Jordan which placed no such conditions on formal employment saw higher take-up, and an impact on employment during the period of the subsidy, but no sustained effects thereafter and some evidence of the employment being generated at the cost of non-beneficiaries, resulting in no net increases in employment (Groh et al, 2016; McKenzie 2017). Similarly, de Mel et al. (2019) find no evidence of enhanced employment effects of a wage subsidy program in Sri Lanka beyond the duration of the subsidy. A meta-analysis by Kluve et al. (2016) also confirms that wage subsidies do not have any significant impact on earnings. One case in which wage subsidies (that typically benefit formal workers) may harm the productivity of informal workers is when low-skilled formal workers receive wage subsidies, because of the stiffer competition that small informal firms will face (David et al, 2012; ILO, 2020). While Almeida et al. (2014) argue, based on s theoretical model and accompanying evidence from high-income countries that wage subsidy programs can potentially help first-time job seekers or those (re)entering the workforce after long spells of inactivity or unemployment acquire skills through work experience, we do not find any evidence of such effects in the literature on developing countries so far.

Job Search Assistance

The evidence reviewed suggests that job search assistance programs do not appear to enhance workers' productivity. If job search assistance helps workers overcome search frictions and secure more productive employment, one could expect, ex-ante, that they can positively influence worker productivity. However, the empirical evidence does not support such a hypothesis. McKenzie (2017) shows that among nine studies on the impact of job search assistance programs, not one demonstrated a positive impact on earnings. This is despite the fact that these programs tend to be relatively cheaper than other ALMPs such as wage subsidies and are therefore more likely to have a favorable cost-benefit ratio. Kluge et al. (2016) also find no significant effects of job search assistance programs on earnings.

Lessons Learned and Good Practices 22

- Wage subsidies and job search assistance programs may not have a sustained impact on employability or earnings and should generally not be thought of to enhance long-term worker productivity.
- Policymakers should consider the repercussions of wage subsidies targeted to the formal sector on competing workers in the informal sector while assessing the feasibility and desirability of such programs.

Unemployment Insurance

Some studies have found strong effects of unemployment insurance coverage on labor productivity. Unemployment insurance can potentially help workers wait to look for more productive jobs during spells of unemployment, rather than take up the first available jobs that may not always be the most remunerative. Acemoglu and Shimer (2000) find that unemployment insurance in the US encouraged workers to look for higher productivity jobs, and for firms to create them. The reallocation of labor to more productive jobs offsets any losses associated with higher unemployment. Similarly, Margolis et al. (2014) simulate the effect of unemployment insurance in Malaysia and find a very small effect on unemployment, along with a clear effect of increased wages among both formal and informal workers. Drawing on a study of SMEs in

SME Finance

Improved access to finance for SMEs reduces the hurdles of accessing external financial instruments that incentivize households and firms to invest, thereby also increasing their productivity. Enhanced access to finance for informal SMEs can enable them to finance potential investments that they otherwise may be constrained to make, which in turn can help them join the formal economy, and create formal jobs (Ohnsorge and Yu, 2022).

Childcare

Access to good quality and affordable childcare services can also enhance the productivity of many informally employed women. Limited access to childcare services is an important reason why women across many countries either do not enter or drop out of the labour force, or engage

in lesser, or less remunerative work than they may otherwise like to (Devercelli and Beaton-Day 2020). Providing access to good quality, affordable childcare can improve women's earnings, including in the informal economy through two main channels; by enabling women to allocate more time to paid work, or by enabling them to invest in skills training to become more productive (Cho et al. 2013; Valdivia 2015). Improved access to childcare services may also enable women to optimise their utility by seeking better quality (including formal) jobs without increasing the number of hours worked, such that they experience net increase in earnings (Clark et al. 2019).

Lessons Learned and Good Practices 23

- Unemployment insurance in particular can encourage workers to seek higher productivity (i.e. better-paid) jobs.
- Enhanced SME finance through grants, easier access to loans, and other measures can encourage productivity-enhancing investments.
- Good quality, accessible and affordable childcare services can enable many formal and informal workers, particularly women, to acquire skills and pursue more remunerative employment.

Social Assistance

Concerns over Social Assistance (SA) receipts potentially harming labor market participation and productivity have some backing in the theoretical literature. Baird et al. (2017) argue that cash transfers that are not conditioned on employment-related behaviors (such as job search or training) do not affect labor market outcomes, except in the case of groups such as the elderly or refugees. However, they also argue that assistance that is conditioned on job search efforts or for establishing businesses can enhance worker productivity, potentially by enhancing workers' liquidity situation and risk appetite, enabling them to increase labour supply and earnings.

The discussion on the effects of SA on labour market participation and productivity has been dominated by concerns, and some evidence of work disincentives in developed economies, even though no such effects have been observed in developing countries. This is pertinent especially because many SA programs in developed countries tend to be means-tested, which may disincentivize work at an earnings threshold above which social assistance benefits may stop or reduce. However, in the case of low- and middle-income countries, where means testing is less commonly applied (in large part due to the inability to observe informal incomes that the poor tend to rely on), and program benefits are, on average, less generous than in richer countries,¹¹ there may be less of a case for expecting serious negative effects on productivity. The empirical evidence from developing countries also suggests that there is no negative effect of SA programs on worker productivity, and that in some cases, cash transfer receipts may even enhance incomes.

¹¹ In absolute terms, and as a share of recipient households' post-transfer incomes (World Bank, 2018)

A review of cash transfer programs by Bastagli et al., (2019) found that cash transfer recipients were more likely to invest in agricultural assets and inputs and in livestock, which in turn could be associated with higher earnings. The mechanisms underlying such effects could include greater savings for productive investment as a result of regular supplements to household incomes from the cash transfer receipts.

Social assistance programs may in fact enhance inter-generational productivity, as they can encourage investments in children’s health and education, thereby enabling them to earn higher incomes in more productive employment in their adult lives. There is indeed some evidence of the long-term effects of cash transfer programs on improved income and wellbeing outcomes among recipient children in their adult lives, long after their participation in these programs. A study on the long-term effects of the Progresa (later Oportunidades and then Prospera) CCT in Mexico showed that male and female recipient children earned higher incomes in their adult lives, mainly because of higher educational attainment, as well as greater migration to higher-wage areas (Parker and Vogl, 2018).

Lessons Learned and Good Practices 24

- Unlike in some developed countries, social assistance programs do not appear to have any detrimental effects on the take-up of employment and/ or worker productivity in low- and middle-income countries. In fact, some SA programs have had positive effects on worker productivity.
- There is some evidence of intergenerational effects of social assistance receipts for children on their productivity in their future working lives. These effects need to be considered to make a complete assessment of the productivity-enhancing potential of SA programs.

Economic Inclusion

Economic Inclusion (EI) programs can enhance workers’ productivity by giving them access to capital, training, and skills, which can raise the returns to labor. Informal employment continues to account for a substantial share of livelihoods in low and lower-middle income economies (Merotto et al., 2018). Furthermore, considering the limited evidence on the impact of formalization in bolstering incomes, EI programs can be critical for enhancing the productivity of individuals engaged in the informal work (Filmer & Fox, 2014).

Components of EI programs such as entrepreneurial training, financial education, skills training, productive asset transfers, and psychological support can potentially enhance the productivity of informal workers (Filmer & Fox, 2014). Additionally, these interventions contribute to mindset transformations and discourage counterproductive behaviors (Datta et al., 2022).

Nascent evidence on the impact of EI programs indicates that they can have positive and significant effects on worker productivity. Among 28 interventions examined across multiple developing countries, 22 indicated successful transitions of participants from casual wage work to more productive self-employment in both agricultural and non-agricultural sectors. This transition is particularly notable for women who experience significant occupational transformations. Moreover, EI programs have demonstrated short-term benefits and medium- to long-term impacts, indicating their potential to initiate upward trajectories for vulnerable and impoverished individuals (Andrews et al., 2021).

Several EI initiatives have focused on fostering networks, producer organizations, and self-help groups to expand livelihood opportunities and enhance the productivity of the informal self-employed. For example, India's National Rural Livelihood Mission has invested in farmer-owned and women-owned producer companies and farmer organizations, enabling partnerships along value chains with various market players (Andrews et al., 2021). Similarly, the Zambia Agribusiness and Trade Project (ZATP) aims to integrate emerging farmers into value chains by fostering productive alliances and providing matching grants and technical support.

Economic Inclusion programs have demonstrated an ability to empower participants, enabling them to invest in productive assets, save, earn, and consume more (Andrews et al, 2021). For example, the Uganda Graduating to Resilience (G2R) RCT study indicates that the EI program significantly impacted productivity and return on investments when beneficiaries received asset transfers (Heisey et al., 2022). Banerjee et al. (2015) found positive results when combining productive asset transfers with consumption support, training, coaching, savings encouragement, and health education and/or services in countries like Ethiopia, Ghana, Honduras, India, Pakistan, and Peru. The program showed significant increases in income and revenues for households engaged in self-employment activities in each country.

The evidence on the impact of EI programs that focus only on vulnerable groups is somewhat mixed. Some EI programs with a strong financial focus, mainly working on business skills, social and economic networks of vulnerable young women and displaced individuals, have shown limited impacts (UNHCR, 2021). Many of these programs implement differential strategies for understanding of the demand and supply of financial services for refugees, young women, and other marginalized groups is crucial to complement these interventions. The livelihoods of vulnerable groups depend on their access to secure financial services for savings and transfers and on building a credit history that facilitates access to credit and insurance when necessary (Jacobsen & Wilson, 2020). On the other hand, some scaled-up EI programs can have positive effects on income, assets, and economic empowerment for groups including women (World Bank, 2022b), refugees (Jacobsen & Wilson, 2020; Heisey et al., 2022), indigenous populations (Chaudhary et al., 2022), people living in fragile and conflict-affected settings (Bedoya et al., 2019), and other vulnerable groups (World Bank, 2022b; Banerjee et al., 2015).

While EI programs tend to target the poor, their impact tends to be driven by better-off participants rather than by the poorest and most vulnerable among participants (Andrews et al, 2021). The relatively less poor tend to benefit more from EI programs, as they sometimes may be better placed to benefit from the full suite of interventions. For example, the PEJEDEC program in Cote d'Ivoire had a higher impact on the income and savings levels of better-off youth participants compared to others (Bertrand et al, 2017). Similar effects were observed in Afghanistan (Bedoya et al. 2019) and Bangladesh (Bandiera et al. 2017).

The impacts of economic inclusion programs are shaped by the context of institutions, markets, and communities. Factors such as institutional structures, partnerships with the private sector and non-governmental organizations, and communities mutual support networks and initial household endowments significantly influence program outcomes (Andrews, 2021). Without such complementary efforts, EI programs may not be able to enhance the productivity of workers on their own. In Uganda, the Farmers as Entrepreneurs intervention introduced a novel training approach called Smart Farming. This approach integrates good agricultural practices, digital solutions, and financial literacy while prioritizing gender equality and joint family decision-making. The training materials, including a relatable comic portraying the lives of farmers, were carefully developed in close collaboration with the target groups, considering the local context. The program effectively enhanced financial inclusion, productivity, and income for the beneficiaries (GIZ, 2022). RCTs conducted in Kenya, Madagascar, and Tanzania provide evidence that context-specific intervention packages, comprising goal-setting, plan-making, and partitioning tools, led to higher rates of savings or investment in productive activities. Panama's Cohesión Social EI program was implemented to enhance the productive capacities of indigenous populations and foster sustainable incomes. Over a two-year period, the program provided training, technical assistance, and asset transfers, in collaboration with the Food and Agriculture Organization of the United Nations (FAO). The program's distinctiveness lay in its ability to yield prompt results and achieve high satisfaction rates among indigenous peoples. This success can be attributed to the program's emphasis on customization and cultural adaptation, as it recognized the importance of working closely with indigenous communities, incorporating native techniques and customs, and ensuring their participation throughout the implementation process (World Bank, 2022c).

When working with vulnerable communities, it is important to consider that negative perceptions and social biases can hinder their access to employment opportunities. Various EI programs, particularly those aimed at forcibly displaced individuals, are implementing interventions to promote social cohesion, raise awareness among potential employers about the rights and responsibilities of forcibly displaced people, facilitate linkages to employment opportunities, and incentivize their hiring. For instance, in Turkey, the Employment Support project, conducted from 2017 to 2020, ensured equal targeting of Turkish citizens and Syrians under Temporary Protection to prevent the Turkish host population from feeling left behind. It

also fostered close interaction between the two communities through integrated classrooms and workplaces (Heisey et al., 2022).

Similarly, for vulnerable groups, mental health challenges must be considered as part of program design. Findings from an evaluation of an EI program in Uganda with a strong mental health component indicate that around 50% of the control group experienced mental health issues, whereas the percentage was lower at 30% among program participants. Interpersonal therapy demonstrated an 80% reduction in mental health challenges. Vulnerable groups, especially refugees and impoverished individuals, often face psychological trauma that hampers their engagement in economic activities, and therefore their productivity. When designing and implementing interventions to enhance productivity among these groups, it is therefore crucial to consider and address their mental health needs as well (Heisey et al., 2022).

Lessons Learned and Good Practices 25

- The bundling of complementary interventions may be critical for enhanced and sustained productivity.
- Incorporate components to support beneficiaries' mental health and mindset to enhance productivity.
- Economic Inclusion programs have been shown to have short- and medium-term effects on participants, but participants' outcomes tend to converge with those of non-participants in the long-term.
- Assess the production capacity and quality of EI activities for a sustained impact on productivity.
- Facilitate social cohesion and trust with buyers, other sellers, and essential market agents, for instance by building village agent networks. Foster partnerships along value chains with various market players.
- Recognize that program impact can vary significantly among participants, and that the poorest participants may not benefit from EI as much as the relatively better off.
- Consider context at multiple levels, not only at the institutional level but also at the community, household, and individual levels, as a critical mediator of results. For instance, communities with solid networks may experience more significant spillover effects than those without them. Understand the informal rules and norms that govern behavior and transactions (including gender issues), that can determine uptake and impact.

Social Insurance

The effect of social insurance programs on worker productivity and earnings depends largely on who is required to make the payments for social insurance, and other critical design features of the SI programs. On its own, SI provision can potentially enhance worker productivity by insuring them against risks, helping them recover faster from shocks (such as health shocks or work-related injuries) better and faster, and by enhancing their risk-taking appetite. However, when employers are required to make social security contributions for

workers, they may seek to pass on the cost of these contributions to the workers by adjusting wages, resulting in net lower earnings in the immediate time period (even though it may raise long-term productivity). Which of these two effects dominates in the case of informally employed workers who are being brought into the fold of social insurance is ultimately an empirical question, determined by the details of how social insurance programs are designed and implemented, and workers' current and future labor supply responses to net wage rate adjustments for social security contributions.

The evidence on the impact of social insurance programs on worker productivity is mixed. In Indonesia, Torm (2020) finds that a 10 percent increase in social security spending was associated with a 2 percent increase in revenue per worker (without any decrease in firm profits), possibly because employers that contributed more to social security for employees were better able to attract more productive workers or to increase the motivation of existing employees. A recent study from Ethiopia shows that mandating social insurance contributions for employers made them pass on the costs of the contributions to workers, either in the form of slower wage growth for existing workers, or lower emoluments (wages and bonuses) for new workers, by a factor that was roughly equal to the costs of the employers' contributions for social insurance (Bedi et al, 2022). The study also found that the effect on lowering wages was stronger for low wage workers and in production functions, compared to higher earning workers. These findings caution against some of the unintended consequences of a sudden expansion of SI mandates, especially for lower wage workers.

Lessons Learned and Good Practices 26

- SI can potentially enhance workers' productivity and earnings, as long as the costs of SI contributions is not fully transferred to workers.
- Effective wage floors can greatly help limit any negative effects of increases in SI contributions on workers' earnings.
- Sudden and unilateral announcements of SI mandates or increases in contributions should be avoided as these may incentivize informalization and harm workers' earnings. Consultative processes and sufficient lead times can help workers, their associations and employers prepare better for proposed changes.

6. Summary of Findings

Table 3 below summarizes the evidence presented and discussed in Section 5 of this paper. It groups the policies examined under different headings; macroeconomic or firm-level policies, labour market policies and programs, social protection programs, and other programs. Under each of these groupings, we present the evidence of the effect of different policies/ programs on our three central outcomes of interest: formalization, worker protection and worker productivity. While we summarize the evidence that we have reviewed in this paper in Table 3, we would like to advise close attention to context-specific factors when seeking to apply these findings to a specific country or economy.

While firm and economywide policies are useful levers to achieve formalization, they may not automatically or immediately also result in enhanced protection or productivity among workers. Labour market policies, on the other hand, don't have a very clear impact on any of the three outcomes, with the exception of clear effects of wage subsidies and hiring quotas on providing short-term protection to workers. In contrast, social protection programs, especially social insurance programs can effectively address all three outcomes. Social assistance too can greatly enhance the protection of informal workers, without any evidence of contributing to increased informal employment (despite persisting beliefs to the contrary) or reducing worker productivity. Finally, we also summarize and the evidence on the effects of ancillary policies including health benefits, childcare services, voluntary savings schemes and group-based microinsurance and report useful pointers for potential impact.

Table 3. Summary of Evidence

Policy Instrument / Action	Area of Impact		
	Formalization of Employment	Workers' Protection	Workers' Productivity
<i>Macroeconomic and firm-level policies</i>			
Economic Growth	Strong correlation; necessary but not sufficient condition		Economic growth can create conditions for formal employment, persistent informal employment may in turn slow economic growth
Private Sector Development Policies	Can have a strong impact on formalization of production units and creation of formal jobs		
Access to Finance for SMEs	Strong correlation, potential impact		Potential impact on enhancing productivity
Law Enforcement	Can contribute if accompanied by complementary measures, but should not be pursued overzealously		
Lower Tax Burden	Strong evidence of formalization effects.		
<i>Labor Market Policies and Programs</i>			
Vocational Training Programs	Positive impact only under certain conditions		Most short-term programs don't work well and can't remedy deficits in foundational training; programs perform better when they include a combination of offerings
Wage Subsidies and Hiring Quotas	No clear evidence, unless combined with other interventions	Evidence of effectiveness in providing temporary support to the formally employed, low coverage among and no evidence of impact on the informally employed	No evidence of impact on productivity
Unemployment Insurance	Some evidence of positive effects on formalization particularly when benefits are exhausted	Benefits would depend on contribution levels and benefit size	Possible positive effect on productivity through labor reallocation
Minimum Wage Policy	No clear effects, highly context-dependent		
Job Search Assistance			No evidence of impact on productivity

Policy Instrument / Action	Area of Impact		
	Formalization of Employment	Workers' Protection	Workers' Productivity
<i>Social Protection Programs</i>			
Social Insurance (SI) Programs	May lead to formalization by definition (as SI coverage is often the criteria for a worker being considered as formal)	Can greatly enhance worker protection; approach needs to be tailored to the characteristics of informal workers	Depends on ability to transfer contribution costs to workers, other factors
Social Assistance	No evidence of increasing informal employment	Strong evidence of improved protection among informal workers	No evidence of reduced productivity; some evidence of enhanced contemporaneous and inter-generational worker productivity
Economic Inclusion Programs	No evidence of formalization effects	Strong evidence of enhanced protection through predictable and periodic assistance, increased savings and assets, diversified income, uptake of insurance, improved access to credit and by building social networks	Strong evidence of enhanced productivity through entrepreneurial training, financial education, skills training, productive asset transfers, and psychological support
<i>Other Programs</i>			
Health Benefits	In some cases, if families benefit from health coverage offered by one member's job, others may be incentivized to pursue informal employment	Substantial evidence of impact on workers' and their families' health outcomes	
Voluntary Savings Schemes		More useful as a complementary rather than main savings instrument; design features critical for uptake	
Group Microinsurance		Can serve as an interface between groups of workers and SI schemes; not much evidence on their own impact	
Childcare Services			Can greatly enhance esp. women's productivity

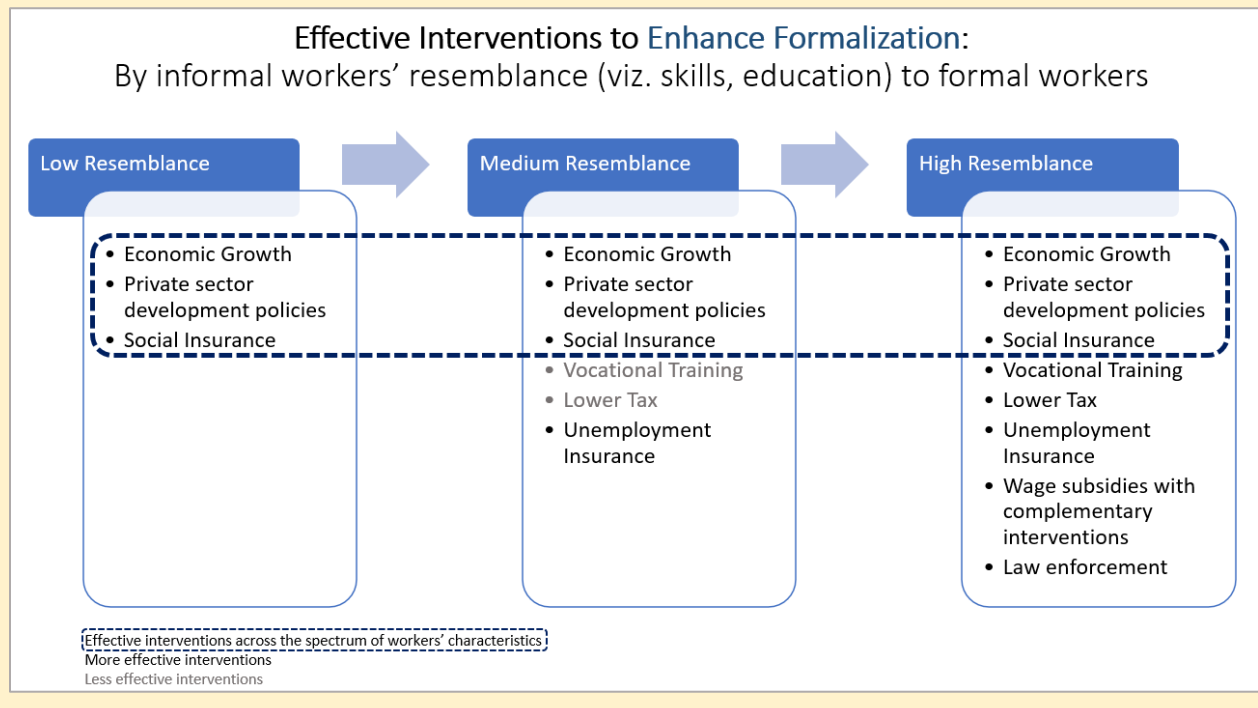
<i>Legend</i>	
	Strong evidence of impact
	Slight evidence of impact
	No clear evidence of impact, or mixed evidence/ unclear direction of effects
	Evidence of no impact or negative impact
	Not enough evidence available, esp. from developing countries / no impact hypothesized

A Menu for choosing Policy Instruments to Support the Informally Employed

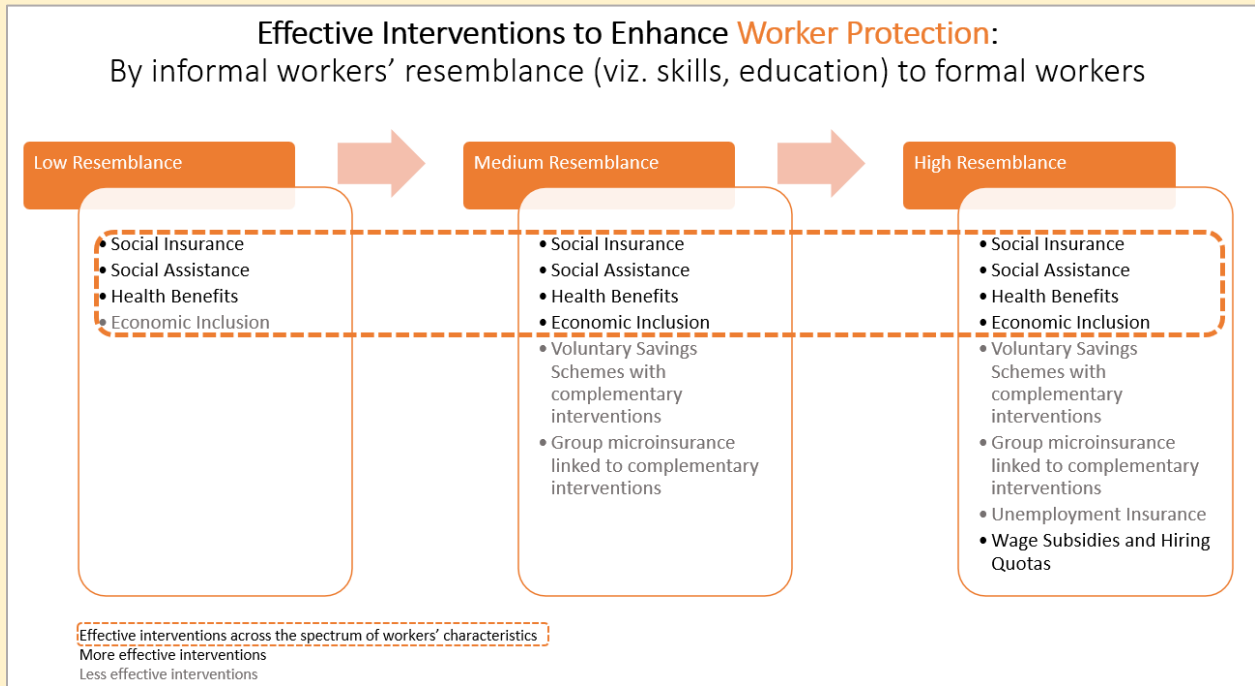
How should countries decide which social protection and related policies to pursue for informal employment? As much of this review has shown, this would depend first on the specific goal to be pursued, and then on several other context-specific factors that consider the characteristics of the target sub-groups among the informally employed, as well as the ability to implement policies and regulations as intended. As informally workers are not a monolith, multiple approaches may be needed to address different priorities for action for different sub-groups of workers. While we do not seek to advocate for or against specific policy instruments and approaches for the informally employed as whole, we use the findings from our review in this paper to posit which particular policy responses are likely to be more or less effective to realize the three interconnected goals (i.e., formalization, worker protection, or enhancement of worker productivity) for different groups of informal workers with respect to their human capital endowments, skills, age, income etc. For those whose endowments most closely resemble typical formal workers (usually more educated/ skilled, younger, and earning higher incomes – in most contexts), we propose a slightly different set of policies compared to informally employed workers who least resemble formal workers in terms of these endowments. As Fig. 10 (a, b, and c) indicate, different policies and instruments are likely to be more efficacious for different groups of informally employed workers, based on the objective that policymakers seek to pursue, and on how closely the workers resemble typical formal workers in terms of education, skills, income and age.

Fig. 11. Effective Interventions for supporting the Informally Employed: Objective / Worker Resemblance to Formal Workers

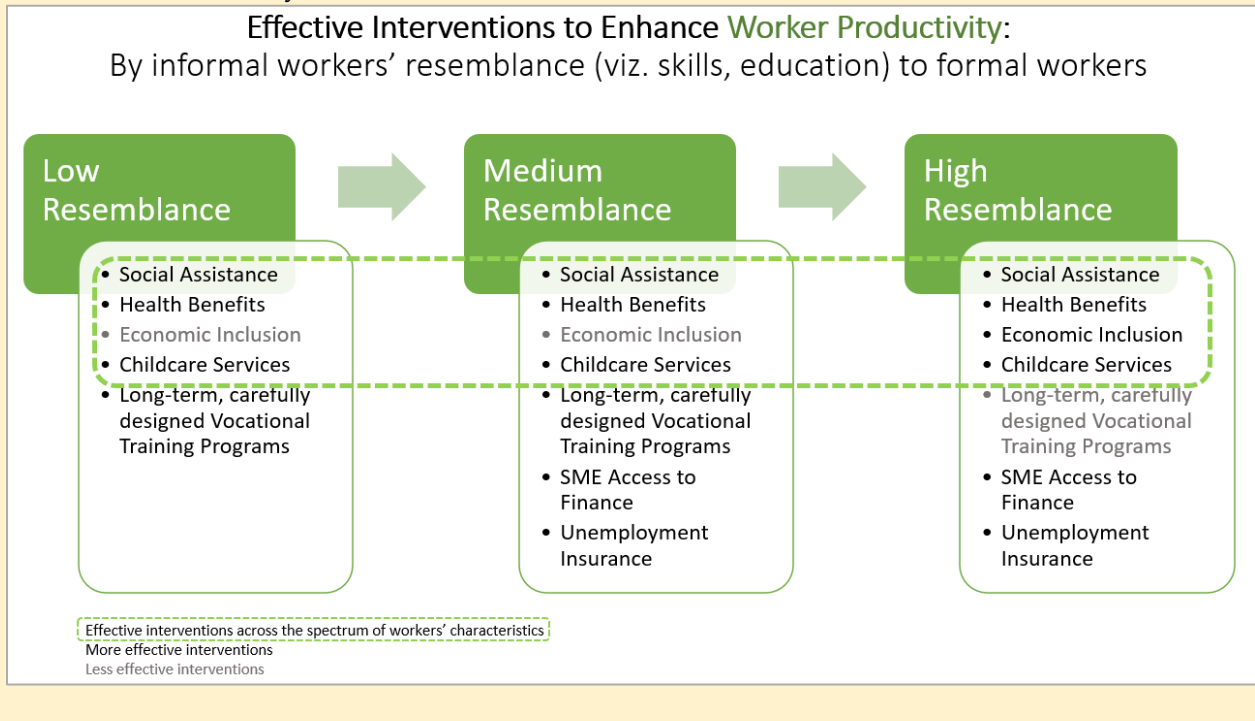
a. Formalization



b. Worker Protection



c. Worker Productivity



7. Lessons for Policy and Conclusions

What do these findings imply for policy approaches to addressing informal employment? While formalization, worker protection and labor productivity enhancement are all important goals to set, should governments and policymakers pursue them simultaneously and with equal emphasis, or prioritize any of these over the others?

Based on the evidence presented in this paper, we argue that policy efforts should not focus on eliminating informal employment, or formalizing all workers per se, but on extending protection and enhancing productivity of workers in informal employment. This is because of multiple reasons:

- First, an overzealous focus on the complete formalization of the workforce through regulatory means can have unintended consequences including informal workers not switching over to formal employment but instead receding into the shadow economy, and potentially even more invisible and precarious terms of employment to escape stipulations of the formalization efforts (Jütting et al, 2008).
- Formalization itself may not always result in improved protection or productivity. Ensuring better protection and productivity requires more and different types of policy actions than what may be required for a worker to be classified as formally employed. From a wellbeing perspective, productivity, and protection matter on their own account, whereas formalization may at best derive value from the extent to which it can enable productivity and protection for workers.
- As the experience of several middle- and high-income countries has shown, substantial gains can be made in terms of extending protection to workers even in the absence of formalization, as the latter may require more time and coordinated effort across actors. Measures such as enhanced access to microinsurance, private retirement savings funds, and voluntary savings schemes could significantly enhance workers' protection even if workers may not immediately transition to formal employment status.
- Informal employment may offer valuable flexibility to workers who may otherwise not be able to pursue productive employment as stipulated by strict definitions of formal employment, particularly women. Flexibility is an important consideration for several workers, without which they may not be able to participate (fully or at all) in the labor market. Denying workers such opportunities for engaging in employment could have the unintended effect of lowering economic activity, and productivity.
- Finally, even in highly advanced economies with strong regulatory capacity, informal employment, especially in newly emerging forms such as in the 'gig' economy, may continue to persist, indicating the limits of regulatory efforts to eliminate informal employment.

Should policy action seek to reduce informal employment?

A downward trend in informal employment, while welcome as an indicator accompanying economic growth and transformation, may not be a sufficient end to pursue for its own sake.

This is because simply observing a decline in informal employment as a whole does not indicate whether this is because of greater access to protection among workers, a misclassification of informal workers as formal (such as by workers appearing to be formal ‘on paper’ but in reality, remaining in vulnerable and precarious employment), or the exit of informally employed workers from the workforce altogether. Further, as several emerging forms of informal employment, such as digital freelancing,¹² are associated with higher level skills and income, clamping down on such forms of work may deny workers, and the economy, a valuable source of growth. As such, it may not be possible (or even desirable) to pursue a specific target level of informal employment in any given economy.

Further, even in a situation where informal employment as a share of total employment is falling, the challenge of reducing the vulnerabilities associated with informal employment in particular sectors or groups of workers may persist. Many of those who continue in informal employment may not have adequate protection against risks, nor the necessary skills to transition to formal employment or to earn high incomes if they remain informally employed. As this review has shown, many of the firm and economy-wide policies which can be undertaken independently of social protection and labor programs, can increase the formalization of the workforce, but this may not directly translate into better protection and productivity of informal workers. Addressing these concerns would require dedicated policy responses, such that workers in informal employment can be extended greater protection against risks (including through means that can encourage them to formalize), and opportunities for enhanced productivity.

From a workers’ wellbeing perspective, the most critical challenges to address with respect to informal employment pertain to (i) the higher degree of unmitigated vulnerability to shocks that can impoverish or make workers vulnerable and for which markets fail to provide efficient and effective coverage, and (ii) the relatively lower economic productivity that most informally employed workers experience. Policy action and regulatory efforts should accord priority to addressing these two challenges, over formalization for its own sake. A requirement to be formal, should not be an obstacle to protection and greater productivity, but rather facilitate access to more protection and the means to become more productive. Greater protection of informally employed workers can potentially enable them to transition into formal employment in the medium- to long-term. As workers come into the fold of social insurance schemes, they may be reclassified as formal workers. More productivity, on the other hand, can also enable informally employed workers to seek formal employment which may be more remunerative and less

¹² That may sometimes escape the ambit of government regulation because they may be ‘located’ overseas, and because of incomplete administrative and tax systems that are more suited to track traditional brick-and-mortar establishments.

precarious. While enhanced protection and productivity can therefore also contribute to the formalization of the labor force, they are important ends to pursue in and of themselves, also contributing more directly to workers' wellbeing, and therefore to poverty reduction and greater shared prosperity. **A focus on enhancing the protection and productivity of the informally employed puts workers' wellbeing at the center of policy action and avoids some of the unintended effects that may result from (over)emphasizing formalization for its own sake.**

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Annex 1. Programs for Protecting Informal Workers during the COVID-19 Pandemic

Country/ Economy	Policy Measures for Protecting Informal Workers	
Albania	Full cost of social insurance contributions to informally employed workers who lost their jobs as an incentive for them to formalize*	
Argentina	Cash transfers to informal workers not part of existing social security system under the Emergency Family Income (<i>Ingreso Familiar de Emergencia</i>) program	
	Cash transfers to tour operators and guides	
Azerbaijan	Lumpsum cash transfers to existing social assistance beneficiaries, including informal workers	
Benin	Cash grants to small enterprises (both formal and informal)	
Brazil	Cash transfers to informal and low-income workers through the Emergency Aid Program (<i>Auxilio Emergencial</i>)	
Burkina Faso	Cash transfers to informal sector vendors/ retailers	
	Suspension of fees (rent, security, parking) charged by the government to informal units operating in urban markets	
Cabo Verde	Financial support to individuals in the informal sector	
Chile	Transitory cash transfer program for households that depend on informal work (<i>Ingreso Familiar de Emergencia</i>)	
Colombia	Cash Transfers to Informal workers and their families (Solidarity Income)	
Cote d'Ivoire	Establishment of separate fund for the Informal Sector (0.3% of GDP)	
Czechia	Cash transfers to tour operators and guides	
Dominican Republic	Social assistance program for vulnerable households including informal workers' households (<i>Quédate en Casa</i> program)	
Ecuador	Cash transfers to poor households and informal workers	
Egypt	Cash transfers to informal workers including tour operators and guides	
El Salvador	Cash transfers to informal workers	
Estonia	Cash transfers to artists, authors and other freelancers	
Eswatini	Subsidized costs of COVID-19 tests for informal traders on the border (mostly women)	
Fiji	Cash transfers to informal workers who test positive for COVID-19 and hawker license holders	
Finland	Cash transfers to artists, authors and other freelancers	
Georgia	Cash transfers to informal workers who have lost their jobs and were rejected for government assistance under other programs	
Germany	Cash transfers to artists, authors and other freelancers	
	Cash transfers for daily wage workers, smallholder farmers and informal workers	
Ghana	Public works for informally employed workers	
	Cash transfers to tour operators and guides	
Grenada	Cash transfers to tour operators and guides	
Honduras	Cash transfers to informal workers	
Hong Kong	Cash transfers to construction workers	
India	Cash transfers for workers in specific industries dominated by informal workers (such as construction workers, street vendors, rickshaw pullers, smallholding farmers)	
	Expansive public works program (MGNREGS) targeted mainly at informal workers	

Country/ Economy	Policy Measures for Protecting Informal Workers	
Indonesia	Unemployment Assistance, including for informal workers	Red
	Cash transfers for informal workers	Yellow
	Vouchers for informal workers to receive skilling / reskilling	Dark Green
	Public works focusing on disinfecting public spaces in exchange for vouchers	Light Green
Jamaica	Cash transfers for informal workers among other groups	Yellow
Jordan	Cash transfers for daily wage workers	Yellow
Kenya	Public works for informally employed workers	Light Green
Lao PDR	Cash Transfers and subsidies for poor households, including informal workers	Yellow
Lesotho	Cash grants, including to informal sector operators	Yellow
Liberia	Relaxation of loan repayments for informal enterprises	Purple
Macau SAR	Cash transfers to tour operators and guides, street vendors	Yellow
Malaysia	Cash transfers to street vendors and other groups of informal workers	Yellow
Mauritius	Income support to the self-employed and those employed in the informal sector (under the Self-Employed Assistance Scheme - SEAS)	Yellow
Mexico	Loans to workers in formal and informal sectors, and to informal enterprises	Purple
Moldova	Extended eligibility for unemployment assistance to informal sector workers	Red
Morocco	Cash support to households working in the informal sector, linked to existing recipients of non-contributory health insurance scheme (RAMED) as well as new applicants (online)	Yellow
Mozambique	Cash transfers to informal workers through municipalities (Fundo de Compensação Autárquico)	Yellow
Myanmar	Cash transfers to workers in textiles, garments and footwear industry, including informal workers	Yellow
Nepal	Public works projects for informal workers who lost jobs, those who chose not to participate could receive 25 percent of the daily wage	Light Green
	In-kind food transfers for informal workers who lost jobs	Blue
North Macedonia	Accelerated access to social assistance transfers; expansion of the Guaranteed Minimum Income program to some informal workers	Dark Blue
Pakistan	Cash transfers for daily wage workers	Yellow
Paraguay	Cash transfers for formal and informal workers (Pytyvõ)	Yellow
Philippines	Cash transfers to low-income households and those working in the informal economy	Yellow
	Temporary employment in disinfection/ sanitization for informal workers who lost their jobs	Light Green
Portugal	Cash Transfers to Informal Sector workers	Yellow
Rwanda	Cash transfers to informal workers (Direct Support)	Yellow
	In-kind food transfers to informal workers	Blue
Sao Tome and Principe	Financial assistance to formal and informal workers who lost jobs	Yellow
Sierra Leone	One-off cash transfer to informal sector workers/ traders (Emergency Cash Transfer)	Yellow
	Food vouchers, food parcels and face masks to informal traders	Blue
St. Lucia	Cash transfers to informal workers, conditional on enrolling in the National Insurance Corporation*	Yellow

Country/ Economy	Policy Measures for Protecting Informal Workers	
St. Vincent and the Grenadines	Cash transfers to informal sector vendors and traders for 3 months	
Sudan	Cash transfers to households in the informal sector	
	In-kind food transfers to informal workers in Khartoum	
Syria	Cash transfers to construction workers	
Taiwan	Cash transfers to tour operators and guides	
Thailand	Subsidized loans for informal workers in the tourism sector	
	Cash transfers to vulnerable groups including informal workers (<i>Rao Mai Ting Gun</i>)	
Timor Leste	Subsidized membership fee to enroll with Social Security*	
Togo	Cash transfers for informal workers in high-contagion districts	
	Suspension of late payment fees for social security contributions for the informal sector	
Tonga	Cash transfers to formal and informal workers that have lost jobs or reduced earnings	
Trinidad and Tobago	Income Support Grants to informal workers	
Tunisia	One-off cash transfer to households working in the informal sector	
Uganda	Expansion of labor-intensive public works to high-informality areas	
Ukraine	Informal sector workers made eligible for Guaranteed Minimum Income program	
	Unemployment assistance extended to informal workers	
Vietnam	Cash transfers to tour operators and guides	
West Bank and Gaza	Emergency cash transfers to those who have lost jobs/ income, including informal workers	
Zambia	Emergency cash transfers extended to new groups including informal workers	
Zimbabwe	Cash transfers to informal workers and street vendors	

Authors' tabulation Based on IMF (<https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#N>), Gentilini et al. (2022)

Legend	
	Cash Transfers
	Guaranteed Minimum Income
	In-kind transfers
	Public Works
	Subsidized fees / contributions for SI
	Subsidized loans/ loan repayment relaxation
	Unemployment Assistance
	Vouchers

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ABSTRACT

This paper provides conceptual definitions and distinctions between formalization, worker protection and productivity enhancement, and examines the impact of social protection and labor market policies in achieving these inter-related yet distinct policy goals. Focusing on empirical evidence from low- and middle-income countries collated from over 200 reviewed studies, reports and documents, we find that formalization of workers is best achieved through macroeconomic and firm-level policies and through the extension of social insurance programs to informally employed workers. Other social protection and labor market programs may only contribute marginally and indirectly to formalization. Workers' protection is best enhanced through social insurance, social assistance, economic inclusion, and health benefits programs, and not much through voluntary savings schemes, microinsurance, or wage subsidies. Finally, we see that workers' productivity can be enhanced through social assistance and economic inclusion programs and the provision of childcare services, and that contrary to expectations, labor market programs such as short-term job search assistance, vocational training, and job search assistance do not have a sustained impact. We outline guidelines and considerations for adopting the right mix of policies for pursuing formalization, protection and productivity objectives, depending on the characteristics of workers and the context, and argue for the prioritization of enhancing worker protection and productivity over pursuing formalization for its own sake.

JEL Codes: J46, J48, J32, I31, H55

Key Words: Informality, Social Security, Social Protection, Informal Employment

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