



POLICY BRIEF

TRANSFORMING THE INFORMAL ECONOMY TO LEAVE NO ONE BEHIND

I. INTRODUCTION

Informality in the global context

The Policy Brief undertakes a review of the latest analytical evidence from the United Nations system on the broad theme of the informal economy and consolidates global UN thinking to contribute to discussions around the theme at various levels. Secondly, the Brief seeks to provide an evidence base for additional research and closing data and policy gaps at regional and country level. Thirdly, the Policy Brief contextualizes aspects of the theme to country- and regional-level economic and policy analysis and concludes with some key messages encouraging inter-agency collaboration to address the challenges associated with the informal economy.

Addressing the informal economy is a priority to achieve the 2030 Agenda's 17 Sustainable Development Goals and truly **Leave No One Behind**. More than half of the global workforce is estimated to work in the informal economy, which is often associated with low productivity, poverty, low wages, and under-employment. Informality is correlated with vulnerability through the denial of rights at work, the absence of sufficient opportunities for quality employment, and the lack of effective social protection. Women, youth, persons with disabilities and indigenous peoples are overrepresented among workers in the informal economy.¹

The COVID-19 pandemic has exposed the global urgency of addressing the informal economy. The pandemic has exposed the vulnerability that so many face across the globe and how informality acts as a barrier to a just transition and accelerated progress on sustainable development.² As a result, key policy blind spots emerged, especially among workers and entrepreneurs in the informal economy who could not rely on emergency response measures and social protection. The pandemic also exacerbated the scale of informality, as many joined the informal economy to cushion the impact of lockdowns and the economic downturn. The informal economy has traditionally functioned as a buffer, absorbing shocks in the formal economy and limiting increases in overall unemployment.

The complexity of the informal economy is clear and therefore there are limitations to how this Policy Brief can address the topic. For policy purposes, the term 'informal economy' refers to all economic activities by workers and economic (institutional) units that are – in law or in practice – not covered or insufficiently covered by formal arrangements; it does not cover illicit activities, in particular the provision of services or the production, sale, possession or use of goods forbidden by law, including the illicit production and trafficking of drugs, the illicit manufacturing of and trafficking in firearms, trafficking in persons, and money laundering, as defined in the relevant international treaties.³ Rapid digitalization is also pushing the boundaries of the informal economy around the globe. Transformation of the informal economy is critically related to how fast countries can increase national productivity, eradicate poverty, eliminate inequality, and ensure Human Rights for all.

Adopted in October 2023, the ILO Resolution [concerning statistics on the informal economy](#) is a great leap forward in shaping our understanding of the various aspects of informality.

The complex nature of informality is reflected in its associated concepts: informal employment, informal work, informal sector, informal enterprises, and informal transactions. The 21st International Conference of Labour Statisticians (ICLS) adopted in October 2023 a Resolution concerning statistics on the informal economy, which provides the basis of this subsection.⁴ For statistical purposes, the informal economy comprises all productive activities carried out by persons or economic units that are – in law or in practice – not covered by formal arrangements as established by regulations and laws, such as:

- regulations that stipulate the rights, responsibilities and obligations of the economic units and the workers;
- commercial laws that regulate the productive activities carried out by economic units and their engagement in commercial contracts, including to safeguard their intellectual and physical property;

¹ Marta Roig and Julie Pewitt (2021), [A changing world of work: implications for the social contract](#), UN DESA Policy Brief No. 94, UN Department of Economic and Social Affairs, New York.

² ILO (2015), [ILO adopts historic labour standard to tackle the informal economy](#), ILO News, 12 June, Geneva; and Juan Chacaltana, Florence Bonnet and Juan Manuel Garcia (2022), [Growth, economic structure and informality](#), ILO Working Paper No. 69, Geneva.

³ Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204), para. 2

⁴ [Resolution concerning statistics on the informal economy](#), adopted by the 21st International Conference of Labour Statisticians (2023).

- procedures to report economic activities such as fiscal obligations in order, for example, to pay taxes or to cover employees by social security;
- labour laws and regulations such as those relating to freedom of association, rights to collective bargaining, paid annual leave, paid sick leave, the minimum wage, hours of work, social security coverage and social dialogue; and
- procedures that regulate access to the institutional infrastructure such as markets, governmental support mechanisms and financial institutions including banks.

Coverage by formal arrangements in law and in practice does not automatically imply having legal coverage in the economy. Arrangements to ensure formality should be effectively accessed in practice by the worker and the economic unit by fulfilling legal procedures that entail duties and obligations for all parties involved. Entering into these arrangements can present barriers to formalization that should be addressed to ensure inclusion of all in the formalization of economic activity.

Illegal activities where the goods and services are forbidden by law are excluded from the informal economy. The informal economy, however, includes activities where the goods and services produced are usually legal but become illegal when carried out by unauthorized producers.

Informal productive activities of persons include informal tasks and duties carried out by persons in:

- informal employment
- formal employment, carrying out partly informal activities, tasks and duties; and
- unpaid trainee work, volunteer work, own-use production work and other work activities.
- Informal productive activities of economic units include informal production carried out by:
 - economic units in the informal sector (informal household unincorporated market enterprises); and
 - households producing for own final use, including direct volunteer work, and production by non-formal non-profit organizations.

According to the 21st ICLS, in general, household-based surveys, particularly labour force surveys, are important data sources for producing statistics on informality. Economic censuses, enterprise-based surveys and mixed surveys are the main data sources for the analysis of informal sector economic units, their production and contribution to GDP, and their characteristics. Mixed surveys, or combined multi-stage household and establishment surveys, are specifically designed to identify and target economic units in the informal sector. Administrative records can be used as part of an indirect estimation of informal employment and of the

informal sector because they provide information on formal employment and the formal sector. While priority should generally be given to direct (survey-based) methods, institutions such as the World Bank have used indirect (model-based) methods to estimate the size of the informal economy.⁵

The ILO framework on the informal economy relates to productive activities in the domestic economy and is fully reflected in chapter 39 of the forthcoming 2025 System of National Accounts (SNA) and extended to account for the external transactions related to goods and services in the informal economy in chapter 18 of the seventh edition of the Balance of Payments and International Investment Position Manual (BPM7). This now includes transactions such as:⁶

- Informal cross border transactions in goods, including shuttle trade and smuggling of legitimate goods by informal units;
- Informal services, including primarily tourism services such as room rental and informal restaurants and bars; and
- Remittances transmitted through informal channels, including by workers without access to formal financial units, who may also be engaged in informal employment.

The United Nations System – Addressing the multidimensional scale and scope of informality today

The Global Accelerator on Jobs and Social Protection for Just Transitions, launched in September 2021 by the UN Secretary-General, has two indicators on informality in its global results framework : (a) change in informal employment as a proportion of the total, by sector and sex (SDG 8.3.1) and, where possible, by age and disability status; (b) an integrated employment and social protection policy adopted and implemented, which includes measures to promote decent jobs, care, digital accessibility, and pathways to formalization; and/or specific strategies focused on green jobs, care, digital accessibility.

The **ILO Formalize Your Business Training Programme** is an in-class training which is implemented over three half-day sessions that aims to raise awareness among entrepreneurs on the importance of formalizing their businesses and complying with national legislation. The training contains: (a) a generic component relating to, among others, business registration, bookkeeping systems, labour laws, taxation and social security requirements; (b) a country component relating to, among others, documents, time and money required for business registration and compliance.

UNCTAD's EMPRETEC is a flagship capacity-building programme for the promotion of entrepreneurship and micro-, small- and medium-sized enterprises (MSMEs) to facilitate sustainable development and inclusive growth. Empretec programme stands for: (a) a strong global network of national Empretec centres who provide supporting services to entrepreneurs, including vulnerable groups, with a focus on developing countries; (b) national centres with strong governmental links who contribute to policy advice (c) the delivery of the unique Entrepreneurship Training Workshop on entrepreneurial skills building and a mindset shift from necessity- to opportunity-driven entrepreneurship, (d) decades of entrepreneurship promotion experience since 1988 – with a worldwide network of over 550,000 trained entrepreneurs named *empretec*os.

⁵ World Bank (2019), *Global Economic Prospects 2019: Darkening Skies*, January, Washington, D. C.









⁶ Joint Informal Economy Task Team (2008), *Statistical Framework for the Informal Economy*; and 2025 *System of National Accounts*.

II. THE INFORMAL ECONOMY, HUMAN RIGHTS, AND THE SUSTAINABLE DEVELOPMENT GOALS

The 2030 Agenda and its 17 SDGs seek to realize the human rights of all, including those operating in the informal economy, to ensure that no one is left behind. Since human rights are interdependent and indivisible, decent work deficits in the informal economy leads to the infringement of other rights. Addressing the informal economy in a way that respects human rights can provide a multiplier effect to progress across all SDGs. It can also help break the vicious cycle of informality, poverty and inequalities of opportunity, income, wealth,

power and wellbeing.⁷ As Figure 1 illustrates, a rights-based approach to the informal economy is inextricably linked to progress on goals such as **SDG 1** (No Poverty), **SDG 2** (Zero Hunger), **SDG 4** (Quality Education), **SDG 5** (Gender Equality), **SDG 8** (Decent Work and Economic Growth), and **SDG 10** (Reduced Inequalities). These Goals cannot be fully realized unless challenges and issues inherent to the informal economy are addressed. Conversely, lack of or reversal of progress on such Goals will push millions into the informal economy and exacerbate rights deficits in it. The approach illustrated in Figure 1 is relevant for all the SDGs. Notably, the COVID-19 pandemic has demonstrated how “[w]orkers in informal employment lack

FIGURE 1
Addressing the informal economy through SDGs and human rights: Illustrative example

A RIGHTS-BASED APPROACH TO THE INFORMAL ECONOMY	
 <p>1 NO POVERTY</p>	<ul style="list-style-type: none"> ▪ Right to an adequate standard of living [UDHR art. 25; ICESCR art. 11; CRC art. 27] ▪ Right to social security [UDHR art. 22; ICESCR art. 9; CRPD art. 28; CRC art. 26] ▪ Equal rights of women in economic life [CEDAW arts. 11, 13, 14(2)(g), 15(2), 16(1)]
 <p>2 ZERO HUNGER</p>	 <p>5 GENDER EQUALITY</p> <ul style="list-style-type: none"> ▪ Elimination of all forms of discrimination against women [CEDAW arts. 1-5] and girls [CRC art. 2], particularly in legislation, political and public life (art. 7), economic and social life (arts. 11, 13), and family relations (art. 16)] ▪ Special protection for mothers and children [ICESCR art. 10] ▪ Right to just and favorable conditions of work [ICESCR art. 7; CEDAW art. 11]
 <p>3 GOOD HEALTH AND WELL-BEING</p>	
 <p>4 QUALITY EDUCATION</p>	 <p>8 DECENT WORK AND ECONOMIC GROWTH</p> <ul style="list-style-type: none"> ▪ Right to work and to just and favourable conditions of work [UDHR art. 23; ICESCR arts. 6, 7, 10; CRPD art. 27; ILO Core Labour Conventions and ILO Declaration on Fundamental Principles and Rights at Work] ▪ Prohibition of slavery, forced labour, and trafficking of persons [UDHR art. 4; ICCPR art. 8; CEDAW art. 6; CRC arts. 34-36] ▪ Equal rights of women in relation to employment [CEDAW art. 11; ILO Conventions No. 100 and No. 111] ▪ Prohibition of child labour [CRC art. 32; ILO Convention No. 182] ▪ Equal labour rights of migrant workers [CMW art. 25]
 <p>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE</p>	
 <p>10 REDUCED INEQUALITIES</p>	<ul style="list-style-type: none"> ▪ Right to enjoy the benefits of scientific progress and its application [UDHR art. 27; ICESCR art. 15(1)(b)] ▪ Right to access to information [UDHR art. 19; ICCPR art. 19(2)] ▪ Right to adequate housing, including land and resources [UDHR art. 25; ICESCR art. 11] ▪ Equal rights of women to financial credit and rural infrastructure [CEDAW art. 13(b), art. 14(2)]
 <p>10 REDUCED INEQUALITIES</p>	<ul style="list-style-type: none"> ▪ Right to equality and non-discrimination [UDHR art. 2; ICESCR art. 2(2); ICCPR arts. 2(1), 26; CERD art. 2(2); CEDAW art. 2; CRC art. 2; CRPD art. 5; CMW art. 7; DRtD art. 8(1)] ▪ Right to participate in public affairs [UDHR art. 21; ICCPR art. 25; CEDAW art. 7; ICERD art. 5; CRPD art. 29; DRtD art. 8(2)] ▪ Right to social security [UDHR art. 22; ICESCR arts. 9-10; CRPD art. 28] ▪ Promotion of conditions for international migration [CMW art. 64] ▪ Right of migrants to transfer their earnings and savings [CMW art. 47(1)]

Source: Human rights elements are based on the [SDGs and Human Rights table](#) from the UN Office of the High Commissioner for Human Rights.

⁷ Franziska Ohnsorge, Yoki Okawa, and Shu Yu (2022), “Lagging behind: Informality and development,” in *The long shadow of informality: Challenges and policies*, Ohnsorge and Yu, eds., Washington, D.C., World Bank Publications.

basic protections and this generates a vicious cycle of vulnerability, ill health, virus transmission at work and incapacity of the State and other actors to combat the pandemic and its socio-economic consequences.”⁸

Addressing the complexities of the informal economy through a rights-based approach is pivotal in the broader context of achieving the SDGs and the 2030 Agenda to leave no one behind. For instance, SDG 8.3 identifies the promotion of productive activities and decent job creation, the achievement of full and productive employment and decent work, with special consideration of disadvantaged groups like women and youth, and the reduction of youth not in employment, education, and training. Also, considering that most workers in the informal economy earn less and lack social protection, these two aspects impede efforts to reduce inequality between and within groups (SDG 10). Further, women, who are over-represented in informal work, often face gender-specific barriers, making the achievement of SDG 5 more challenging. Moreover, the absence of social protection for workers in the informal economy ties directly to SDG 3 (Good Health and Well-being). An inadequate level of social protection, both in terms of coverage and benefits, undermines the health and well-being of a large portion of workers and their families. Furthermore, informal enterprises lacking access to formal financial and business services reflects lack of progress on SDG 9 (Industry, Innovation, and Infrastructure). Thus, achieving the SDGs mandates a comprehensive understanding of the diverse characteristics, circumstances and needs of workers and economic units in the informal economy, and strategic integration of solutions that cater to the informal economy’s intricacies and challenges through tailored approaches.

The effective promotion and protection of the human rights of all those operating in the informal economy is a key element of coherent and integrated strategies to facilitate the transition from the informal to the formal economy, in line with the Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204).⁹ Since a significant portion of workers in the informal economy come from marginalized communities enduring structural discrimination,¹⁰ such strategies are necessary to uphold their rights. The International Covenant on Economic, Social, and Cultural Rights (ICESCR), ratified by 197 countries, mandates the progressive realization of these rights using the maximum available resources. Even in times of acute resource scarcity, it is a State party’s obligation to strive for the widest possible realization of the relevant rights under the given circumstances through low-cost targeted programmes to protect the most disadvantaged and marginalized.¹¹

III. CURRENT STATUS AND FUTURE CHALLENGES

a) Inclusive growth and the informal economy

The informal sector is estimated to have contributed about a third of the global gross domestic product (GDP) over the period 1990–2018, 19 per cent of GDP in advanced economies versus 37 per cent in emerging market and developing economies.¹²

IN MONGOLIA

Framework for women’s financial inclusion

In Mongolia, the share of informal employment in non-agriculture sectors has increased over the past few years. Almost every fourth person in Mongolia is engaged in the informal economy.^a According to an ILO 2021 survey of informal employment,^b almost 49.7 per cent of informal employment workers live in the capital city Ulaanbaatar. Recent sampling shows that 56 per cent of informal workers are women. This data also shows that 75 per cent of workers do not have employment contracts and lack job security. Informal workers worked 58.1 hours per week, in contrast to the legally mandated 40-hour work week.

During COVID-19, self-employed and informal workers, especially women, were the hardest hit. The access to childcare services decreased and vulnerable households suffered, with women assuming the burden in the care economy, contributing to persistent poverty and gender inequality.^c

To increase women participation in the labour force and address barriers such as informal and unpaid care work, UNDP led research on the care economy and women equality in finance recommends investments in accessible childcare and prioritizing financial inclusion of women in formal banking. UNDP has also supported the government in developing Integrated National Financing Framework (INFF) and its subcomponents, including Sustainable Finance Framework, SDG Taxonomy, Integration of Gender Responsive Financing Guidelines, and a Gender Bond Framework. These developments provide an enabling environment for financial institutions to raise funds from capital market through gender bond similar to Kazakhstan and finance women-owned businesses thereby formalizing gender responsive financing in Mongolia.

Source: UNDP Mongolia.

a G. Ducanes, and B. Altantsetseg (2021), *The State of Informal Employment in Mongolia: Survey Report*. Ulaanbaatar: ILO.

b Ibid.

c UNDP (2022). *Promoting investments in sustainable childcare in Asia and the Pacific: Mongolia Country Input* (unpublished).

In 2019, about 2 billion persons were in informal employment, representing 6 in 10 of women and men in employment (see Figure 2).¹³ Moreover, 8 in 10 enterprises in the world were informal – ranging from 5 in 10 in high-income countries to 9 in 10 in low-income countries. While the share of informal employment is higher among employed men than among employed women globally, the share of informal employment

⁸ ILO (2021), *Inequalities and the world of work*, ILC.109/IV

⁹ ILO (2015), *Transition from the Informal to the Formal Economy Recommendation*, 2015 (No. 204).

¹⁰ Colin C. Williams and Adnan Efendic (2021), “Evaluating the relationship between marginalization and participation in undeclared work: lessons from Bosnia and Herzegovina,” *Southeast European and Black Sea Studies* 21, No. 3, pp. 481–499.

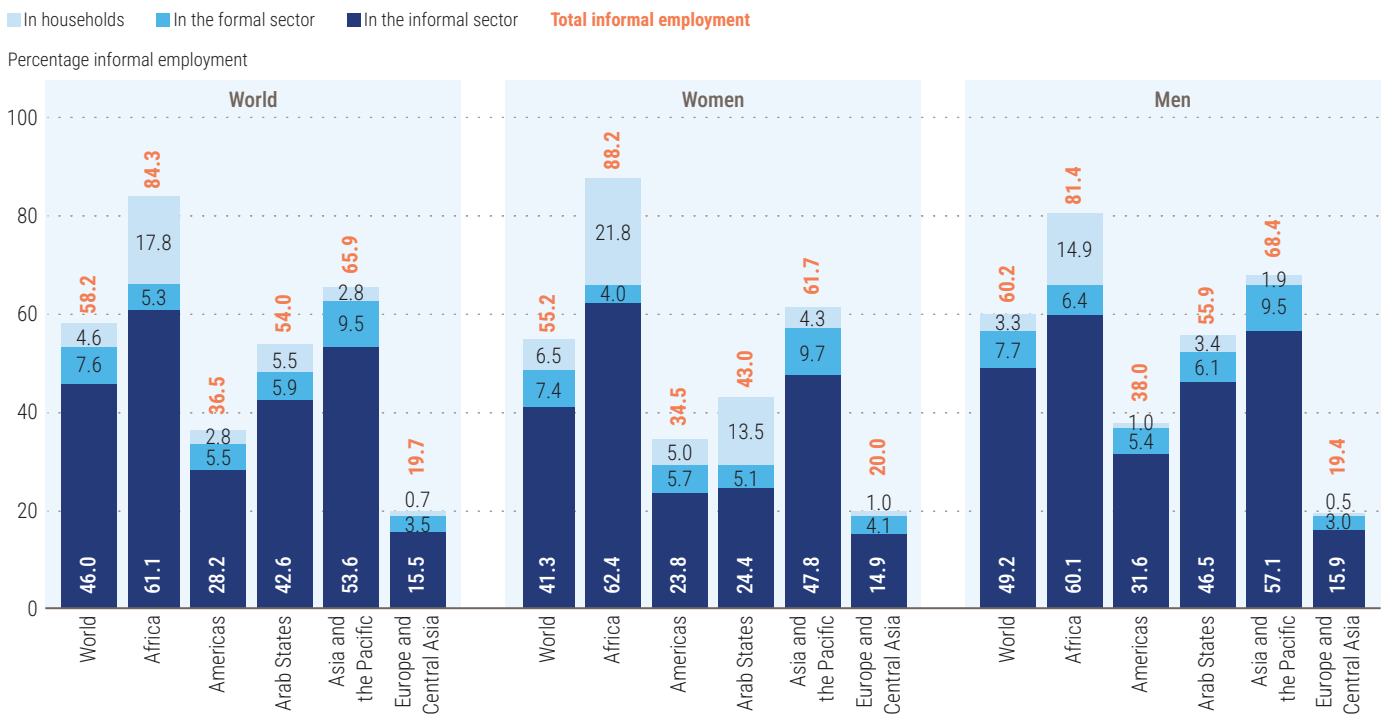
¹¹ CESCR (2007), *An evaluation of the obligation to take steps to the “maximum of available resources” under an optional protocol to the covenant, 2007*, E/C.12/2007/1.

¹² C. Elgin, et al. (2022), “Understanding the informal economy: Concepts and trends,” in *The long shadow of informality: Challenges and policies*, Ohnsorge and Yu, eds., Washington, D. C., World Bank Publications.

¹³ ILO (2023), *Women and Men in the Informal Economy: A Statistical Update*, Geneva.

Figure 2

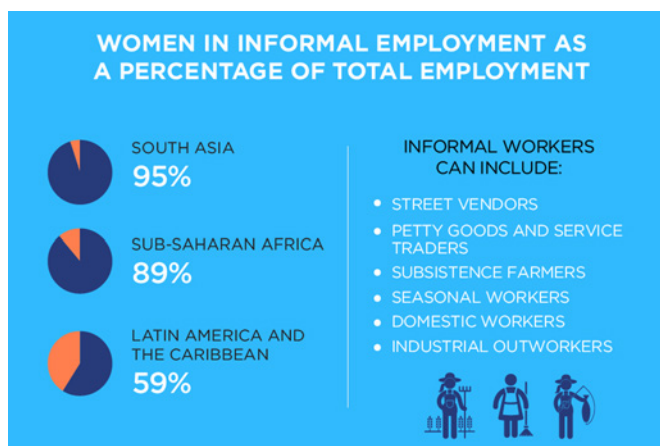
Percentage of Informal Employment, by sex and region and including agriculture, 2019



Source: ILO (2023), *Women and Men in the Informal Economy: A Statistical Update*, Geneva.

among employed women exceeds that among employed men in 56 per cent of countries, especially in low- and lower-middle-income countries. Globally, the earnings of workers in informal wage employment are 56 per cent of the earnings of wage workers in the formal economy (52 per cent for women and 58 per cent for men). Women in informal employment are 1.5 times less likely than men to work in fixed visible premises, but 2.7 times more likely to work from their own home or someone else's home. Jobs outside fixed visible premises include street vending, cross-border trading, subsistence farming, domestic work in the care economy and more (see Figure 3).

FIGURE 3
Women in the Informal Economy



Source: UN Women, *Women in the Changing World of Work: Facts You Should Know*.

Informal employment is inversely correlated with human development and GDP per capita. Economic structure and growth pathways matter for formalization. Growth of industry, including manufacturing and construction, seems to contribute strongly to reducing informality, although there are differences across countries.¹⁴ Accordingly, industrial and other policies that upgrade productive structures towards diversification, economic complexity and technological sophistication in an inclusive manner are essential for the transition to the formal economy.

b) The diversity of the informal economy across locality and industries

The rural-urban divide is significant for the informal economy. Globally, employment in rural areas is twice as likely to be informal than in urban areas – 82 per cent versus 43 per cent.¹⁵ Workers in agricultural informal employment represent more than a third of rural employment globally, and more than two thirds in low-income countries. Informality varies significantly across economic industries.¹⁶ Six industries have informal employment rates that exceed the global average: agriculture (9 in 10 workers); domestic work (more than 8 in 10 workers); construction (close to 3 in 4 workers); and accommodation

¹⁴ Juan Chacaltana, Florence Bonnet and Juan Manuel Garcia (2022), *Growth, economic structure and informality*, ILO Working Paper No. 69, Geneva.

¹⁵ ILO (2023), *Women and Men in the Informal Economy: A Statistical Update*, Geneva.

¹⁶ Industries as defined in the International Standard Industrial Classification of All Economic Activities (ISIC) and System of National Accounts (SNA).

and food service activities, as well as vehicle repair among other services activities (about 3 in 5 workers for those three last industries). The United Nations development system has thus recognized the values of economic activity-based approaches to address informality (see Table 1).

c) Characterization and drivers of voluntary and involuntary informality

Several factors fuel the informal economy's growth (see Figure 4). First, many turn to informality due to limited formal jobs. Second, the challenges of formalization, including high taxes and strict regulations, act as deterrents. Informal enterprises are characterized by a low entry cost, requiring limited start-up financing. This acts as a driver of informality, working hand in hand with financial exclusion in rural and vulnerable areas.

Recent research by UNU-WIDER highlights *internal duality* between 'lower-tier' and 'higher-tier' informal workers and enterprises based on differences in barriers to entry such as necessary levels of capital, education and training: free entry for the lower tier, restricted entry for the higher tier.¹⁷ This duality has also been understood in terms of different socio-economic outcomes, and in terms of the differentiation between voluntary and involuntary informality as proposed by

ECA,¹⁸ emphasizing that some engage in the informal economy by choice rather than necessity.

To develop evidence-based policy recommendations, a proper assessment and diagnostics of factors, characteristics, causes and circumstances of informality is necessary.¹⁹ The country cases below of Zimbabwe and Mexico demonstrate the importance of context-specific approaches to addressing informality. Both cases show that drivers in Figure 4 can influence the persistence of informality, with some common factors at play such as lack of education access in the labour force, financial inclusion and lack of access to capital, as well as regulatory reforms for enterprises.

d) Emerging issues for the future of the Informal Economy

This section reviews a selection of emerging issues of relevance to the future trajectory of the informal economy.

Digital Evolution and Cultural Shifts: With the fourth industrial revolution, the rise of the digital economy, big data, and automation will reshape the informal economy, leading to significant socio-cultural changes.²⁰ Policymakers should prioritize inclusivity in this digital shift.

TABLE 1

How the United Nations addresses informality through economic activity-based approaches

Economy	Industries	Cases of impact (from UN work)
Urban	Construction	UNDP: Diagnóstico del Empleo Informal en la Cadena de la Construcción del Área Metropolitana de Asunción UNECE: Guidelines for the formalization of informal constructions
	Domestic work	ILO, UNICEF, UNDP, and WHO: Global Accelerator on Jobs and Social Protection for Just Transitions: Care Economy and Health Workers UN Women: Women in the Changing World of Work: Facts You Should Know and Domestic and care work is a feminized sector with high informality and low salaries
	Waste industry	UN-HABITAT: Understanding the informal waste and recovery sector and Leaving No One Behind: How a global instrument to end plastic pollution can enable a just transition for the people informally collecting and recovering waste UNDP: Inclusion of Informal Waste Workers (IWWs) in the Transition to Sustainable Waste Management
	Food service	FAO: Informal food vendors and their role in the food and nutrition security of low-income workers in Bandung City, Indonesia UNDP: Navigating Informality: Patterns of Categorization in Street Vending and Connecting informal vendors to a digital platform
	Gig economy	ILO: Organizing on-demand: Representation, voice, and collective bargaining in the gig economy UN DESA: Digitally enabled new forms of work and policy implications for labour regulation frameworks and social protection systems
Rural	Agriculture	ILO: Transitioning to Formality in the Rural Informal Economy
	Domestic work	UN Secretariat: International Day of Rural Women 15 October ILO: The road to decent work for domestic workers

Source: Author's elaboration.

¹⁷ G. S. Fields, T. H. Gindling, K. Sen, M. Danquah, and S. Schotte (2023), *The job ladder: Transforming informal work and livelihoods in developing countries*, Oxford University Press.

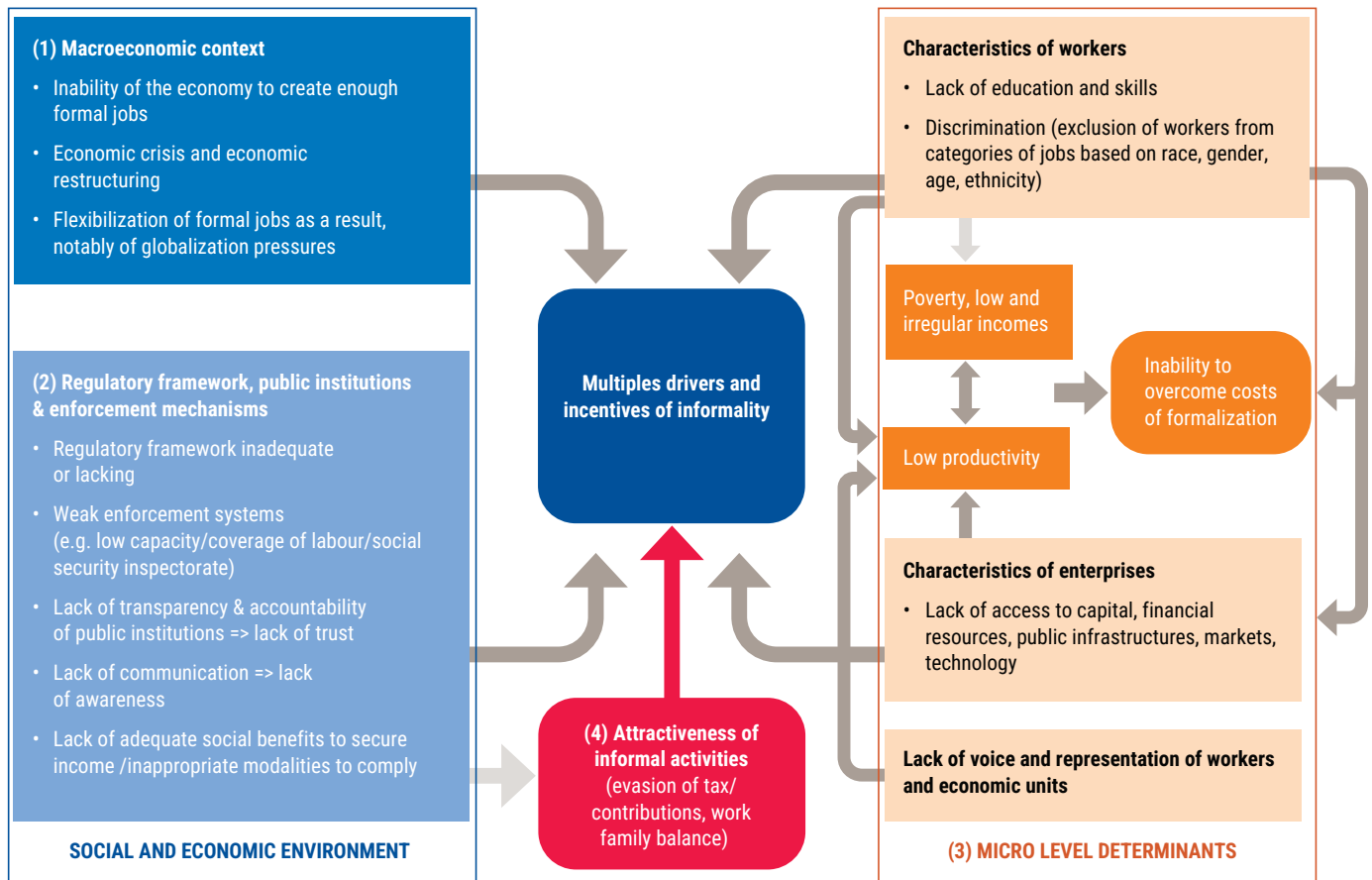
¹⁸ UN ECA (2018), *Informality and Inequality in Africa: exploring the linkages*. Addis Ababa.

¹⁹ ILO (2021), *Methodological note: Diagnosis of informality*.

²⁰ P. Ngumkeu, and C. Okou (2021), "Leveraging digital technologies to boost productivity in the informal sector in Sub-Saharan Africa," *Review of Policy Research*, 38(6), 707–731; and Hilary Nwokeabia (2009), *Why Industrial Revolution By-Passes Africa: A Traditional Knowledge Perspective*, Addonis and Abbey, London, United Kingdom.

Figure 4

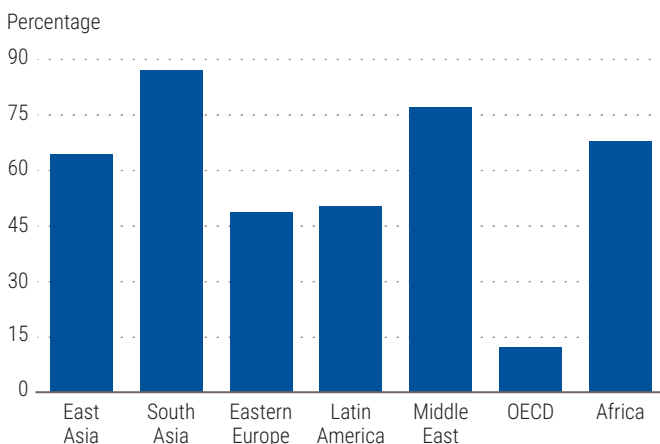
Main drivers of informality



Source: ILO (2021), *Methodological note: Diagnosis of informality*.

Figure 5

Population over 15 years of age receiving wages in cash



Source: World Bank Global Findex Database.

Responsible digital payments: Cash as a percentage of GDP is higher in developing countries, and this is partly due to the greater share of the informal economy, higher precautionary demand for cash, and the demand for banknotes and coins as a store of value.²¹ In emerging economies, the proportion of the population receiving wages in cash form is substantially higher than in OECD countries (see Figure 5).

The COVID-19 pandemic has exposed the challenges of financial inclusion with particular difficulties in reaching informal workers with financial assistance measures, and among vulnerable groups such as women and youth that are often disconnected from formal finance. The transition to digital payments, however, may negatively impact workers and economic units in the informal economy if not done responsibly, including in relation to financial inclusion, consumer protection and wage protection. Therefore, responsible digital payments,²² including responsible digital wage payments,²³ are key to addressing the informal economy in the digital age.

²¹ Luis Cabezas and Alejandro Jara (2021), "The demand for cash: stylized facts and substitution by electronic means of payment," *Revista CEPAL*, Naciones Unidas Comisión Económica para América Latina y el Caribe (CEPAL), December.

²² UN Principles for Responsible Digital Payments.

²³ ILO (2023), *Brief: Promoting responsible digital wage payments – Digital Wages*.

IN ZIMBABWE

Historical trends and the persistence of informality

The informal economy in Zimbabwe is significant and has expanded over the years. The macro-level drivers of high informality levels in Zimbabwe include economic structural adjustments, economic crises, globalization pressures, and climate change. In terms of contribution to GDP, Zimbabwe was estimated to have the third largest 'shadow economy' in the world at 60.6 per cent.^a

In Zimbabwe earlier studies indicated that the 'informal economy' was relatively small during the early 1980s, accounting for less than 10 per cent of the labour force. However, following rapid de-industrialization since the early 1990s associated with the Economic Structural Adjustment Programme (ESAP), informal employment grew exponentially. Using the new definition of employment in the 2019 Labour Force and Child Labour Surveys by the Zimbabwe National Statistics Agency (ZimStat), informal employment accounted for 75.6 per cent of total employment, while 24.4 per cent were in formal employment. Informal employment is predominantly in agriculture, forestry and fishing at 35.2 per cent, followed by retail trade, repair of motor vehicles and motorcycles with 18.9 per cent, mining and quarrying, 8.4 per cent, manufacturing, 8.2 per cent, and activities of households as employers of domestic personnel, 7.5 per cent.

At the macroeconomic level, the inability of the economy to create enough formal jobs is driving informality. At the micro level, limited livelihood opportunities, labor market discrimination, and the attractiveness of informal work for evading taxes are drivers of informality. The regulatory framework, registration procedures, taxation, and weak enforcement systems discourage formalization.

Source: UN Resident Coordinator's Office in Zimbabwe.

a L. Medina and F. Schneider (2018) as cited in G. Tawodzera (2023), *The Role of the Informal Sector in Epworth's Food System, Zimbabwe*, In *Transforming Urban Food Systems in Secondary Cities in Africa*, Riley and Crush, eds., Palgrave Macmillan.

IN MEXICO AND COLOMBIA

Mexico and Colombia – Informal economies amid policy reforms

Mexico and Colombia grapple with significant informal economies, posing challenges to national development and social inclusion.

In Mexico, despite targeted policies implemented since 2013, the labor informality rate remains high at over 50 per cent, presenting only a small decrease from 58 per cent in 2006 to 55 per cent in 2023.^a These policies included measures aimed at a) reducing fiscal informality through the Fiscal Incorporation Regime, which included temporary tax exemptions and discounts for businesses, and access to loans; b) reducing labour informality through the Employment Formalization Programme, which included incorporation of workers to the social security system; and c) simplifying business and workers' registry to the social security system by reducing administrative paperwork and integrating e-government services.^b However, there is a notable absence of impact evaluations to assess the results of these measures, with economic growth being cited as the primary driver behind any reduction in informal employment.^c

Mexico's National Development Plan (NDP) 2019-2024 acknowledges the need to combat informality, suggesting that more formal workers may mean more tax revenues. The latter reflects the increasing number of active taxpayers registered by Mexico's Tax Administration Service, which grew from 33.5 million in 2010 to 84.6 million in 2023.^d

Similarly, Colombia faces a substantial informal economy, with 56.6 per cent of its workforce engaged in informal employment, particularly prevalent among the poorest segments.^e Furthermore, 95 per cent of businesses are ranked as micro and small enterprises, with 85 per cent of these operating in of the informal economy providing informal employment for vulnerable groups.

In this context, the UN Country Team (UNCT) in Colombia initiated efforts to support microbusinesses as vehicles for formalization and inclusive growth,^f emphasizing the importance of strengthening capacities through technical assistance, technology adoption, and financial inclusion. To further advance these strategies, they have been integrated into the National Development Plan 2022-2026 and in March 2024 Colombia joined the Global Accelerator on Jobs and Social Protection for Just Transitions.

In the case of both countries, an integrated approach that combines targeted policy interventions, increased educational and financial access, and improved business environments is necessary to address the persistence of informality.^g

a INEGI (2024), "Empleo y Ocupación. Demografía y Sociedad", Instituto Nacional de Estadística y Geografía (INEGI).

b Clemente Ruiz Durán (2017), "Políticas de focalización y requerimientos estructurales para reducir la informalidad," in *Informalidad: implicaciones legislativas y políticas públicas para reducirla*, Martínez Soria, Coordinator, Instituto Belisario Domínguez - Senado de la República, Mexico City, Mexico, pp. 15–60.

c Israel Banegas González, Tania Hernández Ortiz and Alejandro Gómez López (2018), "Determinantes de la formalización laboral en México en el período 2010-2016," in *Políticas de formalización en América Latina. Avances y Desafíos*, José Manuel Salazar-Xirinachs and Juan Chacaltana, eds., ILO Regional Office for Latin America and the Caribbean (FORLAC), Lima, Peru.

d Servicio de Administración Tributaria (SAT) (2024), "Número de contribuyentes, acumulado", Servicio de Administración Tributaria (SAT), Mexico.

e Data from ILO Stat.

f United Nations of Colombia and Inclusión sas 2023. "Inclusión productiva en Colombia: mediciones y marco de política". ONU Colombia.

g IMF (2021), "IMF Country Focus. Five Things to Know about the Informal Economy", *IMF News*, 28 July.

Adapting to Global Challenges: The COVID-19 pandemic highlighted the informal economy's adaptability and fragility. Balancing social protection gaps and economic disparities will be key, with technology, especially Artificial Intelligence (AI), playing a crucial role.²⁴

*Incorporating the Social and Solidarity Economy (SSE):*²⁵ The SSE provides a blueprint for the informal economy's future, emphasizing decent work and facilitating the transition to formal employment amidst technological and demographic shifts. It also provides a gendered view of informal work within the home as characterised by the care

²⁴ J. M. Puaschunder, M. Gelter, and S. Sharma (2020), COVID-19-shock: Considerations on socio-technological, legal, corporate, economic and governance changes and trends. *Economic and Governance Changes and Trends*, 22 August, pp. 17–18.

²⁵ In April 2023, the UN General Assembly adopted Resolution 77/281, entitled Promoting the social and solidarity economy for sustainable development, which was a breakthrough resolution that includes a definition of SSE and mentions that SSE entities operate in both the formal and informal economies and aspire to the transition from the informal to the formal economy. For more information see the UN Inter-agency Task Force on the Social and Solidarity Economy.

economy and unpaid work within households, including unpaid family workers.^{26, 27}

IN NIGERIA

Digital Transformation to manage and measure informality

Nigeria is the largest economy in Africa with a GDP of \$447bn^a in 2022, but with very high levels of informality. In 2022, 92.6 per cent of all employment was considered as informal according to the ILO definition.^b According to the IMF, Nigeria's general government revenue to GDP, at 7.3 per cent in 2021, was one of the lowest in the world ranking 191st of 193 countries examined. The high levels of informality impact government tax revenue and the capacity of government to respond to shocks in the informal sector.

Nigeria has however undergone significant transformations over the previous decades that can change the narrative of informality. The proportion of households that had access to mobile phones increased from 53.6 per cent in 2011 to 87.6 per cent in 2021 with over 75 per cent of the population covered by at least a 3G network.^c The country also implemented a digital National Identity Scheme that looks to link various government databases and key services, such as mobile phone usage and financial services, to a single national registry. The registry may then serve as the basis for delivering key public services to people hitherto referred to as "informal."

In response to COVID-19, despite limited data on actual incomes, digital cash transfers enabled the government to mitigate poverty impacts on informal workers due to lockdowns. The National Social Safety-Nets Coordinating Office (NASSCO) used mobile phone top-ups to validate other primary and secondary data on the poorest households. In this respect, there is greater potential for managing and measuring informality through digital governance.

Source: UN Resident Coordinator's Office in Nigeria.

^a Data from World Bank.

^b Nigeria National Bureau of Statistics.

^c Nigeria 2022 CCA and 2022 Multiple Indicator Cluster Survey – Nigeria.

Climate vulnerability, Sustainability and Energy-Centric Growth: With the Industry 4.0 revolution, there's a focus on sustainable, energy-driven development, amid increasing climate vulnerability. These shifts to sustainable development must focus on engaging workers from previous brown industries into a formalized model of production for renewable energy, while prioritizing populations most at risk to climate change.²⁸ Climate vulnerability can increase the size of the informal economy, given its shock absorbing capacity, where informality is often a recourse for those living on the margins.²⁹

e) Persistent challenges and policy gaps

Informality may persist despite reforms given the complexity of drivers and how contextual informality is across industries, economic units and supply chains. Policymakers need to recognize the significant heterogeneity within the informal economy and devise policies that avoid a 'one size fits all' approach and address persistent challenges and policy gaps, including but not limited to the following:

- **Regulatory Compliance:** Monitoring and enforcing compliance in the informal economy are significant challenges.³⁰ The costs and complexities associated with compliance can be prohibitive for many informal entities, leading to potential exclusions by and tensions with multi-national enterprises.
- **Taxation:** There is evidence of a correlation between lower tax burdens and increased informal employment, emphasizing the role of tax policies in shaping employment trends.³¹ However, a challenge arises in tax revenues. Informal workers and businesses do not pay income taxes by definition; however, they do contribute to the tax base by paying consumption or value added taxes. Despite its GDP contribution, the informal economy's impact isn't always mirrored in tax collections, leading to public revenue losses. A balanced taxation approach can prevent pushing more enterprises into informality.³²
- **Economic Duality:** The coexistence of the formal and informal economies creates a dynamic where the formal economy often relies on the informal economy for cost competitiveness. This interdependence can lead to conflicting power dynamics, especially as vulnerability persists as an outcome of this interdependence for market dominance among formal actors.
- **Consumer Behaviour and Motivations:** The diverse behaviours and motivations of intermediate and final consumers influence the demand dynamics and purchasing patterns in the informal economy, which in turn influences the relative effectiveness of different policy measures, requiring a context specific analysis.³³
- **Diverging Interests:** The divergence of interests between and among relevant stakeholders may exacerbate challenges related to the informal economy; social dialogue at different levels offers a pathway for finding common ground.³⁴

²⁶ Michael Frosch and Jessica Gardner (2022), *Defining informality for contributing family workers*, ILO Room document to support the discussions at the Meeting of Experts on Labour Statistics in Preparation for the 21st International Conference of Labour Statisticians, Geneva.

²⁷ C. Borzaga, G Salvatori, and R. Bodini (2019), *Social and solidarity economy and the future of work*. *Journal of Entrepreneurship and innovation in emerging economies*, 5(1), pp. 37–57.

²⁸ A. Adamik, K. Liczmańska-Kopcewicz, P. Pypłacz, and A. Wiśniewska (2021), *Involvement in Renewable Energy in the Organization of the IR 4.0 Era Based on the Maturity of Socially Responsible Strategic Partnership with Customers—An Example of the Food Industry*. *Energies*, 15(1), 180.

²⁹ F. Ohnsorge and Shu Yu, eds. (2022), *The Long Shadow of Informality: Challenges and Policies*. Washington, D.C.: World Bank. doi:10.1596/978-1-4648-1753-3.

³⁰ R. Narula (2020), "Policy opportunities and challenges from the COVID-19 pandemic for economies with large informal sectors," *UNU-MERIT Working Papers 2020-024*, United Nations University - Maastricht Economic and Social Research Institute on Innovation and Technology (MERIT).

³¹ C. Williams and A. Gashi (2022), *Formal institutional failings and informal employment: Evidence from the Western Balkans*. *Journal of Labor Economics*.

³² D. Fedotov (2023), *Tax burden and shadow economy growth in Russian regions*. *International Journal of Fiscal Management*.

³³ I. A. Horodnic, C. C. Williams, J. Windebank, et al. (2021), *Explaining consumer motives to purchase in the informal economy*. *PLoS ONE*, 16 (10). e0258686. ISSN 1932-6203.

³⁴ ILO (2020), *Social dialogue for the transition from the informal to the formal economy*.

- *Access to public spaces and public land:* Access to regulated public spaces and natural resources is one of the key factors to reducing the inequalities faced by informal economy workers and enterprises, since they often operate in irregular spaces or make use of resources without authorization.³⁵

IV. POLICY RECOMMENDATIONS

Governments, in consultation with employers' and workers' organizations, and other stakeholders should take into consideration the guidance provided by the [Transition from the Informal to the Formal Economy Recommendation, 2015 \(No. 204\)](#) and the [Resolution concerning statistics on the informal economy \(ICLS/21/2023/RES. I\)](#).

IN URUGUAY

Comprehensive reforms – Uruguay's success case in reducing informality in the labour market

In Uruguay, informality in the labour market has decreased to less than 20 per cent by the end of 2022, down from 35 per cent in 2006 and 25 per cent in 2014. This reduction can be attributed to a series of comprehensive policies and reforms, including the reinstatement of collective bargaining, social security dialogue, tax reform, health system integration, and specific measures aimed at formalizing employment, especially in historically informal sectors. Legislative and administrative actions, as well as institutional improvements, have further contributed to the decline in informality. Additionally, during the COVID-19 pandemic, specific measures were implemented to support workers and promote formal employment. Furthermore, the underemployment rate in 2022 was at 8.2 per cent, a decrease from 11.3 per cent in 2021. These policies and reforms aimed at leaving no one behind and reducing vulnerability have played a significant role in reducing informality and improving labour market conditions overall in Uruguay.

Source: UN Resident Coordinator's Office in Uruguay.

An integrated policy framework to facilitate the transition to the formal economy should be included in national development strategies or plans as well as in poverty reduction strategies and budgets, taking into account, where appropriate, the role of different levels of government. As the case of Uruguay shows, countries can take comprehensive policy approaches to yield impactful results in reducing informality and improving labor market conditions overall. Specific attention should be given to coordination across different levels of government and cooperation between the relevant bodies and authorities, such as tax authorities, social security institutions, labour inspectorates, customs authorities, migration bodies and employment services, among others, depending on national circumstances. Relevant measures may notably include the following elements:

1. **Appraise the factors, characteristics, causes and circumstances of informality within the whole economy (real and financial), including its economic, social and environmental dimensions**
 - a) Undertake assessments and diagnostics of the informal economy, measuring its full economic, social and environmental impacts beyond aggregate estimates (including value of transactions, business volume, employment generated, etc.), to better identify its size, characteristics and specificities.³⁶
 - b) Understand the specificities of all industries or economic sectors with high rates of informality and assess their challenges and opportunities. Avoid blanket assessments, preferring ad-hoc analysis and tailored policies that avoid "one size fits all" measures. Develop integrated policies addressing the key challenges and opportunities.
 - c) Assess and acknowledge the positive and negative impacts of the informal economy (not only its economic value but also its social and environmental impacts).
 - d) Harness the potential of digital tools for mapping and channelling policy measures to the informal economy.
2. **Address the informal economy in relevant international, national strategies and plans to promote sustainable development and decent work for all**
 - a) Make full, productive and freely chosen employment and decent work for all a central goal for coherent, comprehensive and integrated employment policy, and improve respect, promotion and realization of the fundamental principles and rights at work, other human rights and other relevant international labour standards. Address the informal economy in national development, recovery, and employment strategies to support pro-employment macroeconomic, tax, industrial, social, environmental and other policies for promoting just digital and environmental transitions and reducing inequalities.
 - b) Develop targeted policies for economic activities with higher informality rates such as agriculture, domestic work, construction, waste management, and service activities to increase value added, increase productive capacities and productivity, and promote linkages to formal supply chains, and facilitate the transition to the formal economy, while avoiding imposing harmful effects on informal livelihoods and formal economic activities. This can include engagement in supply chains, income transfers, technology transfer, among others.
 - c) Promote the social and solidarity economy (SSE) for sustainable development, recognize its role in the transi-

³⁵ M. Chen, Françoise Carré and Sally Roever (2020), "Conclusion" in [The Informal Economy Revisited. Examining the Past, Envisioning the Future](#), Chen and Carré, eds., Routledge, London.

³⁶ See ILO, [Statistics on the Formal Economy](#) by the Conference of Labour Statisticians.

tion from the informal to the formal economy, and support the transition for all workers and entities, including those in the SSE. Relevant measures may include to facilitate the registration of SSE entities and other enterprises, upgrade their skills, improve technology and productivity, and enhance efficiency at scale, applying public procurement strategies.

- d) Strengthen the education and training system to meet the current and future demand for skills, by providing technical and vocational education and training (TVET) opportunities and apprenticeships to facilitate the transition to the formal economy. Provide entrepreneurship and business development training to facilitate the development of formal MSMEs, including SSE entities.

3. Facilitate the transition of workers and economic units from the informal to the formal economy by fostering a conducive environment

- a) Promote a conducive environment for MSMEs, including SSE entities, enabling their access to markets, removing entry barriers and facilitating market access and market development, including facilitating business linkages and spillovers between domestic entrepreneurs and formal supply chains, and targeted finance and public procurement schemes for informal businesses as transitional pathways to registration and formalization.
- b) Identify administrative bottlenecks that make it difficult for MSMEs, including SSE entities, to register and operate in formal terms. Simplify the administrative burden, streamline regulation, and guide on the administrative processes for formalization. Integrate digital government services, including one-stop shops and e-platforms to simplify access and promote ubiquity. Consider offering transitional flexible schemes to allow for innovation, stabilization and scaling-up of informal businesses, before transition to formality, including grace periods for formalization, tax holidays, incentives and simplified tax regimes.
- c) Facilitate access to inclusive and diversified financial services, such as payments, insurance, lending, savings products, including through responsible digital and innovative finance, and promote digital and financial literacy and inclusion.
- d) Expand the toolkit of technical assistance programmes for capacity building of informal businesses and workers, skills training and technical upgrade (including transfer of technology and capital equipment); entrepreneurial skills (mentoring, incubators, etc.); transfer of capital equipment; financial literacy; financial inclusion (social finance, sustainable finance, seed capital, finance for innovation,

digital finance, etc.); and compliance with international standards, including for financial consumer protection.

4. Expand and strengthen social protection, public services and public goods, the benefits of formalization, and raise awareness about rights and obligations

- a) Increase efforts to develop universal, comprehensive, adequate, and sustainable social protection systems, including a solid social protection floor comprising basic social security guarantees.³⁷
- b) In line with the obligation to use the maximum of available resources to achieve the progressive realization of economic, social and cultural rights, ensure efficient resource utilization, earmarking funds specifically for social protection programmes, refraining from diverting funds intended for such programmes, and ensuring the complete expenditure of allocated funds.³⁸
- c) Create public goods in the form of public spaces and authorized access to public land and resources to help informal businesses and workers that depend upon unauthorized use of spaces, land and resources to make the transition to the formal economy. Avoid overreliance on simplistic tax collection and punitive perspectives, which neglect the multidimensional challenges of informality.
- d) Rationalize the benefits of formalization in a cooperative model context according to priority business areas (e.g., agriculture, waste, construction, and such according to the country context). Implement awareness-raising campaigns about the benefits of formalization for workers and economic units, strengthening the use of cooperative models to spread information in a coordinated manner.

5. Strengthen social dialogue, institutional capacities and enforcement mechanisms

- a) Strengthen the capabilities of the public sector to collect data on the informal economy to better design evidence-based policy, especially with social dialogue to monitor and assess the impact of policies and taking corrective actions when appropriate, including through the use of digital platforms as relevant.
- b) Ensure that workers and economic units in the informal economy enjoy freedom of association and the right to collective bargaining, including the right to establish and, subject to the rules of the organization concerned, to join organizations, federations and confederations of their own choosing.

³⁷ Recommendation R202 - Social Protection Floors Recommendation, 2012 (No. 202).

³⁸ Ann Blyber and Helena Hofbauer (2014), *The use of maximum available resources: Article 2 and governments budget*, International Budget Project.

- c) In designing, implementing and evaluating relevant measures, consult and promote the active participation of employers' and workers' organizations, including representatives of workers and economic units in the informal economy, and enable them to participate in social dialogue in the transition to the formal economy.
- d) Prioritize measures that address the specific circumstances and vulnerabilities of categories overrepresented in the informal economy due to structural discrimination. These vulnerable groups differ from country to country often including: women, youth, migrants, refugees, indigenous and tribal peoples, national or ethnic, religious or linguistic minorities, older persons, persons with disabilities, and persons living with HIV/AIDS, among others.

DATA AND KEY RESOURCES

UNDP Data Futures Platform (in partnership with the ILO, and the World Bank), [The Informal Economy Data Explorer](#).

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UNCTAD (2023), [Business Facilitation Programme](#).

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