

International Labour Day

Tackling the Epidemic of Informal Employment and Low-Paying Work

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Bonn, 29 April 2024. 1st May is synonymous with Labour Day, one of the oldest and most widely observed holidays celebrating the accomplishments of workers. However, there is little to be celebrated for most people working in the informal sector in low- and middle-income countries (LMIC) as a silent but pervasive epidemic in the form of low pay despite working hard each day. These sectors comprise transport services, hairdressing, building construction, and small firms, to mention a few.

A recent OECD report is staggering – nearly 60% of the global workforce grapples with informality, with that number surpassing 90% in many low-income countries. While some informal workers can attain relatively higher earnings, a large lower tier has to cope with the double burden of informality and low pay. As a result, many of these workers are relegated to being working poor, with women, migrants, less educated

and minorities being particularly likely to find themselves in this group.

Even more striking is the near-impossibility of transitioning out of this lower tier, as informal workers either lack the skills or the certification required by formal employers. Furthermore, the inter-generational impact of informality is profound, as children born into households where informal work is the norm face formidable barriers to securing formal employment. And while the newly emerging digital economy has been hailed as a solution for many of these problems, a recent ILO review paints a rather contrasting picture.

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The consequences of informality are that (a) there is a lack of social security and employment protection for those workers, (b) the sector is less efficient, affecting economic growth, (c) workers cannot or only marginally contribute to taxes and (d) profits are not reinvested into the business to grow and address the problems mentioned above.

What can and should be done about informal employment

Yet, amidst this bleak picture, solutions are within reach, provided policymakers and stakeholders are willing to take decisive action. It has become clear that interventions solely focused on reducing informality have been ineffective. Policymakers need to recognise that some workers will likely remain informal for the near future, but the conditions of their work can be improved. Thus, the key lies in targeted interventions tailored to the unique needs of different segments of the informal workforce.

While many workers in LMICs remain excluded from the formal sector involuntarily, others chose informality, as the benefits of formalisation are not worth the costs. Three key goals should be followed based on this observation. Firstly, using the exclusion ‘lens’ requires addressing the barriers that hinder formal job creation. This involves creating tax, social security

and regulation systems that allow for a gradual process of compliance to ease the transition into the formal sector for excluded firms and workers

Secondly, tackling voluntary informality will also require lowering formalisation costs, but also enhancing benefits like access to quality public services and confidence in the social security system. Thirdly, improving productivity is crucial, necessitating reforms in education, innovation, business climate, and urban planning to uplift struggling micro-firms and low-income individuals.

Moreover, governments can encourage and support existing informal workers to reform and enjoy benefits similar to those of formal workers. Although the [ILO](#) has been supporting governments in such a reform, minimal success has been achieved. Furthermore, an [OECD/ILO](#) report provides cogent recommendations for transitioning to formal work, but this task is complex. We estimate that a top-down approach of forcing a transition to happen quickly is not practical. Yet, a targeted collaborative, incremental approach may be plausible to ensure escape from the vicious cycle of informal work and low pay. The [decent work programme](#) of the ILO and other programmes aimed at reforms can adopt such an approach.

This incremental approach needs to recognise unions and associations of informal workers as strong partners for governments and development partners to bridge social protection, education, skill recognition and upgrading gaps. Association-backed social protection schemes might enjoy higher workers’ trust, thus increasing workers’ uptake and contributions. At the same time, educational and skill recognition programs might become more effective and targeted to the needs of the different segments of informal workers, e.g. women, migrants and minorities.

In the end, tackling this epidemic of informal employment and low-paying work demands a concerted effort from policymakers, implementing agencies, development partners, and researchers. Only through collective action can we pave the way towards a future where every worker, regardless of his or her circumstances, has the opportunity to thrive.