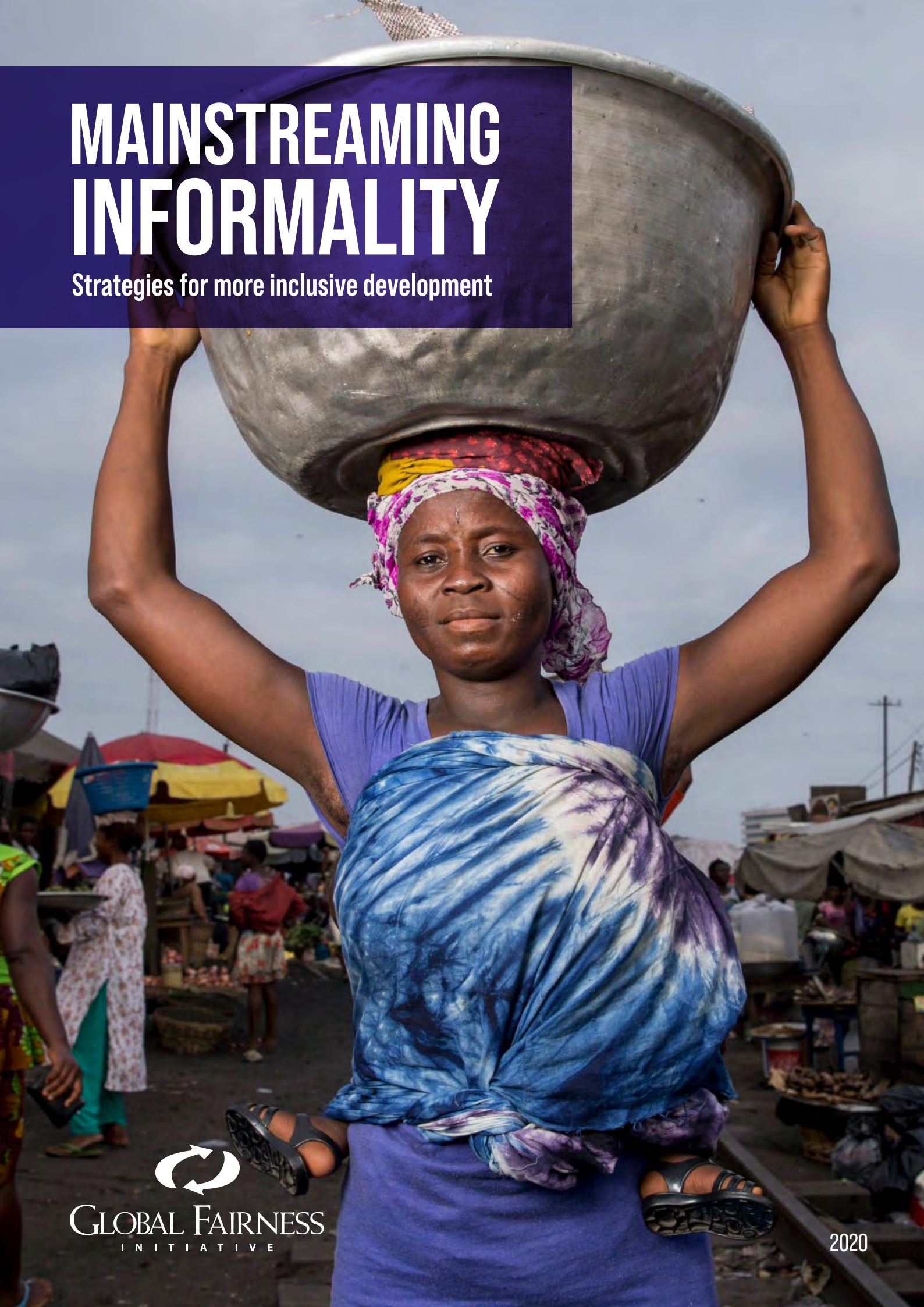


MAINSTREAMING INFORMALITY

Strategies for more inclusive development



GLOBAL FAIRNESS
INITIATIVE

2020

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Introduction

Mohamed Bouazizi sold fruits and vegetables out of a wheelbarrow on the streets of Sidi Bouzid, a small city in central Tunisia where the unemployment rate reached 30% and few options were available in the formal workforce. The small income he earned as a street vendor was largely committed to supporting the education of his sisters and his struggle to make a living was also his family's struggle to succeed in the authoritarian state of Zine El Abidine Ben Ali.

While well liked and well known in his community, Bouazizi still faced repeated harassment by local police who challenged the legitimacy of his business for lack of a permit to sell his goods on the streets. Barriers to registration and recognition of his vending business left him in a precarious economic condition, fully reliant on an enterprise that lacked formal permissions and protections. In December 2010, the situation came to a head when Bouazizi was confronted by local authorities who assaulted him, confiscated his scales, and threw aside his cart. Bouazizi went to the governor's office to report the incident and collect his property. He was refused access or even acknowledgement and left with no recourse to protect his right to earn a livelihood for himself and his family.

The world knows what happened next. Bouazizi collected gasoline from a nearby service station, returned, and beseeched the governor's office, "how do you expect me to make a living?" He then poured gasoline over himself and set himself on fire. After two weeks in the hospital, Mohamed Bouazizi died, and protests, which had begun in Sidi Bouzid in late December, spread throughout Tunisia, ultimately leading to the deposing of Zine El Abidine Ben Ali. The "Arab Spring" then erupted across the Middle East and North Africa, with Egypt's ousting of Hosni Mubarak, Yemen forcing out Ali Abdullah Saleh, and other governments across the region suppressing protests and conceding reforms.

Some democratic movements have sustained, others have not, but a widespread discord remains across the region, and the world, rooted in the failure of governments to serve and protect their citizens, and particularly the most vulnerable workers in the informal economy. Bouazizi was himself an informal worker. He was a Tunisian citizen who struggled to earn a living and who was aggrieved for legitimate reasons, but his informal status undermined that legitimacy and exposed him to harassment, abuse, and neglect. Instead of the support and protections from the state that he should have by right been afforded, he was marginalized and excluded. This is the struggle all informal workers face and those of us seeking to advance the Sustainable Development Goals should seek to more fully understand informality.

40 years ago, the International Labour Organization first used the term "Informal Sector" to identify the billions of unprotected workers engaged in legal, but unregistered enterprise outside formal economic structures. Since then, the world's economies, large and small, have undergone booms and busts; but the most underdeveloped and vulnerable countries have remained those with the largest rates of informality. International mandates to alleviate poverty and promote decent work demand that policy-makers, implementers, and donors make informality a core consideration in developing and delivering initiatives that protect and uplift the world's working poor.

Over four decades of research, data, and analysis has established the primacy of the informal economy in international development, but we have not yet seen informality mainstreamed into development initiatives. In this report, we call for a movement to do just that. After years of implementing programs aimed at moving informality beyond the domain of white papers and development forums and into the mainstream of development initiatives, we at the Global Fairness Initiative seek to provide the core knowledge and tools that international development practitioners require to address the unique conditions of informal workers. This report is a first step in that process, providing foundational knowledge, relevant case studies, and actionable next steps for donors and implementers to begin to mainstream informality in their work.

International mandates to alleviate poverty and promote decent work demand that policy-makers, implementers, and donors make informality a core consideration in developing and delivering initiatives that protect and uplift the world's working poor.

PART 1 INFORMALITY MATTERS



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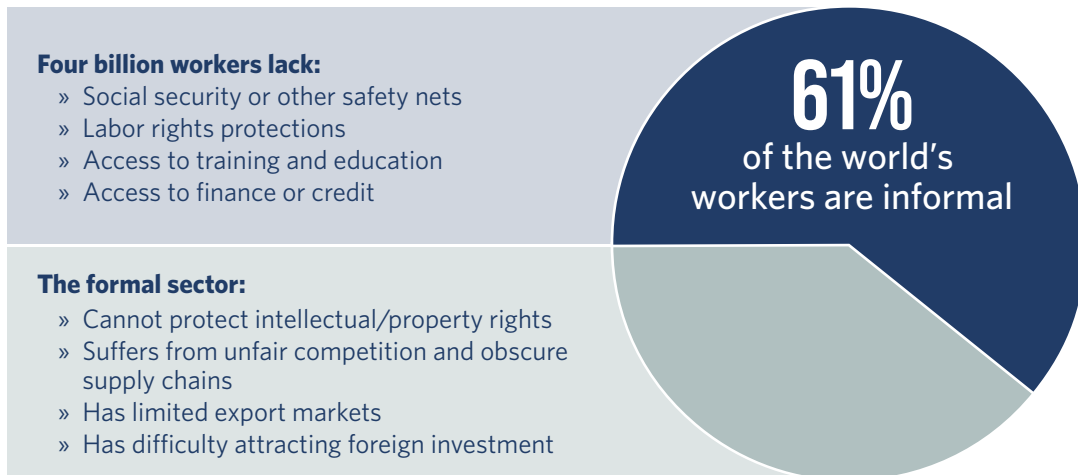
The Excluded

Informality encompasses the economic activities that workers engage in outside a nation’s mainstream economy. Though often stigmatized as the “shadow economy” consisting of illegal activity, informal work is, put simply, undocumented work by unregistered individuals or enterprises. The informal economy exists as a parallel economy, its participants excluded—whether by choice or not—from the formal labor market.

The majority of the global workforce—an estimated 61%—is informal.¹ This group lives and works on a separate track, excluded from the structures, protections, and opportunities that bring workers, governments, and the private sector together for vibrant and transparent economic growth. Informal workers are not protected by labor regulations and, consequently, are not entitled to benefits, such as paid annual leave, sick leave, social security, and pension schemes. These workers often work for incredibly long hours under harsh conditions and for little pay. By neglecting the informal economy, nations are failing to invest in a workforce with the potential to bolster their mainstream economies.

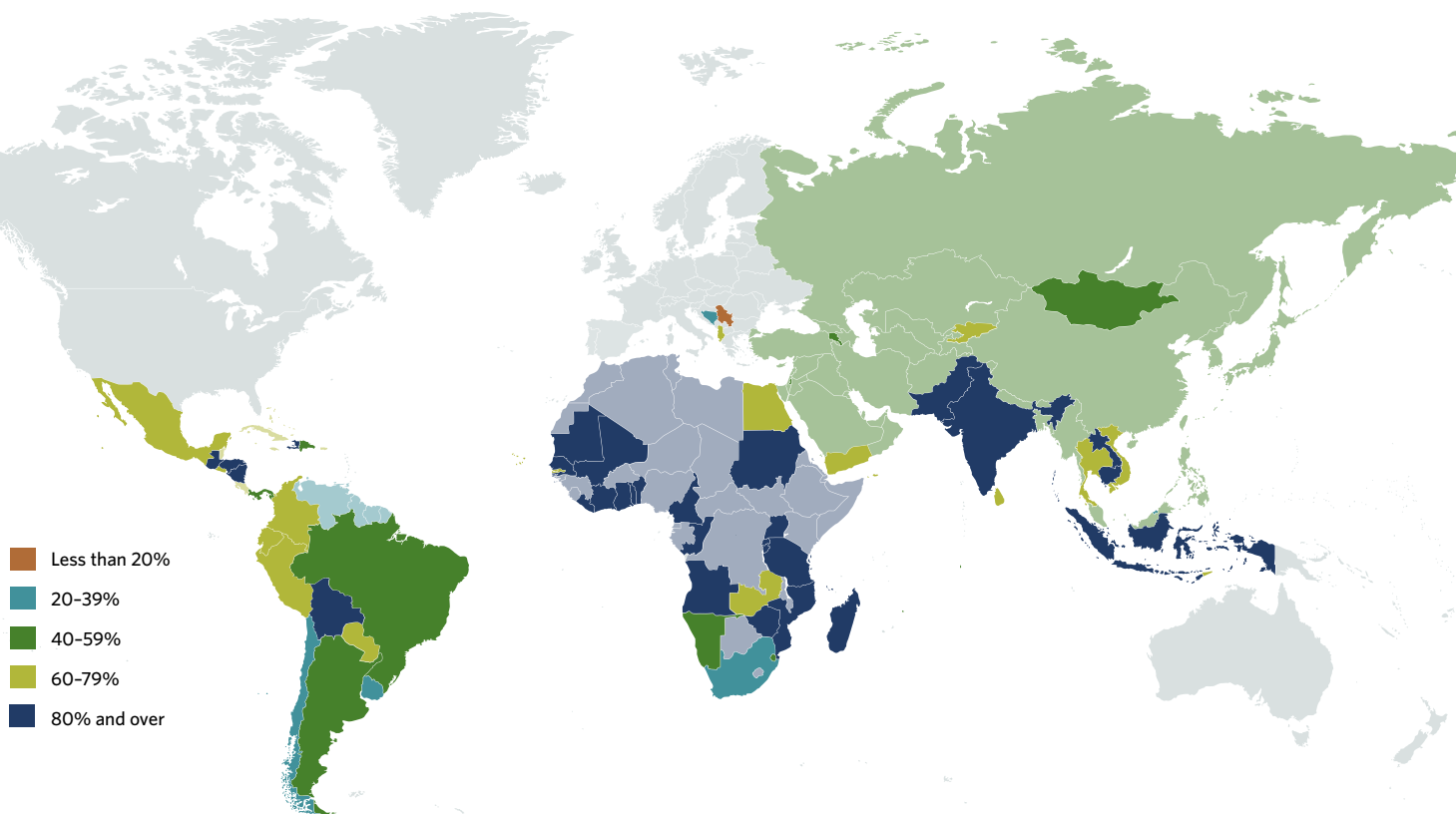
61%
of the global
workforce is
informal.

INFORMALITY AT A GLANCE



Despite some positive short-term effects—such as job creation and income generation for a rapidly expanding labor force—informality is both a cause and effect of long-term instability. High informality levels point to serious institutional and regulatory problems. The factors contributing to informality—such as ineffective regulations, high registration costs, corruption, and inadequate jobs and education—limit growth and undermine economic and social development. Most troubling, however, is that this phenomenon is self-perpetuating. That is, it increases poverty rates and income inequality and becomes more difficult to correct the longer it goes on.

SHARE OF INFORMAL EMPLOYMENT BY COUNTRY



Who

PUBLIC SECTOR

► *Raising the Costs*

An ineffective regulatory environment can deter participation in the formal economy, distorting the costs and benefits associated with registering a business or formal employment. Firms may resort to employ workers informally to circumnavigate costly regulations, which reinforces segmentation between “insiders” (formal, protected employees) and “outsiders” (informal workers) while also contributing to a lack of accountability in the market. An entrepreneur’s choice to ‘opt out’ of the formal economy is often the result of imperfect information and complex regulations that limit their ability to register the economic activities of their firm, resulting in an informal practice.

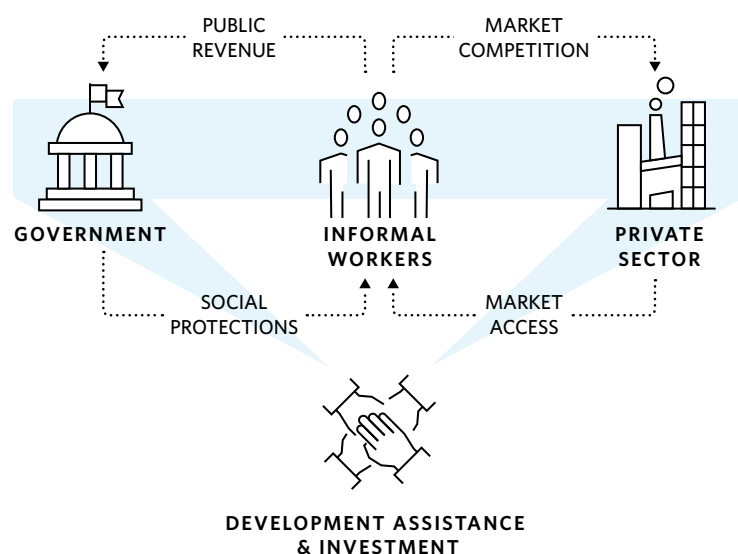
Imperfect information may be associated with exclusion margins, such as geographic location and low human capital. Impoverished workers in remote areas and uneducated agricultural workers, for example, may not have access to or knowledge of social security systems but would participate if they were informed and able.² The majority of people in the informal economy are not making the conscious choice to “opt out” but, with no other options, must work informally. Many cannot read, write, or afford registration fees; they do not know how to register or are considered too small to register.³

► *Cycle of Ineffective Political Engagement*

Since informal work is undocumented, governments cannot easily collect taxes from the informal economy. While formality is not binary and many informal workers pay some taxes, informality ultimately reduces the overall size of the tax base and imposes a heftier tax burden on the formal economy. Inadequate tax revenue resulting from a large informal economy means that governments cannot provide the social safety nets that could alleviate income inequality among their citizens.

On a regional basis, countries with the highest levels of informality also receive the largest amounts of net development assistance.

However, a significant amount of aid does not reach the informal economy, as aid functioning within the framework of national and international laws does not typically go to those living and operating outside that framework. The workers and enterprises with the most need—those with the lowest incomes, the least education, and no ability to afford legal mechanisms like certifications—do not benefit from the funding that could improve their economic access. Even aid specifically targeted to the poorest of the poor, such as food assistance and micro-enterprise development, does not address informality, keeping the poor in their parallel economy.





92% of working women in developing nations are informally employed.

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THE INFORMAL COMMUNITY

► **Women**

In many developing countries, social and political barriers limit women's inclusion in the formal economy. Juggling work and family responsibilities, informality provides opportunities and flexibility to women that the formal economy often cannot. As a result, home-based work and informal employment overall is more common for women, with 92% of working women in developing nations being informally employed compared to 87% of working men.⁴ While informal work can provide immediate livelihood solutions, it simultaneously makes it difficult for women to increase their income potential and mobility.

► **Agriculture**

Agriculture workers are often left out of statistics and discussions around informality because their often temporary, migrant, and remote status makes them more difficult to quantify and reach than the average informal worker. However, current estimates place the vast majority of agriculture workers in the informal economy. The agriculture sector provides opportunities to marginalized populations, but the same factors that make the sector more difficult to count also make workers more vulnerable to exploitation and abuse. In many developing countries, the agriculture sector is also one of the sectors most in need of assistance to increase productivity. However, it is difficult for farmers and laborers in the informal economy to benefit from initiatives promoting innovative farming practices, or a better commercial, technical, and regulatory environment with policies designed to support them.

► *The Private Sector*

Many of the growth-suppressing problems that informality creates manifest themselves in the private sector. Policy uncertainty and discretion in regulatory implementation limits investment and reinforces the role of existing firms while eroding competition within both the parallel and formalized economies. Ultimately, informality threatens the competitiveness of both formal and informal enterprises within an economy, reducing a country's ability to participate in globalized markets.⁵

► *Organizing*

Just as the informal economy as a whole comprises a parallel to the formal economy, in most countries informal workers are similarly outside of formal organizing structures like trade unions. The reasons for informal workers' exclusion from organizing movements are multifold, including practical legal restrictions in many countries, as well as disagreements and misclassifications of many "own-account" informal entrepreneurs as not necessarily being "workers." In the face of these barriers, informal workers have found similarly less formal means of uniting and organizing to amplify their voices and advocate for their rights. Groups of informal workers and NGOs have in many areas worked to form associations, cooperatives, or other member-based organizations that can play roles similar to those of unions; however, just like informal work itself, these structures do not share the same labor protections as trade unions.

More recently, there have been movements in a number of countries to organize informal workers into the existing trade union structure. Where practically possible, and where the necessary political will exists, such organizing efforts can be mutually beneficial, allowing unions to benefit from greater numbers and influence, and informal workers to benefit from unions' experience, power, and protections. Though these potential benefits are significant, informal workers can remain at a disadvantage—often less educated than formal workers, and in many cases comprised of higher percentages of women—so proper accommodation and representation within trade union leadership is essential.



PHOTOS, CLOCKWISE FROM LEFT: © GFI; JONATHAN TORGOVNIK/GETTY IMAGES/IMAGES OF EMPOWERMENT; JUAN ARREDONDO/GETTY IMAGES/IMAGES OF EMPOWERMENT

What

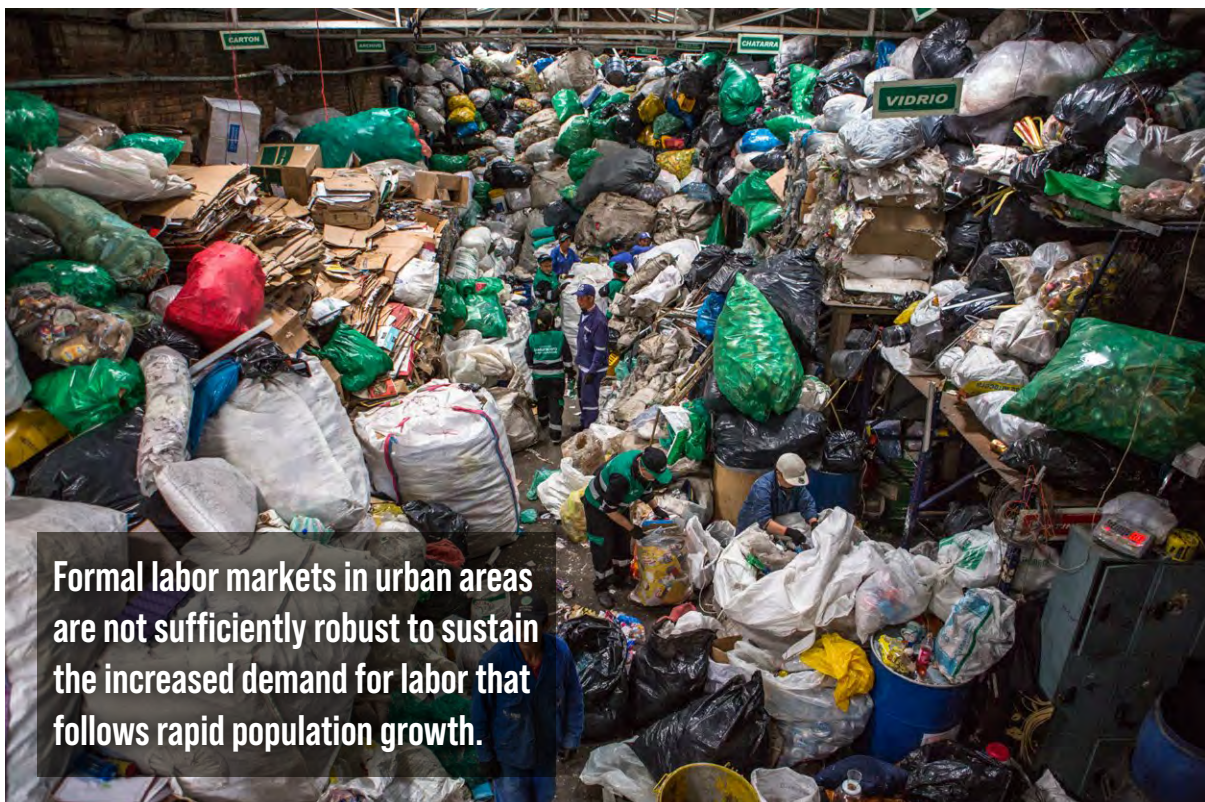
RURAL VS. URBAN

Excluding Eastern Europe and Central Asia, 80% of rural populations are employed in the informal economy, which is almost double the rate of informality in urban populations. Since developing nations have predominantly rural populations, they experience higher rates of overall informality.⁶

Rapid urbanization has decreased rural populations; as of 2007, one third of the poor in developing nations live in rural areas, but by 2030, half will live in urban areas.⁷ However, urbanization does not decrease informality in developing countries. Formal labor markets are not sufficiently robust to sustain the increased demand for labor that follows rapid population growth, so many workers seek informal employment, expanding the informal economy.

WEALTH

The wealth of a country impacts the size of its informal economy, often depending on the government's ability to provide social welfare. Wealthier countries tend to have lower rates of informality but higher rates of individuals claiming unemployment benefits. Informal work therefore functions as a part of the social safety net in developing countries where the tax base may be too small or the government too inefficient to support the unemployed.



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LACK OF DOCUMENTATION

The informal economy is inherently difficult to measure because a lack of documentation is intrinsic to informal work. Consequently, informal workers have limited access to financial and public services and the use of income as collateral for credit purposes, restricting their ability to capitalize on their earnings.⁸ This eliminates the incentive for informal entrepreneurs to invest in the human and physical capital necessary for large-scale, long-term investment, eradicating the opportunity to specialize and develop economies of scale.

CYCLE OF POVERTY AND INEQUALITY

Education levels, which generally increase with income, are negatively correlated with informality. This association is partially attributable to more educated workers entering the formal labor force, as a large education gap exists between the managers of informal and formal firms.⁹ Low earnings associated with low education attainment reduce workers' ability and incentive to improve skills or education level, partially as a result of the need to work longer hours to earn a livable income. This lack of access and opportunity means limited mobility and little ability to influence or engage in policy dialogue. Without structural changes, individuals continue to work in low-paying, informal jobs, perpetuating the divide between the formal and informal economies and holding future generations in lower economic positions.

EXPLOITATION

Just as workers in the informal economy cannot access social benefits and formal structures, they also lack protection from exploitation through formal regulatory means. Exploitative labor practices, including bonded, forced, and child labor, exist both in the formal and informal sectors, but government's lack of access to the informal economy makes exploitation harder to address. Furthermore, the higher rates of poverty and lower rates of education among the informal workforce make workers more at risk of exploitation.



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The factors used to coerce individuals and children to work—including desperation, threats of violence, manipulated debt, retention of identity papers, and more—are only amplified in the informal economy, and informality makes it more difficult for workers in exploitative situations to seek help.



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Why

The poverty mandate of SDG 1 and the inclusive and more decent work aspirations of SDG 8 demand that policy-makers, implementers, and donors make informality a core consideration in developing and delivering initiatives that protect and uplift the world's working poor. Even when stakeholders consider informality in their work, it is often viewed as a siloed concept addressed on its own, if addressed at all. Gender mainstreaming transformed the planning and implementation of policies and programs at all levels to ensure that both women and men benefit and inequality is not perpetuated. This level of holistic consideration must now be applied to informality.

To explore the current state of informality in development work, and propose potential improvements, we have prepared three case studies. These case studies analyze recent initiatives and trends in the development sector and put forth recommendations for how even successful projects can be improved through informality mainstreaming.

PART 2 CASE STUDIES

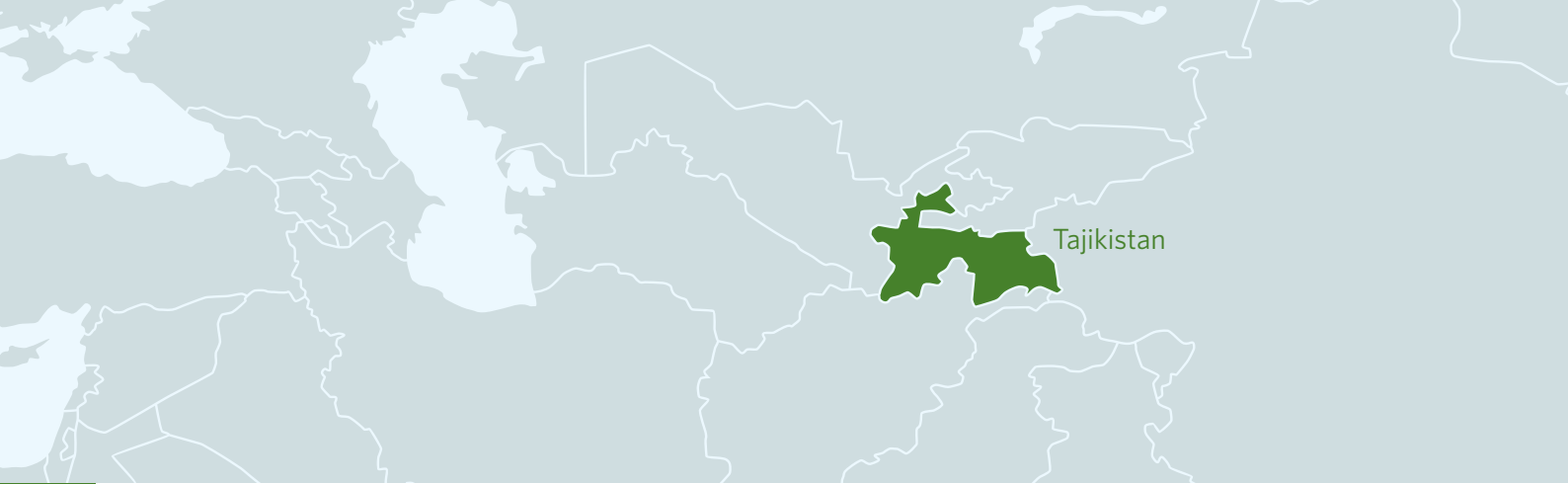


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Methodology

Integrating informality into development initiatives is critical, and can be demonstrated by analyzing case studies to highlight specific, practical ways in which mainstreaming informality can inform funding and programmatic decision-making in development work. We prepared the following case studies after surveying a wide variety of options to select those that best highlight the intersection of informality and other development priority areas such as women's economic empowerment and youth employment.

For the two programmatic case studies, we examined an initiative that highlighted these intersecting areas, and analyzed how these initiatives were successful in integrating informality into their work, as well as areas that could have benefitted from a greater consideration of informality. This analysis is based on publicly available information and evaluations of the selected initiatives. In addition, we have included a trend analysis to examine how informality affects new trends and technologies in the development sector.



Case Study: **Women's Entrepreneurship in Tajikistan**

BACKGROUND

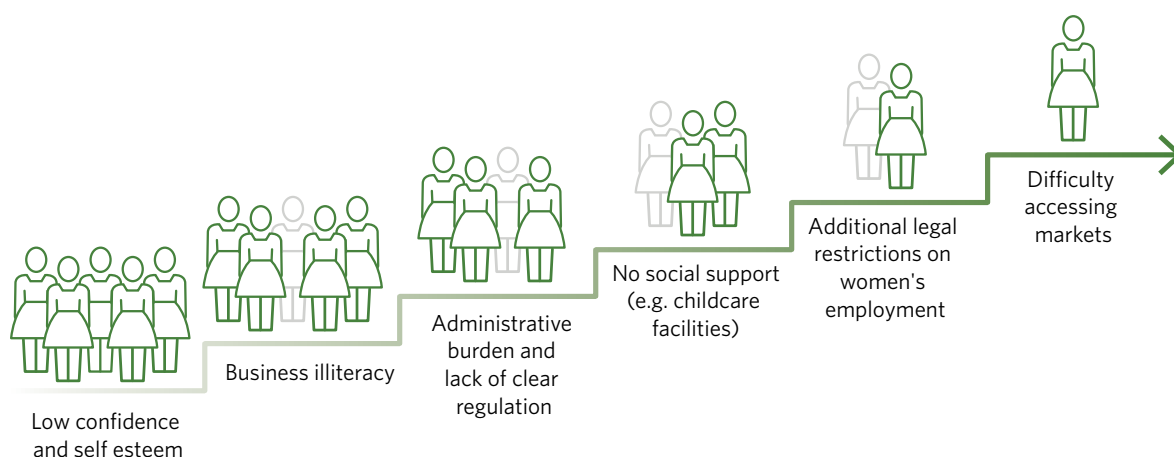
Tajikistan is a landlocked and mountainous country with a majority rural population clustered along foothills and narrow valleys. Irrigated desert regions sustain a large agriculture sector, which constitutes 29% of Tajikistan's GDP and 43% of its labor force.¹⁰ As a Soviet republic for most of the twentieth century, Tajikistan primarily served as a lucrative cotton producer, resulting in the formation of a central planning system of concentrated state enterprises. The market became highly specialized, and Tajikistan began importing its food and other necessities, leaving the population vulnerable to food insecurity and economic fluctuations.¹¹

When the Soviet Union collapsed in 1991, Tajikistan lost considerable subsidies and entered into a five-year civil war that devastated its infrastructure and stalled agricultural productivity. Since the majority of Tajikistan's population, especially the working poor, lives on cotton-growing farmland, the collapse of the agriculture sector crippled the economy and societal wellbeing, forcing workers to seek employment outside the country.¹² One third of men between the ages of 20 and 39 are migrant workers, and 28% of households have at least one family member working abroad, primarily in Russia. Remittances from these migrant workers constitute 49% of Tajikistan's GDP, and 27.4% of Tajik households receive remittances, making Tajikistan the most remittance-dependent country in the world.¹³



© MADELINE DAHM/IWMI

BARRIERS TO FEMALE ENTREPRENEURSHIP IN TAJIKISTAN



ADAPTED FROM UNDP

Male labor migration flows have led to a great number of female-headed households in Tajikistan and placed a greater burden on women to provide for their families. As of 2017, 21% of Tajik households are headed by women,¹⁴ which is expected to increase as male migration continues to increase.¹⁵ Men are much more likely to migrate, as women are expected to fulfill the role of caring for the children and elderly family members. Male-dominated professions, such as construction, oil and gas fields, and machinery, are also the most demanded in recipient countries.¹⁶

Despite remittances, female-headed households are 4.4% more at risk for poverty and 6.9% more at risk for extreme poverty than male-headed households in Tajikistan.¹⁷ Many wives of migrant workers seek employment to increase their household income, but women in Tajikistan struggle to overcome strict gender roles and institutional barriers that impair their ability to succeed in the workforce. Discrimination by employers and Tajikistan's legal barriers bar women from certain occupations in "hazardous" industries, such as mining and metal work. Many women also lack in education and skills; only 29% of tertiary students are girls, and only 18% of students enrolled in primary vocational education are women, which decrease to near zero in subjects unrelated to health and education. Consequently, 45% of women in Tajikistan participate in the labor force, ranking the country 102nd out of 142 countries in the World Economic Forum's 2014 Global Gender Gap Index.¹⁸

While men migrate for better-paying work, women fill the low-skilled and low-paying jobs in the agriculture and home-based work sectors; around 75% of working women in Tajikistan are employed in agriculture.¹⁹ Home-based workers fall into three categories: (1) independent sub-contractors who complete their work at home for a larger organization; (2) own-account workers who carry-out their own businesses; and (3) unpaid workers in family businesses. While home-based work can be difficult to quantify, it is estimated that over 85% of home-based workers in most countries are women.²⁰ Many of these women are subject to manipulative contracts and inconsistent work, but this type of employment provides flexibility for women in spaces where they are not allowed to work in the traditional formal workforce. Home-based work allows women to maintain the gendered work expected of them, while providing supplemental income for their family.

DIFFERENT TYPES OF HOME-BASED WORK



Business is perceived as a male industry, and female entrepreneurs lack access to business networks, specialized skills, and pertinent knowledge of economics and government bureaucracy.²¹ The USAID-funded Women's Entrepreneurship for Empowerment project (WEEP) was designed and implemented by the National Association of Business Women of Tajikistan to remedy these gaps in opportunity and provide women entrepreneurs in Tajikistan with the tools they need to successfully develop their own businesses.

PROGRAM OVERVIEW

WEEP was co-funded by IMON, the International Microfinance Organization Network, and took place in thirteen districts in the Khatlon province of Southern Tajikistan from 2014 to 2018. The goal of the project was to improve the lives of women working in agriculture and home-based work by alleviating the effects of food insecurity and poverty and empowering them to start their own business or improve an existing one, as well as increase the efficiency of their farms and their financial literacy. The program focused more specifically on improving the efficiency of small-scale strawberry agriculture and garment making.²²

The program had three main objectives: (1) teaching participants about the barriers to working in the formal sector; (2) training economically inactive women to start micro-enterprises to facilitate greater access to higher value markets for women-owned businesses; and (3) positively influencing women's attitudes about micro-enterprises through business education and partnerships with the government. To achieve these goals, the following activities were implemented:

- Vocational and business training
- Developing training centers
- Providing business and legal support to existing businesses
- Introducing new technologies for women who are economically active in the agriculture sector
- Supporting high schools in introducing curriculum in economics and entrepreneurship
- Providing study tours in Tajikistan and abroad
- Organizing a national competition to select a "Woman Entrepreneur of the Year"

WEEP helped implement more effective agricultural practices, such as the introduction of strawberries and strawberry seedlings into women's farms. Training on legal practices, knowledge of business management and the market, and adaption to home-based businesses related to the home-based and

agricultural sectors were key in the development of the women-owned businesses. An independent evaluation found that at the end of the project, all performance indicators were achieved at target or above. A significant number of women started their own businesses and improved their knowledge of tax and legal practices, which enable the businesses to work at higher levels of the value chain. The project was also evaluated as sustainable, as the training generated income for the women and increased the utilization of new hardware, such as sewing machines and irrigation of greenhouses.

Despite these achievements, the evaluation also found that women faced issues when formally registering their businesses, which limited their access to markets and consequently, income. The project also faced issues with Tajikistan's low levels of financial literacy and the highly gender-imbalanced nature of society. Despite women's high levels of literacy and education, knowledge on how to manage money on a household level and a business level is severely limited. Indeed, along with the social limitations of being a female entrepreneur, Tajik women face significant additional legal restrictions around the sectors they can work in and activities they can perform.

ANALYSIS

Women across the globe face issues in entering the entrepreneurial market. Primarily, women face limits in accessing sufficient credit to start their business, harmful gender stereotypes that restrain their full involvement in the labor force, and institutional practices that make formalizing their businesses more difficult.²³ Even when women have access to the labor and entrepreneurial market, they tend to be most affected by institutionalized obstructions, such as requirements of property ownership. The limits placed on working women lead to increases in home-based work, which is often informal. Home-based work can provide many benefits to women who are able to generate income while adhering to societal norms, but it also has significant associated limitations; women's ties to the household limit their ability to exercise their full labor potential, and home-based work makes it difficult for women to expand or formalize their business.

In addition to the worldwide barriers women face, initiatives must also consider specific societal norms and laws that contribute to increased difficulty for women in the formal and informal sectors. The WEEP project encountered Tajikistan's restrictive legal requirements, which prohibit women from engaging in many activities that may prevent the growth of their businesses. Among these restrictions are prohibitions on women performing tasks in the very sectors that WEEP focused on. In the agriculture sector, women are prohibited from driving tractors equipped with dusters and sprayers when working with pesticides. In the textile sector, women cannot work as press operators in primary cotton processing, nor can they engage in the breakdown and preparation of leather.²⁴ These restrictions placed on Tajik women only serve to promote informal work, which can prevent women from achieving the levels of business success that WEEP promoted.

Additionally, women in Tajikistan face a number of issues when entering the entrepreneurial market, the most pressing of which are the social norms which restrict the majority of their work to home-based businesses, such as embroidery and small-scale agriculture. WEEP recognized these limitations and structured the program to fit its context by focusing on home-based and agricultural work as the target of trainings, believing that women would be able to access high-value chains in work they are not able to do within their current constraints.

Where WEEP faced more difficulty, however, was in achieving its goals of preparing women to register and expand their businesses, both of which are inextricably linked to the prevalence of informality in Tajikistan, particularly among the country's female workforce. An essential aspect of starting a Small- to Medium-Sized Enterprise (SME) is financing. However, few small businesses, especially those owned by women, have a bank account due to registration limitations. Women often do not attempt to apply for a loan because of unfavorable interest rates, which make financing difficult.²⁵ Additionally, the complex tax regime for SMEs in Tajikistan requires businesses to make five to ten visits each year to the tax authorities.

Tajik business owners have two registration options for their businesses. The Tajik government has worked to ease the registration process by creating a streamlined registration option for individual entrepreneurs, but for women who seek to grow their businesses, or who already have at least one employee, they must choose the other, more complex route to register their businesses. Even with the streamlined option, however, entrepreneurs must present a passport and proof of real estate tax payment to register. These present significant barriers to those in the informal economy, particularly to informal women who are less likely to own real estate or identification other than a national identity card.²⁶ Furthermore, as Tajik business owners navigate the registration process, many are forced to make frequent "informal payments" to move the registration process ahead.²⁷ As WEEP worked to facilitate greater access to higher value areas of the value chain and new markets for its beneficiaries' businesses, the registration option most convenient to participants not only limited them in its disallowance of employees but also in restrictions around districts where they can work and their ability to import and export goods.

WEEP achieved many successes, such as an increase in self-esteem and confidence among the women who completed the training. However, most of the businesses that emerged from the training remain unregistered. The training produced 425 new businesses, exceeding the program's goal, but only 39% of these businesses were registered with the government. While the program provided important support in buying more efficient materials, such as irrigation systems or sewing machines, it did not provide the same level of guidance during attempts to register their businesses. An evaluation of the program stated that there is significant demand for women to receive more long-term training to help them start and maintain their businesses. Ultimately, the lack of institutional structures enabling registration, and a lack of advocacy and engagement to address these underlying barriers, limited Tajik women's access to many domestic and global value-chains, making it difficult for WEEP to fully achieve its goals.

Promoting women's entrepreneurship is important, but initiatives must recognize the additional barriers informal women face, including challenges securing financing, complex regulatory requirements, and sometimes additional legal restrictions placed on women.



Case Study: Youth Employment in Morocco

BACKGROUND

After years of slow economic growth, Morocco faces one of the highest rates of youth unemployment in the MENA region while simultaneously having some of the highest levels of education with 30% of degree holders being unemployed.²⁸ The country's stagnating economy has worsened with unstable agricultural output and a growing youth population, which has only pushed youth unemployment rates higher. Increasing rates of urbanization have also impacted youth unemployment.²⁹ The size of the urban population increased from 3.4 million in 1960 to 16.7 million in 2005, and by 1994, the urban population was higher than the rural population.³⁰ This shift in population density has put pressure on the urban labor force beyond its capacity. Additionally, the migration of Moroccans out of rural areas has deteriorated farmers' standards of living and increased their reliance on informal work.



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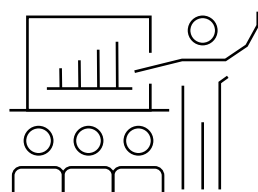
Those who have high levels of education also have high levels of unemployment as major gaps remain between Morocco's education system and the skills required to enter the job market.³¹ In fact, around 50% of people currently employed do not hold a degree, while rates of unemployed degree-holders remain high.³² Consequently, university graduates are often forced to take second-tier jobs that are often informal with minimal compensation.

This gap between education and demanded skills has attracted training programs that attempt to reduce youth unemployment and improve the country's economy. The Mennonite Economic Development Association with support from the MasterCard Foundation conducted a six-year project, YouthInvest, focused on reducing rural youth unemployment in Morocco by training beneficiaries on financial literacy and entrepreneurial skills. The program also aimed to assist in facilitating the participants' transition to the labor force after completing their education.

PROGRAM OVERVIEW

MOROCCO UNEMPLOYMENT, AGES 15-24

The rate of unemployment in Morocco is **21.9%**



YouthInvest provided training and resources

29

% employed (formal & informal)

51.3

% enrolled in education program

19.7

% unemployed or inactive

YouthInvest targeted rural or peri-urban youth between the ages of 15 to 25 who were in the process of transitioning from education to employment. The program specifically focused on “bolstering access to financial services, building their capacity to manage their own finances, improving their job-relevant skills and employability, and encouraging them to create their own employment solutions through entrepreneurship.”³³ The training consisted of 100 hours of curriculum on financial education, business and entrepreneurial skills, and conflict management skills. The curriculum was based on three assumptions: “(1) Morocco’s basic education system is not providing young people with the skills they need to be successful members of the workforce and needs to be complemented with additional training; (2) Morocco’s economy is generating enough jobs on the demand side for young people with the appropriate skills; and (3) 100 hours of training can improve the work-related skills of young people and allow them to find success in the labor market.”³⁴

In 2012, MEDA received funding from the ILO to complete an impact assessment, including a randomized controlled survey of program participants. This assessment data was used in the joint ILO/IFAD Taqeeem project, which focuses on understanding successful modes of creating jobs and developing employability trainings for youth and women in the Middle East and North Africa. The assessment found that the training had a significant impact on participants establishing a savings account, especially for more affluent participants. The training targeted a population transitioning between school to work, skewing the results towards young people who choose to continue their education rather than join the labor market. After completing the training, the participant’s likelihood of being employed reduced by 16.5%.³⁵ Many of the participants made the choice and had the funds to continue their education rather than join the labor market. Additionally, 21% of youth in Morocco have their own savings account, and 49% of this group said they regularly saved money. Older participants in the program who fall outside the typical age for continuing education failed to perform better in the labor market after completing the training.³⁶ Ultimately, the assessment found that young people would rather continue with their education than attempt to enter the labor market.

ANALYSIS

Informality and youth employment are inextricably linked, particularly in developing countries. Across the globe, the majority of youth work in the informal economy; the ILO estimates as much as 39% of youth live in poverty and make less than \$3.10 per day.³⁷ The YouthInvest program, recognizing the skills gap many Moroccan youth face, focused on addressing this reality to enable youth to join the formal workforce.

In response to the difficulties many young Moroccans encounter when trying to enter the formal sector, YouthInvest also heavily emphasized the development of entrepreneurial skills so that participants would have the ability to create their own opportunities. While this type of training is an important first step, the program did not assist beneficiaries in the steps that follow business formation, as participants were not educated on the regulatory environment for new businesses, nor were they provided initial access to funds or credit to build and grow their businesses. As a result, the impact assessment found that the more affluent participants had some success in obtaining loans while the other beneficiaries faced barriers. More affluent participants tend to fare better across programs because of easier access to credit and better social and capital networks.³⁸



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30%
of college
graduates in
Morocco are
unemployed.

The struggle to access credit is an unsurprising reality for the world's working poor, particularly for individuals who are entrenched in informality. While many low-income individuals lack the capital to obtain a loan, those in the informal economy often face additional pre-requisite barriers, such as a lack of government identification or other baseline requirements from financial institutions.

An interesting finding from the evaluation was that, when compared with the control group, a significant amount of students in the YouthInvest program elected to remain in or pursue higher education rather than pursue employment. The study concluded that "the training led some participants to conclude that further investment in education would be preferable to entering a difficult, largely informal labor market in helping them meet their long-term goals." The participants who went this route, however, were characterized by being more affluent and male. For the female and less affluent participants, the study found that the trainings had little effect on their labor market outcomes and decision-making. This outcome suggests that even when the skills gap was lessened, participants came out of the program facing the same underlying and institutional barriers that were present when they began.

The YouthInvest program falls into the category of interventions that utilize Active Labor Market Policies (ALMP). Often conducted by governments, ALMPs encompass a variety of programs aimed at reducing unemployment, including soft skills courses, subsidized labor, and training schemes. Studies on ALMPs in regions with high levels of informality, such as North Africa, have found that interventions

focused on employment protection legislation, social insurance, and labor regulations only benefit the minority of workers in the formal sector of the economy.³⁹ Even in economies dominated by informal employment, programs targeted at informal or self-employed workers remain extremely limited.

To understand why impacts of ALMP programs on unemployment are limited, considerations of informality are essential. Active Labor Market Policies tend to rely on formal methods for recruitment, ignoring the reality that many job openings are spread by word of mouth or recruitment through a mutual acquaintance. Additionally, in countries where institutional mechanisms are inefficient or over-bureaucratic, ALMPs can be difficult to execute, as government ministries are often in charge of funding and organization.

The YouthInvest program encountered many of these broader issues, but was more successful in transitioning young people to using formal bank accounts, which may allow them to gain access to credit and loans later in life. Rate of saving for the participants went up by 31.8% after the training. In fact, women were more likely to maintain a savings account with 32% consistently contributing to the account, while 21% of male participants consistently contributed money to the savings account. Maintaining a savings account is of special importance in Morocco, as some banks will accept savings as collateral, which may assist people from less affluent families in getting loans for their businesses.⁴⁰

The impact of this program on less affluent participants was limited by their financial background. Programs should combine financing opportunities and training on the registration process to ensure that less affluent participants are able to fully engage the skills gained from the program. The follow-up survey found that 29% of participants were employed full-time, and 67% had acquired some work experience. At the end of the program, only twenty five of the 871 individuals surveyed were entrepreneurs, while the majority were enrolled in an education program.

Self-employed and own account workers tend to fall into the informal sector, especially in countries where there are numerous barriers to the registration of businesses. YouthInvest and similar ALMP programs tend to prioritize entrepreneurship and the skills required for running a business as a viable employment option for youth struggling to navigate the labor market. While these skills are unquestionably useful, without additional intervention to create reliable mechanisms for registering businesses, accessing credit, and overcoming the many accompanying barriers informal workers face, they will continue to be left out of major markets and be excluded from essential social protections.

Initiatives promoting employment without additional intervention to create reliable mechanisms for registering businesses, accessing credit, and overcoming the many accompanying barriers informal workers face will ensure that these workers are left out of major markets and excluded from essential social protections.



Trend Analysis: Blockchain Technology in Development

BACKGROUND

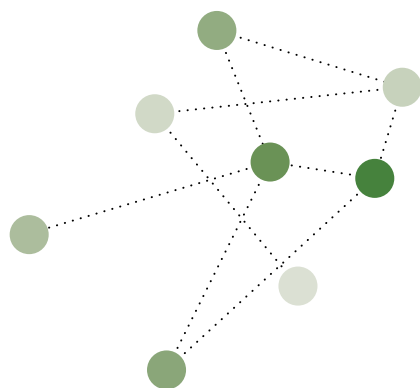
Since its invention in 2008, blockchain has evolved from a technology underlying the then-obscure cryptocurrency Bitcoin to being one of the most discussed emerging technologies of the past decade. Blockchain—ultimately a decentralized ledger where no one computer or entity has primacy over another—is being proposed as a solution to a wide variety of challenges, particularly those surrounding transparency, trust, and bureaucracy. Although the technology’s most successful application to date has been Bitcoin, a cryptocurrency, blockchain technology has started to proliferate into many different fields, including international development. As with other emerging technologies, blockchain’s spread has been accompanied by big promises. But despite the hype, the growing trend of utilizing blockchain in international development initiatives warrants a nuanced examination.



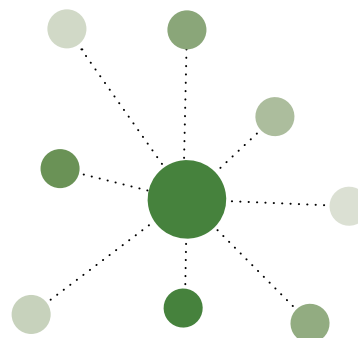
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A blockchain is a ledger. It is unique in that whether public or private, the information is immutable and accessible to all users, meaning that there is no one central authority holding the data. When new data is entered into the network it forms a “block” which includes a reference to the previous block in the chain to ensure that the data is properly ordered and verifiable. The linear nature of a blockchain prevents data modification by any single participant, and ensures that no new modifications can be made without detection. Advocates of the technology argue these characteristics make blockchain technology more trustworthy than other sources with central authorities such as a government or bank, because the data is available to all, unchangeable, and in many cases easier and more efficient to maintain. Blockchain networks can be public ledgers, such as Bitcoin and most other cryptocurrencies, where anyone with an internet connection can take part. On the other end of the spectrum, closed-loop

private blockchains have spread, primarily within corporations and organizations. Private blockchains allow for the benefits of the technology while potentially lowering the associated risks. For instance, some large US-based banks are considering using a private blockchain to keep a ledger of inter-bank transactions, speeding up the current process which can be bottlenecked through the Federal Reserve.



Blockchain
DECENTRALIZED



3rd party
CENTRALIZED

BLOCKCHAIN IN INTERNATIONAL DEVELOPMENT

Blockchain's innovative technology and customizability have led many to explore it as a useful tool to enable international development. There is little question that blockchain technology has the potential to present new opportunities to the field, and as large companies like Facebook consider introducing blockchain-based products with mass appeal, the technology may quickly become commonplace in the developing world. Trust in the system is not buttressed by laws or shareholders, but by the system itself. In countries where government corruption abounds and trust in public institutions is low, the promise of such a system is enticing. In fact, many have proposed governments employ blockchain technology to manage systems such as benefits distribution or land management, partially in service of increasing efficiency, but also with the hope that use of blockchain technology will increase transparency and trust in government operations.

Some take it a step further to contend that blockchain itself is the tool that will allow organizations, institutions, and governments to reach the unreachable. In the current global financial system where access to finance is contingent upon having a verifiable identity, collateral, credit history, etc., many people face significant barriers to financial inclusion. Could blockchain, which enables systems that allow for exchange and the creation of an economic identity, and that bypass governmental bureaucracy and entrenched interests, be the answer that marginalized communities and informal workers have been waiting for? While the technology has the potential to be meritorious in a number of challenging areas such as trust, bureaucracy, and transparency, practitioners must also consider its limitations, particularly in reaching informal and other marginalized populations, and ask the right questions before proposing blockchain as the optimal solution to the problems they face.



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For the majority of users, trust in a technology can only be built based on endorsements from trustworthy individuals or institutions.

TRUST

Even with its many potential applications, some of the most compelling use cases for blockchain in international development center around its originally intended purpose: asset exchange. Initiatives in this area include those related to the sending of remittances, distribution of international aid, and making cryptocurrency “wallets” (a program, often utilized through an app, that holds the keys for tracking ownership of cryptocurrency assets) and transactions available to the unbanked. Blockchain technology has seen success in this area in large part because it eliminates the need for trust in any single institution or actor. Similarly, a number of other blockchain-based programs focus on areas traditionally threatened by fraud or corruption such as land rights and migrant labor contracts. Handshake, for example, is a blockchain enabled platform which stores migrant worker contracts, ensuring they do not change between workers’ origins and destination.⁴¹

While the use of blockchain technology does allow users to engage without placing trust into a single institution or actor, it does not eliminate the need for trust completely and instead requires users to place trust in technology. For many in developing countries, and particularly for those in the informal economy, there is a lack of trust in technology, in general, and establishing this trust may be more difficult than blockchain proponents would expect. The promise of blockchain-powered solutions is a trustworthy system that cannot be manipulated by a central actor. For the vast majority of users, however, trust in the technology can only be built based on endorsements from trustworthy individuals or institutions. Recently, a grocery chain seeking to promote supply chain transparency was faced with two options it could make available to consumers: a blockchain-powered solution or a solution where information is funneled through the company or a third party. Blockchain advocates would likely suggest that the blockchain-powered solution allows for increased transparency, verifiability, and trust.

For the vast majority of consumers, however, who lack the time or capacity to review the blockchain's underlying setup as they shop for groceries, the two options are identical as they both ultimately require trust that the grocery chain has set up the system to be accurate.⁴²

Moreover, for individuals in the informal economy, the idea of entering personally identifiable information onto a new technological platform can be an unattractive proposition, particularly if the platform is controlled by the government or another central authority. While users who understand the technology know their data will not be altered, they still may have reservations about who can access it. For many in the informal economy, government at best has failed to ensure their economic inclusion, and at worst allows for regular harassment and discrimination based on their lack of formal status, so they may not be eager to share personal details that the government can access. Additionally, some tout blockchain as a simple way to provide a universal identification system, however issues with registration most often stem from a lack of government capacity and willingness in addition to a lack of resources. An additional complication is lower rates of technological access among marginalized and informal populations, which may serve to further exclude those that such policies are designed to benefit.

BUREAUCRACY

Blockchain projects focused on land registration or aiming to help users create a digital identity, either to capture and record their existing identity verification documents, or to create an identity for those who lack one in a traditional sense, are not only aimed to establish greater trust, but also to ease bureaucratic processes. While such solutions may allow for more efficient, transparent systems to manage complex areas, they also present new challenges that governments and other institutions and organizations considering the technology must evaluate.

All blockchain powered solutions require a base level of technological and energy infrastructure to function properly. In cases where cryptocurrency is involved (which is relevant as many development solutions relate to remittances and unbanked asset exchange), significant levels of computing power are required to maintain and stabilize the currency exchanges. The Bitcoin exchange, for example, currently uses the same amount of energy as a mid-size country such as Switzerland. While many other uses of blockchain do not require such a dramatic amount of energy usage, access to energy and computing power is a foundational requirement for all blockchain uses. For developing countries that struggle to meet existing energy needs and demands, this is not an insignificant point of consideration when determining feasibility and viability of blockchain technologies.

In all current cases, blockchain initiatives that interact directly with individual beneficiaries require use of a computer or mobile phone to interact with the technology. According to the World Bank's Findex report, 79% of adults in developing economies have access to a mobile phone, however only 40% have internet access through that mobile phone. Additionally, in many countries, there is a gender gap of up to 10 percentage points in mobile phone access.⁴³ Naturally, lack of access to technology tends to be

Worldwide spending on
blockchain innovations
is forecast to reach
\$11.7 billion
in 2022.

even more common among informal populations, meaning that blockchain-powered bureaucratic systems may simply serve to further exclude informal workers from governments or institutions for whom they are already in the shadows. These realities can significantly limit the population that can access many blockchain-powered solutions, though there are opportunities, such as SMS-based input options, that can increase their viability.

One's ability to use blockchain solutions is not only limited by access to technology but also in many cases by an individual's ability to read and write. To use an SMS-enabled option, for example, users are required to be able to read the messages they receive, and respond appropriately. These transactions can be made simple and user-friendly for certain applications such as remittance transactions, but for more complex uses such as land registration management, users will likely always be required to fill out documents and agree to terms and conditions. Additionally, the general requirement that users access blockchain solutions through an app or website require a broad familiarity with technology, which many populations, particularly older generations, still lack. BenBen, a Ghana-based company using blockchain technology to improve government technology on land registration, is an example of a technology aimed at improving land investment, but one that is still inaccessible to many people whose land is unregistered.⁴⁴ For any blockchain-based intervention, governments and institutions face the significant and likely threat that, due to the current rates of technological adoption and usage, a direct-to-user technology-based intervention may only serve to further exclude informal workers and other populations who would benefit the most from a just as well-intentioned, but better designed intervention.

The specifics of any blockchain powered initiative vary greatly, including their intended end user. Some uses of blockchain in international development projects aim to operate completely behind the scenes to strengthen administrative processes. The World Food Programme and UNHCR, for example, have piloted using blockchain to track and record cash-based transfers to refugees living in the Azraq camp in Jordan. For the refugees, their way of accessing cash is unchanged, but for the implementing organizations behind the scenes, the new blockchain-based system has allowed WFP to avoid thousands of dollars in bank fees that were incurred previously.⁴⁵ In addition to saving money on bank fees, blockchain powered solutions have the potential to aid organizations with accurate record-keeping, increased efficiency in transactions, and transparency to donors and beneficiaries. The majority of other initiatives, however, aim to interact directly with individual beneficiaries in developing countries, many of whom are informal. This includes initiatives that aim to increase financial inclusion, ease sending remittances, secure migrant labor contracts, and more. For all blockchain initiatives, and particularly those intending to interact directly with informal populations, the technology's limitations must be factored into any consideration of its usage.

Blockchain technology
requires connectivity, but
only **40% of adults**
in developing economies
have internet
access.

TRANSPARENCY

Just as bureaucracy-focused blockchain applications benefit from the technology's transparent nature, other uses focus primarily on increasing transparency in areas generally characterized by a lack of it. Blockchain initiatives, for instance, are abundant in the agricultural sector, and particularly focus on tracking products through supply chains.⁴⁶ The detailed tracking of food or other items as they move through the supply chain provides the opportunity for transparency to both the producer and the consumer. Blockchain's promotion of transparency is similarly beneficial in situations where a lack of trust exists between parties, as discussed above in cases of asset exchange, labor contracts, and the like. In many cases, however, a precursory requirement to experience the benefits of blockchain technology at any significant scale is accompanying regulation, which is often overlooked by those proposing solutions.

The original and sustaining ethos surrounding blockchain technology is one untethered by regulation and outside of centralized authority. However, as blockchain-powered solutions scale, they eventually interact with the outside, regulated world. At this time, the development of blockchain technology is outpacing the rate of the creation of laws made to regulate its usage, if any exist at all. In the United States, for example, cryptocurrencies have been superimposed into the current financial regulatory structure, and are regulated as commodities, which means that capital gains from appreciation are taxable, making widespread adoption all the less likely. In countries where cryptocurrencies and other blockchain technologies face no regulation at all, new technologies face a constant threat of new regulations being imposed that may significantly alter the services they are able to provide. For informal workers, who already face uncertain and in some cases threatening regulatory environments, this uncertainty is unwelcome.

Furthermore, questions remain regarding who is responsible and liable for data held in a decentralized system. Privacy within a transparent system is often viewed as a highlight of using blockchain technology. However, if governments and private companies plan to use blockchain to secure digital transactions, land and identity registrations, it is essential that access to data is limited to only the required parties. Like any data system, a blockchain is susceptible to breaches. Therefore, already established systems that deal with data breaches and identity should be allowed to take action and hold companies and governments liable for the data they are meant to protect. As some of the most vulnerable among us, informal populations, who are in many cases the target users of these systems, must have an assurance that their information is secure, and an effective path for recourse should it be breached. Questions like these are essential to answer before widespread usage of blockchain technologies is practical or possible.

CONCLUSION

As with any emerging technology, blockchain presents a new frontier for connecting the world at many levels, however, practitioners must confront the assumptions needed for the technology to work in informal environments. The tenets on which blockchain is built suggest opportunities to overcome many challenges, but these same tenets present new barriers that must be addressed head-on.

Before proposing any blockchain-based intervention, practitioners should consider the technology's implications, particularly as they relate to informal populations and other marginalized groups. Does the intervention require end users to access an app, website, or program through a phone or computer, or electrical infrastructure they may not have? Does it require users to have a familiarity with technology, or certain levels of literacy? If any of these are the case, there is a possibility that the proposed intervention would exclude some of the very beneficiaries it intends to reach. Will the intervention capacitate beneficiaries to understand the technology so they can trust the blockchain-based system, or will they have to rely on an authority's endorsement of the technology to trust it? Are the users fully informed of the potential risks prior to using an application? Do they have an option to not use the technology in order to access a benefit if they feel the risks are too high? How does the proposed technology interact with prevailing regulatory requirements, and what are the chances that applicable regulatory requirements may change with the emergence of this new technology? Would use of the proposed system require vulnerable users to enter sensitive data that may be accessed by authorities or other actors at a later date? Is there a possibility the data could be accessed by unintended or malicious actors? What recourse would users have should their personal information be breached?

These are just some of the many questions that should be asked when considering the use of blockchain technology in an international development setting. Like any emerging technology, blockchain has the potential to improve current systems and address difficult challenges, but it is not a panacea. Ultimately, blockchain technology can only be a piece of any larger solution, and like any tool, it must be treated with appropriate levels of due diligence.

CONSIDER...

- Does the intervention require end users to access an app, website, or program through a phone or computer, or electrical infrastructure they may not have?
- Does it require users to have a familiarity with technology, or certain levels of literacy?
- Will the intervention capacitate beneficiaries to understand the technology so they can trust the blockchain-based system, or will they have to rely on an authority's endorsement of the technology to trust it?
- Are the users fully informed of the potential risks prior to using an application?
- Do they have an option to not use the technology in order to access a benefit if they feel the risks are too high?
- How does the proposed technology interact with prevailing regulatory requirements, and what are the chances that applicable regulatory requirements may change with the emergence of this new technology?

PART 3

MAINSTREAMING INFORMALITY



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Why It Matters

Allowed to persist, informality becomes more than an economic barrier, it entrenches a norm of social and economic exclusion for a country's most vulnerable workers and serves to undermine the provision of protections and benefits that are the purpose of development initiatives. All workers need protections, especially in times of crisis, and with the transition to a globalized economy where social and economic challenges are interconnected it is imperative to promote inclusive solutions to development challenges. Reducing informality can help break a cycle of vulnerability that persists in nations where gaps in rights, benefits, and income continue to widen. Because the causes of informality and the reasons for its persistence vary from country to country, the strategies for addressing it must adapt to each country's social and economic conditions, and most importantly to the stakeholders who impact and are impacted by the informal economy.

Effective strategies seeking to improve the lives and livelihoods of working people must focus on the role and condition of informality within development interventions. Where data on the informal economy is missing it should be gathered, and where the voices of informal workers are lacking they should be sought out. In short, informality should be mainstreamed into the creation and implementation of effective development initiatives. This requires a highly inclusive, multi-stakeholder engagement process by international aid and development organizations that includes the key actors influencing and impacted by informality, namely government, the private sector, and informal workers themselves.

Who It Matters To

WORKERS

Exclusion from taxation and the regulatory framework of the formal economy leads to the legal and economic disempowerment of the informal work force. Unregistered and undocumented informal workers—waste-pickers, street vendors, domestic workers, smallholder farmers, artisan fishermen, and many others—endure low pay and significant occupational risks, including unhealthy and unsafe working conditions. Without the protection of labor rights regulations, informal laborers have no access to employment benefits like minimum wages and paid sick leave or to social safety nets like unemployment insurance and social security. They have no redress for employer violations and no collective bargaining power. Without legally documented and protected assets, informal workers and microenterprises have limited access to credit or financial services, as they are unable to enter into contracts or raise investment capital without proper collateral. This lack of access and opportunity means limited mobility and little ability to influence or engage in policy dialogue. Informal workers and their families are likely to remain informal and, thus, remain poor. Initiatives seeking to benefit informal workers must be designed with these factors in mind, and must seek to engage government, the private sector, and other stakeholders to create sustainable solutions that prioritize addressing the underlying challenges informal workers face.

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Initiatives seeking to benefit informal workers must seek to engage government, the private sector, and other stakeholders to create sustainable solutions that prioritize addressing the underlying challenges informal workers face.

GOVERNMENT

Informality weakens a government's ability to effectively meet the core needs of its citizens. When the informal economy is large, tax revenue is inherently low and governments struggle to invest in public services and infrastructure, provide social benefits for workers, or deliver on long-term development priorities. Despite their use of public infrastructure and services, many informal enterprises either don't or can't comply with regulations, particularly related to taxation, which can contribute to the erosion of the rule of law and confidence in public institutions, which in turn may increase political instability. Where public institutions are weak and transactions operate outside of formal systems, public officials may lack accountability and elude transparency which enables corruption, decreasing countries' abilities to attract foreign investment and aid. Development initiatives must therefore be designed to proactively engage government, encouraging constructive, mutually beneficial solutions that address the barriers which underly informal work.

PRIVATE SECTOR

Informality limits the vitality and competitiveness of the private sector, stifling growth and development. Unable or unwilling to comply with complex or costly regulations, many firms and workers prefer participation in the informal economy. The ineffective regulatory framework that allows this "opting out" means that even formal firms operate in a system that lacks accountability and transparency and encourages corruption. Within this environment, all private sector firms have limited access to financing, including small loans or long-term foreign direct investment. Potential investors cite factors associated with informality—policy uncertainty, unfair competition, and corruption—as major concerns.

Ineffective business, tax, and labor regulations discourage entrepreneurs from registering their economic activities. In countries with high rates of informality, registering a business tends to be more difficult and cumbersome than in other countries, requiring higher average numbers of procedures and days to obtain a license or register property. The combined effects of a poor regulatory environment and limited investment reduce levels of growth, and stagnant growth in turn discourages foreign investment and access to higher-value, more diverse markets. Development interventions must address these barriers head-on, working with stakeholders to reform restrictive regulations, ease access to finance, and root out corruption. Workforce training programs have their value, but will never have their full desired effects if the restrictions and incentives promoting informality are ignored.

DEVELOPMENT ORGANIZATIONS

On a regional basis, countries with the highest levels of informality also see the largest amounts of net official development assistance (ODA) and official aid received (OAR). Unfortunately, these important funds tend not to benefit the informal economy, because aid functioning within the framework of national and international laws does not typically go to those living and operating outside that framework. Informal workers and enterprises with the most need—those with the lowest incomes, the least education, and no ability to afford legal mechanisms like registration—do not benefit from the aid that might otherwise improve their economic condition. Even smaller-scale aid, including initiatives specifically intended for the poorest of the poor, be they food assistance or micro-enterprise investment, is not purposed to address informality and therefore perpetuates an unsustainable, parallel economy. Development organizations must mainstream informality into their programming and funding decisions to truly improve the lives of the world's working poor.



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What To Do About It

Though the causes of informality exist on a continuum and are not mutually exclusive, there are strategies implementers can use to extend benefits and protections or transition informal work into the formal economy. For example, where informality exists as a result of involuntary exclusion from formal employment, practitioners can engage government and work to promote policies that reduce existing barriers to the formal labor market, including labor market reform as well as rationalizing regulations to ensure that small and large firms can compete more fairly.

If informality exists as a result of more workers and firms “opting out” of the regulatory system based on rational choice, practitioners can promote interventions that rebalance the costs and benefits of participating in the formal economy as necessary. This could mean improving the quality and outreach of key public services, enhancing communication and transparency about social benefits, and designing or extending instruments for better management of economic vulnerabilities, such as poor liquidity, or personal risks including poor access to health services. Many of these approaches mirror existing development initiatives, and many others could be easily integrated into established models and interventions. In reality, a combination of measures is most likely to address the vulnerability of informal workers in varying conditions across developing economies and development initiatives, but whatever the solution the approach should always emphasize collaboration, accountability, and transparency.

If informality exists as a result of more workers and firms “opting out” of the regulatory system based on rational choice, practitioners can promote interventions that rebalance the costs and benefits of participating in the formal economy are necessary.

STRATEGIES FOR MAINSTREAMING INFORMALITY



PREPARE Rely on sound data to inform program design and implementation and, when data is missing—which is often for the informal economy—collect it independently.

UNDERSTAND Utilize an intersectional approach to understand the barriers workers face and how these are exacerbated by informal economic and social status.

LISTEN Directly engage informal workers and communities early to understand perceived needs and challenges and keep the conversation going throughout a program.

LEARN Learn from institutions and organizations whose work intersects with, or provides direct services to, informal workers, such as Microfinance Institutions.

INFORM The ILO termed the “informal sector” in the 1970s and defined it in the 1990s and countless programs and policies have tackled informality in one way or another and offer important learnings to draw from.

EVALUATE Monitoring, Evaluation, and Learning systems that incorporate informality and measure programs against key indications e.g. earnings, job creation, and business registration—should be built into program learning and decision-making.

TEACH The informal sector is marked by inequity and marginalization and programs that intersect with the informal sector can lead in constructive dialogues with stakeholders to address the inequities that undermine program impact.

ADVOCATE Identify and empower informal workers to be direct advocates on their issues and your program objectives and then give them a place at the table with you to advocate for needed policy and systems changes.

INTEGRATE Design country-specific, sector-specific or program-specific activities that facilitate access to formal benefits and protections and reevaluate interventions that undercut integration or create parallel social or economic benefit systems.

ACCESS Collaborate with government, private sector and policy-making stakeholders who influence or directly impact the administrative and regulatory systems that impact informal work and workers.

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