

► Policy Brief

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Answering key questions around informality in micro and small enterprises during the COVID-19 crisis

Question 1: Why should informal enterprises be supported during and after the pandemic?

It is estimated that eight out of ten enterprises¹ are informal and that these enterprises provide 52 per cent of the world's employment. Although they exist in developed countries, informal enterprises are found predominantly in emerging and developing countries.² Most informal enterprises are small economic units with fewer than ten workers, and these account for over 80 per cent of employment in the informal sector. Some 54 per cent of these small economic units are own-account workers. The informal sector accounts for nearly a third of the gross domestic product (GDP) in Latin America, more than half of India's GDP and well over 60 per cent of the total GDP in sub-Saharan Africa.³ Yet, as these enterprises are not listed in existing administrative registries and have either not been complying with or are not covered by the law, most government support initiatives related to COVID-19 do not reach them.

This presents a challenge for many enterprises and workers in the informal economy, as they typically generate

low levels of income and have limited buffers to weather the economic crisis. The situation has been exacerbated by the curfews and lockdown measures introduced by many governments. As a result, many actors in the informal economy have been obliged to put themselves and their families at risk of exposure to COVID-19, since they cannot survive without an income. In the absence of exceptional support measures, most informal workers do not have access to sickness benefits when they fall ill. This increases the risk of poverty, which is more pronounced in countries where social protection systems do not guarantee universal access to adequate healthcare. Moreover, informal enterprises – especially in urban areas – tend to operate in densely populated areas usually with limited information, resources and support to protect their workers and customers against the health risks that come with the pandemic.

Owners of informal micro and small enterprises (MSEs), including own-account workers, often find themselves without social protection; in many cases, they are reached neither by policies that support enterprises and workers in the formal economy nor by support targeted to the poor.⁴

In the light of this vulnerability and the important role of informal enterprises in providing livelihoods for millions of workers (especially where there are limited job

¹ For the purposes of this document, the term "enterprise" includes own-account workers and small economic units with employees, such as cooperatives and other enterprises in the social and solidarity economy.

² ILO, [Women and Men in the Informal Economy: A Statistical Picture \(third edition\)](#), 2018.

³ Jacques Charmes, "The Informal Economy: Definitions, Size, Contribution and Main Characteristics", in *The Informal Economy in Developing Nations: Hidden Engine of Innovation?*, ed. Erika Kraemer-Mbula and Sacha Wunsch-Vincent (Cambridge, UK: Cambridge University Press, 2016).

⁴ See ILO, [Extending Social Security to Workers in the Informal Economy: Key Lessons Learned from International Experience](#), Issue Brief No.1, 2019; see also ILO, [Social Protection Responses to the COVID-19 Pandemic in Developing Countries: Strengthening Resilience by Building Universal Social Protection](#), Social Protection Spotlight, May 2020; ILO, [Social Protection Responses to the COVID-19 Crisis: Country Responses and Policy Considerations](#), Social Protection Spotlight, 23 April 2020; ILO, [Extending Social Protection to Informal Workers in the COVID-19 Crisis: Country Responses and Policy Considerations](#), Social Protection Spotlight, 14 September 2020.

opportunities in the formal economy), many governments are seeking effective ways to support those enterprises that are truly in need and that were not able to operate in the formal economy before the start of the pandemic. Such measures will reduce the harm to the economy overall and prevent a surge in poverty.

In order to reduce the future vulnerabilities of enterprises and workers in the informal economy and to contribute to decent work, it is also an opportune time to lay the foundation for their transition to formality. This means building on the immediate responses that have been introduced during the pandemic, with a view to sustaining and integrating these emergency measures into coherent long-term and cross-cutting policy frameworks. Such frameworks can facilitate and foster a transition to formality by increasing productivity and promoting decent work for all. It also means supporting enterprises in adopting business models that strengthen their recovery and resilience and introducing occupational safety and health (OSH) and emergency preparedness measures.

Question 2: Which informal enterprises should be prioritized?

A question that arises when discussing informal MSEs is whether support should even be provided to the informal economy. In the context of COVID-19, the answer should unequivocally be yes, as part of strategies to provide a pathway towards formality. Support for most business owners and the workers they employ is a matter of survival. In order to prioritize certain target groups (for example, certain categories of enterprises or certain sectors), ensure fairness and reduce the risk of the informalization of formal enterprises, governments need to define criteria that are accepted by those who fall outside the target group and that are both operational and equitable. Identifying the entrepreneurs that are truly in need is, therefore, crucial to achieving social cohesion.

The target groups may vary by country but in all cases the choice should be based on certain predefined criteria using available data and evidence to the extent possible.

First, the impact of COVID-19 and lockdown measures differs depending on the sector. This, therefore, calls for a primarily **sectoral approach**. The ILO has identified⁵ sectors where the impact is significant, such as the wholesale and retail trade sector, which accounts for one fourth of informal non-agricultural employment globally and one third in developing countries, and in which the majority of those employed are street vendors. In Africa, 43 per cent of women in informal employment work in this sector. The manufacturing sector, equally hard hit,⁶ accounts for the second highest proportion of informal employment outside agriculture, standing at 20 per cent globally. Furthermore, women account for 31 per cent of non-agricultural employment in Asia and the Pacific.

Second, within the sectors most affected by the crisis, a distinction needs to be made between two different categories of MSEs:

- The first group consists of the most vulnerable enterprises that are engaged in survivalist activities and have an immediate and urgent need to weather this crisis. For this group, the immediate support that is required, such as cash or food support, targets individuals (own-account workers, business owners and the workers they employ) rather than economic units. They may be eligible for support not as entrepreneurs or workers but rather as part of a vulnerable population.
- The second group of MSEs consists of those with the potential to generate employment and contribute to economic growth. These enterprises are more likely to stay in business, survive the economic crisis and, with the appropriate support, transition to formality. Some of these economic units are cooperatives, or more generally social and solidarity economy organizations, that contribute to society through their social and economic role. For this group, targeted support could include both income support to help them cope with immediate needs and measures aimed at maintaining economic activity, enhancing opportunities (for example, with respect to technology, training and retraining, and OSH) and

⁵ ILO, [Impact of Lockdown Measures on the Informal Economy: A Summary](#), ILO Brief, May 2020.

⁶ ILO, [ILO Monitor: COVID-19 and the World of Work: Second Edition: Updated Estimates and Analysis](#), 7 April 2020; ILO, [Impact of Lockdown Measures on the Informal Economy: A Summary](#).

setting the conditions for future formalization as part of the recovery phase.

In principle, providing support to informal enterprises and workers that, in a large part, are invisible, have no (verified) accounts and are highly mobile is no easy feat, and inclusion and exclusion errors can occur. However, eligibility criteria should be defined in a fair and transparent way that is easy to understand for those who do and those who do not benefit. The argument for designing eligibility criteria to reach the most vulnerable lies in the human dimension and the need for survival. For units with the economic potential to survive the crisis and grow, the main argument should be to sustain their contribution to the economy and society and support their formalization in the medium term.

Governments may sometimes choose to target all small economic units, both formal and informal, in their support programmes, as targeting informal enterprises alone could be misconstrued as an incentive to become or stay informal. Furthermore, targeting all small economic units could provide opportunities to facilitate transitions from the informal to the formal economy in the longer term. As with all such measures, the social partners should be involved in their development and implementation.

Question 3: Which kind of support needs to be provided to informal MSEs during and after the pandemic?

The main objective of support measures provided to informal MSEs during and after the pandemic is to avoid the closure of informal sector units and employment losses and enhance conditions for recovery while protecting the workers' safety and health, by:

- ensuring at least a basic level of income security and access to healthcare for own-account workers and business owners and the workers they employ through a nationally-defined social protection floor; and

- maintaining the economic fabric by limiting the burden of operational costs, enhancing opportunities to keep businesses afloat and maintaining a certain level of activities (new activities, new modalities, health and safety measures, and so on).

While immediate measures can ensure that individuals and businesses remain afloat, medium-term efforts can set the basis for improving resilience to future shocks and lay the foundation for formalization. Long-term measures can help ensure that these enterprises transition to the formal economy.⁷

With regard to **immediate and medium-term support measures**, the ILO differentiates between two levels of support: support at the individual level and support at the business level.

At the individual level, informal business owners and the workers they employ need a basic level of income security and effective access to quality healthcare, especially if they are not able to earn sufficiently during the pandemic. Without income replacement in cases of sickness, (self-) quarantine or confinement, they may be compelled to work despite sickness or infection, which exposes them and others to the risk of contagion. Such support can take the form of income support through different social protection schemes, as well as social health protection to guarantee access to healthcare services.⁸

In order to offer **income support**, some countries have adapted and scaled up their **existing social protection schemes** to provide income support. For example, some governments (such as that of Bolivia) extended the coverage of the existing social assistance programme to previously ineligible populations, while others (such as those of China and Indonesia) increased the benefit levels of existing beneficiaries to better address people's needs.

Other countries and regions created **new social protection programmes** to address the needs of workers, including those in the informal economy. For example, Tuvalu and Hong Kong Special Administrative Region, China, provided one-off payments to the entire resident population. Other countries provided benefits to workers in informal employment. For example, Thailand offered a three-month cash transfer of the equivalent of about US\$165 to individuals not registered for the Thai social

⁷ ILO, [COVID-19 Crisis and the Informal Economy: Immediate Responses and Policy Challenges](#), ILO Brief, May 2020.

⁸ ILO, [Sickness Benefits during Sick Leave and Quarantine: Country Responses and Policy Considerations in the Context of COVID-19](#), Social Protection Spotlight, May 2020; ILO, [COVID-19 and the Health Sector](#), ILO Sectoral Brief, 11 April 2020.

security system, which would include informal own-account workers. Togo's Novissi cash transfer scheme provides monthly transfers of the equivalent of US\$17–22 to vulnerable individuals and families and workers in the informal sector. Other countries, such as Egypt, have specifically targeted informal workers and have linked eligibility to pre-existing definitions of informality that are based on occupations and sectors (such as the construction, agriculture, fishery and maritime sectors). In many cases, however, the support provided so far is not sufficient to meet the needs of informal workers, including business owners.

At the **enterprise level**, business owners need financial and non-financial support to keep their business afloat, make a living and retain workers during and after the pandemic. This is particularly relevant for informal enterprises, which lack not only savings but also access to formal financial services and support measures. At the peak of the pandemic when lockdown measures are in place, they face severe drops in demand and customers. Therefore, at this stage, **grants and subsidies** are preferred to credit, as the repayment capacity of informal operators will be low or absent. Since their cash flow has been affected, they also need support to waive or defer payments and loan repayments (for example, grace periods for outstanding loans, waived or deferred payments for utilities and rent payments for business premises). An example of such financial support is that provided in the Philippines, where some savings and credit cooperatives extended loan terms and paid out members' patronage and dividend amounts ahead of schedule. These cooperatives are also urged by the regulatory body to use their community development fund to support community members during the crisis. Furthermore, access to **financial support and special loans** can enable informal enterprises to retain workers, ensure the payment of wages (even if only partially) and help enterprises reactivate or resume operations once lockdown measures are relaxed. In both Indonesia and Thailand, for example, informal operators in certain sectors have been provided with access to emergency loans and deferred repayments on existing loans. Some governments may also engage MSEs that are compliant with some, but not all, formalization requirements to participate in **public procurement** opportunities for the production or sale of goods that are in high demand during the pandemic, such as personal protective equipment and hydroalcoholic gels and disinfectants.

In the medium to long terms, informal MSEs need access to relevant, affordable and digital financial services (such as loans, including emergency loans, savings, insurance and payments) as well as entrepreneurship training to reactivate or reorient their business operations, in the context of their formalization processes. Financial service providers can play an important role in facilitating access to these services by designing financial products and services that are adapted to the needs of MSEs in a post-COVID-19 context and providing financial literacy training, including through digital channels, to strengthen the capacity of entrepreneurs and workers to manage their finances.

To **strengthen the resilience of their business**, informal MSEs need support on how to better manage and improve business profitability and enhance protection for themselves and their workers. This includes support in order to develop business owners' managerial skills and increase productivity, but it also means strengthening the legal recognition of their units and the workers they employ. Simplifying business registration procedures and enabling online registrations, for example, may encourage informal MSEs to formalize in the aftermath of the crisis. This, in turn, will not only help enterprises to be better prepared for future shocks but will also break the vicious circle of productivity stagnation and informality. OSH has a central role to play in supporting enterprises for a sustainable recovery. Informal MSEs may not be able to comply with the guidelines mandated by the health authorities or have access to OSH advisory services or training facilities that could assist them in this task. Providing information and support to integrate OSH as part of business continuity plans and introducing the prevention and mitigation measures that are required by the government in the light of the pandemic will further enhance enterprise resilience during and after the pandemic. Assistance with respect to the prevention and mitigation of COVID-19 at work could include the elaboration of guidelines and tools to support MSEs in conducting risk assessments and identifying simple and low-cost control measures. It could also include financial support for purchasing personal protective equipment and coordination with local health authorities for case management. For example, Honduras has issued general directives for informal economy workers in the retail sector,⁹ while in Colombia, the Municipality of Bogotá is leading an initiative to provide information and training on

⁹ Government of Honduras, Office of the Secretary of Health, [Lineamientos de bioseguridad para trabajadores del sector no formal en Honduras ante el Covid-19](#), April 2020.

hygiene and safety measures and personal protective equipment to informal retailers. Cooperatives and other forms of membership-based organizations play an important role in providing direct support and in facilitating workers' access to information and to the support provided by governments and the social partners.

The resources available in the context of a crisis are finite, which puts a limit on what governments can do in terms of the value of support provided and how well this support can affect the survival of informal MSEs. Furthermore, investments in the institutional capacity of countries in non-crisis times enable a faster and more inclusive response in times of crisis. Countries that have invested in simplified business registration procedures, financial and non-financial business support services, social health protection and social insurance, and where workers' and employers' organizations and social and solidarity economy organizations effectively reached out to those in the informal economy (through their representative organizations or directly) before the crisis were better equipped to support both formal and informal economic units. These countries are able to channel urgent income and other support to those who need it and could use specific schemes such as work-sharing or shorter working weeks as well as unemployment protection schemes to support the retention of jobs, including those of informal own-account workers.

Question 4: How can informal economic units be identified and reached?

Identifying and reaching informal economic units and the workers they employ is challenging due to their informal nature. Therefore, governments have applied two approaches when putting in place support measures for this target group, as described below.

- The first approach is to invite them to come forward and identify themselves with governments to obtain support. Governments have requested individuals to self-report and to apply for support through websites or mobile platforms by providing proof of identity, proof of economic activity and personal details. This creates or enhances existing databases of individuals which can be used to verify and cross-

check user information with other national registries and databases to detect fraudulent requests and those already registered for other benefits. Argentina's Family Emergency Fund invited informal workers and own-account workers to register online with the National Social Security Agency (ANSES) to receive one-time cash assistance.

- Under the second approach, governments take the lead in identifying the sectors and informal operators that are the hardest hit by the crisis and eligible to obtain support. In Burkina Faso, for example, an US\$8.7 million fund has been established that has targeted informal fruit and vegetable traders, who are mostly women, a sector which has been identified as one of the hardest hit by the crisis.

For both approaches, governments rely on some **entry level identification and registration** to track who is eligible to receive support. This can be done, among other things, by cross-checking information from other existing identification mechanisms, such as social security databases, single registries, health cards and municipal tax registers.

- For instance, in Morocco, informal sector workers and own-account workers and their dependents who hold a health card under the RAMED medical assistance scheme will receive a monthly cash benefit, depending on the size of their household.
- In Cabo Verde, the Government has announced income support to entrepreneurs that fall under the special scheme for micro and small enterprises (REMPE) and has extended the support to own-account workers in the informal sector such as market vendors. It asked entrepreneurs who are not already registered in the single social register to do so and used this register to verify applicants' eligibility.

National governments are generally responsible for initiating these outreach strategies, yet they can be supported by municipalities and other organizations that have more proximity to the target group, such as the social partners, community organizations, membership-based organizations (such as cooperatives and informal economy organizations) and financial service providers (microfinance institutions, banks, mobile money providers and village savings and loan associations). These organizations can channel information to the target group

about government support measures and they can assist applicants in proving their eligibility, for example with respect to completing the required documents.

When it comes to providing support and distributing social protection benefits, countries use different **delivery mechanisms** to reach informal workers and enterprises. Where possible, they build on existing social protection schemes to benefit from pre-existing administrative structures and delivery mechanisms. Countries have used digital technologies to identify and register workers and pay benefits. Furthermore, they have used online registrations through mobile apps and internet portals to receive and review applications and rely on direct payments to beneficiaries' bank accounts to minimize contact. These initiatives have also included creating bank accounts and enabling electronic payments for unbanked and underbanked beneficiaries. Brazil's emergency cash transfer programme, for example, cross-checked applicants' information against other government databases and deposited payments in eligible beneficiaries' bank accounts. The Government set up bank accounts for beneficiaries that did not already have one; these beneficiaries then received debit cards to use for digital and electronic payments. Similar approaches have been used in Costa Rica, India and Thailand. However, alternative mechanisms need to be available for those who do not have access to technology.

Access to **digital financial services** can enable the easy transfer of money among family members. To facilitate access to such services, governments can review their practices and ease the regulatory framework for digital payments (for example, by increasing transfer limits and relaxing the so-called know your customer processes). Financial service providers also have a role to play in channelling payments while complying with physical distancing requirements, through digital payments.¹⁰ Digital payments not only help to facilitate access to funds for operators in the informal economy, but they also contribute to digitalizing financial records, thus building a track record for business operations, which can support access to financial services and wages, as well as a transition to formality for workers and enterprises.

Question 5: How can the risk of informalization in MSEs be reduced?

Many of the measures undertaken at the peak of the COVID-19 crisis have been designed to keep enterprises afloat, but they may well have also prevented the informalization of some enterprises. This is particularly the case for economic units that are less established and that have weaker financial solvency as they operate in the hardest-hit sectors and have fewer buffers to weather the crisis. Certain measures may play an important role in reducing the risk of the informalization of formal economic units, especially in times of crisis.

These include:

- ▶ Fixed-term deferrals on the repayment of loans from banks, microfinance institutions and other financial service providers and on the payment of personal and corporate taxes.
- ▶ Government-backed loan guarantee schemes aimed at enterprises that are more likely to be on the edge of informality (such as own-account workers and microenterprises employing fewer than five or ten workers). Given the high-risk profile of these enterprises, the government guarantee should cover a high proportion of the loan amount to ensure buy-in by commercial banks and financial institutions. However, banks should still bear some risk as well, to ensure the appropriate monitoring and evaluation of the loan applications.
- ▶ Employment retention schemes such as short-time work schemes, furlough and wage subsidies can help enterprises weather a difficult period without laying off workers or pushing enterprises and workers towards informality.¹¹ Such schemes can allow businesses to preserve human capital by retaining skilled staff, which saves them the costs of laying off and then rehiring staff in the future. For example, the Coronavirus, Aid, Relief, and Economic Security (CARES) Act in the United States

¹⁰ Such as government-to-person (G2P) payments for social transfers, government-to-business (G2B) payments for support to businesses, and person-to-person (P2P) payments for transfers between people.

¹¹ ILO, [Temporary Wage Subsidies](#), 21 May 2020; ILO, [Unemployment Protection in the COVID-19 Crisis: Country Responses and Policy Considerations](#), 14 September 2020.

of America provides for an employee retention credit to help employers keep their employees on the payroll.

- ▶ In the context of COVID-19, a transition to digital wage payments can enable employers to maintain the payment of wages to their employees who may be under lockdown orders in their home communities and thus reduce the risk of informalization.
- ▶ Tax credits or tax exemptions can be provided to support liquidity-constrained enterprises using the tax declaration from the last fiscal year to determine the amount of credit to be allocated. The CARES Act, for example, allows employers in the United States to defer until 2021 and 2022 the payment of their portion of social security contributions that would normally have been due between March and December 2020.

Some governments may introduce measures to boost the demand for goods and services in sectors that have been severely affected during the pandemic. Such measures and incentives make it more convenient for consumers or employers to source products and services from formal economy enterprises, and can thus prevent informalization. These incentives, which in some cases were in place before the pandemic, can take the form of tax deductions on the costs incurred to obtain these services formally. For example, in France, employers of domestic workers can either receive tax deductions for the social security contributions they make towards their employees or receive vouchers that enable them to pay a proportion of the hourly wage rate of the employee, with the rest covered by the State.¹² Targeted programmes offering training and mentoring or credit on condition that enterprises are formally registered or become formally registered can also help keep enterprises in the formal economy.

Question 6: How can such support facilitate the transition to formality in the medium and long terms?

Financial assistance that is provided by governments during the emergency phase of the pandemic is an incentive for informal enterprises to make themselves known to authorities and sometimes to register, as this is often a condition to get access to support. Yet once this assistance ends, they may lack the capacity or willingness to continue to make the required tax and social security payments, provide decent working conditions and meet the other legal requirements to become registered formal enterprises. This is a concern not only for governments and the wider business community that operates in the formal economy; actors in the informal economy are themselves witnessing the disadvantages of operating informally during a crisis and of falling outside the scope of potentially valuable government support measures.

As a result of the pandemic, governments are increasingly aware of the importance of facilitating the transition to formality and of the opportunities that have arisen in this respect. They need to devise creative and innovative ways, through social dialogue, to introduce policies, strategies and measures that replace, among other things, the temporary incentives to formalize (financial assistance during the emergency phase) by more sustainable initiatives, such as access to social security, finance and markets. These innovative policies, strategies and measures also need to address and remove barriers to formalization.

Removing administrative barriers for business registration can also facilitate a transition to the formal economy and enhance the social security coverage of workers and employers in MSEs. Simplifying and facilitating registration and other administrative procedures can help entrepreneurs formalize their businesses and register themselves and their workers in social security schemes. Concrete measures include providing additional access points as well as mobile and online access. When workers and enterprises have access to the internet and are well informed, online registration can help to reduce distance barriers and red tape.¹³ Simplified legal statutes and fiscal

¹² ILO, [Formalizing Domestic Work Through the Use of Service Vouchers: The Particular Cases of France, Belgium and the Canton of Geneva](#); See also ILO, [Extending Social Security to Domestic Workers: Lessons from International Experience](#), Issue Brief No.3, 2019.

¹³ ILO, [Extending Social Security to Workers in Micro and Small Enterprises: Lessons from International Experience](#), Issue Brief No. 2, 2019.

schemes for own-account workers and microenterprises can also be effective in bringing these workers and enterprises into the formal economy and in facilitating access to social security support for enterprises, especially when combined with measures to facilitate access to services and other measures that allow for increased productivity.

Finally, the identification and introduction of financial assistance and formalization strategies should be based on a process of social dialogue, through which the social partners reach out to the representative membership-based organizations in the informal economy in order to fully understand their needs and priorities so that they can effectively advocate on their behalf.

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