

*Strategies for Eradicating Poverty to  
Achieve Sustainable Development for All*

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# Poverty and informality

Azita Berar Awad  
Director, Employment Policy Department  
International Labour Organization



# A new context for transition from the informal to the formal economy

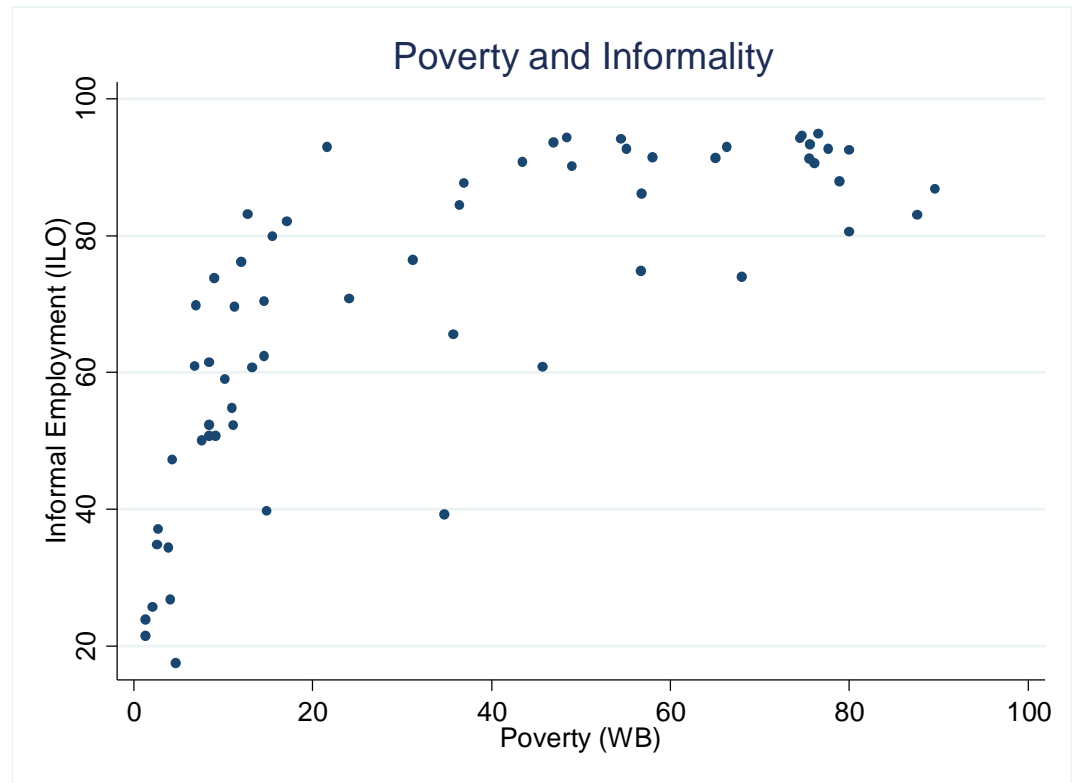
1. **The 2030 Agenda for Sustainable Development (SDG 8, 1)** and notably the sustainable development **goal 8.3** and its indicator (share of informal employment)
2. The ILO Recommendation on ***Transition from the informal to the formal economy (No. 204)*** and its integrated strategy

## Key perspective of R.204: Transition to the formal economy an essential means for sustainable and inclusive development

- The transition from the informal to the formal economy aims at promoting:
  - ❖ **decent work for all,**
  - ❖ **inclusive development**
- ⇒ Formalization as a path to both eradication of poverty and reduction in inequality
- ⇒ Formalization as core objective of national development strategies
- **Most people enter the informal economy not by choice but as a consequence of a lack of opportunities for employment including self-employment in the formal economy:**
  - ⇒ Gradual transition to the formal, should go hand in hand with ensuring opportunities for income security, livelihoods and entrepreneurship

# Poverty and Informality

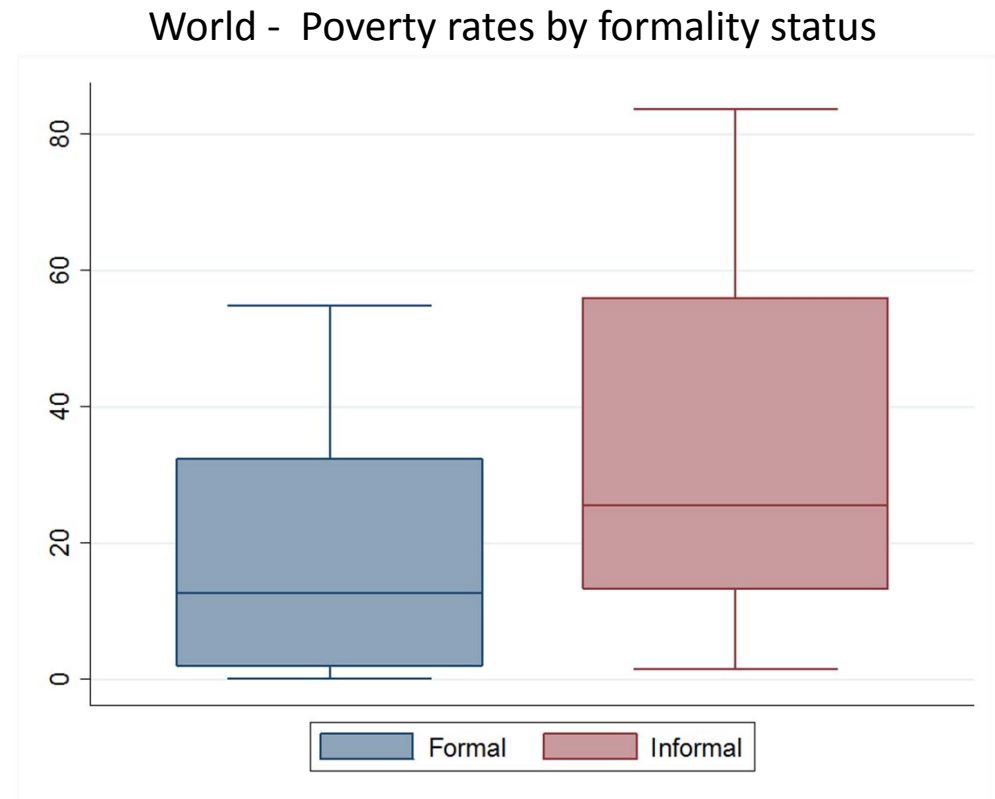
- A long time studied relationship
- Worldwide, there is a correlation but also dispersion
- Discussion
  - What causes what?
  - Are both caused by other variables?



Sources: Poverty rates : WB-WDI (US\$3.10). Informal Employment: ILO.

# Poverty within informal and formal employment

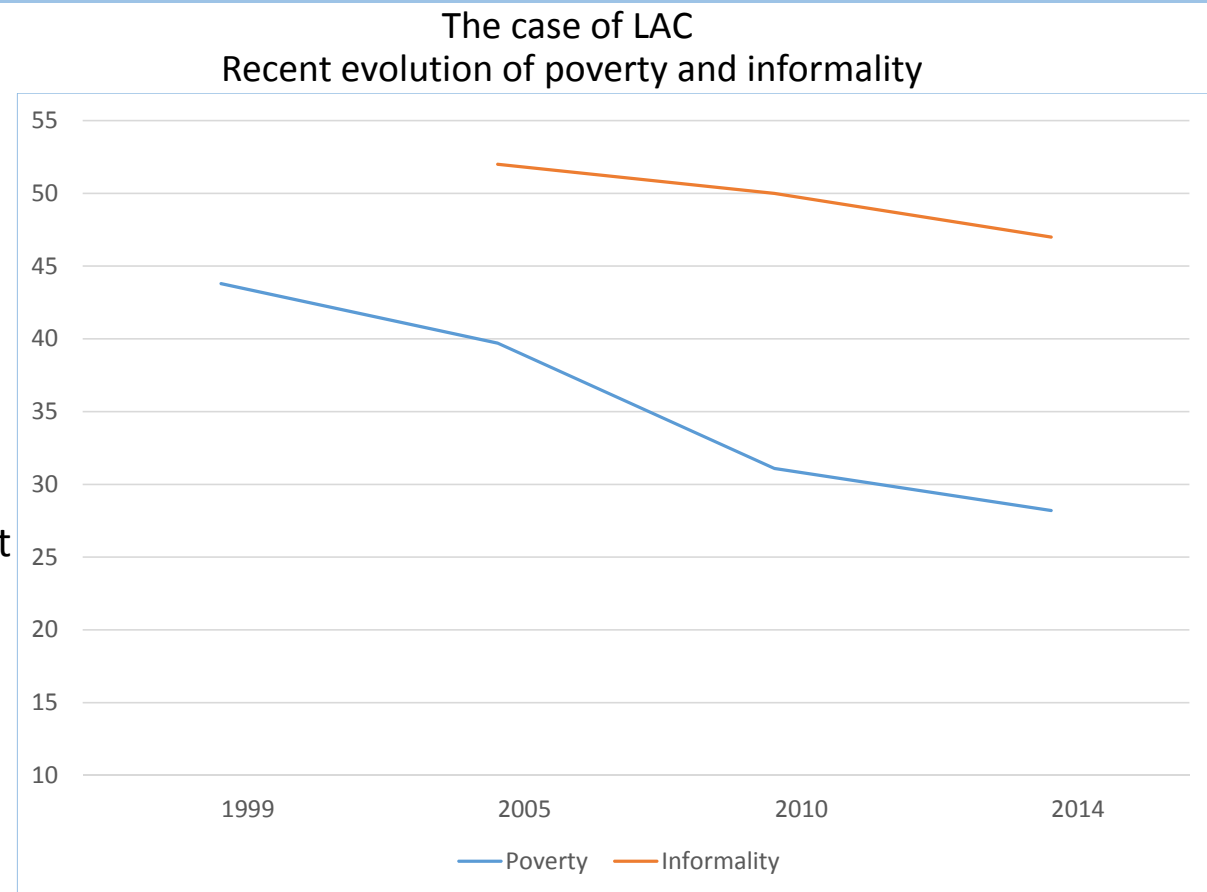
- Poverty tends to be higher among informal workers
- However
  - Not all informal workers are poor
  - Some formal workers are poor



Sources: ILO estimations (selected countries). (Poverty line US\$3.10 per capita per day)

# Recent debate: Evolution of poverty and informality

- Take the case of LAC countries
  - Large poverty reduction
  - Little formalization
- Poverty reductions
  - Major role of labor market (wage increases)
  - Role of social policy
- Reduction in informality
  - Major role to shift to wage employment (structural change)
  - Role of policies to expand social protection, tax inclusion and enforcement
- How sustainable is this?
  - Informal middle class?



Sources: Poverty: ECLAC Database; Informality: Informal Employment - ILO

# Evolution of informality and poverty by labor status

- Facts

- Poverty reduction was homogeneous in all categories (11 pp points)
- Reductions in informality were stronger among employees than among OAW + UFW

- Policy implications

- Wage employment more linked to economic business cycle
- OAW + UFW are hard to reach groups (low coverage of tax, labor or social security systems)
- Need for an integrated approach

	POVERTY RATES		INFORMALITY RATES	
	2005	2013	2005 <sup>d/</sup>	2013 <sup>e/</sup>
TOTAL	40	28		
Working age Population (15 years and over)	33	22		
A. Total employed	30	19	52	47
A1. Employees	26	15	41	34
A2. Self-employed and unpaid family workers <sup>d/</sup>	40	29	88	84
B. Unemployed	49	36		
C. Inactive	36	26		

Sources: Poverty: ECLAC Database; Informality: Informal Employment - ILO

# SDGs and Recommendation No. 204

- **SDGs**
  - The MDG stage focused strongly on poverty reduction
  - SDGs to make poverty reductions sustainable. The need for productive inclusions: this means that jobs (SDG 8) are productive and formal
- **Main drivers of formalization: R. 204 ( a triple integrated approach)**
  - Facilitate the transition of workers and economic units from the informal to the formal economy, while respecting workers' fundamental rights and ensuring opportunities for income security, livelihoods and entrepreneurship;
  - Promote the creation, preservation and sustainability of enterprises and decent jobs in the formal economy and the coherence of macroeconomic, employment, social protection and other social policies; and
  - Prevent the informalization of formal economy jobs



**Thank You**

