



Informality and Structural Transformation in Egypt, Iraq and Jordan

A FRAMEWORK FOR ASSESSING POLICY RESPONSES
IN THE MENA REGION



Informality and Structural Transformation in Egypt, Iraq and Jordan

A FRAMEWORK FOR ASSESSING POLICY
RESPONSES IN THE MENA REGION

This work is published under the responsibility of the Secretary-General of the OECD, the Director General of the ILO and the UNDP Regional Director of the Regional Bureau for Arab States. The opinions expressed and arguments employed herein do not necessarily reflect the official views of the Member countries of the OECD or of the ILO or of UNDP.

This document, as well as any data and map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

Please cite this publication as:

OECD/ILO/UNDP (2024), *Informality and Structural Transformation in Egypt, Iraq and Jordan: A Framework for Assessing Policy Responses in the MENA Region*, OECD Publishing, Paris, <https://doi.org/10.1787/efb16d0b-en>.

ISBN 978-92-64-71130-3 (print)
ISBN 978-92-64-88779-4 (PDF)
ISBN 978-92-64-76632-7 (HTML)
ISBN 978-92-64-97202-5 (epub)

Photo credits: Cover © UNDP Lebanon.

Corrigenda to OECD publications may be found on line at: www.oecd.org/about/publishing/corrigenda.htm.

© OECD/ILO/UNDP 2024

The use of this work, whether digital or print, is governed by the Terms and Conditions to be found at <https://www.oecd.org/termsandconditions>.

Foreword

Informality is a complex, multi-faceted phenomenon that encompasses a diverse array of activities, transactions, and individuals, operating largely outside formal businesses but, to a different extent, also inside them. It represents a critical, yet problematic component of global economic activity; that is: while informality can be a coping mechanism towards poverty alleviation when the economy is not producing enough formal jobs, high levels of structural informality expose economies to long-term vulnerabilities, which may be further reinforced when shocks hit them.

In light of the pervasiveness and persistence of informality in the MENA region and the increasing exposure to global and regional shocks, the ILO, OECD, and UNDP have joined forces to advocate for effective forward-looking policies in MENA countries that create resilience while considering their possible impact on formalisation. This joint report reflects the work so far conducted, which involved:

- Desk research and a series of consultations with policy makers were conducted in a group of three countries, namely Egypt, Iraq, and Jordan, with a view to broadening the scope to more countries at a later stage of the joint activity. The analysis focused on the short and long-term impact of policy measures adopted in response to the COVID-19 pandemic.
- The preliminary conclusions were discussed at the *ILO-OECD-UNDP Workshop on Addressing Informality in the MENA Region in Times of Shocks*, held at the OECD Istanbul Centre in November 2022. The discussions reflected on how countries capitalised on emergency measures enforced during recurrent social and economic shocks to implement a long-term reform agenda to address underlying structural vulnerabilities of the informal economy and thereby gradually encourage formalisation.
- The elaboration of an original framework for assessing the impact of selected economic and social policies, particularly policy measures implemented as a response to the COVID 19 pandemic, on formalisation of jobs and businesses.

This Report is organised as follows: The Introduction presents the purpose of the report, explains the scope of the new policy tool proposed, namely a Policy Assessment Framework, and introduces definitions and data on informality. Chapter 2 depicts an overview of the state of informality in the MENA region and how it compares to other regions of the world. Chapters 3 to 5 provide a synthetic picture of informality respectively in Egypt, Iraq, and Jordan, reviewing the economic conditions, the regulatory and legal framework, and the key statistics and drivers of informality. Chapter 6 introduces the newly developed Policy Assessment Framework, its rationale and structure, and discusses the preliminary findings from the application of the Framework to Egypt, Iraq and Jordan. The Report presents summary conclusions and sketches the way forward for the joint activity.

Finally, an important note: This publication was finalised in 2023, with revisions introduced in the first quarter of 2024. Data and policy initiatives on informality presented in the report therefore reflect information available at the time when the drafting was completed.

Acknowledgements

This publication is a joint effort of the OECD, the International Labour Organisation (ILO), and the United Nations Development Programme (UNDP). It was prepared to advocate for effective forward-looking policies in Middle East and North Africa (MENA) countries that create resilience while considering their possible impact on formalisation.

At the OECD, the report was developed by the OECD Global Relations and Cooperation Directorate (GRC), under the direction of Mr Andreas Schaal, Director. The publication team included Ms Mariarosa Lunati, Mr Roger Forés Carrion, and Ms Sara Grubanov-Boskovic, with technical support from Mr Vojtěch Obuškevič. Mr Carlos Conde, Head of the Middle East and Africa Division of GRC, provided advice and insightful views throughout the process.

At the ILO, the publication team included Dr Maha Kattaa and Ms Nathalie Both. Technical inputs and support were provided by following staff: Ms Aya Jaffar, Ms Florence Bonnet, Ms Vicky Leung, Mr Jad Yassin, Mr Mohammed Abdelameer, Mr Vitalii El-Dani, Ms Amaal Bani Awaad, Mr Wisam Al bahadili, Mr Marwan Tawfiq. Mr Peter Rademaker, the Deputy Regional Director of ILO Regional Office in Arab States, provided guidance to the development of this collaboration on informality.

At the UNDP, the publication team included Dr Shireen AlAzzawi, Dr Walid Merouani, Mr Akbar Durrani, Ms Nicoleta Ghisu, and Dr Vito Intini. Ms Khalida Bouzar, former Assistant Secretary-General of the UNDP, promoted the development of the joint collaboration on informality. The team wishes to thank Ms Rania Tarazi, Gender team leader, Regional Bureau for Arab States, who was the lead reviewer within the UNDP.

The publication is the result of a collaborative research process. Several stakeholders with expertise on informality in MENA countries contributed providing advice and comments to draft versions of the report. The publication team expresses its sincere gratitude to: Dr Ahmed Kamaly and Dr Hanan Nazier, Ministry of Planning and Economic Development, Egypt; Dr Raafat Abbas, Ms Ishrak Elsisy and Ms Marwa Abd El Tawab, Micro, Small and Medium Enterprises Development Agency, Egypt; Mr Raed Jabbar, Ministry of Labour and Social Affairs, Iraq; Dr Mohammed Hakim, Prime Minister's Office, Iraq; Dr Hadram. Mr Al-Fayez, Ministry of Planning, Jordan; Mr Mahmoud Maaytah, Social Security Corporation, Jordan; Mr Lotfi Fradi, Ministry of Development and International Cooperation, Tunisia.

Thanks are likewise due to the participants to the ILO-OECD-UNDP *Workshop Addressing Informality in the MENA Region in Times of Shocks*, held at the OECD Istanbul Centre in November 2022, who shared their knowledge on the challenges facing workers and enterprises in the informal economy and the hurdles associated with related policymaking in the MENA region.

The report benefited from feedback from peer reviewers: Ms Gladys Lopez-Acevedo, World Bank; Prof. Jacques Charmes, Centre Population and Développement and IRD, France; Prof. Philippe Adair, Université Paris-Est Créteil, France; Prof. Salvatore Capasso, University of Naples Parthenope and Institute for Studies on Mediterranean Economies-CNR, Italy.

The team wishes to thank experts from within the OECD who also reviewed the report. Mr Alexander Böhmer, Head of the South Asia–Southeast Asia Division, and Mr José Antonio Ardavín, Head of the Latin America and the Caribbean Division of the Global Relations and Cooperation Directorate, were the report's lead reviewers. Valuable comments and suggestions were provided by Ms Ania Thiemann and Mr Jin Yosuke of the Economics Department; and Mr Bert Brys, Ms Mariona Mas Montserrat, and Mr Daniel Fichmann of the Centre for Tax Policy and Administration.

Table of contents

Foreword	3
Acknowledgements	4
Executive summary	8
1 Introduction	10
1.1. Measuring informality in the MENA region	12
1.2. A framework for assessing policy impact	14
References	15
For further reading	15
2 Overview of informality in the MENA region	16
2.1. Economic trends and challenges in the MENA region	17
2.2. Stylised facts about informality	23
Annex 2.A. The relationship between informality, development, and economic growth	32
Annex 2.B. Additional figures	34
References	38
Notes	41
3 Informality in Egypt	42
3.1. Economic conditions	44
3.2. Key statistics and drivers of informality	48
3.3. Overview of national regulatory and strategic frameworks	56
3.4. Concluding remarks	59
References	60
For further reading	63
Notes	64
4 Informality in Iraq	65
4.1. Economic conditions	67
4.2. Overview of national regulatory and strategic frameworks	68
4.3. Key statistics and drivers of informality	73
4.4. Linkages between shocks, vulnerabilities, and the informal economy in the country	79
4.5. Government programmes and initiatives	79
4.6. Concluding remarks	81
References	82
For further reading	82

5 Informality in Jordan	83
5.1. Stylized facts about informality	86
5.2. Overview of the national institutional and regulatory frameworks and key challenges towards formalisation	92
5.3. The Fiscal System	95
5.4. Trust in institutions	96
References	98
Notes	101
6 Economic and social policies and their impact on formalisation: Developing a Policy Assessment Framework	104
6.1. Research methodology and data collection	105
6.2. Applying the Policy Assessment Framework to policies from Egypt, Iraq, and Jordan	110
6.3. Case studies of successful transition from other world regions	123
6.4. Concluding remarks	124
References	126
For further reading	129
Notes	130
The way forward	131
FIGURES	
Figure 2.1. GDP growth, regions of the world	18
Figure 2.2. Estimates of informal output, selected Arab countries	20
Figure 2.3. Proportion of population covered by social protection floors/systems in 2020 (%)	22
Figure 2.4. Trust in government in selected MENA economies, 2020-21	25
Figure 2.5. Informal employment rate, regions of the world	26
Figure 3.1. GDP growth in Egypt, 2012-2021	45
Figure 3.2. Evolution of total employment in Egypt, 2012-20	47
Figure 3.3. Employment in Egypt by economic activity	47
Figure 3.4. Estimates of the size of the informal economy in Egypt	48
Figure 3.5. Evolution of informal employment in Egypt	49
Figure 3.6. Poverty, income and informal work, Egypt	50
Figure 3.7. Informal employment by economic activity in Egypt, 2020	51
Figure 3.8. Informal workers by firm size in Egypt	52
Figure 3.9. Informal establishments by economic activity, 2018	53
Figure 3.10. Businesses and informality, Egypt and selected MENA economies	53
Figure 3.11. Number of years firm operated without formal registration	54
Figure 3.12. Top ten business environment constraints, Egypt and MENA	55
Figure 3.13. Major constraints for domestic businesses and exporters	56
Figure 4.1. Informal employment for particular groups of the employed population, Iraq	74
Figure 4.2. Employed persons by completed education level and formality/informality of employment	74
Figure 4.3. Percentage of businesses across sectors	76
Figure 4.4. Percentage of informal businesses started with owner's own funds or accessing loans	76
Figure 5.1. Key indicators of Jordan's growth performance 2010-2021	85
Figure 5.2. Share of informal employment in total employment by sex and age group, Jordan, 2017-21	87
Figure 5.3. Experience of those who were wage workers in February 2020 in the 60 days prior to February and August 2021, Jordan	88
Figure 5.4. Labour market, by employment status in February 2020 and by age and sex, Jordan	89
Figure 5.5. Share of Jordanian workers who were formal workers, by firm size and sex	91
Figure 5.6. Number of years firm operated without formal registration	92
Figure 5.7. Firms that consider a specific business environment obstacle as the most important	93
Figure 5.8. Trust in institutions by workplace and source of monthly income, Jordan	97
Figure 6.1. Summary of Policy Assessment Framework	110

Annex Figure 2.B.1. Proportion of population covered by social protection schemes, 2020 or latest available	34
Annex Figure 2.B.2. Number of COVID 19 policy responses	35
Annex Figure 2.B.3. Number of policy responses by type of support	35
Annex Figure 2.B.4. COVID-19 policy responses classified by type of instrument	36
Annex Figure 2.B.5. Identified social insurance COVID 19 response measures, by country	36
Annex Figure 2.B.6. Number of COVID 19 policy response and targeted population, by country	37
Annex Figure 2.B.7. Multiple indicators multiple causes model-based (MIMIC) estimates of informal output (percentage of official GDP), Selected Arab countries, average by decade	37

TABLES

Table 2.1. Unemployment rates, selected MENA economies, 2019-21	19
Table 2.2. Informal employment rate by age and sex, selected MENA economies	27
Table 2.3. Informal employment rate, by education level, selected MENA economies	28
Table 2.4. Informal employment rate by economic activity and occupation skill level, selected MENA economies	28
Table 2.5. Competition between formal and informal businesses, selected MENA economies	29
Table 2.6. Registration status at the start of operations and formalisation time	31
Table 4.1. Four Pillars of the Private Sector Development Strategy	72
Table 6.1. Policy Assessment Framework	107
Table 6.2. Non-contributory social assistance policies and programmes: Potential impact on informality	111
Table 6.3. Programmes expanding Contributory Social Insurance Schemes: Potential impact on informality	115
Table 6.4. Active labour market policies: Potential impact on informality	118
Table 6.5. Financial Services policies: Potential impact on informality	120

BOXES

Box 1.1. Definition of informal economy and statistical standards	12
Box 2.1. Informality, vulnerability, development, and growth	21
Box 6.1. Meta-analysis and policy design	106

Follow OECD Publications on:



<https://twitter.com/OECD>



<https://www.facebook.com/theOECD>



<https://www.linkedin.com/company/organisation-eco-cooperation-development-organisation-cooperation-developpement-eco/>



<https://www.youtube.com/user/OECDiLibrary>



<https://www.oecd.org/newsletters/>

Executive summary

In light of the pervasiveness and persistence of informality in the MENA region and the increasing exposure to global and regional shocks, the ILO, OECD, and UNDP have joined forces to advocate for effective forward-looking policies in MENA countries that can encourage gradual formalisation of businesses and jobs, and at the same time, that help create resilience to absorb new shocks while promoting the creation of decent jobs and sustainable growth. The ultimate objective is to achieve broader social and labour protection, higher level of labour income including fairer wages, a more even tax burden, and higher potential growth.

This joint ILO-OECD-UNDP report reflects the work so far conducted in the context of the cooperation. It contains initial policy recommendations to address informality in protracted times of shocks.

This report introduces a Framework for assessing the impact of economic and social policies on informality. The Framework, designed by ILO, OECD, and UNDP, is a hands-on instrument, allowing policy makers to foresee early on in the policymaking cycles the effects diverse economic and social policies could have on the informal economy. This tool adds to the vast literature on informality, and also complements recent work by the World Bank (June 2023).

The Framework aims to evaluate the direct and indirect effect of implemented social and economic policies, regardless to their primary objective, on informality of employment and business. It was developed on the basis of desk research and consultations with experts and policy makers from the MENA region. The accuracy of the Framework is fortified by relying on mainly meta-analysis studies that have previously tested the effect of the different policies on informality.

The Framework was tested on a group of three countries, Egypt, Iraq, and Jordan. The analysis particularly focused on policy initiatives adopted since the COVID-19 pandemic in the specific context of the MENA region. Consequently, policies pertaining to education, training, and social solidarity economy, among others, fall outside the scope of this Framework.

The exploratory exercise on Egypt, Iraq, and Jordan pinpointed policy measures with positive impact on increasing formality and facilitating transition to formality for existing informal firms or workers. In this study, these included four types of policy actions:

- Making social insurance more affordable and accessible for all workers, both in terms of cost and procedural requirements.
- Applying active labour market policies in the form of training and wage subsidies, even if just temporary, to help create a precedent in favour of hiring particular groups such as women and youth.
- Facilitating business registration and access to inclusive financial services.
- Ensuring more fair and consistent law enforcement that applies equally.

In fact, the most effective policy actions typically involve a combination of incentives and law enforcement, both creating more benefits for formal activities, whilst also stepping up enforcement in a fair and uniform way.

Beyond the main focus of formalisation, the report also highlights the urgent need to improve the working conditions of workers in the informal economy.

It is important to stress the effective use of the Framework counts on multi stakeholder dialogue being an integral dimension of the policymaking cycle. Policy recommendations should be the result of open and inclusive consultations with policy makers and interested parties from the target countries; and social dialogue should support the implementation of the recommendations, involving the relevant actors within each country, to ensure that all stakeholders are on board while taking local contexts into consideration.

Finally, the report points to the need for more accurate data on the informal economy to improve policy analysis and design.

1 Introduction

This chapter introduces the definitions and international statistical standards to measure the informal economy and discusses main issues for measuring informality in the MENA region. It then presents the rationale for the Policy Assessment Framework developed in the report. This is proposed as a tool to identify “what works”, namely what policies are effective in enhancing formalisation or reducing informality in employment and businesses.

In the MENA region, informality is pervasive, representing an estimated 64.9% of total employment in 2022 (Informal employment rate, ILO) and a GDP share of 20% or more in 2020 (Elgin et al., 2021^[1]). Recent analysis has observed limited progress in reducing informality in MENA economies over the past two decades (World Bank (2023^[2]); IMF (2022^[3])).

Informality is a complex, multi-faceted phenomenon that encompasses a diverse array of activities, transactions, and individuals, operating largely outside formal businesses but, to a different extent, also inside them. This report uses the operational concept of informality developed by the ILO through the definition of informal economy and of standards to measure it. The informal economy encompasses economic activities by persons and economic units that are, in law or in practice, not covered or insufficiently covered by formal arrangements (Box 1.1).

From street vendors to unregistered businesses and undeclared economic activities, informality represents a critical, yet problematic component of global economic activity; that is: while informality can be a coping mechanism towards poverty alleviation when the economy is not producing enough formal jobs, high levels of structural informality expose economies to long-term vulnerabilities, which may be further reinforced when shocks hit them.

This was indeed the case during the COVID-19 pandemic crisis, a crisis followed by a new one, aggravated by Russia's war in Ukraine and its impact on the global economy, from disruptions to supply chains of essential items (medicines, food) to rising inflation rates. The consequences were a vivid illustration of what had been known for a long time about the vulnerabilities associated to informality. Namely:

- Jobs that are insufficiently covered by formal arrangements may result in precarious and/or exploitative working conditions, with low wages level of income from labour, lack of social protection and other measures adopted to mitigate the impact of the cessation or reduction of activity. Informal workers who cannot be active (e.g. because of lockdown restrictions), usually do not receive compensation and can only count on their own savings. Receiving social assistance might also be difficult in light of the informal condition, i.e. informal workers are “invisible” as not registered. Or they may fall in the ‘so-called’ missing middle, not poor enough to be eligible for social assistance.
- The lack of formal registration may deprive businesses of opportunities. Firms that cannot operate would have no support from a government that does not know about their existence. Informality is associated to low productivity of informal firms and low investments in human capital and innovation, also due to no or limited access of informal firms to formal financial resources and government support programmes, thereby generating a negative feedback cycle of vulnerability and low growth.
- Informality means tax avoidance, which reduces a government's capacity to appropriately deliver public services and threatens its financial sustainability.

Box 1.1. Definition of informal economy and statistical standards

Over the past three decades, the ILO has elaborated, and progressively updated in response to developments in the world of work and economic production, definitions and standards to measure the informal economy.

The informal economy encompasses *the informal sector*, which includes unincorporated enterprises not constituted as separate legal entities independently of their owners, and *informal employment*, a condition of employment that occur in the informal sector but can also be observed outside of it, in the formal sector. *What characterises the informal economy is that the economic activities performed by persons and economic units are, in law or in practice, not covered or insufficiently covered by formal arrangements.*

A key feature of the ILO definition of informal economy is that it covers a broad range of different situations across and within economies, where informal workers and economic units are very diverse: the former in terms, for instance, of age, education level, income level, and degree of coverage of social and employment protection; the latter with regard, for instance, to size, sector, urban or rural location, degree of compliance with laws and regulations. It is important to acknowledge these differences, and their drivers, to design policies most effective to address informality and the transition to formality.

The international standards developed by the ILO to measure the informal economy are the reference for producing statistics on the informal sector and informal employment. In this report, ILO statistics and data produced according to ILO standards have been prioritised whenever available, but other data are also analysed as relevant that can partly depart from the recommended measurement standards.

Finally, it is worthwhile to mention that a new resolution was adopted in October 2023 by the 21st International Conference of Labour Statisticians (ICLS) to further refine the definitions and improve the measurement of the informal economy. To that aim, the resolution introduced the concept of “informal productive activities” to recognise that “productive activities can be “partly” informal when done by persons with formal jobs”.

Sources: (ILO, 1993^[4]; ILO, 1993^[5]; ILO, 2015^[6]; ILO, 2018^[7]; ILO, 2023^[8])

1.1. Measuring informality in the MENA region

One of the main barriers to tailoring policy measures on informality is a scarcity of comprehensive and sound data on the phenomenon. Although informal economic activities generate market value, their lack of registration makes these activities difficult to observe, and thus challenging to adequately measure. Similarly, it is difficult to collect data on informal employment – which can occur in the formal, the informal sectors, and in households – due to the lack of registration of the employment contract that binds the employer to pay the related taxes and social security contributions. In times of shocks, such as the COVID-19 pandemic, the need for timely and granular data becomes even more important to inform immediate and adequate policy measures.

Two approaches are adopted for measuring informality: direct approach based on surveys, adding questions on informality, for instance, to labour force surveys, household income and expenditure surveys, or designing special surveys on informal sector enterprises, including mixed household-enterprise surveys; and indirect approach based on models that use observable proxies of informal economy (ILO 2013 ⁽¹⁹⁾), (OECD et al., 2002^[10]).

Measuring informality in the MENA region is particularly challenging due to limited data collection as well as restricted public access to microdata in the region. Since 2011 several MENA economies have carried out labour force surveys .

- Labour force surveys in Egypt and Jordan are conducted on a regular basis, allowing the analysis of the trends in informal employment over time.
- Morocco and Tunisia have quarterly labour force survey; since the origin the measurement of informal employment is possible for Morocco, and since 2019 for Tunisia.
- In Algeria, the labour force survey was annual, and then bi-annual until 2019 and allowed the measurement of informal employment, but data collection stopped with the pandemic and did not resume since then.

Nonetheless, numerous limitations restrict the possibility of using these data to study informal employment:

- Not all labour force surveys contain variables that allow identifying informal employment.
- Public access to microdata, and in some cases even aggregate data on informal employment, is restricted.

Measuring informal enterprises in the MENA region proves to be even more challenging given a very low number of countries carrying out enterprise or establishment surveys. For example, since 2015, Egypt, Jordan, Kuwait and few others have had such surveys. These surveys are not carried out on a regular basis and access is often restricted to public. In addition, some countries have carried out special surveys targeting the informal sector. For example, the Haut commissariat au plan of Morocco carried out a National Survey on the Informal Sector covering undeclared non-agricultural production units between 2013 and 2014.

Besides data collected by national statistical offices, there are several data collection initiatives which offer relevant data on the phenomenon of informality in the MENA region, with the usual caveats related to quality (e.g. accuracy, coverage, comparability) of non-official statistics. Some examples of data sources relevant for analysing the informal economy in light of the recent wave of shocks include:

- The Economic Research Forum- ERF COVID-19 MENA Monitor, composed of household and enterprise surveys run in Egypt, Jordan, Morocco, Tunisia, and Sudan for the period 2020-21. ERF also conducted a labour market panel survey in several countries (Egypt, Jordan, Tunisia) which has been used by scholars for measuring informal employment.
- The Arab Barometer Survey waves VI-VII (years 2020-21 and 2022 respectively) providing insight on informal employment and the perceptions regarding adequacy of government response to COVID-19.
- The World Bank Enterprise Survey conducted on a rolling basis throughout the year and providing data on informal sector. In a context of limited data availability on informality, alternative sources offer the possibility to fill data and information gaps.

1.2. A framework for assessing policy impact

There has been extensive research and policy debate on effective formalisation strategies. These strategies generally comprise several policies which can be summarised into two policy pillars consisting of incentives and deterrence, and the mix of these two pillars aims to alter employer and employees perceived cost-benefit ratio in favour of formality.

- **Policies providing an incentive to formalisation** can act:
 - On the supply side, through tax breaks on personal income, concessions on social security contributions and welfare bridges.
 - On the demand side, by incentivising consumers to purchase goods and services from formal entrepreneurs with consumer tax deductions, vouchers, and VAT exceptions.
- **Deterrence measures**, on other hand, aim to prevent and discourage individuals from engaging in informal economic activities through sanctions and enforcement efforts (audits and labour inspections) that increase the risk for entrepreneurs and employers operating informally to be detected and punished.

The effects of these policies on formalisation can vary in magnitude and direction, presenting diverse outcomes across different contexts and studies. Given the variability of results across previous studies, employing meta-analysis proves to be a valuable statistical tool in deriving informed conclusions. Our literature review emphasises meta-analysis studies exploring the potential impact of economic and social policies on both formalisation and informalisation.

The literature also highlights the **importance of indirect or ‘persuasion’ measures** that aim to develop a culture of law compliance and tax morality. These measures aim at changing values, norms, and beliefs through awareness-raising and education campaigns on tax, social security and labour law targeting all population groups, as well as training and advice programmes targeting informal entrepreneurs. The persuasion measures comprise also changes in national legislation that improve the procedural justice of the system and hence its perceived fairness. The rationale behind these measures is that the drivers of informality are not only economic, and there is therefore a need to strengthen the mutual trust between the public institutions and informal entrepreneurs.

Based on this review, Chapter 6 of this report introduces a Policy Assessment Framework designed as a tool to identify “what works”, i.e. what policies are effective to enhance formalisation or reduce informality in employment and businesses. We believe that this framework will be beneficial for policy makers and researchers seeking to swiftly anticipate the impact of social and economic policies on formalisation. The framework does not extensively cover a range of policy areas such as education quality, reskilling and upskilling, social economy, or sustainable investment, that may support formalisation. These limitations are acknowledged as our primary objective centered on delineating the impact of policies implemented during the COVID-19 pandemic specifically, and hence the definition and scope of the Policy Assessment Framework was driven by those policies, rather than encompassing all potential policy aspects that could affect informality.

References

- Cardarelli, R. et al. (2022), *Informality, Development, and the Business Cycle in North Africa*, International Monetary Fund, <https://www.imf.org/en/Publications/Departmental-Papers-Policy-Papers/Issues/2022/05/31/Informality-Development-and-the-Business-Cycle-in-North-Africa-464859>. [3]
- Elgin, C. et al. (2021), “DP16497 Understanding Informality”, *CEPR Discussion Paper*, No. 16497, CEPR Press, Paris & London, <https://cepr.org/publications/dp16497>. [1]
- ILO (2023), “New standards, increased visibility: improving measurement of the informal economy”, *ILOSTAT*, <https://ilostat.ilo.org/new-standards-increased-visibility-improving-measurement-of-the-informal-economy/>. [8]
- ILO (2018), *Women and Men in the Informal Economy: A Statistical Picture*, International Labour Organization, https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms_626831.pdf. [7]
- ILO (2015), *Recommendation R204 - Transition from the Informal to the Formal Economy Recommendation*, International Labour Organization, https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:R204#:~:text=. [6]
- ILO (2013), *Measuring informality: A statistical manual on the informal sector and informal employment*, International Labour Organization, https://www.ilo.org/global/publications/ilo-bookstore/order-online/books/WCMS_222979/lang--en/index.htm. [9]
- ILO (1993), *Guidelines concerning a statistical definition of informal employment*, International Labour Organization, https://www.ilo.org/wcmsp5/groups/public/---dgreports/---stat/documents/normativeinstrument/wcms_087622.pdf. [5]
- ILO (1993), *Resolution concerning statistics of employment in the informal sector*, International Labour Organization, https://www.ilo.org/wcmsp5/groups/public/---dgreports/---stat/documents/normativeinstrument/wcms_087484.pdf. [4]
- Lopez-Acevedo, G. et al. (2023), *Informality and Inclusive Growth in the Middle East and North Africa - Overview (English)*, World Bank Group, Washington, D.C., <http://documents.worldbank.org/curated/en/099062323201054687/P1773800417ccc08708034034fe0f9418be>. [2]
- OECD et al. (2002), *Measuring the Non-Observed Economy: A Handbook*, OECD Publishing, Paris, <https://doi.org/10.1787/9789264175358-en>. [10]

For further reading

- OECD (2020), *Informality and Social Protection in the time of COVID-19*, OECD, Paris <https://www.oecd.org/dev/HLM-Thematic-note-Informality-social-protection-post-COVID-19.pdf>.
- OECD (2020), *Tackling Vulnerability in the Informal Economy*, OECD, Paris, <https://www.oecd.org/fr/publications/tackling-vulnerability-in-the-informal-economy-939b7bcd-en.htm>.

2 Overview of informality in the MENA region

This chapter provides an overview of informality in the MENA region, in the context of recent economic trends and challenges. It presents key stylised facts on the informal economy, and relevant policy areas that affect formalisation, such as business and labour regulation, fiscal policies, and social protection systems. The chapter also discusses existing obstacles in the region for formalising employment and businesses.

Key messages

- MENA economies' increased vulnerability to current global economic shocks is rooted in enduring structural issues within the region. These challenges encompass modest yet volatile growth rates, stagnating productivity, a sluggish pace of economic transformation, low employment levels, particularly among youth and women, poor job quality, labour market disparities, fragmented social protection systems, insufficient foreign direct investment inflows, and a fragile investment climate. This context is both a suitable environment for the informal economy to flourish, as well as a partial reflex of its impact.
- Informality in the region ranged between 20-30% of the GDP during the 1990-2018 period, although with shares varying significantly across countries. Depending on the model used to estimate the size of the informal economy in the MENA region, the informal economy has increased, decreased or remained constant, signalling the complexity of measuring this phenomenon and calling for more accurate data to enable appropriate policies to address it.
- As countries step-up efforts to promote business and labour formalisation, it is important to comprehend the drivers of informality and stimuli for formalisation in the region, which include business regulation; taxation; labour market regulations; institutional quality and governance; social protection systems; social and cultural factors.

2.1. Economic trends and challenges in the MENA region

A new phase in the global economy has emerged since the onset of the COVID-19 pandemic. The series of shocks that followed – from Russia's war of aggression against Ukraine to a sharp slowdown of economic activity in three major world economies (USA, China, and the Euro area) – have accompanied the global economy's transition towards an era of higher inflation, rising interest rates and reduced investments (World Bank, 2022^[1]; IMF, 2022^[2]; OECD, 2022^[3]). This new economic outlook has put particular stress on MENA economies where high interest rates have increased the debt service burden for several countries, further intensifying domestic debt crises; while high food, oil and natural gas prices have led to high domestic inflation, with the effect of exacerbating inequality and poverty in countries outside the Gulf Cooperation Council (GCC).

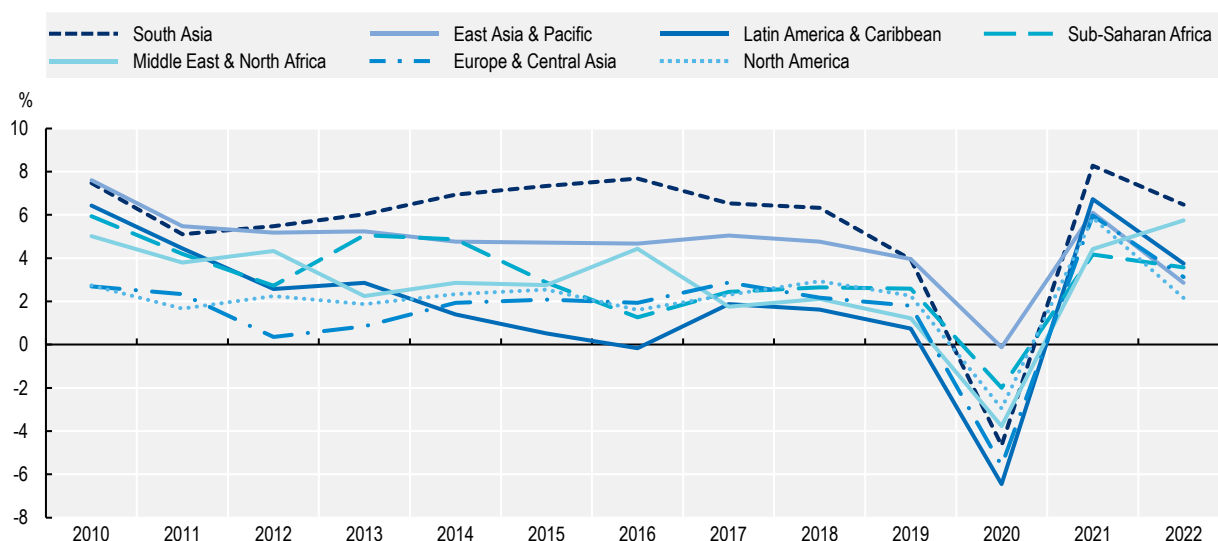
This greater exposure of MENA economies to current shocks has deep roots in long-standing structural challenges in the region, namely: modest albeit volatile growth rates, stagnating productivity, a slow pace of economic transformation, low employment – especially among youth and women-, poor jobs quality, labour market dualities, fragmented social protection systems, insufficient foreign direct investment inflows and a weak investment climate.

2.1.1. Economic growth

In the MENA region, the decade prior to the COVID-19 outbreak was characterised by relatively low growth. Economic growth in the MENA region also declined over the decade, from average GDP growth of 5.0% in 2010 to 1.2% in 2019 (Figure 2.1).

Figure 2.1. GDP growth, regions of the world

Annual, %



Note: Annual percentage growth rate of GDP at market prices based on constant local currency. Aggregates are based on constant 2015 prices, expressed in USD. The MENA region aggregate reflects the World Bank's definition.

Source: World Bank, accessed on 10 July 2023.

In 2020, the COVID-19 outbreak triggered a major economic crisis affecting the whole world, including the MENA region where growth contracted by 3.8% on average. In 2021, the global economy began to rebound as countries lifted restrictions on economic activities, and sectors which had been acutely affected, e.g. services, started to recover. Average GDP growth in the MENA region rebounded to 4.5% in 2021, representing the highest growth rate of the region since 2010, driven also by a strong rebound in the oil sector in GCC, and soaring oil prices. By global comparison, however, the size of the MENA's 2021 economic rebound was one of the lowest, better only in comparison with the Sub-Saharan African region. However, the MENA region's economies continued to grow also in 2022, reaching 5.8%, unlike most of the rest of the world. However, MENA's growth is projected to diminish in 2023 and 2024 due to both structural challenges inherent to the MENA region and spillovers from the global economic slowdown (World Bank, 2023^[4]; IMF, 2023^[5]).¹

2.1.2. Slack labour markets

Economic growth in the MENA region has struggled to produce quality and high-productivity jobs on the labour markets already affected by a marked duality – with an overstretched public sector on the one hand and a high prevalence of informality and low productivity in the private sector on the other – and lack of dynamism (IMF, 2022^[6]; Krafft et al., 2022^[7]; World Bank, 2022^[1]).

In the period 2011-22, labour productivity growth in MENA – measured in terms of real GDP per worker – was the lowest among regions of emerging markets and developing economies, with an average value of 1.6% (World Bank, 2023^[4]). World Bank forecasts expect that labour productivity growth in the MENA region will remain weak, averaging 1.2% for the period 2023-25.²

Limited job creation and high unemployment remain a significant challenge in the region. The region continues to register the highest unemployment rate by global comparison, followed by Latin America and the Caribbean (Table 2.1). Compared to the pre-COVID-19 pandemic, the unemployment rate rose from 10.0% in 2019 to 10.7% in 2021, despite the fact that MENA economies had started to show signs of recovery.

The high unemployment rate is attributed mainly to countries outside the GCC, with official rates ranging from 7.4% in Egypt to 28.0% in Djibouti in 2021 – contrary to GCC countries where the small national population is employed in the public sector while most jobs in the private sector are filled by foreign workers. Although to a different degree across the region, women and youth are the groups most affected by unemployment prospects (IMF, 2022^[6]). Women and youth in the MENA region continue to represent an untapped source of growth and productivity.

Table 2.1. Unemployment rates, selected MENA economies, 2019-21

% of total labour force

	Total (age 15+)			Women (age 15+)			Youth (age 15-24)		
	2019	2020	2021	2019	2020	2021	2019	2020	2021
Algeria	10.5	12.2	11.7	18.7	20.8	20.5	27.2	31.1	29.3
Bahrain	1.2	1.7	1.5	3.8	4.7	4.5	6.0	7.8	7.2
Djibouti	26.3	28.0	28.0	35.9	37.6	37.9	73.9	78.8	77.0
Egypt	7.9	7.9	7.4	21.4	17.6	15.9	20.7	18.4	17.8
Iraq	15.1	16.2	16.2	26.7	27.9	28.2	34.0	36.8	35.6
Jordan	16.8	19.2	18.4	24.0	25.4	25.6	37.1	42.3	40.3
Kuwait	2.2	3.3	2.8	5.8	7.8	7.0	15.0	19.3	17.1
Lebanon	11.3	13.0	12.5	14.3	16.0	15.8	23.3	26.6	25.2
Morocco	9.2	11.1	10.5	10.8	12.7	12.4	22.6	26.5	24.9
Oman	1.9	2.9	2.5	7.6	10.9	9.2	5.4	13.6	7.7
Qatar	0.1	0.1	0.2	0.3	0.5	0.5	0.4	0.5	0.5
Saudi Arabia	5.6	7.5	6.7	21.4	21.0	21.5	24.8	27.5	26.6
Tunisia	15.1	16.4	16.3	22.2	23.5	23.6	35.3	38.5	37.3
United Arab Emirates	2.3	4.3	3.1	6.0	5.8	6.8	7.4	14.1	10.5
<i>MENA</i>	<i>10.0</i>	<i>10.8</i>	<i>10.7</i>	<i>19.3</i>	<i>19.3</i>	<i>19.5</i>	<i>25.4</i>	<i>27.0</i>	<i>26.3</i>
<i>Asia and Pacific</i>	<i>4.7</i>	<i>6.1</i>	<i>5.2</i>	<i>4.2</i>	<i>5.0</i>	<i>4.5</i>	<i>13.9</i>	<i>17.3</i>	<i>15.1</i>
<i>Europe and Central Asia</i>	<i>6.6</i>	<i>7.0</i>	<i>6.9</i>	<i>6.7</i>	<i>7.1</i>	<i>7.1</i>	<i>15.5</i>	<i>16.9</i>	<i>16.4</i>
<i>Latin America and the Caribbean</i>	<i>8.0</i>	<i>10.2</i>	<i>9.2</i>	<i>9.7</i>	<i>12.0</i>	<i>11.4</i>	<i>17.9</i>	<i>21.2</i>	<i>19.2</i>
<i>North America</i>	<i>3.9</i>	<i>8.2</i>	<i>5.6</i>	<i>3.8</i>	<i>8.5</i>	<i>5.4</i>	<i>8.7</i>	<i>15.5</i>	<i>10.1</i>
<i>Sub-Saharan Africa</i>	<i>5.7</i>	<i>6.3</i>	<i>6.4</i>	<i>6.0</i>	<i>6.5</i>	<i>6.8</i>	<i>9.0</i>	<i>9.9</i>	<i>9.7</i>

Notes: The ILO data for MENA include Iran and exclude Sudan. ILOEST database estimates unemployment rates, including imputing missing observations and projections, using a series of models that establish statistical relationships between observed labour market indicators and explanatory variables. Therefore, data is frequently updated.

Source: ILO modelled estimates (ILOEST), November 2022 (%), version updated on 23 February 2023 extracted on 10 July 2023.

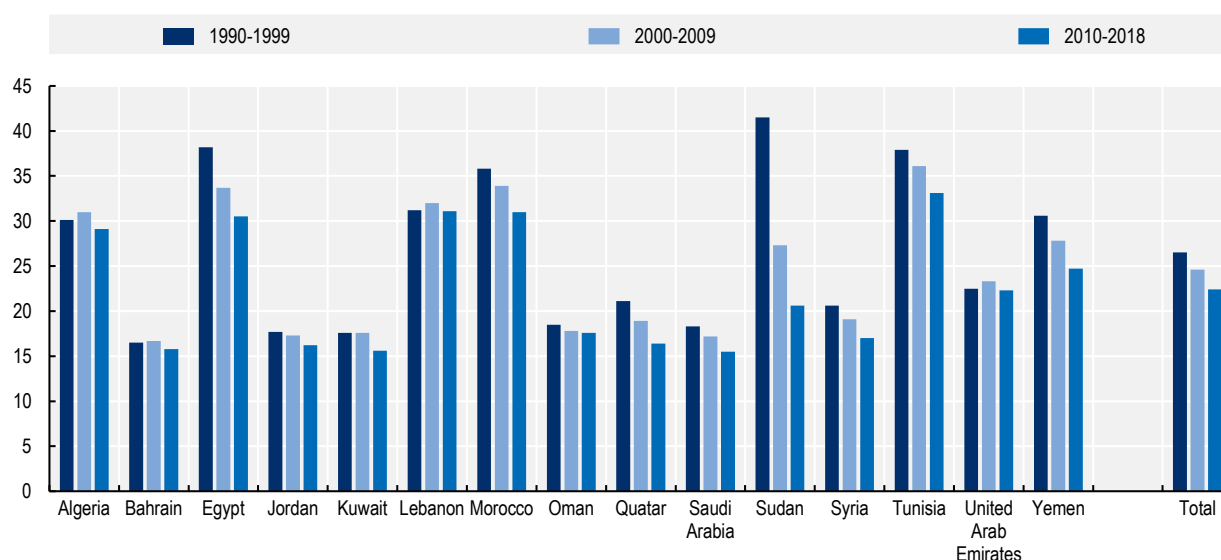
2.1.3. Large informal economy

In the MENA region, informality is pervasive, representing an estimated 64.9% of total employment in 2022³ and a GDP share of 20% or more (Elgin et al., 2021^[8]). Recent analysis has observed limited progress in reducing informality in MENA economies over the past two decades (World Bank (2023^[9]), [Informality and Inclusive Growth in the Middle East and North Africa](#), and International Monetary Fund (2022^[6]), [Informality, Development, and the Business Cycle in North Africa](#)). The significant size of the informal economy in MENA economies has inevitably affected their resilience to the recent economic shocks, highlighting the risks of increased vulnerability associated to informality (Box 2.1).

A labour market characterised by low productivity and high unemployment is both a result and a driver of the informal economy. Elgin et al. (2021^[8]) estimated that informal output in the MENA region ranged between 20-25% of the official GDP in the period 1990-2018. Different models, however, point to different trends and patterns between countries. Using the dynamic general equilibrium model (DGE), Elgin et. al. (2021^[8]) found that since 1990 the size of the informal economy had slightly reduced in the MENA region as a whole. In 2018, only in Egypt, Morocco, and Tunisia did the informal economy account for more than 30% of their official GDP. On the other hand, the multiple-indicators, multiple-causes model (MIMIC) indicates that the share of informal economy in the official GDP remained stable in the period 1990-2018, with several countries (Algeria, Egypt, Lebanon, Libya, Morocco, Tunisia) having an informal output representing more than 30% of their GDP.

Figure 2.2. Estimates of informal output, selected Arab countries

% of official GDP, average by decade



Note: Dynamic general equilibrium model based (DGE). Post 2018 data currently not available.

Source: Authors based on data from Elgin et. al. (2021^[8]).

The significant size of the informal economy in MENA economies has inevitably affected their resilience to the recent economic shocks, highlighting the risks of increased vulnerability associated to informality.

Box 2.1. Informality, vulnerability, development, and growth

Informality and vulnerability

Informality represents a source of vulnerability because it is assumed to carry a series of negative *implications* for both individuals and firms, as well as the society at large.

At an individual level, informal workers struggle to access fundamental labour rights and protections, social security, and minimum wages (ILO, 2015^[10]; ILO, 2021^[11]), making them particularly vulnerable to economic shocks (IMF, 2022^[6]). Although informal employment may provide a short-term alternative to unemployment and provide income-earning opportunities, in the long-term it is typically understood to be a barrier to career development and social mobility for many informal workers, as lack of training and poor working conditions generally characterise the informal sector (Saoudi, 2022^[12]; IMF, 2022^[6]).

Informality also affects the *business environment* by creating unfair competition between informal firms and those that comply with legal and regulatory framework. In this manner, informality risks provoking ‘hyper-casualisation’, i.e. pushing formal enterprises into the informal economy to compete (Williams, 2014^[13]). Informal firms also tend to be less productive (Medina and Schneider, 2019^[14]), and with lower investment and expansion prospects as they face greater difficulties in accessing credit, public infrastructure, and markets (Nielsen and White, 2021^[15]; World Bank, 2022^[1]; OECD/ILO, 2019^[16]; La Porta and Shleifer, 2014^[17]).

For the society, informality brings a loss of government revenue to be invested for social cohesion and inclusive development. In a context of pervasive informality, governments risk losing their regulatory control of work conditions in the society, thus weakening the rule of law (ILO, 2019^[18]; Williams, 2014^[13]).

Informality, development and growth

Empirical evidence has suggested that as economic development progresses, informality shrinks (La Porta and Shleifer, 2014^[17]; Loayza and Rigolini, 2006^[19]). Recent research (Chacaltana Janampa, Bonnet and Garcia, 2022^[20]), argued that both the economic structure and the pattern of growth matter for the size of the informal economy.

The impact of informality on economic growth is difficult to disentangle given that informality can both influence economic growth and be affected by it (e.g. see discussions in (Joshi, Prichard and Heady, 2014^[21])). While the literature is inconclusive about the magnitude of the effect, it is argued that the causality is likely to be bidirectional (see overview in Annex 1.A). Indeed, the relationship between the size and nature of the informal economy and growth is complex and dynamic. This relationship depends on a variety of factors, and economic growth is a necessary but not sufficient condition to address informality. Using meta-analysis, (Afonso, Neves and Pinto, 2020^[22]) found that the average effect of the non-observed economy on economic growth is statistically insignificant. On the contrary, (Nikopour, Habibullah and Schneider, 2008^[23]) found that the relationship between informality and growth follows an “S”-shaped cubic function: i) in the early stages of development, the relationship is positive; ii) in the later stages of development, it is negative; and iii) at a certain level of income, there is a new inflection point, and a new upward phase starts. Elgin and Birinci (2016^[24]) found an inverted-U relationship between informal economy size and growth of GDP per capita: small and large sizes of the informal economy are associated with low growth while medium sizes with higher levels of growth.

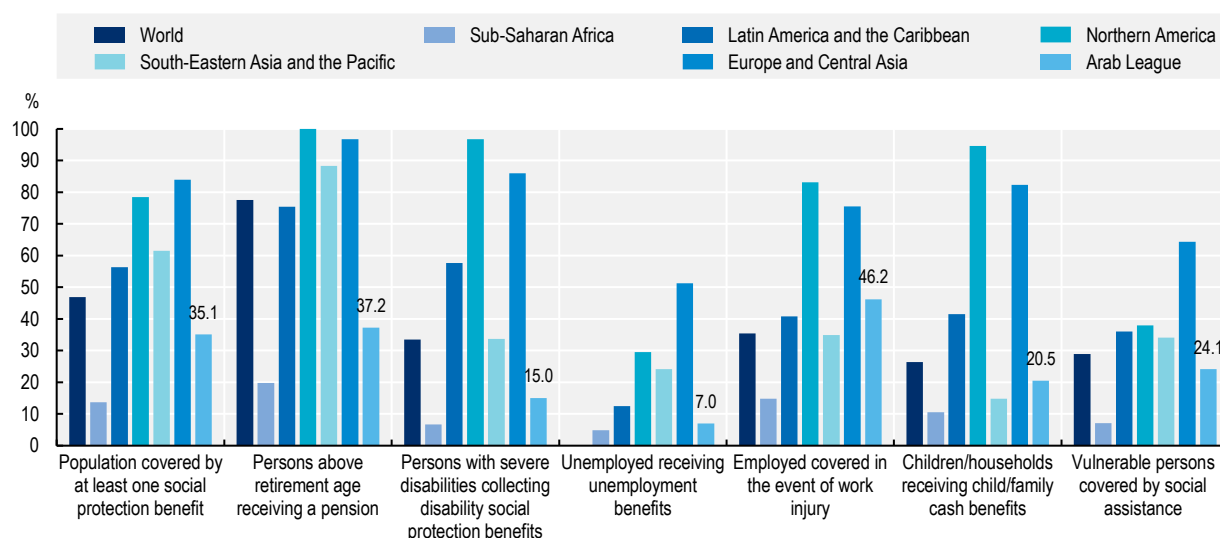
2.1.4. Fragmented social protection systems and limited coverage

The vulnerabilities of the region to recent shocks have put at risk the progress made in reducing inequality and poverty, with potential long-term adverse effects. In fact, in addition to jobs losses due to the COVID-19 crisis, the current inflation crisis has generated a substantial fall in real monthly wages especially among low-income groups (ILO, 2022^[25]) and more generally a fall in labour income. Also, it will be important to analyse whether those shocks led to more informal sector and employment, considering that the size of those was already high before the shocks. (Lopez Acevedo et al., 2022^[26]) estimated that the rises in food and energy prices since the beginning of Russia's war of aggression against Ukraine could push an additional 23 million people living in the MENA region into poverty. Moreover, it is especially young people, women, migrants and low-skilled who face a high likelihood of impoverishment in the region (IMF, 2022^[2]; OECD, 2022^[27]).

In this context, a crucial role is played by social protection systems to transition workers and households out of poverty. However, these are still relatively underdeveloped in the MENA region, with less than half of the households in the poorest quintile receiving some type of social assistance prior to the COVID-19 pandemic (Ohnsorge and Yu, 2022^[28]). The latest Arab Human Development Report (UNDP, 2022^[29]) and a recent ESCWA/UNDP/UNICEF (2022^[30]) report highlighted the gaps in social expenditures, as well as inadequacy of social protection coverage and benefits in Arab countries.

Indeed, the region has the second-lowest social protection coverage, globally, Arab League's coverage rate is the second lowest globally, after sub-Saharan Africa (at 13.7%) (Figure 2.3). In 2020, in the midst of the COVID-19 crisis, only 35.1% of population in the region were covered by at least one social protection programme.

Figure 2.3. Proportion of population covered by social protection floors/systems in 2020 (%)



Note that the definition of the Arab League region, partly differs from the countries covered under MENA definition in this report since data on the Arab League also include Comoros and Mauritania.

Source: ILOSTAT, <https://ilostat ilo.org/topics/social-protection/> (accessed on 24 March 2023).

Low pension coverage (37.2% of persons above retirement age receiving of pension) and work injury coverage (46.2% of persons employed covered in the event of work injury), as well as very low coverage levels for unemployment insurance (7.0% of unemployed receiving unemployment benefits) also suggest that informality affects both older and younger generations in the MENA region. In 2020, less than half of the employed population in the countries of the Arab League was covered against work injury.

Further, the low coverage of unemployment risk reflects underdevelopment of unemployment insurance in many MENA economies. The provision of adequate unemployment insurance could instead make the social insurance system more attractive and hence increase workers' incentives to transition to formality. The lack of social protection benefits that satisfy the population's needs and expectations (e.g. in the uncertain labour market of the MENA region, unemployment insurance could be one of workers' most immediate need), and the inadequacy of benefits offered within existing programmes, can contribute to the growth of the informal economy (e.g. Gajigo and Hallward-Driemeier (2012^[31])).

2.2. Stylised facts about informality

2.2.1. Determinants of informality

There is a wealth of studies on the determinants of informality and the barriers to formalisation of enterprises and of jobs. These include business regulation; taxation; labour market regulations; institutional quality and governance; social protection systems; social and cultural factors.

Onerous **business regulation**, such as complex administrative procedures, paperwork and bureaucracy that consume time and resources tend to increase the costs, and reduce the benefits of operating formally, especially in countries with poor public service delivery (OECD/ILO, 2019^[16]). When entry costs are high and perceived benefits are meagre, firms will have a propensity to operate informally.

Fiscal regulation can influence formalisation.

- The complexity of the tax code can imply high costs for small firms that may need to contract professional assistance to file appropriate tax declarations (Everest-Phillips, 2008^[32]; Joshi, Prichard and Heady, 2014^[21]; Nielsen and White, 2021^[15]). This aspect highlights the role of fiscal (il)literacy.
 - Individuals operating small informal, low-skill demanding businesses generally tend to have a lower level of education (Davidescu et al., 2022^[33]; Fernández and Villar, 2017^[34]) and, in turn, lower levels of fiscal literacy and understanding of tax liabilities, and proper maintenance of records and bookkeeping to substantiate tax declarations (Araujo-Bonjean and Chambas, 2003^[35])
 - Self-employed professional classes, on the contrary, may decide to operate on a cash basis to limit their tax liabilities.
- If tax enforcement is *de facto* arbitrary, and adherence to tax obligations is not effectively and universally enforced, the perceived risk of penalisation is low, which disincentivises compliance with fiscal regulations.
- (The perception of) high tax burdens may lower the 'tax morale' and encourage workers and firms to avoid taxes and operate in informal economy (Williams and Schneider, 2016^[36]).
 - Recent research from Ghana suggests that many informal actors pay a range of taxes, permits, levies and fees, and that overall, the ratio of taxes to earnings is substantially higher than for formal workers, suggesting that for substantial proportions of the informal sector there is little room for further taxation or contributions (Anyidoho et al., 2022^[37]). IMF (2022^[6]) argues that a large wedge between pre-tax total labour costs and after-tax labour earnings strongly incentivises informality (or at least, contracting informal labour).

- In MENA economies, Islam et al. (Islam, Moosa and Saliola, 2022^[38]) found that non-GCC countries impose relatively high tax rates, with nearly 25% of corporate profits spent on labour taxes and social security contributions, unlike GCC countries who have low taxes on corporate profit.

Labour market regulation represents the basis for the functioning and quality of the labour market. Excessive rigidity of labour market regulation can lead to an increase of informal employment by discouraging entrepreneurs from formalising their businesses and formally contracting employees (European Union/OECD, 2015^[39]).

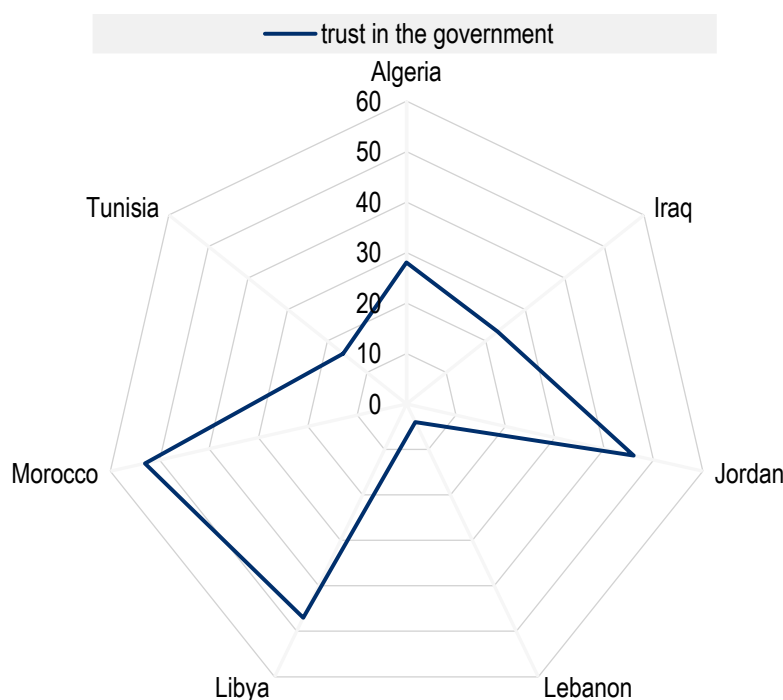
- Countries in the MENA region feature somewhat rigid labour market regulations, requiring high severance pay in the case of layoffs, as well as other restrictive regulation in relation to the use of fixed-term contracts in several countries (Islam, Moosa and Saliola, 2022^[38]).
- In MENA, some groups of workers are especially excluded from the scope of social security and labour law (or at least of provisions): e.g. domestic workers, agricultural workers in some countries. And I would suggest make this clear distinction between

A virtual path toward decent jobs and formalisation would involve ensuring the extension of labour laws and regulations to all groups not yet covered; an adequate level of legal protection: e.g. level of benefits, modalities to comply, remove unfortunate thresholds; and the effective implementation of these labour laws and regulations.

The magnitude of the impact of business, fiscal and labour market regulations on the phenomenon of informality is determined by **institutional quality and governance** (Loayza, Oviedo and Servén, 2005^[40]).

- Good governance and institutions are critical to strong development outcomes. Numerous studies highlighted the impact they have on the size of informality in a country.
- Several studies have shown that weak rule of law, inefficient judiciary systems, weak enforcement powers, corruption and the lack of transparency all increase the costs of formality and disincentivise investments in the formal economy (Gajigo and Hallward-Driemeier, 2012^[31]; Maiti and Bhattacharyya, 2020^[41]; Buehn and Schneider, 2012^[42]; Dreher, Kotsogiannis and McCorriston, 2009^[43]).
- IMF estimated that the gap in the quality of governance between North African countries and advanced economies explains almost half of the excess informality registered in North Africa (IMF, 2022^[6]).
- Public trust in government is one reflexion of institutional quality and governance in a country, with prolonged governance crisis leading to an erosion of public trust. According to the a recent Arab Barometer (Figure 2.4), trust in government varies greatly in the region: with lowest values reported in Lebanon where only 4% of surveyed population declared to have a great deal or quite a lot of trust in government, and with highest values reported in Morocco where the trust in government reached 53%.

Figure 2.4. Trust in government in selected MENA economies, 2020-21



Source: Arab Barometer Wave VI, July 2020 – April 2021.

The lack of trust in the government, driven also by corruption, makes businesses and workers more likely to operate informally as they tend to avoid interactions with public officials and related inspections (OECD, 2021^[44]). To be noted, informality could also spur corruption, i.e. the flourishing of the informal economy can generate the rent for public officers to get corrupted.

Provided that services exist and are adequate (adequate social security benefits for instance) or that formality is associated to real /benefits, improving the quality of services provided by public institutions (e.g. through streamlining and digitalization of procedures that reduce also the risk of corruption) could have a positive impact on trust in government and support the formalization efforts (OECD, 2021^[44]). ILO Recommendation 204 explicitly calls its member states to “take measures to promote anti-corruption efforts and good governance” as part of their efforts to promote transition to formal economy.

Other factors influencing decisions surrounding the formalisation of labour include the presence of fragmented and parallel social protection systems, e.g. social insurance, social assistance, informal social protection, community-led or other forms of collective, non-governmental provision of social assistance.⁴ Moreover, various government-provided schemes may generate an unequal bundle of services that are provided to citizens, which may lead to deficiencies in quality and inequities in the provision of services that discourages workers from enrolling in government social insurance programmes, i.e. labour formalisation. If social protection benefits are not adequate with respect to needs and expectations, while the contribution rates are high relative to market income, informality will remain high.

The role of social and cultural factors cannot be disregarded. Social and cultural factors for instance for instance plays an important role in the persistent informality of domestic workers. Social networks that are dense can be one important factor in promoting informality since, to circumvent national regulations, the informal sector needs a sense of collective social involvement (Aguilar and Campuzano, 2009^[45]). This is driven by fear of formalisation and a feeling of security by staying within the fraternity of informal businesses.

Lastly, the level of development of financial markets can play a role because costly access to credit could push firms to remain informal. As the cost of credit lowers with financial market development, more firms may find optimal to transition to formality. There is large literature on this (see for instance Capasso, Ohnsorge and Yu, “Informality and financial development: A literature review”, *The Manchester School*, Vol. 90, September 2022).

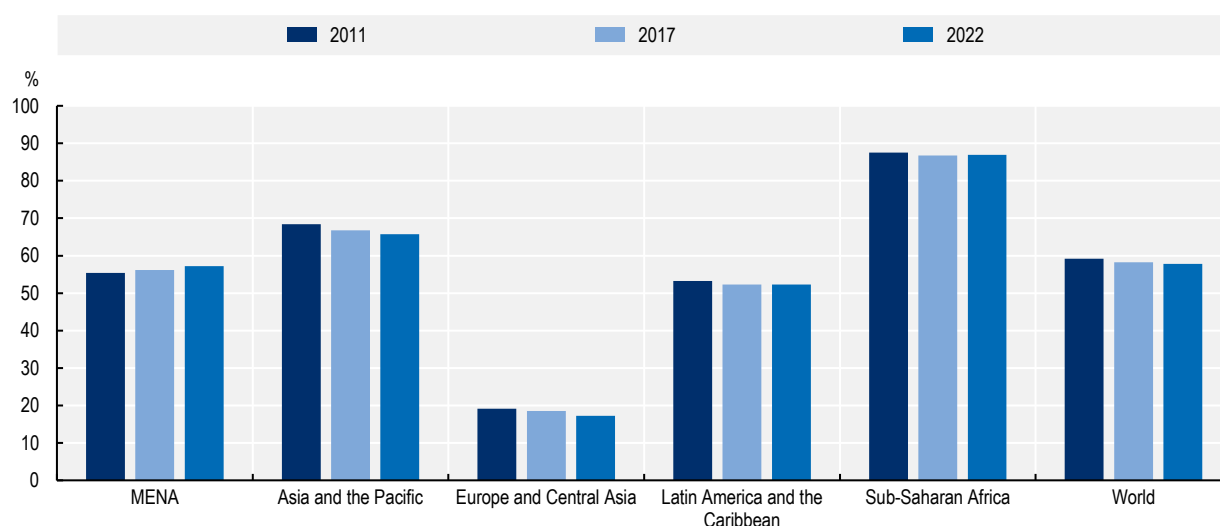
2.2.2. Informal employment in the MENA region

Worldwide the practice of informal working arrangements is significantly spread, with the highest informal employment rate in 2022 registered in the Sub-Saharan Africa (87.3%) followed by the Asia and the Pacific (65.6%) and the MENA region (64.9%) (Figure 2.5).

The informal employment rate decreased over the last decade in all regions, except the MENA where it had registered a rise from 59.9% in 2012 up to 64.9% in 2022. Overall, the informal employment in the MENA region can be defined as both a pervasive and growing trend. Despite a small contraction in the informal employment rate in 2020 – driven also by the fact that the COVID-19 pandemic has disproportionately affected informal workers – informality expanded further in 2021. The MENA region’s post-pandemic employment recovery, which has started in 2021, has been mainly driven by informal jobs which rebounded much faster than formal jobs (ILO, 2023^[46]). The reason lies in the fact that the employment recovery that followed the lifting of COVID-19 restrictions has not been coupled with better job opportunities, thus pushing workers into jobs of poorer quality including informal jobs.

Figure 2.5. Informal employment rate, regions of the world

Population of 15+



Note: The informality estimates include both nationally reported observations and imputed data for countries with missing data through five separate econometric models. Caution is needed in interpreting the estimates, especially for the MENA region where real data used as a basis for modelling is limited. See: <https://www.ilo.org/ilostat-files/Documents/TEM.pdf>

Source: ILOSTAT, ILO modelled estimates, November 2022 (%), accessed on 09 July 2023.

When analysing the phenomenon of informality, it should be considered that MENA economies do differ in their socio-economic conditions. This difference is visible, for instance, when looking at how GCC and non-GCC economies have absorbed recent shocks. The scarcity of data limits the possibility to fully grasp

the heterogeneity of informal employment across the region. According to the latest available data, in non-GCC countries around 50% or more of those employed are informal workers.

The total informal employment rate, however, hides important **gender differences** in the MENA region, which become more prominent in times of shocks. Over the past decade, in several MENA economies men have been more likely to take up informal job in comparison with women.

- Generally, in the MENA region informal employment among men rose over the past decade, whereas the informal employment of women registered a significant contraction in the period 2017-20, declining from 60% to 54%, but the trend was inverted in 2020 when lockdowns impeded informal-firm-dominated service sector (IMF, 2022^[6]).
- In the wake of the COVID-19 pandemic, women employed informally have suffered bigger job losses in comparison to men. In 2020 the informal employment of women declined by 2.3% in respect to 2019, while the rate of men increased in the same period.
- The literature has argued that the burden of women's unpaid care work together with informal workers' limited access to job retention programmes and flexible working arrangements has led to larger job losses for informally employed women (ILO, 2023^[46]). As a result, the 2019-20 decrease in informal employment among women did not translate in higher formal employment rates, but rather in an increase of female unemployment (Table 2.2) or in exiting the labour force all together. The trend of decrease in informal employment rates of women, however, has reversed since 2021, with more women taking informal jobs.

Data on the age distribution of informal workers in the MENA region also points to large inequalities on the region's labour markets, with country-specific gender differences. Young workers (15-24 years of age) are especially vulnerable to informality in all the MENA economies for which data are available. According to ILO data, in Egypt and Iraq most young workers work under informal arrangements, but statistics available at the national level may differ from data presented in Table 2.2.

Table 2.2. Informal employment rate by age and sex, selected MENA economies

	Women age 15+	Men age 15+	Women age 15-24	Men age 15-24
Djibouti (2017)	64.9	45.7	69.0	48.6
Egypt* (2020)	49.8	69.6	74.0	92.1
Iraq (2021)	45.4	69.8	72.8	94.4
Jordan (2021)	32.4	55.1	51.0	61.0
Lebanon (2019)	55.6	55.4	79.7	68.5

Note: Informal employment rate according to last available national LFS data.

*Data for Egypt for 2020 under revision by ILO.

Source: ILOSTAT, LFS database.

It is well documented that **education** tends to be negatively correlated with the likelihood of being employed informally (Davidescu et al., 2022^[33]; Fernández and Villar, 2017^[34]).

- In all MENA economies, the informal employment is most prevalent among workers with basic or lower education attainment (Table 2.3). This is also reflected in the distribution of workers by occupation skills level where low skill jobs absorb most informal workers (Table 2.4).
- However, MENA economies register also very high informality among workers with intermediate levels of education, as well as employ more than one third of workers with high education informally, except for Djibouti and Jordan.

These findings are not surprising given that there is a higher demand for informal workers in jobs with medium skills level: according to the latest available data, more than two thirds of jobs requiring medium skills level are carried out by informal workers. A not negligible demand for informal workers is also reported for jobs requiring a high level of skills. Indeed, with exception of Jordan, over between 20%-30% of high skill jobs in the countries presented in Table 2.4 are carried out by informal workers, reaching almost 70% on the Somalian labour market.

Table 2.3. Informal employment rate, by education level, selected MENA economies

	Education level				
	Less than basic	Basic	Intermediate	Advanced	Level not stated
Djibouti (2017)	64.1	39.6	27.8	17.6	54.8
Egypt* (2020)	89.0	82.3	65.6	34.5	
Iraq (2021)	79.9	69.3	55.9	37.3	50.0
Jordan (2021)	76.3	43.7	61.2	14.7	
Lebanon (2019)	89.6	70.0	46.8	31.1	78.4

Note: Informal employment rate according to last available national LFS data.

*Data for Egypt for 2020 under revision by ILO.

Source: ILOSTAT, LFS database.

Table 2.4. Informal employment rate by economic activity and occupation skill level, selected MENA economies

	Economic activity		Occupation skill level		
	Agriculture	Non-agriculture	Skill level 1 ~ low	Skill level 2 ~ medium	Skill levels 3 and 4 ~ high
Djibouti (2017)	81.6	50.1	54.6	73.1	21.4
Egypt* (2020)	97.8	58.7	81.3	77.6	36.1
Iraq (2021)	98.1	64.1	84.0	81.7	31.6
Jordan (2021)	94.1	50.1	68.2	63.2	9.9
Lebanon (2019)	90.2	54.2	87.8	64.0	30.4

Note: Informal employment rate according to last available national LFS data. *Data for Egypt for 2020 under revision by ILO.

Source: ILOSTAT, LFS database.

2.2.3. Key challenges for businesses

Micro, small and medium-sized enterprises (MSMEs) represent the major source of employment and job creation in the MENA region (IMF, 2019^[47]). According to the MSME Economic Indicators Analysis (IFC, 2019^[48]), more than 10 million MSMEs operated formally in the MENA region in 2019, accounting for more than 90% of all formal businesses and with a density (enterprise per 1 000 people) heavily skewed towards micro enterprises. In the context of the informal sector, a distinction between two types of informal actors can be made: on one side, micro-enterprises operated by self-employed individuals or family members (including highly skilled professionals and low-skilled street vendors or domestic workers) and on the other side SMEs. While both micro-enterprises and SMEs face many common obstacles when it comes to formalization, some drivers have a different weight between the two informal actors, for example the choice of self-employed individuals to operate informally may be driven more by the lack of access to formal employment opportunities, whereas SMEs may adopt informal practices more as a response to competitive pressures.

The lack of data does not allow to accurately estimate the number of firms operating informally, as highlighted above. Nonetheless, insights can be obtained, for instance, by examining the magnitude of the unfair competition generated by informal businesses. According to the World Bank Enterprise Survey, around half of the formal businesses declared that they have competed against unregistered or informal firms, affecting both the manufacturing and the service sector almost equally (Table 2.5). A notable exception is Saudi Arabia, where less than 20% of formal businesses have faced such competition.

- In the manufacturing sector in Tunisia, Jordan, and Lebanon, as well as and in the service sector in Tunisia, the share of formal businesses facing competition of informal firms rises to around 60%. In Sudan, almost all surveyed businesses, in both manufacturing and service sector, reported competing against informal firms.
- In the service sector, retail and wholesale are the activities where formal firms face the highest competition from informal businesses, whose practices are identified as a major constraint in doing business.
- In the manufacturing sector, it is the food manufacturing industry where the competition against unregistered or informal businesses is most widely reported; however, it is the practices of the garments industry and 'other manufacturing' that have been identified as the major constraint for doing business by formal firms.

Table 2.5. Competition between formal and informal businesses, selected MENA economies

	Survey Year	Manufacturing (%)	Manufacturing - Activity most affected	Service (%)	Service – Activity most affected
Panel A. Percentage of firms competing against unregistered or informal firms					
Egypt	2020	46.6	Petroleum products, Plastics & Rubber	34.3	Construction
Iraq	2022	41.8	Other Manufacturing	44.9	Wholesale & Retail
Jordan	2019	57.0	Food	43.8	Other Services
Lebanon	2019	57.7	Food	55.6	Wholesale & Retail
Morocco	2019	38.2	Food	49.1	Other Services
Saudi Arabia	2022	17.3	Fabricated Metal Products	19.4	Wholesale
Tunisia	2020	57.7	Textiles & Garments	63.6	Wholesale & Retail
Panel B. Percentage of firms identifying practices of competitors in the informal sector as a major constraint					
Egypt	2020	30.7	Wood products, Furniture, Paper & Publishing	15.2	Construction
Iraq	2022	43.5	Other Manufacturing	42.9	Wholesale & Retail
Jordan	2019	19.7	Garments	27.4	Retail
Lebanon	2019	41.3	Other Manufacturing	48.0	Wholesale & Retail
Morocco	2019	39.4	Other Manufacturing	42.3	Retail
Saudi Arabia	2022	2.9	Food	10.3	Other Services
Tunisia	2020	59.0	n.a.	58.7	Other Services

Note: The World Bank Enterprise Survey covers only manufacturing and services sectors, corresponding to ISIC codes 10-33, 41-43, 45-47, 49-53, 55-56, 58, 61-62, 69-75, 79, and 95 (ISIC Rev.4).

Source: World Bank Enterprise Survey accessed on 10 July 2023.

Informal businesses are not only a source of unfair competition, but in some countries and industries their activities represent a major obstacle for the growth of the formal private sector. This can also create a risk of 'a race to the bottom' in which formal entrepreneurs, especially those working in low value-added activities, go informal in order to survive (European Union/OECD, 2015^[39]). Promoting the transition of

informal firms toward formality, as well as impeding the transition of formal firms toward informality, is an essential effort for the development of a vibrant private sector in MENA.

However, the complexity of the business formalisation process cannot be underestimated as the entrepreneur's decision to formalise, and remain formal, is conditioned by numerous interrelated factors. As discussed, the challenges for formalisation pertain to numerous spheres such as business, fiscal and labour market regulations, institutional quality and governance, social protection systems and, more generally, to social and cultural factors.

Among others, cumbersome bureaucratic procedures required to register a business, together with all the necessary steps for businesses to pay taxes or comply with government regulations, such as licenses and/or permits to operate, pose immense barriers to formalisations.

- In some cases, the initial licencing and business registration fees might be set at cost-prohibitive levels, penalising small businesses (OECD, 2007^[49]). The payment of fees to formalise a business becomes a major barrier to formalisation, especially for informal businesses such as street vendors selling from carts or waste collectors. Business owners might feel that they are better off not being formalised due to the high financial obligations associated with formalisation (ILO, 2021^[50]).
- Administrative delays due to slow movement of paperwork at government offices, rent seeking attitude of officials, abuse of authority, and over-centralisation and corruption, all contribute to creating barriers to formalisation. In some developing countries, years of poor legal practices and enactment of laws have created a labyrinth of complexity and irregularity that has caused important regulatory barriers for businesses wanting to formalise (OECD/ILO, 2019^[16]; OECD, 2007^[49]).

It should be stressed that the lack of information, knowledge and awareness also plays a significant role in hindering the formalisation of businesses. Governments generally focus on formal businesses while formulating laws and regulations, disregarding the conditions informal businesses with the assumption that these enterprises will learn and comply with these rules and regulations (ILO, 2021^[11]). Ultimately, the incentive to operate formally will depend on business owners' perceived balance between overall costs and benefits. An entrepreneur's decision to establish formally a business and remain formal, or to transition toward formality, represents the result of a complex analysis of numerous, interrelated factors and their respective incentives and disincentives.

Assessing the success of formalisation measures in MENA economies is complicated given the complexity of drivers as well as limited data availability. Some insights can be obtained from the World Bank Enterprise Survey which provides data on the firms, in eleven MENA economies, which have transitioned from informality to formality at one point of their business activities (Table 2.6).

- In the manufacturing industry, Iraq and Yemen register the lowest share of businesses with formal registration at the time of their establishment (63.7% and 76.3% respectively), followed by Morocco and Egypt (85.3%, 86.7% and 88.4% respectively), while in the remaining countries the share of firms starting their business formally is above 90%. The average number of years during which a firm operated informally prior to its registration varies across the countries, with Iraq registering the longest period needed to transition to formality (equal to 1.6 years) and Saudi Arabia the shortest period (0.1 years).
- In the service sector, Iraq and Yemen also have the lowest ranking as concerns businesses formally registered at the start of their operations (only two thirds of surveyed firms). On the contrary, in Djibouti, Jordan, and Sudan almost all surveyed firms in the service sector reported to have started their activities formally. In Iraq and Yemen, the service-sector firms needed, on average, more than one year to transition from informality to formality, whereas in other countries the firms carried out this transition, on average, in less than one year.

It should be stressed that these findings refer only to firms in the MENA region that have transitioned to formality at one point of their business activity. Significant knowledge and data gaps remain regarding: *a)* firms that have started their business informally and are still operating without registration; *b)* firms that had started and ceased their business operations informally; and *c)* firms that have started their business formally but have transitioned to informality.

Table 2.6. Registration status at the start of operations and formalisation time

	Last year available	Establishment formally registered when it began operations		Average number of years firm operated without formal registration
		Yes (%)	No or don't know (%)	
MANUFACTURING				
Egypt	2020	88.4	11.6	0.3
Iraq	2022	63.7	36.3	1.6
Jordan	2019	96.2	3.8	1.0
Lebanon	2019	90.7	9.3	1.2
Morocco	2019	85.3	14.7	0.5
Saudi Arabia	2022	92.9	7.1	0.1
Tunisia	2020	96.7	3.3	0.1
SERVICES				
Egypt	2020	88.7	11.3	0.2
Iraq	2022	62.4	37.6	1.8
Jordan	2019	97.5	2.5	0.1
Lebanon	2019	85.3	14.7	0.9
Morocco	2019	92.5	7.5	0.2
Saudi Arabia	2022	95.2	4.8	0.1
Tunisia	2020	95.3	4.7	0.2

Note: The World Bank Enterprise Survey covers only manufacturing and services sectors, corresponding to ISIC codes 10-33, 41-43, 45-47, 49-53, 55-56, 58, 61-62, 69-75, 79, and 95 (ISIC Rev.4).

Source: World Bank Enterprise Survey (accessed on 10 July 2023).

Annex 2.A. The relationship between informality, development, and economic growth

Source	Research Question	Methodology	Data used	Key findings	Recommendations
La Porta and Shleifer (2014)^[17]	The relationship between informality and development	The authors regress the change in the percentage of labour force in self-employment, a reliable and widely available measure of informality, on change in log GDP per capita and change in log labour force.	World Development Indicators (a panel of 68 countries during the period 1990–2012)	As an economy develops, informality shrinks: Doubling GDP per capita is associated with a reduction in self-employment of 4.95 percentage points.	The simplification of business registration advocated by De Soto (1989) is probably a good idea, but the main policy message is to increase—whether through immigration or education and training—the supply of educated entrepreneurs.
ILO (2022)^[25]	The effect of GDP growth on informality.	Regression between the change in the informality rate (measured by (1) informal employment and (2) the vulnerable employment,) and changes in composition of GDP by sector.	The United Nations Statistics Division's National Accounts data (UNdata) in seven economic sectors (Country data from 1991 to 2019)	A weak relationship, although with important differences across regions and income levels. Coefficients are higher in middle-income countries. The economic structure and pattern of growth matters for formalisation. Overall: an increase of 1% in GDP per capita is associated with a reduction of the share of informal employment in total employment, at around -0.32 to -0.38%; a reduction of 1% in the rate of vulnerable employment requires 6% in economic growth. Growth is only a necessary condition for formalisation, but not a sufficient one.	Policies that promote changes in the productive structure, including a broader, more diversified base and more economic complexity and technological sophistication, to ensure inclusive growth.
Loayza and Rigolini (2006)^[19]	The impact of growth on informality.	Estimate the elasticity of informal employment (as measured by the share of self-employment in total employment) growth to changes in GDP per capita growth. Use of the error-correction framework and panel regressions analysis.	Surveys collected by the International Labour Organisation. 471 observations in 42 countries	For 83% of the sample, the response of informality to economic growth is negative. Small effect in Latin America: the results show for instance that 5% increase in GDP per capita growth rate will decrease the self-employment growth rate by less than 0.03% in Trinidad and Tobago, Costa Rica, Argentina, Uruguay, Chile, Mexico, Panama, Brazil, El Salvador, Colombia, Ecuador, Jamaica, Bolivia, Honduras, and Peru. Informal employment is found to be counter-cyclical for the majority of countries. Informality's counter-cyclicality decreases with the level of informal employment and, independently, decreases with the quality of policy and	N/A

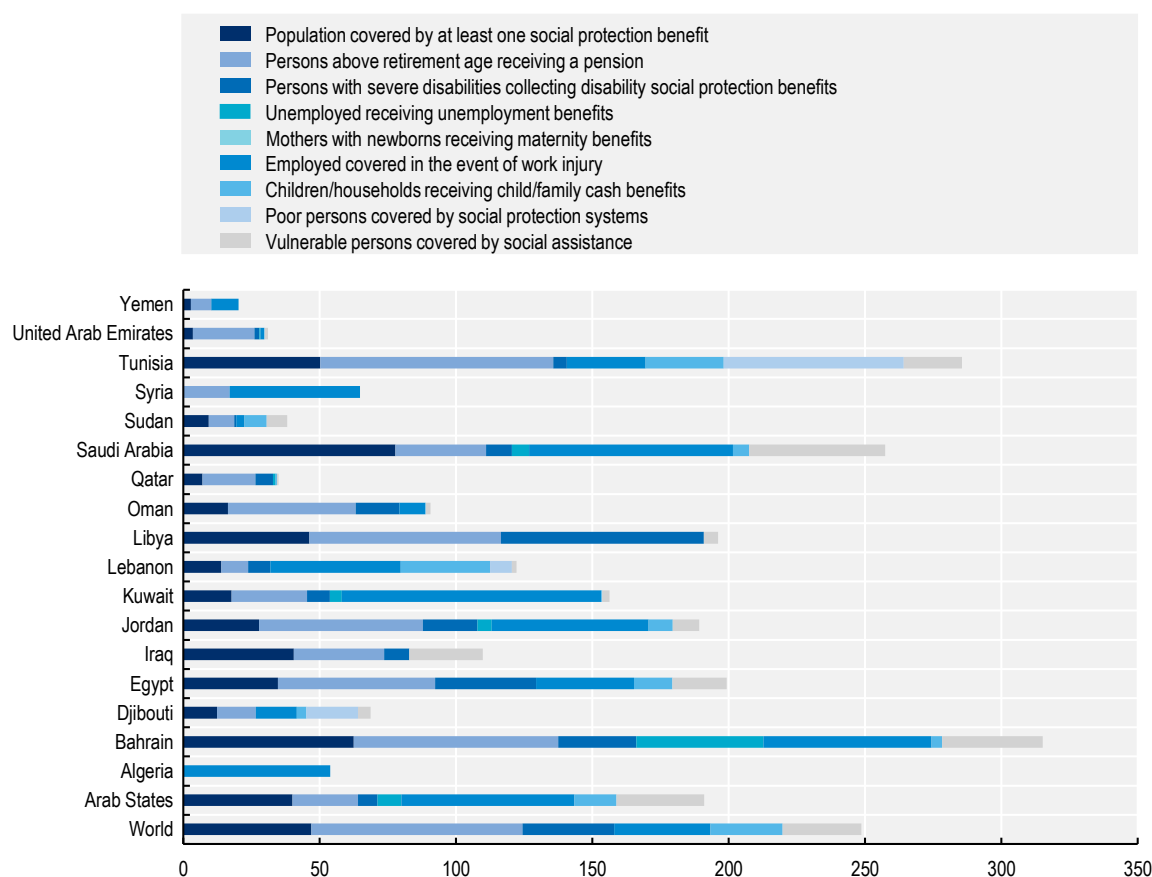
Source	Research Question	Methodology	Data used	Key findings	Recommendations
				judicial services, and less significantly with GDP per capita, business regulatory flexibility, and strength of enforcement.	
Hesam, Muzafar and Friedrich (2008 ^[51])	Whether the relationship between shadow economy and economic growth depends on the level of development	Kuznets's curve (Inverted U-Curve) and panel regression analysis between the shadow economy (includes all market-based legal production of goods and services (PPP) that are deliberately concealed from public authorities) and per capita GDP based on Purchasing-Power-Parity (PPP).	OECD Panel data on the shadow economies for 21 selected OECD countries for time period of 1995-2006.	Shadow economy has a positive effect on the official economy and this relationship depends on the level of development: this relationship is following an "S"-shaped cubic function: (i) in the early stages of development, the relationship is positive; (ii) in the later stages of development, it is negative; and (iii) at a certain level of income, there is a new inflection point, and a new upward phase starts.	N/A.
Afonso, Neves and Pinto (2020 ^[22])	The impact of informality (parallel economy) on economic growth.	Meta-analysis and regression to estimate the average effect of the parallel economy on economic growth and check whether publication bias exists in the previous literature.	Reviewing the empirical literature that estimates the impact of the parallel economy on economic growth	The average effect of the parallel economy on economic growth is statistically insignificant. However, the reported effects differ considerably with the type and number of countries included in the sample of primary studies.	Policymakers in this field should take into consideration that there is no single, universal pattern that defines how the parallel economy influences economic growth. Instead, there are specific effects that differ from country to country and that vary with the dimensions of the parallel economy that are considered.
Elgin and Birinci (2016 ^[24])	The impact of the presence of informal economies on long-run economic growth	Panel fixed-effects regression: the dependent variable is GDP per capita in county (i) in year (t) and the independent variable is the size of informality measured by the contribution to GDP. Other control variables have been used.	An annual cross-country panel data covering 161 economies in the period from 1950 to 2010.	The findings highlight an inverted-U relationship between informal sector size and growth of GDP per capita. That is, small and large sizes of the informal economy are associated with little growth and medium levels of the size of the informal economy are associated with higher levels of growth. The findings also show that in high (low) income economies, informal economy size is positively (negatively) correlated with growth.	Future research should focus on developing an endogenous growth model extended with the presence of an informal sector would be the first step in this direction and that is what we leave for future research.

Source: Authors' elaboration based on literature review.

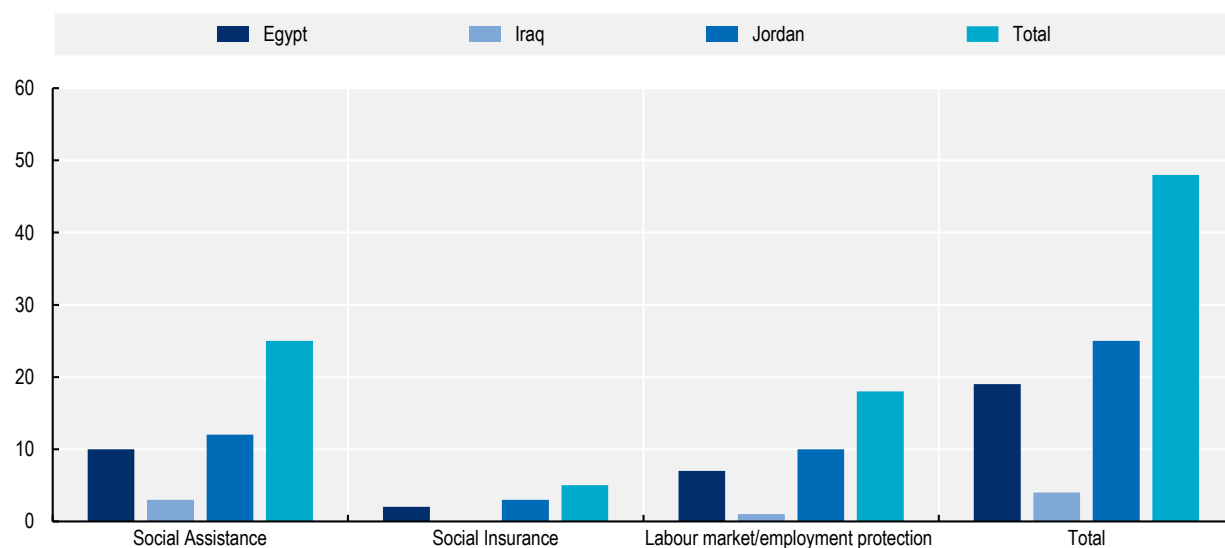
Annex 2.B. Additional figures

Annex Figure 2.B.1. Proportion of population covered by social protection schemes, 2020 or latest available

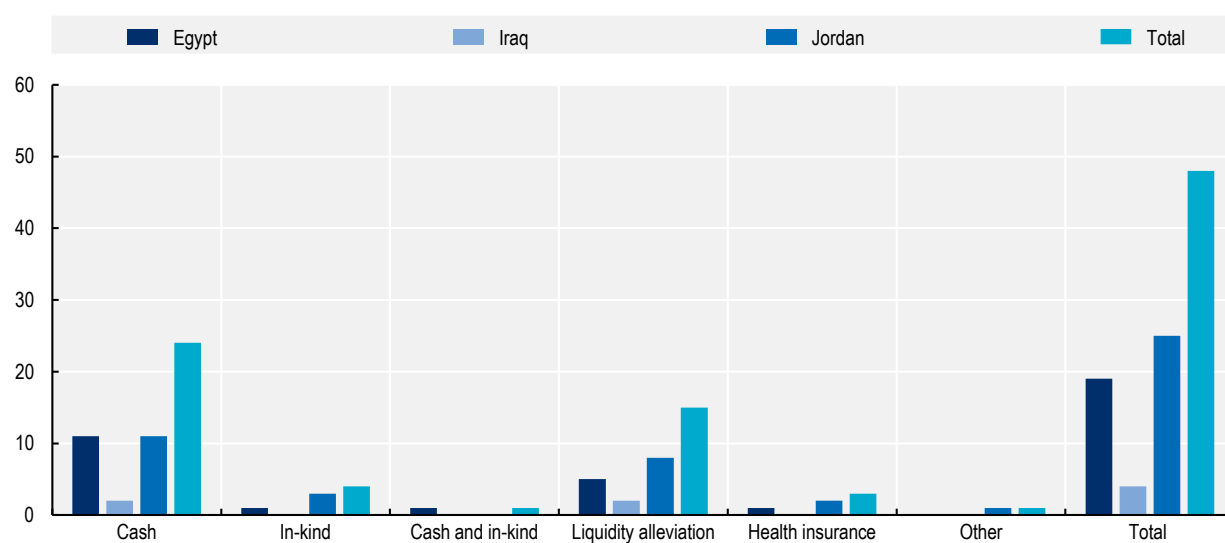
Percentage of total population



Source: ILOSTAT (accessed on 16 February 2023).

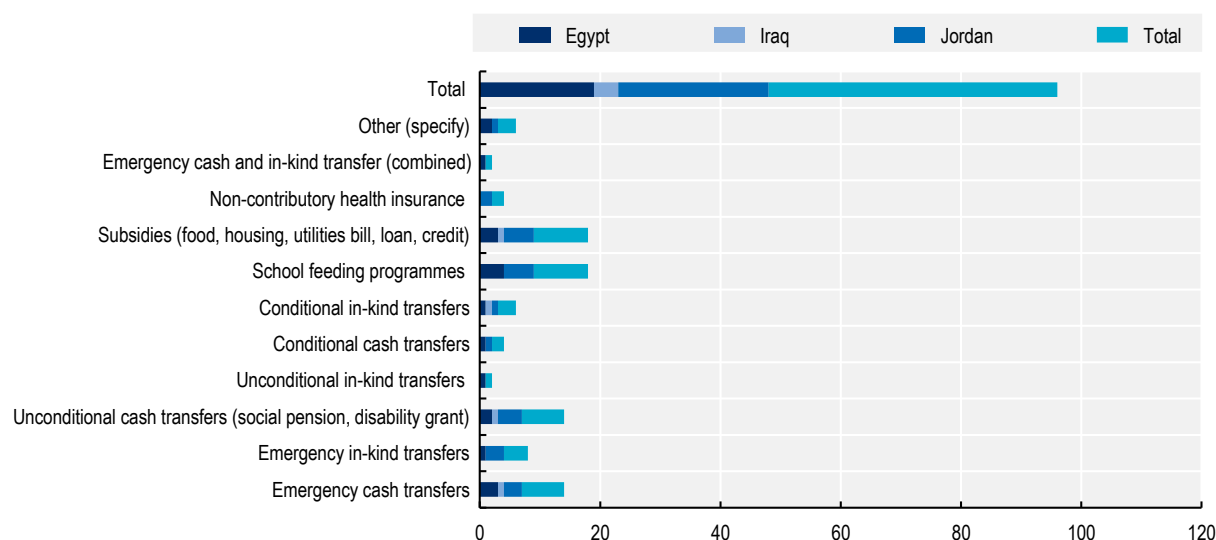
Annex Figure 2.B.2. Number of COVID 19 policy responses

Source: IPC-IG. 2021. Social Protection Responses to COVID-19 in the Global South: Tracking Matrix.

Annex Figure 2.B.3. Number of policy responses by type of support

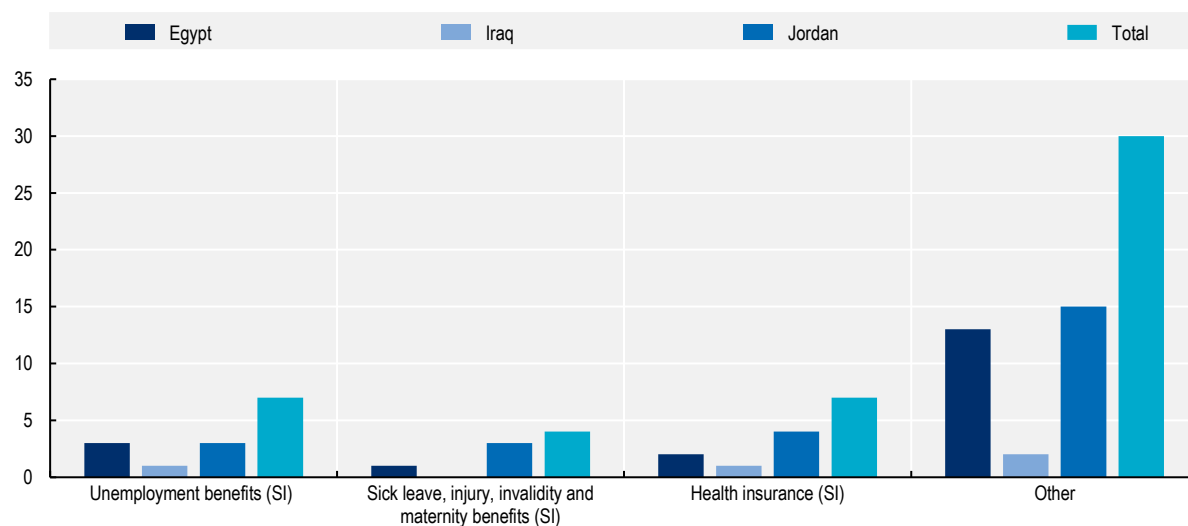
Source: IPC-IG. 2021. Social Protection Responses to COVID-19 in the Global South: Tracking Matrix.

Annex Figure 2.B.4. COVID-19 policy responses classified by type of instrument



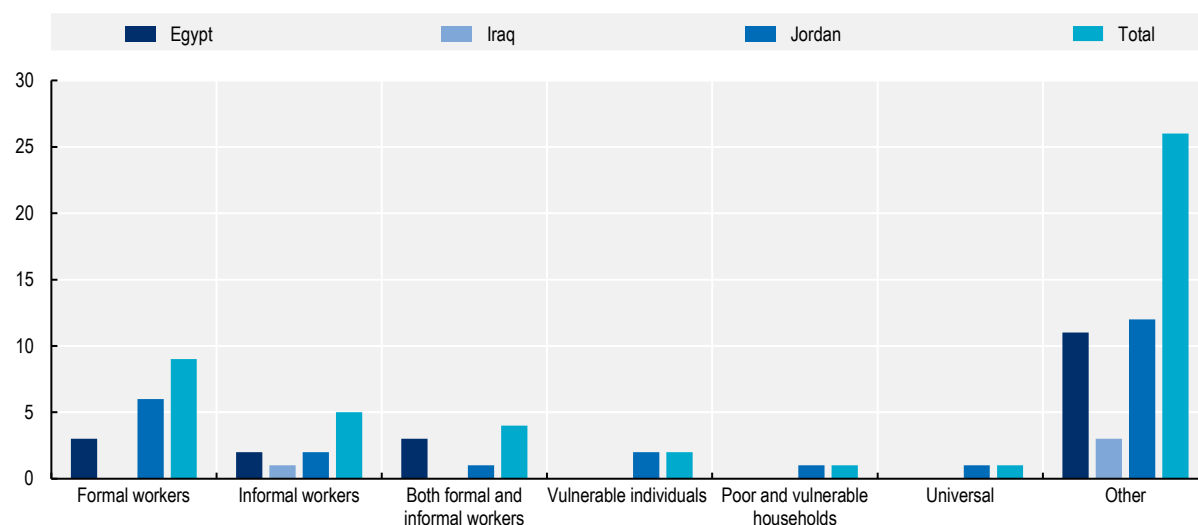
Source: IPC-IG. 2021. Social Protection Responses to COVID-19 in the Global South: Tracking Matrix.

Annex Figure 2.B.5. Identified social insurance COVID 19 response measures, by country



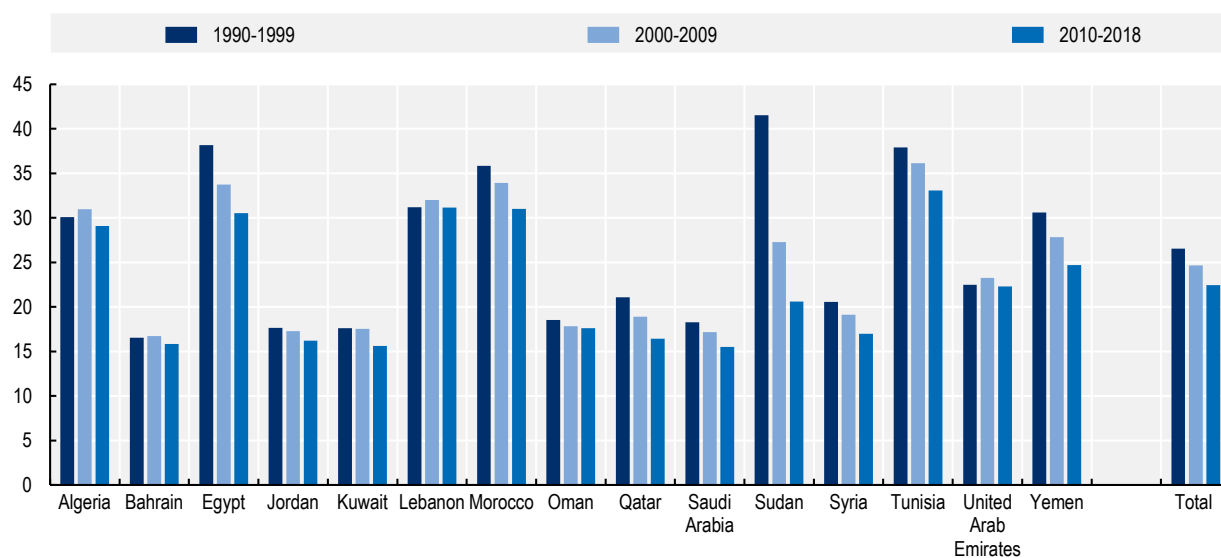
Source: IPC-IG. 2021. Social Protection Responses to COVID-19 in the Global South: Tracking Matrix.

Annex Figure 2.B.6. Number of COVID 19 policy response and targeted population, by country



Source: IPC-IG. 2021. Social Protection Responses to COVID-19 in the Global South: Tracking Matrix

Annex Figure 2.B.7. Multiple indicators multiple causes model-based (MIMIC) estimates of informal output (percentage of official GDP), Selected Arab countries, average by decade



Source: Authors' illustration based on data from Elgin et. al. (2021^[8]).

References

- Afonso, O., P. Neves and T. Pinto (2020), “The non-observed economy and economic growth: A meta-analysis”, *Economic Systems*, Vol. 44/1, p. 100746, <https://doi.org/10.1016/j.ecosys.2020.100746>. [22]
- Aguilar, A. and E. Campuzano (2009), “Informal Sector”, in *International Encyclopedia of Human Geography*, Elsevier, <https://doi.org/10.1016/B978-008044910-4.00102-4>. [45]
- Anyidoho, N. et al. (2022), *Tight Tax Net, Loose Safety Net: Taxation and Social Protection in Accra’s Informal Sector*, WEIGO, Manchester, UK, <http://www.wiego.org/wiego-publication-series>. [37]
- Araujo-Bonjean, C. and G. Chambas (2003), “Taxing the Urban Unrecorded Economy in Sub-Saharan Africa”, CERDI, Working Papers. [35]
- Buehn, A. and F. Schneider (2012), “Corruption and the shadow economy: like oil and vinegar, like water and fire?”, *International Tax and Public Finance*, Vol. 19/1, pp. 172-194, <https://doi.org/10.1007/s10797-011-9175-y>. [42]
- Chacaltana Janampa, J., F. Bonnet and J. Garcia (2022), *Growth, economic structure and informality*, International Labour Organization, Geneva, <https://doi.org/10.54394/UQOF2851>. [20]
- Davidescu, A. et al. (2022), “Two faces of the same coin: Exploring the multilateral perspective of informality in relation to Sustainable Development Goals based on bibliometric analysis”, *Economic Analysis and Policy*, Vol. 73, pp. 683-705, <https://doi.org/10.1016/j.eap.2021.12.016>. [33]
- Dreher, A., C. Kotsogiannis and S. McCorriston (2009), “How do institutions affect corruption and the shadow economy?”, *International Tax and Public Finance*, Vol. 16/6, pp. 773-796, <https://doi.org/10.1007/s10797-008-9089-5>. [43]
- Elgin, C. and S. Birinci (2016), “Growth and Informality: A Comprehensive Panel Data Analysis”, *Journal of Applied Economics*, Vol. 19/2, pp. 271-292, [https://doi.org/10.1016/S1514-0326\(16\)30011-3](https://doi.org/10.1016/S1514-0326(16)30011-3). [24]
- Elgin, C. et al. (2021), “DP16497 Understanding Informality”, *CEPR Discussion Paper*, No. 16497, CEPR Press, Paris & London, <https://cepr.org/publications/dp16497>. [8]
- ESCWA/UNDP/UNICEF (2022), *Social Expenditure Monitor for Arab States: Toward making budgets more equitable, efficient and effective to achieve the SDGs*, United Nations publication issued by ESCWA, United Nations House. [30]
- European Union/OECD (2015), *Policy brief on sustaining informal entrepreneurship : Entrepreneurial activities in Europe.*, Publications Office of the EU, Luxembourg. [39]
- Everest-Phillips, M. (2008), “Business tax as state-building in developing countries: applying governance principles in private sector development”, *International Journal of Regulation and Governance*, Vol. 8/2, pp. 123-154, <https://doi.org/10.3233/IJR-120079>. [32]
- Fernández, C. and L. Villar (2017), “The Impact of Lowering the Payroll Tax on Informality in Colombia”, *Source: Economía*, Vol. 18/1, pp. 125-155, <https://doi.org/10.2307/90017437>. [34]

- Gajigo, O. and M. Hallward-Driemeier (2012), “Why do some Firms abandon Formality for Informality? Evidence from African Countries”, No. Working Paper No. 159, African Development Bank Group, <http://www.afdb.org/>. [31]
- Hesam, N., S. Muzafar and S. Friedrich (2008), *The shadow economy Kuznets’s curve panel data analysis*, Department of Economics, Faculty of Economics and Management, University Putra Malaysia (UPM), <https://mpira.ub.uni-muenchen.de/12956/>. [51]
- IFC (2019), “Micro, Small and Medium Enterprises - Economic Indicators (MSME-EI) Analysis Note December 2019”, International Finance Corporation, Washington, DC. [48]
- ILO (2023), *Women and men in the informal economy: A statistical update*, International Labour Organization, https://www.ilo.org/global/topics/employment-promotion/informal-economy/publications/WCMS_869188/lang--en/index.htm. [46]
- ILO (2022), *Global wage report 2022-23*, International Labour Organization, <https://doi.org/10.54394/ZLFG5119>. [25]
- ILO (2021), *Identifying barriers to formalization: A snapshot of key challenges in South Africa’s informal economy, including in times of Covid-19, and suggested measures on how to get policies and incentive structures right*, International Labour Organization, Pretoria, <http://www.ilo.org/publns>. [50]
- ILO (2021), “Transition from the informal to the formal economy - Theory of change”, International Labour Organization, Geneva, https://www.ilo.org/global/topics/employment-promotion/informal-economy/publications/WCMS_768807/lang--en/index.htm. [11]
- ILO (2019), *Interactions between Workers’ Organisations and Workers in the Informal Economy: A Compendium of Practice: A Compendium of Practice*, International Labour Organization, Geneva, https://www.ilo.org/travail/info/publications/WCMS_735630/lang--en/index.htm. [18]
- ILO (2015), *R204 - Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204)*, https://www.ilo.org/dyn/normlex/en/f?p=1000:12100:0::NO::P12100_INSTRUMENT_ID,P12100_LANG_CODE:3243110,en:NO (accessed on 23 October 2023). [10]
- IMF (2023), *World Economic Outlook: A Rocky Recovery*, International Monetary Fund, Washington, DC, <https://www.imf.org/en/Publications/WEO/Issues/2023/04/11/world-economic-outlook-april-2023>. [5]
- IMF (2022), “Informality, Development, and Business Cycle in North Africa”, *Departmental Paper*, No. DP/2022/011, International Monetary Fund, Middle East and Central Asia Department, Washington, DC, <https://www.imf.org/en/Publications/Departmental-Papers-Policy-Papers/Issues/2022/05/31/Informality-Development-and-the-Business-Cycle-in-North-Africa-464859>. [6]
- IMF (2022), *Promoting Inclusive Growth in the Middle East and North Africa*, International Monetary Fund, Washington, DC, <https://doi.org/10.5089/9798400200038.071>. [2]
- IMF (2019), “Enhancing the Role of SMEs in the Arab World—Some Key Considerations”, *Policy Paper*, No. 2019/040, International Monetary Fund, Washington, DC, <https://www.imf.org/en/Publications/Policy-Papers/Issues/2019/12/13/Enhancing-the-Role-of-SMEs-in-the-Arab-World-Some-Key-Considerations-48873>. [47]

- Islam, A., D. Moosa and F. Saliola (2022), *Jobs Undone: Reshaping the Role of Governments toward Markets and Workers in the Middle East and North Africa*, The World Bank, <https://doi.org/10.1596/978-1-4648-1735-9>. [38]
- Joshi, A., W. Prichard and C. Heady (2014), “Taxing the Informal Economy: The Current State of Knowledge and Agendas for Future Research”, *The Journal of Development Studies*, Vol. 50/10, pp. 1325-1347, <https://doi.org/10.1080/00220388.2014.940910>. [21]
- Krafft, C. et al. (2022), “Are labour markets in the Middle East and North Africa recovering from the COVID-19 pandemic?”, *Working Papers SWP20223*, Economic Research Forum, https://www.ilo.org/africa/information-resources/publications/WCMS_849754/lang--en/index.htm. [7]
- La Porta, R. and A. Shleifer (2014), “Informality and Development”, *Journal of Economic Perspectives*, Vol. 28/3, pp. 109-126, <https://doi.org/10.1257/jep.28.3.109>. [17]
- Loayza, N., A. Oviedo and L. Servén (2005), “The Impact of Regulation on Growth and Informality: Cross-Country Evidence”, No. 3623, World Bank, Washington, DC. [40]
- Loayza, N. and J. Rigolini (2006), “Informality Trends And Cycles”, *Policy Research Working Paper*, No. 4078, World Bank, Washington, DC, <https://doi.org/10.1596/1813-9450-4078>. [19]
- Lopez Acevedo, G. et al. (2022), *How rising inflation in MENA impacts poverty*, Arab Voices, World Bank Blogs, <https://blogs.worldbank.org/arabvoices/how-rising-inflation-mena-impacts-poverty> (accessed on 26 October 2023). [26]
- Lopez-Acevedo, G. et al. (2023), *Informality and Inclusive Growth in the Middle East and North Africa - Overview (English)*, World Bank Group, Washington, D.C., <http://documents.worldbank.org/curated/en/099062323201054687/P1773800417ccc08708034034fe0f9418be>. [9]
- Maiti, D. and C. Bhattacharyya (2020), “Informality, enforcement and growth”, *Economic Modelling*, Vol. 84, pp. 259-274, <https://doi.org/10.1016/j.econmod.2019.04.015>. [41]
- Medina, L. and F. Schneider (2019), “Shedding Light on the Shadow Economy: A Global Database and the Interaction with the Official One”, *CESifo Working Paper*, No. 7981, <http://www.RePEc.org>. [14]
- Nielsen, W. and S. White (2021), *Dealing With Firm Informality Research Report*, Donor Committee for Enterprise Development, Cambridge, <http://www.enterprise-development.org>. [15]
- Nikopour, H., S. Habibullah and F. Schneider (2008), “The Shadow Economy Kuznets’s Curve Panel Data Analysis”, *MPRA Paper*, No. No. 12956. [23]
- OECD (2022), *OECD Economic Outlook, Volume 2022 Issue 2*, OECD Publishing, Paris, <https://doi.org/10.1787/f6da2159-en>. [3]
- OECD (2022), *Youth at the Centre of Government Action: A Review of the Middle East and North Africa*, OECD Public Governance Reviews, OECD Publishing, Paris, <https://doi.org/10.1787/bcc2dd08-en>. [27]
- OECD (2021), *Informality and COVID-19 in Eurasia: The Sudden Loss of a Social Buffer*, OECD, Paris, <http://www.oecd.org/eurasia>. [44]

- OECD (2007), *Promoting Pro-Poor Growth: Policy Guidance for Donors*, DAC Guidelines and Reference Series, OECD Publishing, Paris, <https://doi.org/10.1787/9789264024786-en>. [49]
- OECD/ILO (2019), *Tackling Vulnerability in the Informal Economy*, Development Centre Studies, OECD Publishing, Paris, <https://doi.org/10.1787/939b7bcd-en>. [16]
- Ohnsorge, F. and S. Yu (2022), *The Long Shadow of Informality: Challenges and Policies*, The World Bank, <https://doi.org/10.1596/978-1-4648-1753-3>. [28]
- Saoudi, H. (2022), “Formalizing the Informal Sector: A Fundamental Policy for the Economic Stability of the MENA Region”, in *IEMed Mediterranean Yearbook 2022*, <https://www.iemed.org/wp-content/uploads/2022/10/Formalizing-the-Informal-Sector-Fundamental-Policy-Economic-Stability-MENA-Saoudi-IEMedYearbook2022.pdf>. [12]
- UNDP (2022), *Arab Human Development Report 2022: Expanding Opportunities For An Inclusive And Resilient Recovery In The Post-Covid Era*, UNDP Regional Bureau for Arab States, New York. [29]
- Williams, C. (2014), “Informal Sector Entrepreneurship”, *OECD Policy Briefing*, OECD, Paris, <https://doi.org/10.2139/ssrn.2731781>. [13]
- Williams, C. and F. Schneider (2016), *Measuring the Global Shadow Economy: The Prevalence of Informal Work and Labour*, Edward Elgar Publishing, Cheltenham, <https://www.e-elgar.com/shop/gbp/measuring-the-global-shadow-economy-9781784717988.html>. [36]
- World Bank (2023), *Global Economic Prospects, June 2023*, World Bank, Washington, DC, <https://doi.org/10.1596/978-1-4648-1951-3>. [4]
- World Bank (2022), *A New State of Mind : Greater Transparency and Accountability in the Middle East and North Africa*, World Bank, Washington, DC, <https://doi.org/10.1596/978-1-4648-1925-4>. [1]

Notes

¹ According to the World Bank (2023^[4]), the MENA region is projected to grow by 2.2% in 2023 and 3.3% in 2024. Contrary to data in Figure 2.1, World Bank estimates are based on GDP and expenditure components measured in average 2010-2019 prices and market exchange rates. The IMF (2023^[5]) projects the growth of the MENA region to be equal to 2.9% in 2023 and 3.5% in 2024. Both World Bank and IMF forecasts for 2023-2024 are subject to updates.

² The World Bank projections assume an unchanged employment to population ratio from 2021 levels.

³ Informal employment rate, ILO modelled estimates by sex.

⁴ See discussions in Van den Boogaard and Santoro, 2022; and Van den Boogaard et al., 2019 for research on informal taxation and community-driven provision of public goods. See also Amiri and Jackson, 2022 for an example of non-state actor taxation in Afghanistan.

3

Informality in Egypt

This chapter provides an overview of the informal economy in Egypt and discusses recent developments and legislative efforts to tackle informality from a multi-policy approach, in particular in the context of the COVID-19 pandemic. It presents economic trends and relevant regulatory and strategic frameworks, notably the Micro, Small and Medium Enterprise Law No. 152 of 2020, and efforts to expand social security coverage in Egypt over the past years. The chapter analyses informality based on available statistics on informal labour and informal businesses in Egypt, using different data sources.

Key messages

- The informal economy accounts for a significant portion of Egypt's GDP. At the outset of the COVID-19 pandemic, it represented from 29.3% to 50% of the GDP, depending on data sources. Egypt's informal sector in terms of GDP ranks among the largest in the MENA region and slightly above the global emerging markets average of 29%.
- The share of workers in the informal economy experienced a growing trend in the last decade, from 55.9% in 2012 to 66.7% in 2020, led by strong growth of informal male workers. Informality is prevalent among the two most vulnerable age categories: 90% of young workers (15 to 24 years old) and 93% of the working elderly (over 65 years old) are in informal employment. As it is particularly present among vulnerable groups, informality in Egypt is linked to higher probability of living in poverty.
- Around 53% of the country's establishments are considered informal businesses. In total, they provide 31% of the existing jobs in Egypt's private sector and represent 12.8% of the country's private sector value added. Furthermore, the share of enterprises starting their activities as informal businesses slightly increased in Egypt in the past decade and remained higher than in other economies of the MENA region.
- Egypt's economy faced important challenges from the COVID-19 pandemic and inflation crisis, particularly impacting crucial sectors like tourism and retail and exposing the country to the vulnerabilities associated to informality. These crises highlighted the urgent need to develop effective policies for enhancing the country's business environment, competitiveness, and ensuring the protection of its extensive informal labour force to create resilience face to unexpected shocks.
- In recent years, Egypt has advanced to streamline business registration processes, some following the pandemic crisis. These measures aim to facilitate business formalisation and stimulate growth of the formal private sector. Regulations such as Bankruptcy Law No. 11/2018 and Micro, Small, and Medium Enterprise (MSME) Law No. 152 of 2020 exemplify these efforts.
- Over the last decade, Egypt progressed in strengthening its social security system, beginning with the establishment of the Ministry of Social Welfare and Social Solidarity in 2008. Subsequent milestones include the enactment of the Universal Health Insurance Law in 2018 and the Social Insurance and Pensions Law (No.148/2019).

3.1. Economic conditions

Egypt is one of the most industrialised countries of Africa and one of its largest economies. The country contributes the largest share (22%) of total value added of manufacturing in Africa, and the second largest share (21%) in the MENA region after the Kingdom of Saudi Arabia.¹ Egypt is home to the Suez Canal, which sees 10% of global maritime traffic. Its privileged position and industrial potential place the country as a main foreign direct investment (FDI) recipient in the region. From 2015 to 2021, FDI inflows in Egypt averaged 2.56% of GDP, above the average for Africa (2.16%) and the MENA region (1.75%) respectively.²

Despite its developed industrial sector, Egypt has traditionally relied on imports, including machinery, transport equipment, and food products, to meet its domestic consumption demand and production input needs (UNCTADstat). The government has been working over the years on different policies to boost domestic production and exports to reduce the trade deficit and strengthen economic resilience (OECD et al., 2021^[1]).

The public sector plays a significant role in the Egyptian economy, controlling a large number of state-owned enterprises, particularly in strategic sectors such as energy, infrastructure, and banking, but also in sectors such as food processing and manufacturing of textiles and household goods. The government is in the process of implementing economic reforms, including some privatisation and deregulation, to try and increase the role of the private sector in the economy. The private sector has a more relevant role in areas such as telecommunications, information technology, and retail. The government has aimed to encourage foreign direct investment and foster entrepreneurship to support the growth of the private sector and create more job opportunities.³

3.1.1. Growth, inequality and poverty

In the decade between 2013 and 2022, the Egyptian economy has experienced economic growth above the region's levels. With an average annual growth of 4.6%, the wealth generated has exceeded the country's population growth, resulting in 26% increase of GDP per capita in ten years (Figure 3.1). This is significantly higher than the average per capita growth for the MENA region in the same period (1.4%), but below the average growth in lower-middle income economies (29%) (World Bank World Development Indicators). While positive, existing growth did not ease Egypt's heightened vulnerability due to a substantial current account deficit and elevated public debt, placing the country under significant macroeconomic challenges. Furthermore, economic growth occurred in a context of high and rising inflation, with an average annual consumer price index increase of 12% between 2010 and 2020 (CBE, 2023^[2]). Both headline and core inflation have risen strongly since 2022, reaching record highs, before abating somewhat towards the end of 2023 (OECD, 2023^[3]).

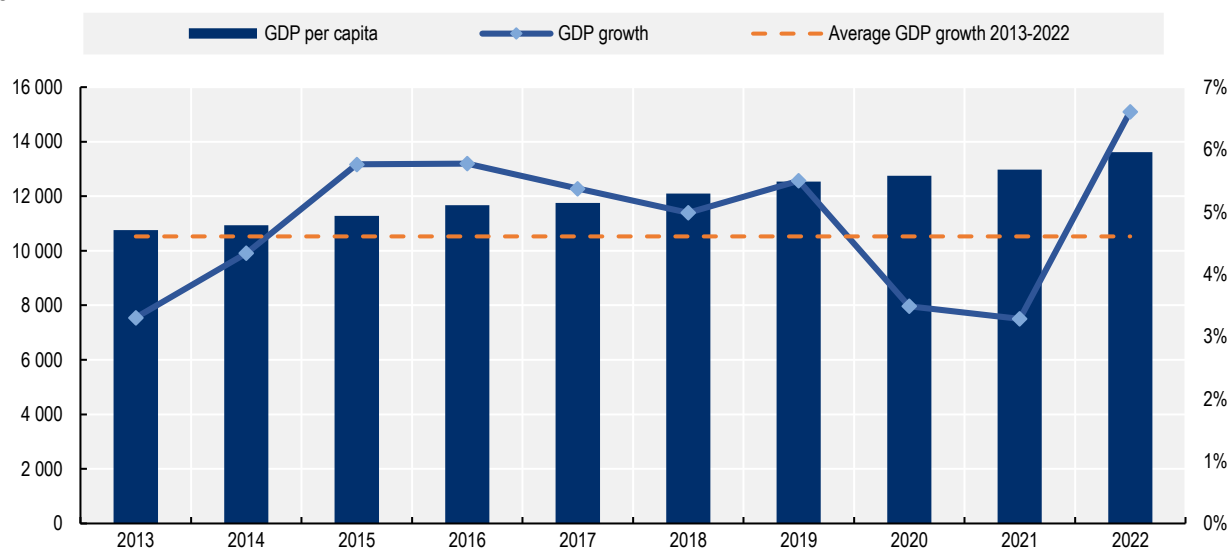
The COVID-19 pandemic further imposed important challenges to Egypt's economy; in particular, it affected the tourism industry, which prior to the crisis represented over 15% of the country's GDP, accounted for 9.5% of the total workforce (OECD, 2020^[4]), and was an important source of foreign currency earnings.

- The Government implemented partial lockdowns and targeted measures to limit the spread of the virus, which resulted in a slow-down of the country's economic activity; however, unlike most of the developed and emerging economies, Egypt experienced positive growth during 2020, reflecting the short duration of the partial lockdowns and limited spread of the virus, and the capacity to rely on its internal market to maintain the economic activity afloat (OECD, 2020^[5]).
- The pandemic's effect on global prices, and the impacts of Russia's large-scale aggression in Ukraine held back Egypt's expected recovery for 2021 and 2022. Egypt is the world's largest wheat importer and relies heavily on Ukraine and Russia for meeting its national cereal needs; it is also a net importer of other essential basic food items, such as cooking oils.

- In this context, soaring prices, fewer tourists from Ukraine and Russia and increasing investment outflows, forced Egypt to request assistance to the IMF, with an Extended Fund Facility programme signed in December 2022. The objective of the EFF is to help Egypt stabilise its macroeconomy, while maintaining its foreign reserves and implementing a debt rationalisation programme. Egypt is the IMF's second largest debtor, behind Argentina. Under the IMF programme, Egypt is expected to reduce its current public debt (general government gross debt) from 89% of GDP to 75% by 2026, although public debt increased to above 95% of GDP in 2023 on the back of slowing economic growth and a high debt service burden.

Figure 3.1. GDP growth in Egypt, 2012-2021

Left axis: 2017 international dollar; Right axis: year-on-year growth on constant prices, percent change, and average growth



Note: GDP per capita is in PPP

Source: IMF (2023^[6]), World Economic Outlook database, April 2023.

Inequality and poverty remain a challenge, affected by low labour market participation, declining employment levels and high levels of inflation. Income inequality measured through the Gini index shows a slight improvement between 2010 and 2014, but there was a sharp increase in 2015 that persists, resulting in an estimated Gini coefficient of 0.36 in 2022 (ESCWA, 2023^[7]).

- Measuring inequality in the country is nonetheless difficult and alternative measures to the Gini index indicate a worsened scenario when considering different information sources. According to estimates of the World Inequality Database, a more accurate Gini index accounting for pre-tax national income would reach 0.57 in 2022.
- Poverty in Egypt, as measured by the national poverty line, experienced a worsening trend for most of the 2010 decade, from 27.8% in 2015 to 32.5% in 2017-18⁴. This trend reversed at least in 2019-20, when poverty dropped to 29.7%, as announced by CAPMAS on the occasion of the International Day for the Eradication of Poverty in October 2022⁵, partially linked to the country's efforts to expand social benefits. During this period Egypt did see an improvement in its Human Development Index (HDI), achieving the level 'high human development' in 2015, mainly due to important improvement in pre-university education enrolment rates in all stages, and particularly in primary education (UNDP/Ministry of Planning and Economic Development of Egypt, 2021^[8]). The progress has stalled since 2019, consistent with the global trend of the HDI, which was conditioned by the COVID-19 pandemic.

Labour force. The labour force participation rate declined from 52% in 2012 to 43% in 2020 (Figure 3.2). The average hides a significant gap between the rates of female and male participation in labour force, which were respectively 15% and 70.3% in 2020. Women's historically low participation rate in 2020 may relate, among other factors, to the decline of employment in the public sector ⁶, being the public sector historically the main employer of, and most suitable job option for, Egyptian women (Barsoum and Abdalla, 2020^[9]). The impact of measures implemented to contain the COVID-19 pandemic could have also pushed women to dedicate more time to taking care of family members, being forced to quit the labour market. In general, unemployment declined in the last decade, for both men and women. For women, the decrease was important and continuous over the years, with the exception of the years 2015 and 2019; this decrease reflected the lower participation of women in the labour force rather than more women being employed. For men, lower unemployment rates were observed along stable or slightly declining male employment rates. An increase in the male unemployment rate was registered following the COVID-19 pandemic, with the rate going from 4.8% in 2019 to 5.9% in 2020.

Employment. Male employment rate started to resume after 2017, following a few years of decline, but the positive trend was interrupted by the COVID-19 pandemic. The men's employment rate was 66% in 2020, compared to 70.5% in 2012. Female employment, which had remained relatively stable until 2017, did on the contrary experience a significant drop that has continued until 2020, when it reached its lowest point in over ten years: it was 12.3% in 2020 compared to 18% in 2012.

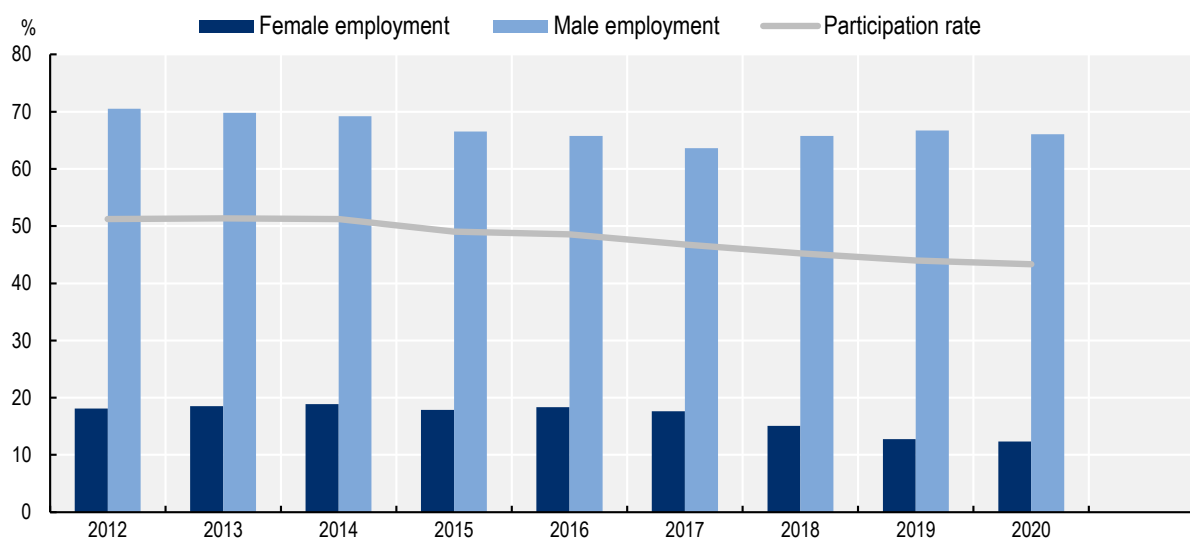
Egypt's labour force is defined by a majority of workers with intermediate education (37%), followed by those with less than basic education who represent 24% of the employed, and by the group of workers with advanced education (23%). Female workers with advanced education represent 40% of the female workforce, while those with intermediate education are 29% and workers with less than basic education 23% (ILOSTAT Data).

Agriculture remains the major source of employment in Egypt, providing over 20% of existing jobs, formal and informal (Figure 3.3). While it has experienced a strong decline over the last three decades, agricultural employment remains high in international comparison. Wholesale and retail trade, construction, and transportation account for over 1/3 of Egypt's employment. Manufacturing, which provided 13% of the country's jobs in 2020, has experienced a significant increase over the previous decades, as it partially integrated jobs from the agricultural sector (ILOSTAT Data).

75% of the formal and informal workers in Egypt are employed by medium, small and micro enterprises (MSMEs) (Ministry of Planning and Economic Development data), which account for over 98% of businesses operating in the private sector and contribute to 43% of the country's value added (CBE, 2023^[2]).

Figure 3.2. Evolution of total employment in Egypt, 2012-20

Employment to population ratio and labour force participation rate; 15 to 64 years old

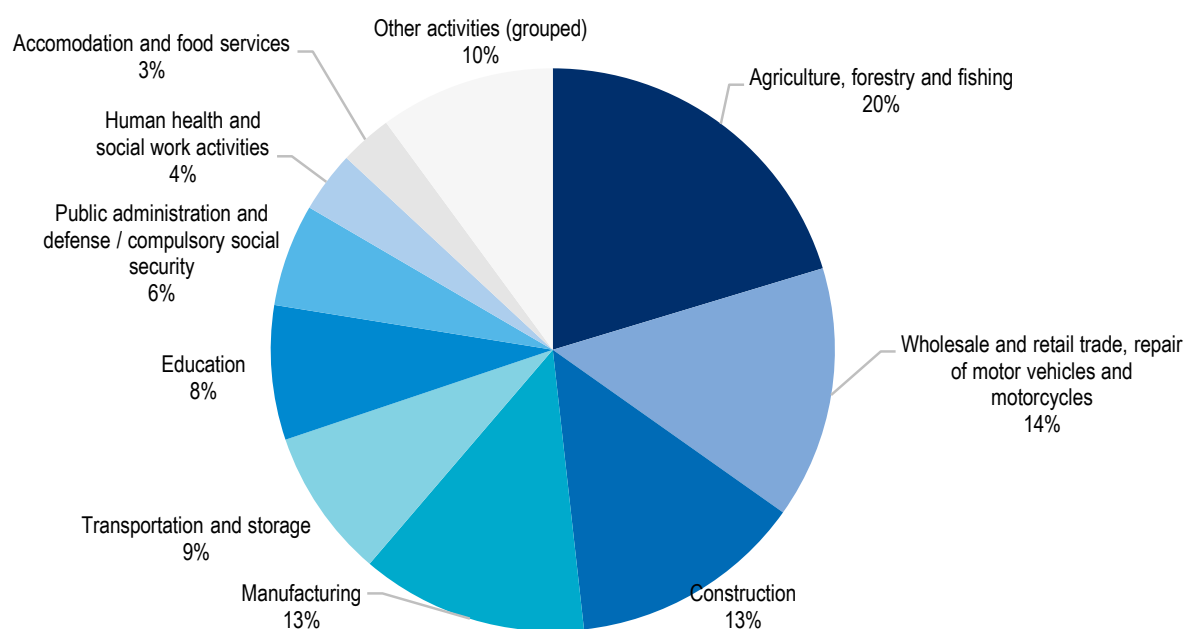


Note: Total employment includes both formal and informal employment.

Source: ILOSTAT, Labour Force Statistics Database.

Figure 3.3. Employment in Egypt by economic activity

Share of employment (%), 2020



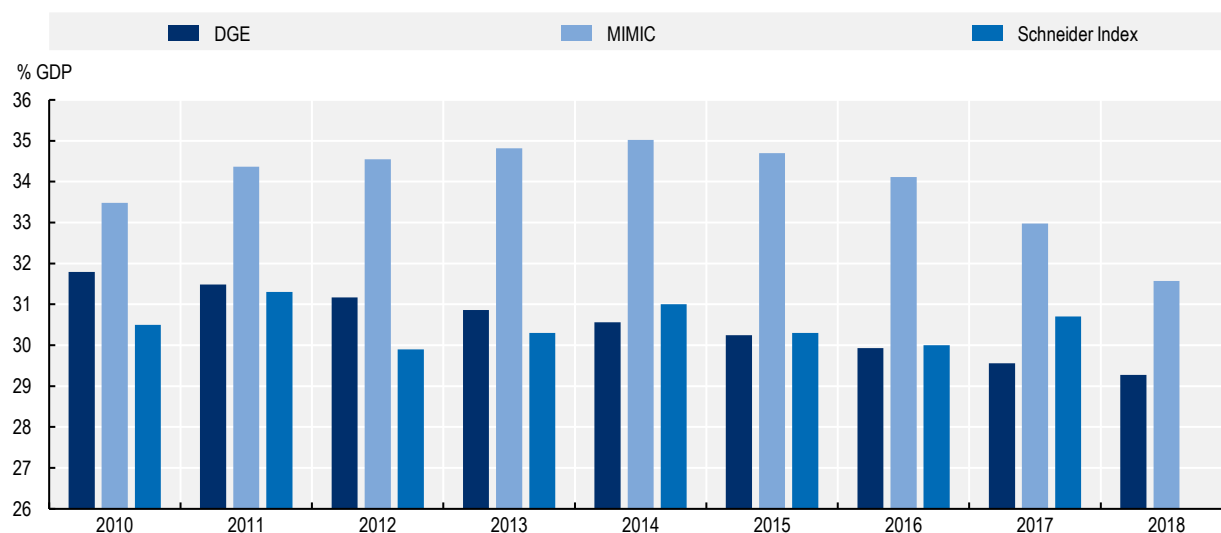
Note: Data cover formal and informal employment. Legend is sorted by largest to smallest sector.

Source: CAPMAS (2020_[10]), Annual bulletin for labour force 2020.

The informal economy accounts for a significant share of GDP. According to different modelled estimates, it represented at least 29.3% of Egypt's GDP in 2018, and up to 50% as stated in recent declarations from Egyptian economic actors (Egypt Today, 2019^[11]) (Figure 3.4). Available estimates show that Egypt's informal sector, in terms of GDP, is one of the largest in the MENA⁷ region and slightly above the global average for emerging markets (29%) (IMF, 2022^[12]). It is worthwhile to note, however, that assessing the size of the informal economy is, by its own nature, challenging.

Figure 3.4. Estimates of the size of the informal economy in Egypt

As share of GDP



Note: Dynamic general equilibrium model-based (DGE) estimates of informal output (% of official GDP); Multiple indicators multiple causes model-based (MIMIC) estimates of informal output.

Source: Schneider Index: Medina and Schneider (2019^[13]); DGE and MIMIC: Elgin et al. (2021^[14]).

Concerns on the impact of the large informal economy on the productivity and competitiveness of the Egyptian economy and about the repercussions of informality on inequality and social inclusion have increased over the last two decades, becoming the centre of a series of policy initiatives (MPED, 2022^[15]), as discussed further below in this chapter.

3.2. Key statistics and drivers of informality

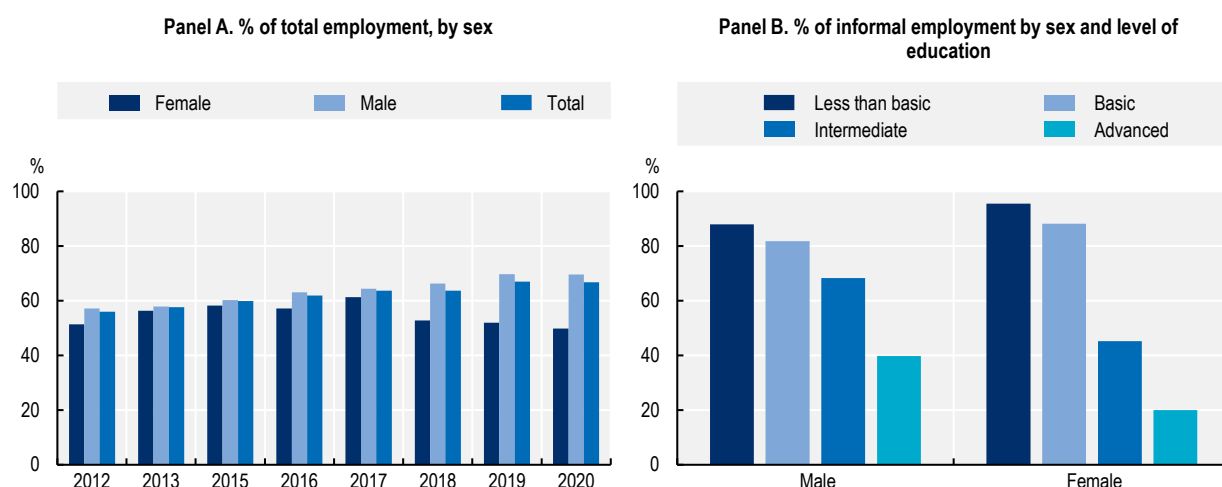
In the analysis of the informal economy, it is important to differentiate between informal jobs and informal businesses. Informal jobs encompass various forms of employment characterised by no or insufficient formal arrangements, also existing within formal enterprises. Informal businesses can reflect businesses operating mostly beyond the boundaries of formal institutional frameworks. This section delves into essential statistics concerning both informal jobs and businesses, recognising the importance of disaggregated data to comprehend the diverse manifestations of informality. The aim is to uncover the distinct challenges and opportunities associated with each category, thereby contributing to a deeper understanding of the landscape of the informal economy in Egypt.

3.2.1. Informal workers

The share of informal workers experienced a growing trend in the last decade, from 55.9% in 2012 to 66.7% in 2020 (Figure 3.5), led by significant growth of informal male workers. Specifically, the rate of informal employment was 69% for men and 49% for women in 2020. The number of female informal workers decreased, after reaching a high point in 2017 (they represent 61.3%), to its lowest point in the decade, with only one in two employed women working informally.

This is consistent with the drop of Egypt's female labour participation rate, which has affected in particular less educated women, who are over-represented in the informal economy, while female workers with advanced education have significantly increased their share among employed women: 20% of Egyptian women with advanced education had an informal job in 2020, as opposed to 40% of men with advanced education. Similarly, less than one in two women with intermediate education had an informal job versus three in four men. The education groups most likely to be working informally remain basic or less than basic education, with shares close to 90% for both men and women, a reminder of the link between informality and low skill jobs.

Figure 3.5. Evolution of informal employment in Egypt



Note: Panel A: Data for 2014 is not available. Name of indicators: Informal employment rate by sex; Panel B: Informal employment rate by sex and education (right graph). As of September 2023, data for 2020 are under revision.

Source: ILOSTAT, Labour Force Statistics Database

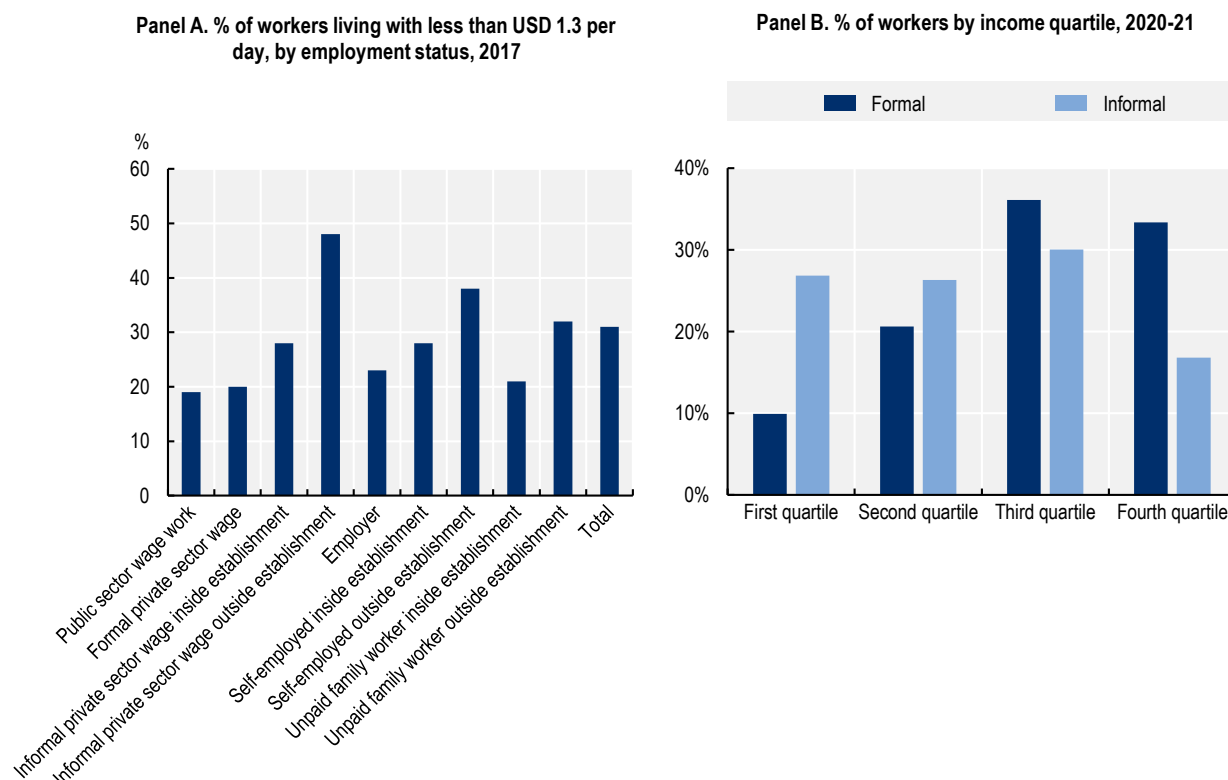
Informality is prevalent among the two most vulnerable age categories: 90% of young workers (15 to 24 years old) and 93% of the working elderly (over 65 years old) are in informal employment (ILOSTAT, LFS). Moreover, 74% of young working women are engaged in informal employment, in contrast to 92% of their male counterparts. This disparity is linked to the concentration of young working women in the public sector, where informal jobs are less prevalent.

As it is particularly present among vulnerable groups, informality in Egypt is linked to higher probability of living in poverty. This is especially true for informal private sector wage workers and self-employed outside establishments, (Figure 3.6, Panel A).

Furthermore, when considering the findings from the COVID-19 MENA Monitor survey, it shows that 53% of respondents within the two lowest income quartiles are engaged in informal work, in contrast to the 30% observed among their formal counterparts in the same quartiles (Figure 3.6, Panel B). Notably, the proportion of informal workers in the first income quartile is more than double that of formal workers.

However, it is important to highlight that the survey's most prevalent demographic among informal workers belongs to the third quartile. This observation may be attributed to the survey's sampling method, which relies on mobile phone users, despite Egypt boasting a mobile penetration rate nearing 100%. Additionally, the notably high percentage of informal workers in the third- and fourth-income quartiles could suggest a substantial presence of self-employed professionals such as lawyers, doctors, accountants, and architects among informal workers.

Figure 3.6. Poverty, income and informal work, Egypt



Note: Panel A: Egypt's national poverty line: Workers living with less than USD 1.3 per day. Panel B: Workers by income quartile: Author's calculations using pooled data controlled by "Unique individual identifier" using the ERF (2021^[16]), Combined COVID-19 MENA Monitor Household Survey (CCMMHH), Nov-2020, Feb- 2021, Apr-2021, Jun-2021, Aug 2021, Version 5.0 of the licensed data files. The CCMMHH's sample is mobile phone users aged 18-64, covering over 2000 households and individuals.

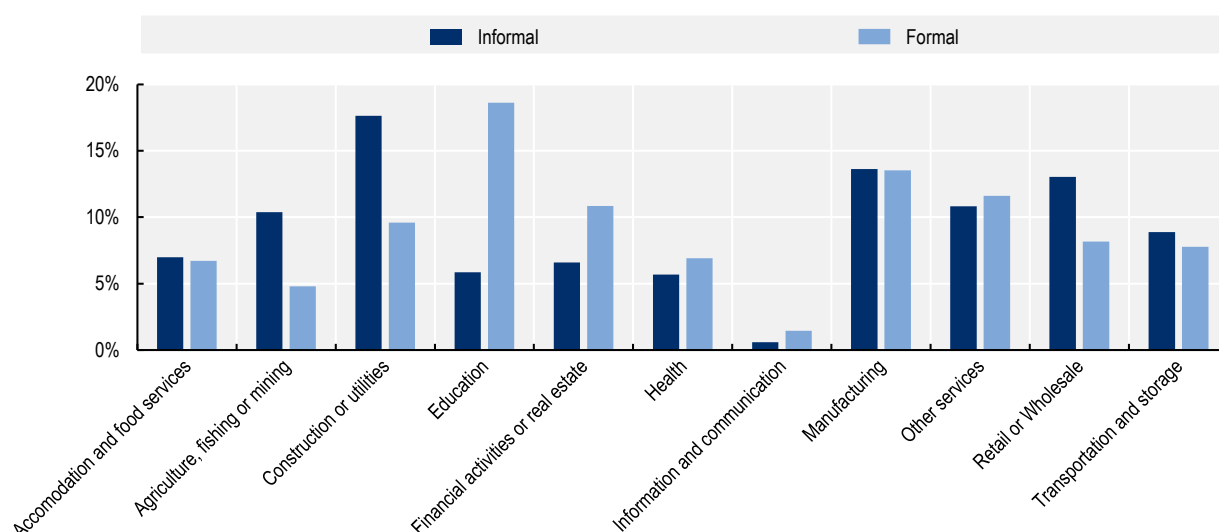
Source: ILO (2021^[17]), Regional Report on Jobs and Growth in North Africa 2020; ERF (2021^[16]).

The OECD has developed the Key Indicators of Informality based on Individuals and their Household (KIbIH) database, which uses ILO definitions of informal employment and informal sector. As measured by the KIbIH database, in 2015 Egypt's health insurance coverage among informal workers was relatively low compared to peer countries. While the vast majority of the country's formal workers enjoyed health insurance, this was not the case for over 85% of the country's informal workers, a share similar to peers like Brazil (where only 12% of the informal workers enjoyed health insurance), but significantly lower than other emerging markets with large populations such as for example Indonesia (38%) and Chile (84%). The social security reforms implemented in Egypt over the past years aimed to increase the coverage, but more data and a thorough follow-through are needed from the authorities in order to confirm the impact of the reforms.

Egypt's informal workers are distributed relatively evenly among the country's main economic activities, i.e. in each sector the distribution of workers between formal and informal is overall similar (Figure 3.7). There are however a number of activities where informal workers are over-represented, if compared to the formal sector. These sectors include construction, agriculture and retail trade, while education is the activity with the highest share of formal employment.

Figure 3.7. Informal employment by economic activity in Egypt, 2020

Distribution of employment by economic activity and formal status



Note: The shares add to 100 per formal (informal) employment.

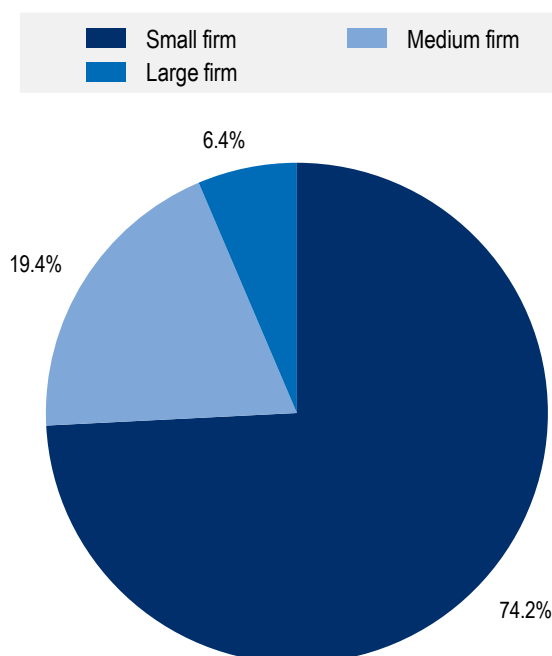
Sources: COVID-19 MENA Monitor Household Survey (CCMMHH), ERF (2021^[16]).

The causes of this can be partially related to Egypt's informal firms' difficulties with complying with the high administrative costs, as seen before, as well as the perception of having no benefits in the formalisation of their businesses.

Finally, similar to findings across the world, informal employment in Egypt is concentrated in small firms (74% of the informal jobs) and medium firms (19%) (Figure 3.8).

Figure 3.8. Informal workers by firm size in Egypt

% of informal workers, 2015



Source: OECD Key Indicators of Informality based on Individuals and their Household (KIIBIH) database.

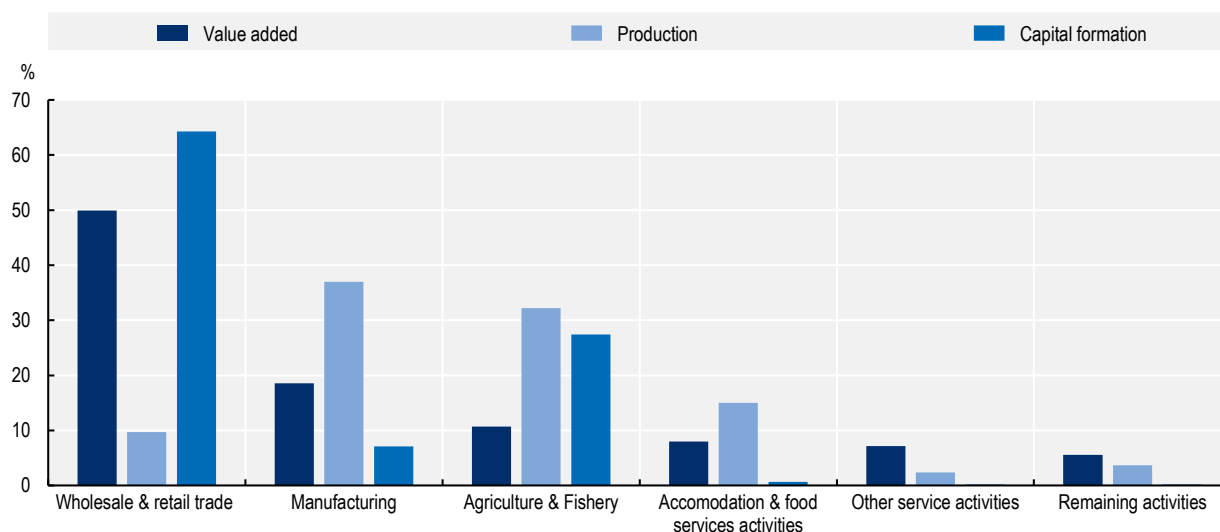
3.2.2. Informal businesses

According to the 2017/2018 Egyptian Economic Census conducted by CAPMAS, around 53% of the country's establishments⁸ (1.9 million) are considered informal businesses. In total, they provide 31% (3.9 million employees) of the existing jobs in Egypt's private sector and represent 12.8% (EGP 239 billion) of the country's private sector value added. The underperformance of the informal establishments with respect to formal businesses can also be observed in the share of wages within sectors. While employment in informal establishments represents a third of the total private employment in establishments, wages amount to only 11.1%.

Regarding the distribution of businesses per main economic activity, the majority of informal establishments (Figure 3.9) are classified as wholesale and retail trade (59% of all informal establishments), followed by manufacturing (14.1%), other service activities (11.2%), accommodation (5.2%) and agriculture (4.9%). In terms of value added, wholesale and retail trade contribute with 50% of the informal establishments sector value added, followed by manufacturing (18.6%) and agriculture and fisheries (10.7%).

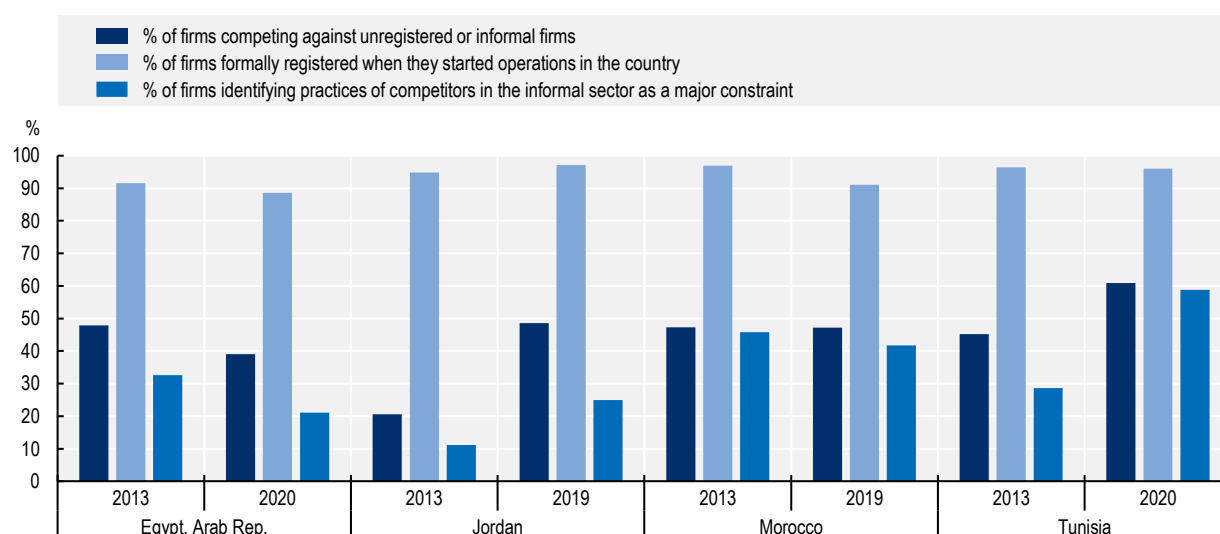
Figure 3.9. Informal establishments by economic activity, 2018

Share of total number of informal establishments, %

Source: Egyptian Economic Census (EEC) 2017/2018 (CAPMAS, 2018_[18]).

The share of enterprises starting their activities as informal businesses slightly increased in Egypt in the past decade and remained higher than in other economies of the MENA region (Figure 3.10). The most recent data (which refer to 2020) indicate that the firms that started as informal and later became formal are almost 12% in Egypt, while they are, for instance, less than 3% in Jordan.

At the same time, the share of firms that consider they are facing unfair competition from informal businesses appear to decrease over time in Egypt, differently from other countries. The distribution of formal and informal businesses across sectors could be one element helping to explain these patterns.

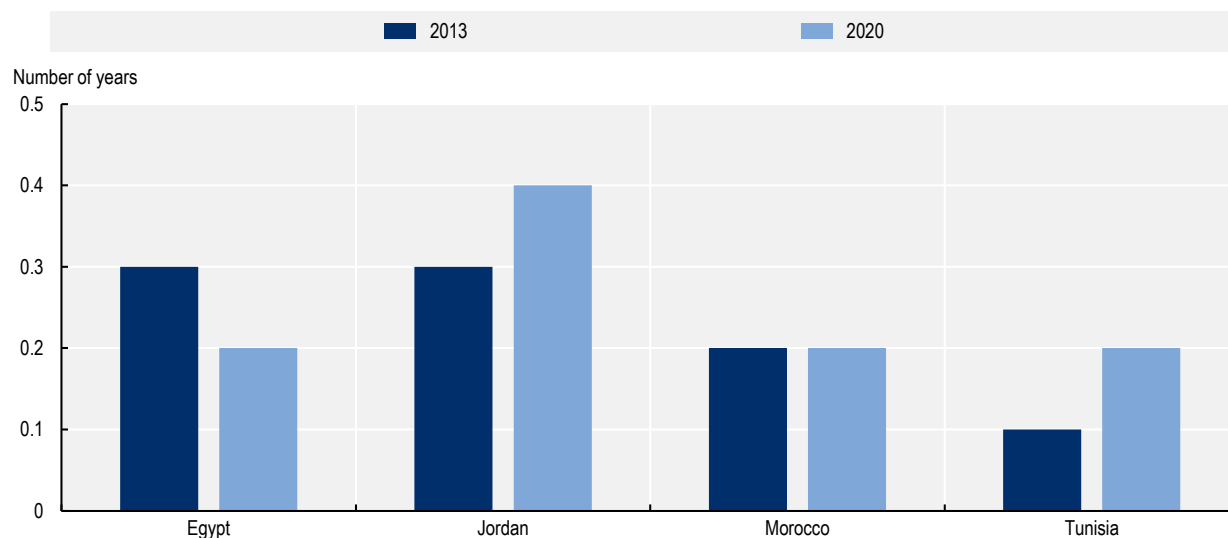
Figure 3.10. Businesses and informality, Egypt and selected MENA economies

Note: Formal (registered) non-agricultural companies with 5 or more employees are targeted for interview.

Source: World Bank (2023_[19]): Enterprise Surveys database.

The time lapse before formally registering businesses decreased in Egypt between 2013 and 2020, the year of the latest enterprise survey conducted by the World Bank in the country (Figure 3.11). It is also possible that the difficulties related to the COVID-19 crisis were not yet reflected in the data, as opposed to Tunisia, where an increase in the delay for registration was observed in 2020.

Figure 3.11. Number of years firm operated without formal registration



Note: Formal (registered) non-agricultural companies with 5 or more employees are targeted for interview. This indicator is computed only for registered firms that did not have a formal registration when they started their operations in the country. Data for Jordan and Morocco refer to 2019.

Source: World Bank (2023^[19]), Enterprise Surveys database.

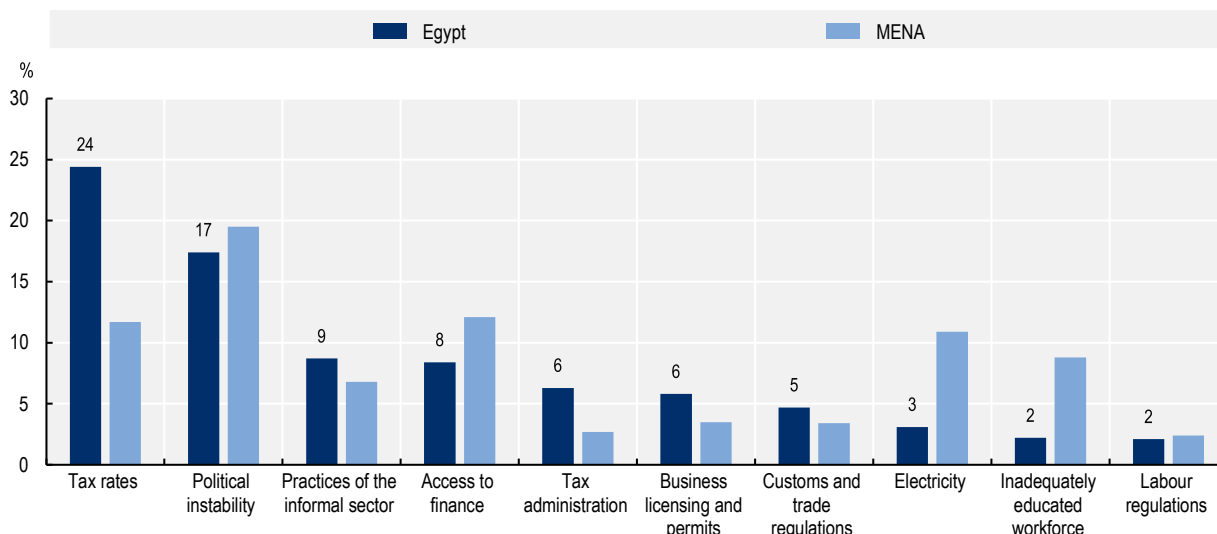
The high level of tax rates was the main concern expressed by 24% of Egyptian businesses surveyed in 2020 as a reason for not formalising (Figure 3.12), a share more than double the average for the MENA region. Ease of non-compliance emerged in an AfDB 2016 study on Egypt, where employers declared the possibility of avoiding the enforcement of labour laws and payment of taxes and social insurance for employees as a driver to choose informality. In addition, informal firms indicated that “saving time and efforts” was the most common reason for remaining informal, while they did not report any perceived benefit for working formally. In recent years, Egypt has introduced a number of measures to address these concerns. These include reforms of the tax administration system by the Ministry of Finance and the Egyptian Tax Authority to facilitate tax filing and processing, including the digitalisation of invoices, and the project initiated by the OECD and the Egyptian Ministry of Finance to strengthen domestic resource mobilisation, including tax transparency, funded by the EU (OECD, 2020^[20]; IMF, 2022^[12]).

Companies in the informal economy typically do not have access to banking services, also because they lack proper documentation on income source. Cash-based transactions are widely used in Egypt, in the absence of legal restrictions on the maximum amount for cash transactions. It was estimated that 40% of cash-based transactions took place in the informal sector (PWC, 2019^[21]). At the beginning of 2019, the Egyptian government stopped accepting cash transactions for payments of more than EGP 500, to encourage financial inclusion and at the same time transition to formalisation.

As discussed also in Chapter 6, the Central Bank of Egypt has taken several initiatives in recent years to facilitate access to finance and provide loans at subsidised interest rates (5%), which could facilitate formalisation of businesses (OECD, 2020^[20]).

Figure 3.12. Top ten business environment constraints, Egypt and MENA

Percentage of firms that consider a specific business environment obstacle as the most important one



Note: Formal (registered) non-agricultural companies with 5 or more employees are targeted for interview. Data for Egypt refer to 2020; for other MENA countries, latest available year. Respondents are asked to choose the biggest obstacle to their business from a list of 15 business environment obstacles.

Source: World Bank (2023^[19]), Enterprise Surveys database.

3.2.3. Drivers

A 2016 study by the African Development Bank (2016^[22]) identified three important causes of informality in Egypt, notably the insufficient generation of formal jobs by the formal private sector to absorb Egypt's growing labour force or replace the formal sector jobs being destroyed; a lack of disposition by formal private sector employers to hire certain groups of workers, due to skills mismatches or prejudice; and the possibility that educated youth had not developed enough interest for private sector work or entrepreneurship.

These drivers should be analysed in the context of the high administrative regulatory burdens and compliance costs in Egypt. The World Bank (2023^[23]) and OECD (OECD, 2024^[24]) point to the high regulatory burden in Egypt as a contributing factor to informality.

- Analysis from the World Bank notes that the costs of starting a business and resolving insolvency in Egypt are among the highest in the region, a fact that results into a lower number of firms created and in a reduced growth potential for small firms.
- The recent Economic Survey of Egypt conducted by the OECD discusses the high labour costs as one of the most important drivers of informality. It is considered that employers could prefer not to register their workers or to under-report their earnings in light of the high statutory rate of social security contribution.

The following section provides an overview of Egypt's efforts to reform national regulatory and strategic frameworks to address informality in the country.

3.3. Overview of national regulatory and strategic frameworks

As a multifaceted phenomenon, the informal economy in Egypt reflects the nation's economic development trajectory as well as its specific socioeconomic and institutional context (Hacaltana, Bonnet and Garcia, 2022^[25]). This section focuses on the role of Egypt's regulatory framework, one of the key drivers of the persistence of informal economic activities in most economies. Addressing existing gaps and challenges in the country's regulatory framework holds the potential to help Egypt's formalisation efforts while extending support to its broad informal labour force, especially during times of crises.

Over the past decades Egypt has been conducting different initiatives to promote significant reforms aiming at addressing such structural deficiencies. This section focuses in particular on analysing the efforts done under two key areas: business regulation, and social security.

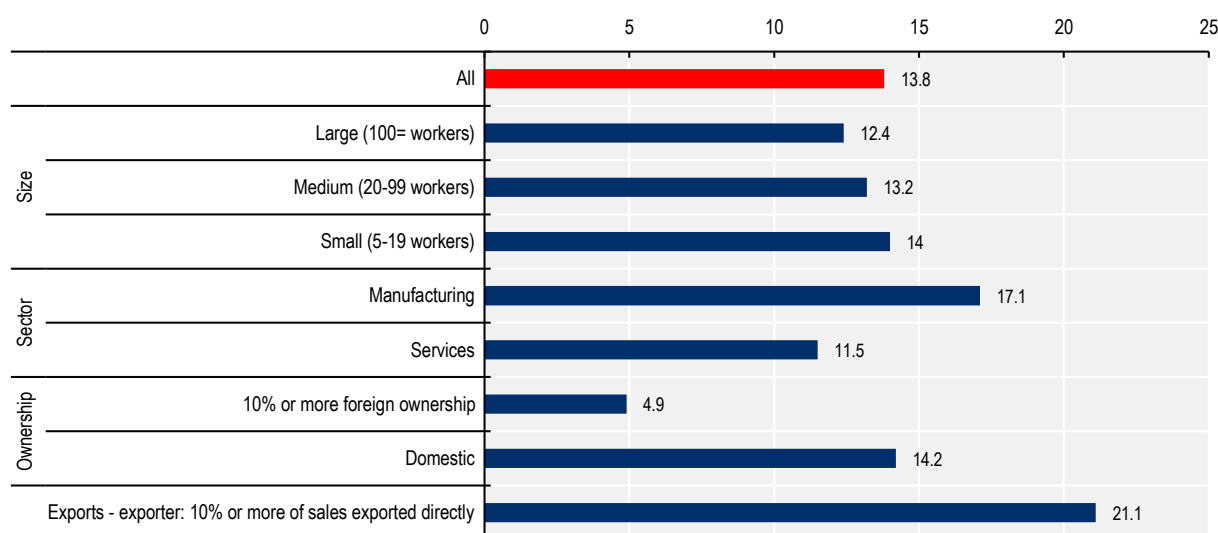
3.3.1. Business laws

Considerable regulatory burden and compliance costs can be a driver of informality, particularly for individuals and enterprises with limited capital and low productivity, who may find the requirements for entering the formal labour market unattainable.

The recent OECD Economic Survey of Egypt defines the country's firms operating environment as restrictive and calls for continued efforts to ease business regulations (OECD, 2024^[24]). For instance, in Egypt the demanding weight of licensing obligations on businesses persists as a substantial challenge (Figure 3.13). Particularly impactful is the high cost of compliance administration on micro and small enterprises, constituting most of Egypt's business landscape and which operate with more constrained resources. Despite attempts to regulate based on firm size, historical evidence suggests its inefficacy, as this may inadvertently disincentivize the growth of smaller enterprises or trigger unintended consequences, such as underreporting revenues or staff once a critical size is achieved (Dabla-Norris, 2018^[26]).

Figure 3.13. Major constraints for domestic businesses and exporters

Percentages of firms in Egypt identifying business licensing and permits as a major constraint, 2020



Note: Share of respondent firms out of 3 075 firms surveyed.

Source: World Bank (2023^[19]), Enterprise Surveys.

With the launch of the National Structural Reform Programme (NSRP) in 2021, Egypt has started to take steps towards enhancing the country's business environment, in order to support private sector-led growth, and diversify the economy. The NSRP (MPED, 2021^[27]) aims to enhance economic resilience, promote employment and employability, and raise the competitiveness of the economy. The establishment of a competitive environment and the maintenance and further development of infrastructure sectors (e.g. energies, transports, ICT) should improve business access to market and finance, especially for SMEs and entrepreneurs, and stimulate industrialisation and trade. An improved environment should also help business formalisation.

Streamlining administrative processes not only benefits larger corporations but is pivotal for the prosperity of smaller businesses. The time required to obtain an operating license in Egypt was measured as a minimum of 14 days, in contrast to the nine-day average in the OECD (World Bank, 2020^[28]). Recent initiatives, such as the introduction of an e-platform by the General Authority for Investment (GAFI) in August 2023, aimed at online registration of new firms, are anticipated to significantly reduce the time required for a firm to be officially listed in the company registry, potentially shortening the process to a much shorter period. To reinforce this process, Egypt could adopt the "silence is consent" principle for business registration or licensing, a practice embraced by approximately half of OECD countries in 2018. This principle implies that licenses are automatically granted if the competent licensing authority does not respond by the end of the statutory response period.

The *Micro, Small and Medium Enterprise (MSME) Law No. 152 of 2020* represents potentially a positive step towards easing the business regulatory ecosystem. The law replaced the previous Small Enterprises Law of 2004 and, importantly, updated and harmonised the definition of MSMEs, based on the annual turnover and paid-up capital⁹. It introduced a mechanism to stimulate business formalisation. The incentives to integrate the informal sector with the formal economy include:

- A mechanism for MSMEs operating in the informal sector before the issuing of the Law No. 152 to obtain a temporary licence for a period up to five years applying the principle of "silence is consent", which replaces any approvals or other legal procedures. After receiving the temporary license, any juridical proceedings are stopped, and enterprises are exempted from paying taxes for the previous years of operation. Enterprises operating in the informal economy that obtain a temporary license are exempt from stamp duty for a period of 5 years and from registration fees (such as notary fees).
- New enterprises operating after the issuing of Law No. 152 obtain a temporary license for a year – to be renewed for another year- till issuing the final license, applying the principle of "silence is consent".
- Furthermore, businesses with annual turnover below EGP 10 million can opt into a simplified tax regime that substitutes the standard income tax. For small businesses, the tax payable is determined by applying the corresponding tax rate on annual turnover (either 0.5%, 0.75% or 1% depending on the level of turnover). For micro businesses, the tax payable is determined according to lump sum amounts that depend on the level of turnover. Moreover, licensed enterprises have access to a number of generous tax and non-tax incentives.
- Non-tax incentives include financial and non-financial incentives for the companies and institutions that support informal enterprises toward their transition to formalisation, for instance by providing business services.
- The Law includes procedures to obtain the approval to start business activities through one-stop-shops units of the Micro, Small and Medium Enterprises Development Agency (MSMEDA) in the governorates or at the General Authority for Investment and Free Zones (GAFI). According to the Law, the size classification certificate is issued only from one-stop-shops of MSMEDA.
- Other facilitations involve, for instance, the allocation of 30% of lands in industrial, touristic areas and urban communities for SMEs; 40% of public procurement goes to SMEs; exempting MSMEs from providing guarantees or security when setting building of the project until obtaining the required assets for undertaking their activities or decreasing the value of the guarantees or security

required for obtaining such assets; exempting start-ups (entrepreneurs) from copyright fees, and bearing part of workers training cost.

By August 2022 MSMEDA had managed the formalisation of some 7 000 projects (i.e. informal business activities) based on the provisions of the new law (Mounir, 2022^[29]). There is ongoing work by the ILO investigating whether the mechanism of incentives introduced by the Law No. 152/2020 was effective, in order to assess if modifications are necessary to improve effectiveness. This analysis is also considering the role played by (lack of) awareness about the available policy initiatives in limiting the impact of the recent law. The Law No.152/2020 should support the already positive progress made with the implementation of two pre-existing laws:

- The *Law No. 15/2017 on the Simplification of the Procedures for Licensing Industrial Installations*, which considerably reduced the paperwork and time required to open an industrial facility, i.e. seven days to receive a license compared to up to 600 days previously.
- The *Bankruptcy Law No. 11/2018*, which introduced a shorter timeline for procedures, added flexibilities for seeking business reorganisation and decriminalised bankruptcy (OECD et al., 2021^[11]).

Continued regulatory efforts are imperative to unleash market forces and foster the expansion of the private sector. It is crucial to address existing regulatory barriers that impede the establishment and operation of businesses, hindering their growth potential. Moreover, there is still a pressing need to alleviate the overall burden of licensing imposed on firms, as the current levels are excessively high. Streamlining and reducing these regulatory constraints will not only encourage entrepreneurial activity but also contribute to a more conducive environment for private sector development in support of business formalisation (OECD, 2024^[24]).

3.3.2. Legal environment for social security

In the last decade, Egypt made progress on improving the social security system. Starting with the establishment of the Ministry of Social Welfare and Social Solidarity in 2008, through the adoption of the *Universal Health Insurance Law* in 2018, the country has sought to develop a system that covers all its citizens (ILO, 2023^[30]). The law set the basis for progressively extending the health insurance coverage to the entire population – an objective to be realised by 2032 through a mix of contributory and non-contributory elements, financed in part by indirect taxes (including on tobacco products, cars, motorway tolls and driving licences).

In August 2019, the government adopted the *Social Insurance and Pensions Law* (No.148/2019) that brings together public and private sector workers, as well as workers in the informal economy, under a single programme for social security. The law also increased penalties for non-conforming employers and reduced the contribution rates for both employers and employees and indexed the pension growth to inflation (Barsoum and Selwaness, 2022^[31]). It expands the coverage to include seasonal workers, domestic workers, rural workers, and laborers, to help formalise them. The insurance programme includes old age, disability, death, work accidents, sickness, and unemployment.

Law 148/2019 also introduced provisions to promote the enrolment of informal workers. Self-employed workers who remain outside the formal business sector are covered by these provisions. For this category of workers, the government pays the employer's part of social security contributions. However, these provisions apply to a limited number of specific jobs only, implying that the system does not fully capture the diversity of informal forms of work (Barsoum and Selwaness, 2022^[31]). The government conducts labour inspections to verify the registration of employees, but like in other countries these take place less frequently in small firms, which explains disproportionately low social security coverage among these firms (Barsoum and Selwaness, 2022^[31]).

In addition, the “Aman El-Masreen Certificate” was introduced as a three-year certificate of deposit for the vulnerable groups in the country, aged 19-59. It is managed by Banque Misr, Banque du Caire, Agricultural Bank of Egypt and National Bank of Egypt, in collaboration with the state-owned company Misr Life Insurance to provide insurance coverage to vulnerable persons, such as temporary and seasonal workers, farmers, and low-income workers (Presidency, n.d.^[32]).

Non-contributory social assistance programmes are also in place. Two main cash transfer schemes are the Takaful programme targeting poor households, and the Karama programme targeting the elderly, disabled and orphans (ILO, 2023^[30]). To face the impacts of COVID-19, in 2020 the Government increased the budget for the Takaful and Karama cash transfer programmes and extended the number of beneficiaries to 60 000 additional households. In September 2022, the Ministry of Social Solidarity announced that the Takaful and Karama cash transfer programmes had reached 22 million beneficiaries (Egypt Today, 2022^[33]). Also, informal workers who lost their jobs were provided with a monthly payment of EGP 500 for six months (WHO, 2021^[34]). Applicants had to register with the Ministry of Manpower, with the programme reaching 1.6 million beneficiaries working in multiple sectors.

Evaluating the impact of these initiatives will support Egypt’s efforts to improve the efficiency and reach of its social security ecosystem. For instance, no studies have investigated the effects of the 2019 reform on the promotion of formal jobs. It is possible that these effects may be limited due to the existence of the low earnings threshold, above which social security contributions become mandatory. This threshold might have created disincentives to increase low wages and, in turn, created incentives for employers to underreport wage earnings, in particular when the threshold does not increase as much as average wages, compromising the collection of social security contributions and the social insurance coverage for low-paid workers. Removing this threshold could therefore be positive for increasing formalisation efforts. Such efforts could in addition benefit from further reducing the rate of social security contributions, which would expand the coverage of social insurance and limit the financial burden for employers (OECD, 2024^[24]).

3.4. Concluding remarks

Egypt should continue to take measures to simplify administrative procedures for business registration and promote financial literacy and financial inclusion strategies, with a view of facilitating business formalisation and formal private sector growth. This would typically include regulatory simplification; easing licensing and regulatory requirements; further strengthening, in line with the objectives of the Law No. 152, and improving the design of simplified tax regimes (Mas-Montserrat et al., 2023^[35]), enhancing support for SMEs; and improving access to finance (OECD, 2024^[24]). In this context, ongoing reform processes, such as the implementation of the MSME Law 152 of 2020, will need detailed impact evaluations in order to ensure that it is effective in reducing the overall compliance burden that businesses face.

Furthermore, strategic support to specific high value-added sectors can also facilitate business and labour formalisation in a context of increased competitiveness. Over the last decade, Egypt has prioritised the internationalisation of its economy by developing industrial parks, with a focus on fostering industrialisation (OECD et al., 2021^[1]) and developing the investment attraction and export-oriented potential of its territorial assets. These efforts can have positive spillovers on labour conditions and livelihood of workers in the country, and can be relevant for the informal economy, as evidence suggests that export opportunities may promote the reallocation of informal workers to formal firms (Artuc, Porto and Rijkers, 2019^[36]), increase wages and reduce poverty (McCaig and Pavcnik, 2018^[37]).

In parallel, it is fundamental to extend legal and social protection to informal workers while improving the reach and efficiency of the system. For that aim, Egypt could further evaluate the impact of initiatives to enhance the social security system, focusing on the 2019 reform's effect on formal job promotion. Egypt could consider changes in the earnings threshold, to avoid creating incentives to underreporting, and explore mechanisms to broaden insurance coverage and ease the financial burden on employers (OECD, 2024^[24]).

References

- AfDB (2016), *Addressing informality in Egypt*, African Development Bank, https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Working_paper_-_Addressing_informality_in_Egypt.pdf. [22]
- Artuc, E., G. Porto and B. Rijkers (2019), "Trading off the income gains and the inequality costs of trade policy", *Journal of International Economics*, Vol. 120, pp. 1-45, <https://doi.org/10.1016/j.jinteco.2019.05.001>. [36]
- Barsoum, G. and D. Abdalla (2020), "Still the Employer of Choice: Evolution of Public Sector Employment in Egypt", *Working Papers*, No. 1386, Economic Research Forum, https://erf.org.eg/app/uploads/2020/08/1598519124_314_349569_1386.pdf. [9]
- Barsoum, G. and I. Selwaness (2022), "Egypt's reformed social insurance system: How might design change incentivize enrolment?", *International Social Security Review*, Vol. 75/2, pp. 47-74, <https://doi.org/10.1111/issr.12294>. [31]
- CAPMAS (2020), *Annual bulletin of Labor force survey 2020*, Central Agency for Public Mobilization and Statistics - Ministry of Planning, <https://censusinfo.capmas.gov.eg/Metadata-en-v4.2/index.php/catalog/575> (accessed on 30 November 2023). [10]
- CAPMAS (2018), *Egyptian Economic Census 2017/2018*, Central Agency for Public Mobilization and Statistics, Cairo. [18]
- CBE (2023), *CBE Statistics*, Central Bank of Egypt, Cairo, <https://www.cbe.org.eg/en/economic-research/economic-reports/monthly-statistical-bulletin>. [2]
- Dabla-Norris, M. (2018), *Size Dependent Policies, Informality and Misallocation*, *International Monetary Fund*, <https://www.imf.org/en/Publications/WP/Issues/2018/08/02/Size-Dependent-Policies-Informality-and-Misallocation-46125>. [26]
- Egypt Today (2022), "Takaful and Karama budget hits LE 25B with 22M beneficiaries: Minister of Social Solidarity", *Egypt Today*, <https://www.egypttoday.com/Article/1/119115/Takaful-and-Karama-budget-hits-LE-25B-with-22M-beneficiaries> (accessed on 30 November 2023). [33]
- Egypt Today (2019), "Informal economy exceeds 50% of Egyptian economy", *Egypt Today*, <https://www.egypttoday.com/Article/3/68388/Informal-economy-exceeds-50-of-Egyptian-economy> (accessed on 30 November 2023). [11]
- Elgin, C. et al. (2021), "DP16497 Understanding Informality", *CEPR Discussion Paper*, No. 16497, CEPR Press, Paris & London, <https://cepr.org/publications/dp16497>. [14]
- ERF (2021), *COVID-19 MENA Monitor Household Survey (CCMMHH)*, Economic Research Forum, <http://www.erfdataportal.com/index.php/catalog> (accessed on 30 November 2023). [16]
- ESCWA (2023), *Inequality in Egypt: facets and challenges*, <https://www.unescwa.org/publications/inequality-egypt-facets-challenges>. [7]
- Hacaltana, J., F. Bonnet and J. Garcia (2022), *Growth, economic structure and informality*, ILO Working Paper, No. 69, <https://www.ilo.org/static/english/intserv/working-papers/wp069/index.html>. [25]

- ILO (2023), *Egypt*, ILO Social Protection Platform, <https://www.social-protection.org/gimi/ShowCountryProfile.action?iso=EG> (accessed on 30 November 2023). [30]
- ILO (2021), *Regional Report on Jobs and Growth in North Africa 2020*, International Labour Organization, Cairo, https://www.ilo.org/africa/information-resources/publications/WCMS_809435/lang--en/index.htm. [17]
- IMF (2023), *World Economic Outlook: A Rocky Recovery*, International Monetary Fund, Washington, DC, <https://www.imf.org/en/Publications/WEO/Issues/2023/04/11/world-economic-outlook-april-2023>. [6]
- IMF (2022), “Informality, development, and business cycle in North Africa”, *Departmental Paper*, No. DP/2022/011, International Monetary Fund, Middle East and Central Asia Department, Washington, DC, <https://www.imf.org/en/Publications/Departmental-Papers-Policy-Papers/Issues/2022/05/31/Informality-Development-and-the-Business-Cycle-in-North-Africa-464859>. [12]
- IMF (2016), *IMF Executive Board Approves US\$12 billion Extended Arrangement Under the Extended Fund Facility for Egypt*, International Monetary Fund, <https://www.imf.org/en/News/Articles/2016/11/11/PR16501-Egypt-Executive-Board-Approves-12-billion-Extended-Arrangement> (accessed on 30 November 2023). [38]
- Lopez-Acevedo, G. et al. (2023), *Informality and Inclusive Growth in the Middle East and North Africa - Overview (English)*, World Bank Group, Washington, D.C., <http://documents.worldbank.org/curated/en/099062323201054687/P1773800417ccc08708034034fe0f9418be>. [23]
- Mas-Montserrat, M. et al. (2023), “The design of presumptive tax regimes”, *OECD Taxation Working Papers*, No. 59, OECD Publishing, Paris, <https://doi.org/10.1787/141239bb-en>. [35]
- McCaig, B. and N. Pavcnik (2018), “Export Markets and Labor Allocation in a Low-Income Country”, *American Economic Review*, Vol. 108/7, pp. 1899-1941, <https://doi.org/10.1257/aer.20141096>. [37]
- Medina, L. and F. Schneider (2019), “Shedding Light on the Shadow Economy: A Global Database and the Interaction with the Official One”, *CESifo Working Paper*, No. 7981, <http://www.RePEc.org>. [13]
- Mounir, H. (2022), “7,000 projects formalised since issuance of Enterprise Development Law: MSMEDA”, *Daily News Egypt*, <https://www.dailynewsegypt.com/2022/08/04/7000-projects-formalised-since-issuance-of-enterprise-development-law-msmeda/> (accessed on 30 November 2023). [29]
- MPED (2022), *Egypt’s Minister of Planning and Economic Development participates in the high-level round table on the informal economy in North Africa*, Ministry of Planning and Economic Development, <https://www.mped.gov.eg/singlenews?id=1253&lang=en> (accessed on 30 November 2023). [15]
- MPED (2021), *The Annual Economic Bulletin FY2020/21*, Ministry of Planning and Economic Development, Cairo. [27]
- OECD (2024), *Economic Surveys Egypt 2024*, OECD Paris, <https://doi.org/10.1787/af900de2-en>. [24]

- OECD (2023), *OECD Economic Outlook, November 2023*, OECD, Paris, <https://www.oecd-events.org/oecd-economic-outlook-november-2023/en/>. [3]
- OECD (2020), "COVID-19 crisis response in MENA countries (COVID-19)", *OECD Policy Responses to Coronavirus*, OECD Publishing, Paris, <https://doi.org/10.1787/4b366396-en>. [5]
- OECD (2020), *OECD Investment Policy Reviews: Egypt 2020*, OECD Investment Policy Reviews, OECD Publishing, Paris, <https://doi.org/10.1787/9f9c589a-en>. [20]
- OECD (2020), *OECD Tourism Trends and Policies 2020*, OECD Publishing, Paris, <https://doi.org/10.1787/6b47b985-en>. [4]
- OECD et al. (2021), *Production Transformation Policy Review of Egypt: Embracing Change, Achieving Prosperity*, OECD Development Pathways, OECD Publishing, Paris/United Nations Industrial Development Organization, Vienna/United Nations Economic Commission for Africa, Addis Ababa/United Nations Conference on Trade and Development, Geneva 10, <https://doi.org/10.1787/302fec4b-en>. [1]
- Presidency (n.d.), *Aman El-Masreen Certificate*, The Arab republic of Egypt Presidency, <https://www.presidency.eg/en/> (accessed on 30 November 2023). [32]
- PWC (2019), *Shedding light on Egypt's shadow economy*. [21]
- UNDP/Ministry of Planning and Economic Development of Egypt (2021), *Egypt Human Development Report 2021*, UNDP, Ministry of Planning and Economic Development of Egypt, <https://www.undp.org/egypt/publications/egypt-human-development-report-2021> (accessed on 30 November 2023). [8]
- WHO (2021), *Build back fairer: achieving health equity in the Eastern Mediterranean Region: report of the commission on social determinants of health in the Eastern Mediterranean Region*, World Health Organization - Regional Office for the Eastern Mediterranean. [34]
- World Bank (2023), *Enterprise Surveys*, World Bank, Washington, DC, <https://www.enterprisesurveys.org/en/enterprisesurveys> (accessed on 30 November 2023). [19]
- World Bank (2020), *Enterprise Surveys 2020*, World Bank, Washington, DC, <https://www.enterprisesurveys.org/en/data/exploreeconomies/2020/egypt>. [28]

For further reading

- Al-Ahram Weekly-Ahram Online (2021), [Egypt's massive informal economy: Transitioning to formality](#).
- ERF (2020), Ghada Barsoum and Dina Abdalla, "Still the Employer of Choice: Evolution of Public Sector Employment in Egypt", Working Paper Series.
- Krafft C, R. Assaad, K. W. Rahman, and M. Cumanzala (2020), How Do Small Formal and Informal Firms in the Arab Republic of Egypt Compare? World Bank Group Working Paper, <https://documents1.worldbank.org/curated/en/324411601923707684/pdf/How-Do-Small-Formal-and-Informal-Firms-in-the-Arab-Republic-of-Egypt-Compare.pdf>.
- Mazloun, A. (2022), Expanding use of e-wallets in Egypt: Strengthening the social contract one transaction at a time, Middle East Institute, <https://www.mei.edu/publications/expanding-use-e-wallets-egypt-strengthening-social-contract-one-transaction-time>.
- Medina, L., and F. Schneider (2019), "Shedding Light on the Shadow Economy: A Global Database and the Interaction with the Official One." CESifo Working Paper 7981, Center for Economic Studies and Ifo Institute for Economic Research, Munich.
- Middle East Institute (2020), Mabrouk M., [Egypt's sizeable informal economy complicates its pandemic response](#).
- Mohieldin M. (Ed) (2022), *Financing Sustainable Development in Egypt Report*, Cairo: League of Arab States, https://publications.unescwa.org/projects/fsde/sdgs/pdf/Financing%20Sustainable%20Development%20in%20Egypt_Feb%2028.pdf.
- OECD (2021), *Social resilience: moving away from informality to formal employment and businesses*, Issues Paper for MENA-OECD Government- Business Summit <https://www.oecd.org/mena/competitiveness/issue-paper-session-4.pdf>.
- OECD (2020), Informality and Social Protection in the time of COVID-19 <https://www.oecd.org/dev/HLM-Thematic-note-Informality-social-protection-post-COVID-19.pdf>.
- OECD (2017), *Women's Economic Empowerment in Selected MENA Countries: The Impact of Legal Frameworks in Algeria, Egypt, Jordan, Libya, Morocco and Tunisia*, Competitiveness and Private Sector Development, OECD Publishing, Paris, <https://doi.org/10.1787/9789264279322-en>.
- UNDP, Human Development Index, <https://hdr.undp.org/data-center/human-development-index#/indicies/HDI>.
- World Bank, Poverty and Inequality Platform.

Notes

¹ UNStats Value Added by Economic Activity, at current prices - US Dollars, data for 2021 (latest data).

² UNCTAD Foreign direct investment: Inward and outward flows and stock, annual.

³ https://idsc.gov.eg/Upload/DocumentLibrary/Attachment_E/7139/property-policy-document-eng.pdf

⁴ [Targeting extreme poverty in Egypt: A national priority | The Abdul Latif Jameel Poverty Action Lab](#) (2019); World Bank's Poverty and Inequality platform (accessed in December 2023) <https://pip.worldbank.org/country-profiles/EGY>.

⁵ See <https://english.ahram.org.eg/News/477989.aspx>

⁶ As part of the IMF's support in 2016, the Government of Egypt initiated a reform plan to reduce the budget deficit and public debt (IMF, 2016^[38]).

⁷ According to the Schneider Index, Algeria's informal economy represented in 2017 32% of its GDP, Jordan 14.9%, Lebanon 28.6%, Morocco 29.2%, Tunisia 35.6% (Medina and Schneider, 2019^[13]).

⁸ The Egyptian Economic Census uses a sample of 471 000 operating temporarily and closed establishments. Economic activities outside the establishment are not measured. CAPMAS defines the informal sector as "production units that carry out an economic activity, (industrial, commercial, service, etc.) without administrative registration, or practicing their activities without holding a permission/ license from the concerned official authorities. In addition, they don't have any legal entity in accordance with the necessary procedures to practice such activities".

⁹ The new law differentiates micro, small and medium enterprises by annual turnover (Micro: <1M EGP; Small: between 1M and 50M EGP; Medium: between 50M and 200M EGP), as well as available capital classified by manufacturing and non-manufacturing sector (Micro all sectors: <50K EGP; Small in manufacturing: between 50K and 5M EGP; Small in non-manufacturing: between 50K and 3M EGP; Medium in manufacturing: between 5M and 15M EGP; Medium in non-manufacturing: between 3M and 5M EGP).

4

Informality in Iraq

This chapter aims to generate a better understanding of the informal economy in Iraq (i.e. its extent, characteristics and diversity) and discusses recent developments and legislative efforts to tackle informality from a multi-policy approach, in particular in the context of the COVID-19 pandemic. It aims to identify the causes and consequences of informality, to build a baseline for monitoring progress towards formalization, to build consensus around the situation of informality, and finally, to pave the way for discussions between policy makers, constituents and relevant partners on the priorities and responsibilities for the transition to formality agenda.

Key messages

- As of 2021, approximately 5.73 million people were informally employed in Iraq, making up 66.6% of total employment.
- Among them, 4.72 million were in the informal sector, or 54.8% of total employment. There are also significant numbers of people with informal jobs within the formal sector – for example, those in major corporations or government agencies without long-term contracts or social security contributions.
- The private sector, especially in retail, construction, and transportation, is predominantly informal. Non-citizens are more likely to have informal employment.
- Informal employment correlates with educational attainment. Majority of workers without degrees are in informal employment. Most workers with university degrees are in formal employment.
- Men (68%) are more likely to hold informal jobs than women (44%). This discrepancy might be due to a higher percentage of women working in public employment.
- Insecurity undermines access to education and jobs and deters both employers and workers from entering formal labour relationships. Corruption undermines trust in formality. Transparency International ranked Iraq 157th out of 180 countries in 2022. Limited government capacity to enforce employment and business laws favours informality. Complex legislative environment, hampering formal representation and creating legal uncertainty.
- From demand side, there are limited incentives for businesses to register. In addition, factors that do not favour formalisation include bureaucratic procedures for business registration, lack of awareness among workers and businesses about their rights and obligations, mistrust in institutions, stemming from perceived corruption and costs associated with registration and subsequent obligations deemed too high by businesses.
- Existing laws relating to labour, social security and economic units present several weaknesses, including in terms of the absence of some key implementing regulations, barriers to freedom of association, limited coverage (particularly in the case of social security), or in terms of onerous burdens imposed for the formalisation of enterprises. However, significant efforts are currently underway in the field of social security in particular to expand scope and coverage of social insurance schemes to informal workers.

4.1. Economic conditions

Multiple and wide-ranging the factors contributing to informality in Iraq. These include barriers relating to the structure of the labour-market and macro-economic conditions; challenges to government capacity to effectively legislate and enforce compliance; and demand-side barriers to formalisation, including in relation to awareness of rights and obligations, administrative and financial barriers, and the lack of incentives to formalise. This chapter analyses the highly unique Iraqi context, and the findings point to key factors that require specific attention in the country, including the large public sector in the labour-market, corruption - which results in limited trust in institutions - and the legacies of the conflict and political tensions, which affect the macro-economic environment and thereby, formal job creation and business development. These require tailored and evidence-based policies to effectively promote the formalisation agenda in Iraq.

Iraq's economy is heavily reliant on oil, which has contributed 99% of exports, 82% of government budget, 42% of GDP, yet represents less than 1% of employment over the past decade. Outside the oil sector, services contribute the largest share of GDP, while agriculture contributes less than 10%.

The dual shock of the COVID-19 pandemic and political instability had a direct impact on the economy and on the welfare of Iraqis especially among informal workers, whether as employees informally employed or independent workers with or without employees owning or operating an informal enterprise, and those in self-employment. The contractions in both oil and non-oil sectors in 2020 caused disruptions to employment, increased job losses, and reduced household income. The macro-economic situation and COVID-19 pandemic have contributed significantly to the lowering domestic demand, thus driving many small industries out of the market. However, the recent economic recovery supported by soaring oil prices and rising oil production due to Ukraine crisis has contributed to some accumulation of fiscal buffers and reserves. The fiscal and external balances due to recent increase of oil prices are projected to post surpluses this year, decline over the medium term in tandem with oil price declining trend (IMF, 2022^[1]).

4.1.1. Poverty and vulnerability

Prior to COVID-19, the poverty rate stood at 20%, with rates higher among children aged 0 to 14 years than other age groups, while some 42% of the Iraqi population were deprived in more than one dimension of wellbeing (whether education, health, living conditions, etc.) (UNICEF, 2018^[2]). In turn, some 25.8% of people are living just above the poverty line, and thereby vulnerable to falling into poverty in case of covariate or idiosyncratic shocks. Indeed, the poverty rate was estimated to rise by 11.7% due to COVID-19, reaching 31.7% in 2020 (UNICEF/World Bank, 2020^[3]). Poverty and vulnerability are particularly high among the large number of forcibly displaced people living in Iraq. Indeed, according to the Iraq Humanitarian Needs Overview of 2022, an estimated 2.5 million IDP or returnee population are in need of some form of humanitarian assistance, of whom 45% are children (or an estimated 1.1 million children) (UNOCHA, 2022^[4]). As a result, children remain exposed to various vulnerabilities and protection risks, including child marriage, child abuse, and child labour.

Educational attainment rates in Iraq are relatively low, with 33% of young people aged 15 to 29 unable to read and write, and a further 33% having only completed primary education (World Bank, 2017^[5]). Similarly, access to healthcare – which is largely publicly funded – is limited, with staff shortages and geographical disparities in terms of quality and availability of services (World Bank, 2017^[5]).

4.1.2. Labour force

In Iraq only 39.5% of the population aged 15 and over are in the **labour force** (compared to a global average labour force participation rate of 59.3%) (ILO, 2022^[6]), with significant disparities between men

and women, where 68% of men are in the labour force compared to only 10.5% of women. Only some 26.5% of youth aged 15 to 24 are in the labour force.

According to the latest Labour Force Survey conducted in 2021 (CSO/KRSO/ILO, 2022^[7]), the **unemployment** rate stands at 16.5% (or 1.6 million people), again, with significant differences by age and gender: while 14.7% of men are unemployed, this rate reaches 28.2% among women, and as high as 35.8% among youth. While for men unemployment rates fall with educational level until university level, for women, unemployment is lowest among those who are unable to read and write, and among those with secondary educational attainment. There are also significant variations by region with lowest unemployment rates seen in Babylon, at 5.5%, and highest rates in Nineveh, at 32.8% – over six times higher.

The sectors that employ the largest share of the workforce are construction (16.3%), public administration and defense (15.9%), and wholesale and retail trade (14.2%), while agriculture, forestry and fishing account for 8.4% and manufacturing accounts for 6.2%.

Around 37.9% of all jobs are in **the public sector**, while the private sector accounts for 61% of employment (with the remainder working in both sectors, in state-owned enterprises, etc.). It should be noted that “private sector” covered more than private corporations and quasi-corporations, and included unincorporated enterprises which in principle should have been considered as part of the “household sector”.

Compared to the public sector, the private sector has lower job security, benefits, and often lacks formal contracts. Informality is a major issue within the private sector in Iraq and affects the quality of both products and services as well as jobs. Job opportunities available for youth are also more likely to be in the informal economy than the formal economy. This proliferation of small-scale economic activities in the informal economy, though providing a cushion in times of crises, is in the long-term going to cause a perpetuation of informality in the labour market if not addressed.

4.2. Overview of national regulatory and strategic frameworks

A wide range of reforms has been made over the past decade to strengthen legal protections and guarantees for workers and to improve the business environment. A number of these reforms, such as the Kurdistan Region in Iraq Labour Law and the draft Law on Pensions and Social Security for the Private Sector are ongoing. This section presents an overview of the legal coverage and level of protection offered by relevant legislation and regulations, with a focus on the labour laws, social security laws and legislation governing refugees’ access to employment in Iraq. It also reviews relevant legislation for economic units.

4.2.1. Legal environment for employment and labour

The Labour Law, (Labour Law No.37 of 2015) and draft Labour Law for Kurdistan Region in Iraq KRI (as of September 2021) regulate the employment relationships, contracts, working conditions and entitlements of workers in the private sector. The Laws and their substantive provisions cover all workers in the private sector who receive a wage or other remuneration for their work. The provisions of both laws are intended to apply equally to enterprises of all sizes and to all economic and occupational sectors. Under general conditions issued by the Ministry of Labour and Social Affairs (MoLSA), Iraqis and foreigners are required to be registered with MoLSA for the purpose of social security, income tax and access to labour protections provided for by law.

Workers are defined in both laws as ‘every natural person, whether male or female, working under the guidance, supervision and control of an employer’, and the existence of this legal relationship is based on the factual existence of the relationship. In turn, ‘work’ covers any effort by a worker in return for a wage,

whether ‘permanent, casual, temporary or seasonal’, and ‘wage’ is defined to include ‘any amount or benefit due to a worker in return for any work performed’. Likewise, the definition of ‘employer’ in the Labour Laws is broad, covering ‘any natural person or legal entity who employs one or more workers in return for a wage of any kind’. These guarantees ensure that all workers in paid employment in the private sector, whether formal or informal, are covered by the law.

Neither the Labour Law nor draft Labour Law for KRI are restricted to Iraqi citizens. Rather, the Laws explicitly aim to ‘regulate the work of foreigners working or wishing to work in Iraq’ and they apply to ‘all workers in the Republic of Iraq’. The Laws further prohibit discrimination on the basis of race, color, sex, religion, religious community, opinion or political belief, origin or nationality. Groups of workers who are not de jure covered by the labour law are unpaid workers, the self-employed and civil service, armed forces, police and internal security.

With regards to contracts, neither Labour Laws explicitly state the different types of contracts permitted. Both laws permit the use of limited duration contract, unlimited contracts, sub-contracts and part time contracts but do not explicitly refer to the use of casual, daily and temporary work largely. This leaves a level of ambiguity that needs to be addressed through a Ministerial Regulation.

Under the 2015 Labour Law, and draft KRI Law, penalties for labour law violations have significantly increased compared to previous legislation. The labour inspectorate sits within the Ministry of Labour and Social Affairs and involves Tripartite Inspection Committees who are empowered to undertake workshop inspections to monitor and enforce application of the labour law. The committees are empowered to access workplaces throughout the country without prior notice to undertake examinations; take samples from the workplace; and compel employers and managers to institute changes as necessary.

The labour laws also outline conditions of employment. Indeed, wage protections, including entitlement to minimum wages, regulation of working hours, and occupational health and safety (OSH) apply equally to all workers covered by the labour law. Specific regulations to govern the daily working hours for workers in certain professions, occupations and sectors, including agriculture and family workers are to be regulated by Ministerial regulations. But until these regulations are issued, some ambiguity around working hours will persist for these groups of workers. Both Laws also regulate ‘women’s work’ and include prohibitions of arduous work and of night work, with some exceptions. Protective measures are applied to women’s employment, which highlight the principle of equality of opportunity and treatment between men and women in employment and occupation. The effect of these provisions on women who want to work in such sectors or occupations or during the night, is to place them in a precarious position, where they can only do so informally and without legal protection.

4.2.2. Legal environment for social security

Under the current legal framework for social security, Law No. 39 of 1971, a series of decrees were envisaged to gradually extend coverage to groups of uncovered workers. These decrees did not materialize due to a range of procedural and political hurdles and security constraints. This law is set to be superseded by the draft Law on Pension and Social Security of 2016 (‘draft Law’), which is before Parliament, in which all workers covered by the Labour Law of 2015 are to be enrolled and insured in all branches of social security, and extends coverage to self-employed workers (through optional insurance, although this is still a point of discussion) and workers in the informal economy. It also introduces unemployment insurance. The draft Law attempts to cover the informal economy, including informal workers who are defined as ‘a group of individuals and small enterprises producing goods or providing services and operating for their own account without a license’.

The Council of Representatives in Federal Iraq voted on May 2023 to adopt the new Social Security Law for Private Sector Workers, which introduces far-reaching reforms to the social security system for private-sector workers.

The new law, which will replace Law No. 39 on Pension and Social Security for Private-Sector Workers of 1979, brings the social security system for private sector workers in closer alignment with ILO Social Security (Minimum Standards) Convention, 1952 (No. 102), which was officially ratified by the Government of Iraq in March 2023.

The law significantly expands the legal coverage of the social security system, covering all workers including informal workers, the self-employed and contributing family workers. It also expands the range of entitlements to include maternity and unemployment benefits for the first time. The law will also provide health insurance obtained from public, cooperative, and private providers.

The new Social Security Law provides some forms of optional pension insurance for the ‘informal economy’. In recognition of the heterogeneity of the informal economy and inherent challenges of defining workers in this group, it has been recommended by the ILO that the draft Social Security Law develop differentiated provisions and coverage approaches based on the type of work arrangement for workers in the informal economy. For example, addressing the issue of capacity to pay contributions among informal sector workers is a key to ensure the demand for social security. The draft laws committed that tax funding is channelled to subsidize contributions for the long-term branch of protection (pension, survivors, and long-term disability) for eligible workers in the informal economy. Subsidizing contribution remains a cheaper alternative to providing social assistance, but also sets the incentive structure correctly for persons in the working age.

Enterprise registration is a precondition to enrolment of workers in social security. Registration in social security takes place through the local Retirement and Social Security Department in each governorate and the cost for registration depends on the number of employees. To facilitate the registration process, the Ministry of Trade’s website includes an electronic system that directs employers to register workers and enables electronic payment contributions. Under relatively new procedures, upon registration of an enterprise, employers are directed to the Social Security registration process. In the absence of an enterprise registration number, employers cannot register with the Social Security Fund, nor can they enroll individual workers in the enterprise in the Fund. The requirements for registration are not currently uniform across all sub-national offices or branches, however the Ministry has a Social Security Information Department that provides information and assistance.

4.2.3. Laws Regulating Economic Units

The Companies Law No.21 of 1997 (as amended in 2004) is the main legislation governing enterprises in Iraq, including KRI. The Law governs two types of companies – private sector companies, and mixed companies (companies jointly established by private persons and the public sector with the public sector holding at least 25% of the capital).

The Federal Income Tax Law No.113 of 1982, (as amended in 2003) is the main law governing tax in Iraq. The General Commission for Taxes (GCT) is the chief tax authority in federal Iraq while in KRI, the main tax authority is the Income Tax Directorate. The registration process involved automatic notification to the GCT in federal Iraq. In KRI, registration has previously been completed at the time of making the first corporate tax filing at the end of the financial year. In addition to social security contributions, employers are required to withhold taxes on behalf of employees and pay the tax to the tax authorities every month (quarterly in KRI) as well as submit annual tax returns on behalf of their employees. There are penalties for failure to pay taxes or late payment of taxes for both Federal Iraq and KRI. Tax policies in Iraq have been criticized by employers for their lack of transparency and for allowing for corruption in collection, for the poor calculation methods which are not related to an enterprises’ profit and the lack of fair and just taxation.

4.2.4. National strategies and policies

In addition to the above legislative environment, there are also five strategies initiated by the Iraqi government and KRG aimed at fostering the economy and reducing poverty in Iraq, which are highlighted as part of the formalization process because at their core, these strategies aim to promote economic development by increasing access to resources for formally registered businesses. In other words, these create financial incentives to promote formalization of businesses. In turn, these strategies promote formalization by requiring economic units to provide tax declaration forms and details of workers and contractors in order to access government tenders. More details about government initiatives and programmes are outlined in the last chapter. To note that while there are committees within the Ministry of Planning (including on private-sector development) responsible for monitoring progress against implementation of the strategies, these do not conduct systematic public reporting on said progress, which hinders assessments of the extent to which objectives of the strategies have been achieved.

- More recently in October 2022, following the newly established government of Iraq, the Prime Minister Office has now put in place a new **Government Programme**. The Programme is focused in addressing unemployment issues; creating work opportunities for young women and men; and reforming the economic and financial sectors, especially agriculture, industry, and banking sectors and supporting the private sector. The Programme has 23 different spheres including: combating unemployment and creating job opportunities; investment; social protection and fighting poverty; human rights and women empowerment; and political legislation, and reforms. The Programme also highlights on how to unleash the potentials in the investment environment and expand its horizons through reforming and streamlining the procedures in force in the investment departments and support investors for the purpose of developing all sectors covered by the investment law to create job opportunities for the Iraqi workforce. In the effort to address high rates of unemployment, the new government in office is also planning to provide support for public and private sectors as well as encourage the establishment of small and medium enterprises, provide soft loans, follow up on their implementation and completion stages, and provide advice and expertise to ensure their success and operation. The government Programme highlights the reform of social assistance system and the endorsement of the social security and pension law as priorities for this government.
- **Poverty Reduction Strategy (PRS)** was first launched in 2010, but was difficult to implement due to the armed conflict. The second phase of the PRS was then introduced in 2018 and focuses on enhancing the life of poor citizens. The new PRS strategy focuses on security and stability, good governance, fair distribution and diversification of incomes under a market economy, and finally, mitigating the negative impacts of economic reforms on the poor. The PRS demands reforms to contribute to improving living standards, protection against risk and hazards and achieving economic empowerment as well as turning unskilled workers with no proficiency into productive, and integrated contributors to society.
- **Private Sector Development Strategy (PSDS)** of 2014-2030 outlines as its' vision statement the development of "a viable and thriving national private sector, that is regionally competitive and globally integrated, led by the business community, which contributes to economic diversification, sustainable development and job creating". This strategy includes elements of the PRS and reconstruction and development framework, and represents an agreement between the government and representatives from the private sector and international development partners. The PSDS envisions a cohesive, coordinated and cooperated agreement between the government and private sector that increases job opportunities. The PSDS aims to promote the ability of the private sector to diversify the national non-oil economy and contribute to economic growth and improve the environment for doing business in Iraq and Kurdistan in order to promote economic recovery and increase competitiveness. Investing in the private sector and focusing on the unemployed workers and those living near or below the poverty line will support in achieving this. The table below outlines the four pillars under the plan, and their objectives and related activities.

Table 4.1. Four Pillars of the Private Sector Development Strategy

Pillar	Objectives	Activities
I: Understanding the Private Sector	To make available to the Government and private sector, accurate information on the formal and informal private sector, for strategic planning and decision making purposes	Conduct surveys of the formal and informal private sector; Develop modern information systems for the Government and private sector stakeholders; Develop a network of local business registration centres and validate data; Build capacity in the Government and the private sector on the best use of information when planning, executing, tracking and reporting on progress.
II: Improving the Business Environment	To have in place streamlined policies, laws, regulations and procedures that foster private sector development; To have improved access to finance for private businesses; To have incentives in place for increasing production and innovation, the registration of businesses, private investment and employment; To improve the quality of services provided by private sector institution and associations to businesses To strengthen quality control, quality assurance, certification and licensing systems	Initiate a public-private sector dialogue, whereby businesses are consulted by the Government before new policies and laws are drafted; Revise, simplify and issue new laws in the regulatory framework governing the private sector, with a view to reducing red tape; Revise rules and procedures for improving access to finance for the private sector; Develop and propose new policies and strategic plans targeting the priority sectors that support private business engagement; Introduce incentives for new investments and innovation as well as for increasing the registration of businesses; Strengthen quality control management, quality assurance, certification and licensing systems; Fortify the private sector institutions and associations and the coverage of services to their membership
III: The SME Development Programme	To improve SME productivity and competitiveness; To involve the private sector, including SMEs and larger companies, in SOE restructuring and corporatization	Provide advisory, counselling, business planning, training and networking services to SMEs; Establish a Fund to provide seed capital, soft financing and loan guarantees for the private sector to expand their businesses, to establish new enterprises, to increase competitiveness and to promote entrepreneurship and innovation; Establish a special programme to create business opportunities for the private sector, including for SMEs, with SOEs; Develop industrial zones, business incubators, business development centres and similar initiatives; Establish a special unit to increase job opportunities for women and to enhance awareness in the private sector of the importance of gender equality and inclusiveness. and; Launch a public awareness campaign.
Pillar IV relates to implementation of the above pillars.		

- **White Paper for Economic Reforms** of 2019 anticipates a reform process over three to five years as implement by the Crisis Cell for Financial and Fiscal Reform. The white paper has two main objectives: first, to initiate an immediate reform programme addressing the budget deficit to create fiscal space for the medium-term reforms package; and secondly, to put the economy and the federal budget on a sustainable path, after which Iraqis can decide and choose the economic direction of the country. The White Paper outlines five key pillars for the reform including achieving sustainable financial stability, creating sustainable job opportunities, improving basic infrastructure, strengthening basic services and protecting vulnerable groups and finally, improving governance and introducing changes to the legal framework. Activities under this last pillar have direct implications for the formalization agenda, as these include:
 - Reviewing and amending the official guidance concerning government contracts.
 - Introducing e-governance systems to strengthen oversight of government contracting and the collection of taxes and customs.

- Introducing an electronic governance system in the field of government contracting and tax and customs collection.
- Completing the project establishing the National Information Center to facilitate the introduction of government e-services to citizens, and automate the procedures for obtaining key documents such as nationality and passports and accessing pensions and social security.
- **Kurdistan Region of Iraq 2020** outlines the vision for the Region's development and what steps the KRG is taking to improve its' population's well-being. The Vision is presented across four key pillars focusing on social policy, economic policy, infrastructure and governance. The priority within the labour market is to reduce underemployment, promote skills, and reforming the social insurance and pension laws to "ensure that private sector workers have protections and benefits that are fair and that will attract more of the working population into the private sector". In turn, the second pillar on enabling private-sector growth directly addresses the issue of informal economic units, as one of the key monitoring indicators is the "time it takes to start and close a formal business and the cost of doing so".

Furthermore, the Government of Iraq is in the process of elaborating a **National Employment Policy**, together with ILO technical support. The policy will have a strong focus on informality in the labour market, outlining key interventions to address this challenge, given its significance to wider employment. A detailed labour market analysis using the LFS results has been finalized, in addition to supplementary thematic studies for the NEP's employment diagnostic in order to build a knowledge base on both the supply and demand sides of the labour market. A series of capacity building activities have been undertaken for government, employers', and workers' representatives, on analysis of labour market indicators, on designing and implementing effective employment policy (both jointly and separately), and on effective reporting in line with Iraq's obligations as a signatory to ILO Convention 122. The draft of the Employment Policy document will be finalized by the Technical Committee, with ILO support, based on the findings of the LFS and the issues identified, and recommendations proposed in the employment diagnostic as well as this analysis. The NEP will lay the groundwork for a constructive and informed social dialogue in order to ensure that the economic future of Iraq works for everyone and leaves no one behind.

4.3. Key statistics and drivers of informality

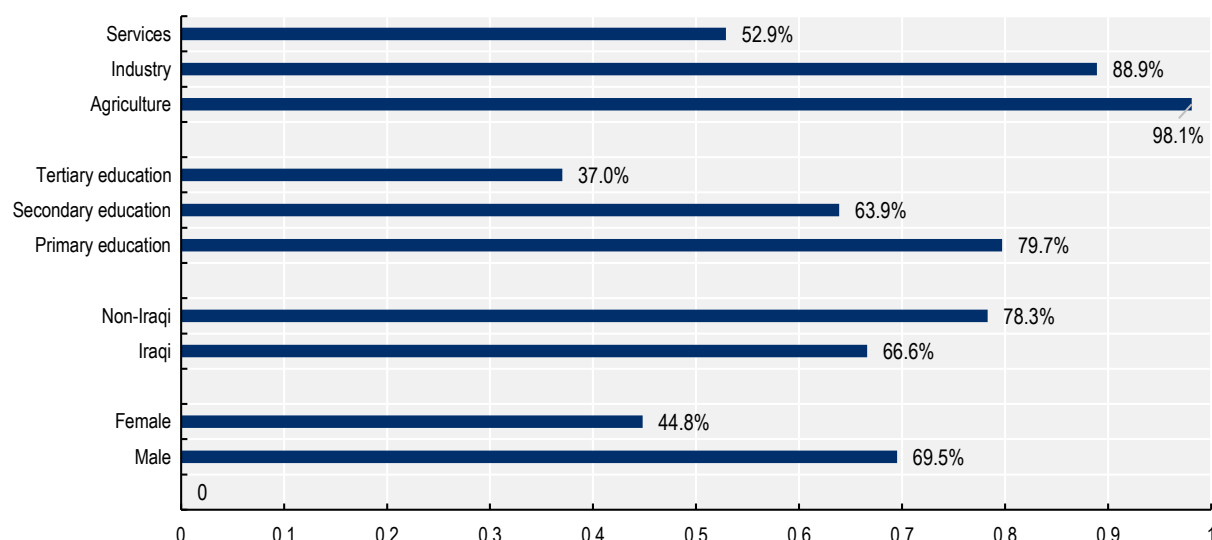
4.3.1. Key statistics on informal employment

The LFS 2021 reports on the size of informal employment. The results show that the number of persons with informal jobs was 5 734 000, representing almost two-thirds (66.6%) of total employment. Of these, about 4 723 000 were employed in the informal sector, corresponding to about 54.8% of total employment, but there were also a significant number of persons with informal employment in the formal sector (1 011 000 persons). An example of this category of persons is an employee working in a large private corporation or a government agency with a short-term contract without social security contribution by the employer.

Figure 4.1 shows the share of informal employment for particular groups of the employed population. The results may be interpreted as the differential risks of being engaged in informal employment by particular categories of persons, expressed in terms of gender, citizenship, educational attainment and branch of economic activity. The data indicates that men are more likely than women to hold informal jobs (68% compared to 44%, which may result from the higher share of women in public employment, compared to the share among men), so do non-citizens over citizens, less educated over more educated, those engaged in agriculture than those engaged in industry or services.

Figure 4.1. Informal employment for particular groups of the employed population, Iraq

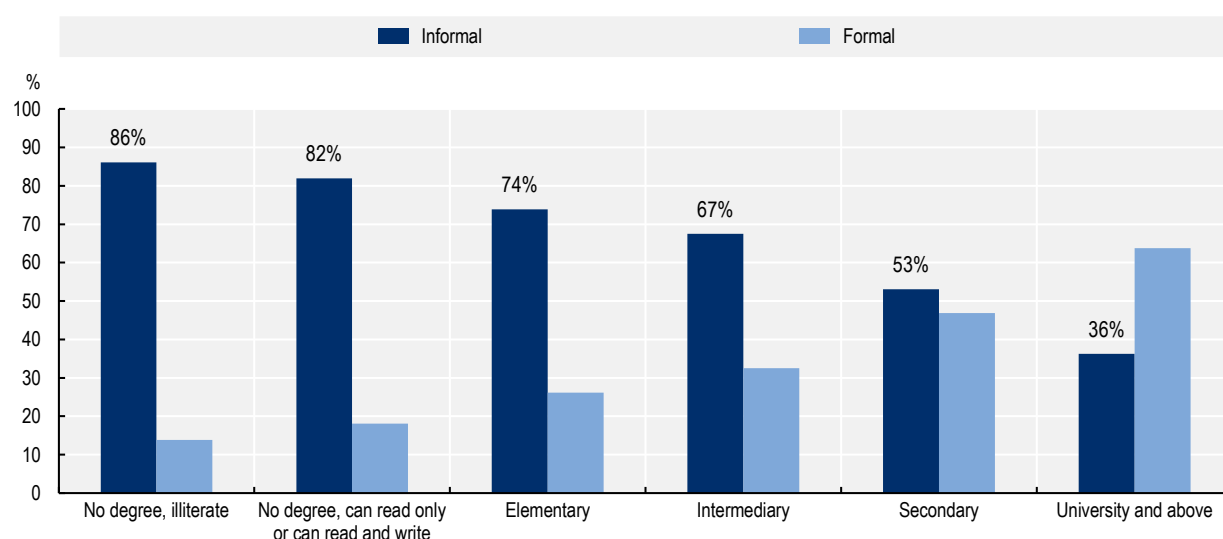
Share of informal employment in total employment



Note: Agriculture includes agriculture, forestry and fishing; industry includes mining and quarrying, manufacturing, electricity, gas, steam and air conditioning supply, water supply, sewerage, waste management and remediation activities, and construction; services include wholesale and retail trade, repair of motor vehicles and motorcycles and the remaining branches of economic activity.

Source: LFS 2021.

The figure below also illustrates the share of employed persons by completed education level and formality or informality of employment. This data indicates the informal employment is closely correlated with educational attainment. The vast majority of workers with no degree are in informal employment, while the majority of workers with university degrees are in formal employment.

Figure 4.2. Employed persons by completed education level and formality/informality of employment

Source: Labour force survey 2021.

4.3.2. Key statistics on informal sector

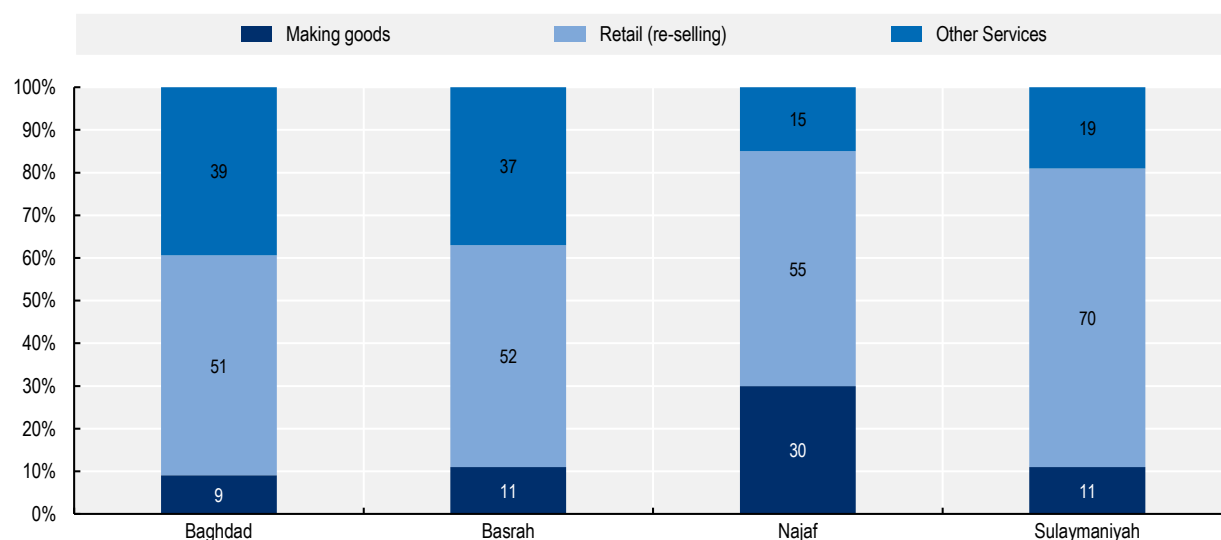
The **private sector's** activity is mainly informal and concentrated in retail, construction, textiles, trade, transportation, hospitality, food and chemicals (IMF, 2017^[8]). The *industrial base* in Iraq is considered weak and not diversified, suffering from years of neglect and lack of supportive business environment and industrial policies.

There are limited nation-wide surveys that provide up-to-date, comprehensive and in-depth statistics on the prevalence of informal enterprises in Iraq. A recent survey conducted in 2020 by UNDP on MSMEs, covering Baghdad, Basrah, and Nineveh (where 20% of the nation's MSMEs are located), found that 80% of MSMEs were informal – defined as “not registered with any entity” (MOP et al., 2021^[9]). The survey found that registration rates increase with the size of the enterprise, with only 17.2% of micro enterprises being registered with any institution, compared to 34.1% among small enterprises and 68.5% among medium enterprises. In turn, registration was higher among all categories with the Tax authority, compared to other institutions including local municipality and company registry. With regards to social security, 0.1% micro-enterprises in the survey were registered (or 2 out of 322 respondents), while 0.6% and 5.6% of small and medium enterprises (respectively) were registered.

When looking at registration by economic sector of activity, the survey found registration to be highest amongst enterprises in agriculture and fisheries (largely driven by registration with the Agricultural Association, driven by the services provided to its members), as well as those in trade, transportation and storage, among whom registration exceeded two-thirds.

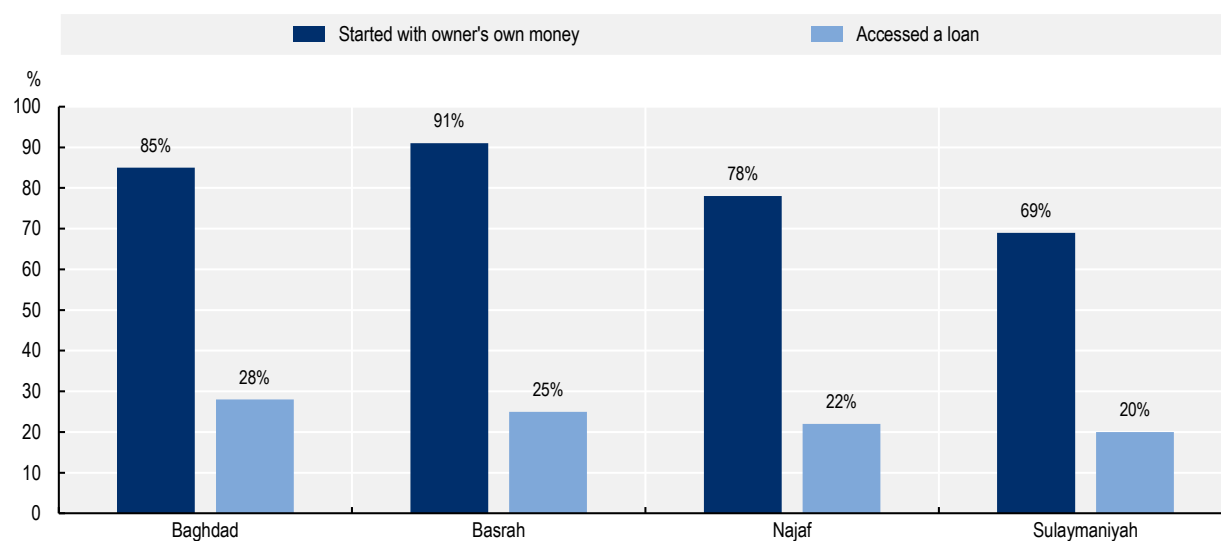
By far the main reason given by respondent enterprises for not registering was that they did not believe themselves to be required to register (66.5% of respondents), while fewer highlighted that they lacked knowledge or understanding of the registration process (6.5%) or that the registration fees were high (3.5%).

More data on the characteristics of informal businesses was captured by a World Bank survey of informal sector-enterprises conducted in 2021, which collected data from four urban areas in Iraq, namely, Baghdad, Basrah, Najaf and Sulaymaniyah (World Bank, 2021^[10]). The survey also reported on the reasons for not formally registering, providing respondents with a list of options. The findings highlighted that a high share of respondents reported taxes, inspections, bribes, and the lack of benefits as the core reasons for not formally registering. The survey also captured the sectors in which such enterprises operated, indicating that the majority of such enterprises were engaged in retail (re-selling goods).

Figure 4.3. Percentage of businesses across sectors

Source: World Bank, 2021, The Informal Sector Enterprise Surveys www.enterprisesurveys.org, The World Bank Group

The research also found that the vast majority of surveyed informal businesses had been started using the owner's own funds, as opposed to accessing finance, access to which is typically limited for informal businesses. And indeed, among surveyed businesses, less than a third had accessed loans.

Figure 4.4. Percentage of informal businesses started with owner's own funds or accessing loans

Source: World Bank, 2021

4.3.3. Drivers of informality

An informality diagnostic conducted by the ILO in Iraq in 2021 based on a desk review, key informant interviews and primary qualitative data collection with workers and employers identified some of the key drivers of informality in the country. These were divided into three main categories: national contextual

drivers; barriers relating to government capacity; and demand-side barriers – namely, barriers relating to the situation of workers and employers (ILO, 2021^[11]). Many of these are relevant in understanding the widespread perception of the ineffectiveness of the above-mentioned initiatives in tackling the informality challenge. These are summarized briefly below and complemented by findings from the Key Informant Interviews s conducted as part of this project.

Supply-side barriers

The first factor affecting informality in Iraq is the prevailing **security situation**. Indeed, the growing influence of armed groups and use of violence to resolve conflicts or to gain access to resources remains a persistent challenge in Iraq, and this has caused huge damage to the operation of institutions, private sector business activities, employment, and the size and level of formalization. There are several channels through which the security situation affects the formalization process. Firstly, the security situation has affected education levels, which affects the size skills in the labour force, which limits the prospects of labour-market entrants to find decent work. The security situation has also led to high rates of poverty and vulnerability, known key drivers of informality, as workers have limited better options.

Key informant interviews also identified that the volatility of the security situation also drives uncertainty about future economic prospects, and negatively affects employer's willingness to formalize their workers and provide them with contracts.

A second element identified in the informality diagnostic is the prevailing level of **corruption** in Iraq, which is generally acknowledged as being correlated with informal economy activity. Indeed, Iraq ranked 157th out of 180 countries in Transparency International's annual corruption perceptions index in 2021 (while Jordan ranked 58th and Egypt ranked 117th) (Transparency International, 2021^[12]). Corruption – including in relation to misallocation of government financial resources - in Iraq results in an absence of capacity, coordination and clear allocation of responsibilities and resources. This leads to less capacity for financial and management planning and inefficiency in implementation, mismanagement of resources, lack of transparency and accountability, and an unfinished decentralization process. Thus, entrepreneurs consistently list corruption as one of the most severe obstacles to doing business in Iraq according to the World Bank as business activities in such an environment are likely to be costly, which can explain the growth of informal economy.

The third barrier is the government capacity, which is not only undermined by corruption, but also limited financial and human resources. For one thing, neither the Iraqi government, nor the KRG have **data** on non-registered enterprises, which presents a challenge to addressing informal sector activity. In turn, the government has limited capacity to **enforce** the provisions of the laws applicable to employment and business. The labour inspectorate in Iraq faces a number of challenges that hinder its ability to contribute to formalization of the labour market through effective inspection, notably due to the limited manpower required to conduct inspection. While the initiative by MoLSA to strengthen enforcement is an excellent initiative in the right direction, the gap between what is required and what is available remains vast. In turn, there are also reports of poor governance within the labour inspection. These elements, combined with the outdated technology and tools available to the labour inspectorate have meant that the agency has largely concentrated its energy on monitoring formal and larger registered establishments and a large number of unregistered MSMEs and informal employment largely remain beyond the scope of labour inspection in practice. Finally, it was also reported in the informality diagnostic that the courts have virtually no powers of enforcement in practice with regards to labour disputes which limit the use of formal dispute resolution mechanisms by workers.

The **legislative environment** is also identified as a driver of informality, either due to the outdatedness or restrictions imposed by existing laws or the absence of implementing regulations. Firstly, social dialogue in Iraq suffers from the absence of a supportive legal environment, and informal workers are largely unrepresented by formal labour organisations and trade unions. Another challenge is the absence of

implementing regulations, which impede the effective application of the laws. Indeed, a significant number of provisions in the Federal Labour Law envisage and require the formulation of implementing regulations, but most of the anticipated regulations have not yet been drafted or issued. This contributes to legal uncertainty and challenges in the application and enforcement of the law. In turn, some of the existing regulations and business registration laws are not meeting the needs of business owners. For example, there is no law to formalize the self-employed and sole-owner businesses with the Chamber of Commerce, and current laws and regulations are identified as limiting opportunities to grow new economic business units such as ICT, social, and economic consultancy services.

A further challenge relates to the **lack of incentives**, mainly for employers, to register their businesses. This is also related to the issue of trust, but also to the perceived lack of public services which their taxes are meant to finance, and in terms of benefits and services available to registered businesses. These include, for example, tax exemptions, but also, importantly, access to finance and credit – identified in the interviews as a key need for many enterprises.

Finally, the **administrative processes** required to register businesses impose heavy bureaucratic requirements which, combined with the time required to complete them, represent a barrier to registration and formalization. Indeed, processes to register a business remain highly bureaucratic and difficult to navigate, even with the introduction of the electronic business registration system, which has reportedly been ineffective. Administrative procedures are identified as complicated due to outdated ways of working, lack of capacity, lack of the use of technology, over-centralization of authority and inaccessibility of services, nepotism, inefficiency/delayed decisions, bureaucratic obstruction and abuse of authority. Because of the complexity of the procedures, some respondents noted the need to establish a specific department in the company to manage the registration process, or to hire lawyers to do so, which is costly. In turn, respondents noted that there is little support for small enterprises to register, either from Government or from employer organizations. And even when a company is registered, processes to fulfill obligations under the law remain time consuming.

Demand-side barriers

On the demand side (barriers relating to characteristics of the workers and employers themselves), limited **awareness** among workers and businesses of their rights and obligations under the relevant laws is the first stumbling block in terms of compliance with these laws. This is a particular challenge among workers, whose lack of awareness impedes their ability to uphold those rights, which is a direct impediment to improving working conditions and job security. In turn, some workers believe that even if they were aware of their rights, they would not defend them (including through formal dispute mechanisms) for fear of losing their employment.

Trust in institutions was also highlighted as a driver of informality: without trust in institutions to fairly uphold the law – but also to effectively provide services – workers and businesses may not consider formalization worthwhile. This is closely related to the issue of corruption noted previously. Indeed, the informality diagnostic highlighted a low level of confidence among businesses in government institutions, largely based on perceptions of corruption. Lack of trust in institutions was noted by some businesses as being one of the key reasons not to register, while in some cases, businesses reported underreporting worker salaries to avoid paying social security contributions due to the lack of trust in the Social Security department. This issue is not always recognized or acknowledged by the government institutions themselves, which impedes their willingness to address this as a challenge.

In addition to the perceived incentives (or lack thereof) to formalization, another important consideration – or barrier – is that workers and businesses are faced with the **cost** of doing so and willingness to pay. The informality diagnostic identified many businesses who considered the cost of registration, and the subsequent taxes and social security obligations, as being too onerous – particularly in light of the limited rewards or benefits noted above.

4.4. Linkages between shocks, vulnerabilities, and the informal economy in the country

There is limited available information about the linkages between shocks and informality, and what exists focuses largely on the impacts of the COVID-19 pandemic. Here, a survey conducted by the ILO and Fafo in June 2020 (Kebede, Stave and Kattaa, 2020^[13]) to assess the impact of the pandemic on small-scale enterprises and workers in 2020 found that only 23% of respondents were “working as usual” – i.e. same working hours and salary as before the pandemic. Among the remaining respondents, 35% were working reduced hours, a quarter of respondents had been permanently laid off – many of whom are also the main income-earners in their households – while 15% were temporarily laid-off. Similarly, World Bank estimates of unemployment rate suggest an increase in unemployment of 1 percentage point between 2019 and 2020, from 12.76% to 13.74%. In turn, income from employment has fallen by 16% between February 2020 and December 2020, largely driven by a reduction in working days, reduction in income from the same job, or unemployment of a household member. In turn, the ILO and Fafo assessment finds that respondents with verbal contracts (i.e. informal) saw a 40% reduction in income due to a reduction in working hours, while those on written contracts (more likely to be in formal employment) did not see their incomes reduced (Kebede, Stave and Kattaa, 2020^[13]). In turn, workers on written contracts were more likely to be “working as normal” compared to workers on verbal or no contracts. These categories of workers are particularly vulnerable as they are unlikely to have access to formal social security.

With regards to impacts on enterprises, the survey found that 31% of surveyed enterprises (largely informal) were operating as they did prior to the pandemic, but only 18% believed that they would be able to remain operational for more than one month at the time of the survey. One of the biggest obstacles they identified for the future were reduced demand and loss of revenue.

4.5. Government programmes and initiatives

There is a range of programmes and initiatives implemented by Ministries and government agencies that aim to promote formal job creation and contribute to the formalization process. Unfortunately, there is very limited available information about those initiatives themselves, even less so on their success in creating decent work and promoting formalization. What is known is outlined where relevant.

In 2015 the Central Bank launched an initiative to finance registered small and medium enterprises in the field of agriculture, industry and construction to support employment generation and to finance small projects. To be eligible, the company must be registered. In the event of a financing request from a borrowing person (rather than a company), this person must have an identity registered with the CoC, in addition to a license to practice the profession and the rest of the official papers.

The Ministry of Trade is working to bring in foreign investments to the country through various marketing approaches, facilitating logistics and providing tax exemptions, which promotes job creation in a formal process. Furthermore, the Ministry is currently working on introducing the “one stop shop” to cut the bureaucratic red tape and to ensure business owners have the support and advice they need to succeed quickly. In turn, a new “single-window” system has been launched online to simplify the process for Iraqi citizens, including by removing multiple in-person visits into one. The system is the result of collaborative efforts by UNCTAD, the governments of Iraq, the US and the Global Entrepreneurship Network.

As a part of their services, the Chamber of Commerce provides loans and financial support to start-ups and existing economic units. For example, the COC in Baghdad is supporting access to finance and loans by Rafidain bank to its members - formally registered businesses - with an interest rate of 6% annually. In Erbil, the COC successfully supported the start-up of three factories in the KRI in partnership with UNDP by providing nearly 70% of the business startup costs.

In turn, the Companies Registration Office is contributing to the formalization process by providing a new service for people with special needs and the elderly. Indeed, the CRO has appointed mobile officers who can visit such applicants to process their applications, which facilitates company registration and renewal processes and any other legalization processes.

The Ministry of Finance (MoF) is currently aiming to strengthen partnership with the private sector to contribute and to advance the formal economy in Iraq. To achieve this plan, the Ministry - in coordination with the Iraqi Central Bank - is supporting access to finance through loans in public and private banks. The governmental banks, Rasheed and Rafidain, are providing loans with interest rates starting from 2%, lower than that which private banks receive from the Central Bank, which stands at 6-8%. In addition, on September 21, 2021, the Iraqi government announced a new policy that aims to strengthen the skills of the MoF in preparation of a gender-responsive budget, with support from the World Bank. This policy will include the development of women's skills with a focus on digital skills, enhancing the capacity to conduct research on women and youth in informal work and unregistered businesses and finally, creating a favourable working environment for women.

MoLSA has made efforts to strengthen oversight and enforcement of social security rights and responsibilities by appointing inspectors to examine old and newly registered enterprises to ensure workers' participation in social security. In the event that employers have not paid contributions, inspectors will issue fines and warnings. Eventually the enforcement department seizes enterprise finances to enforce payment of contributions. There is also a level of coordination reported between labour inspectors and the Social Security Department. In the event that a suspicion arises within the Social Security Department, a report is sent to the Inspection Department to follow through with an inspection of the enterprise, which relies on the registration of an enterprise. However, there is an absence of data, which makes it difficult to assess the effectiveness of this process in ensuring the enrolment of all eligible employees and payment of contributions in registered enterprises, and low levels of enrolment continue to prevail as a significant number of employers evade their financial obligations. There is also a lack of data on the number of workplaces that have been found to be non-compliant with enterprise registration, employee social security enrolment and/or employment contracts and working conditions, as this has not been published or shared.

The Ministry of Planning has also established a specific team to analyse the informal sector, with the objective of strengthening the availability of data to inform effective policy decisions.

Finally, in response to COVID-19, several social protection measures were adopted by the Supreme Committee for Health and National Security. On 4 April 2020, the introduction of an emergency grant called Minha providing eligible households with a monthly payment totalling of IQD 150 000 (roughly USD 125) was announced. The intervention was implemented by the Ministry of Planning in all governorates, covering households of workers in the private sector not in receipt of social security payments from government. The payments were disbursed in mid-May, and as of July 3rd, some 7 million of the 12 million individuals considered eligible had received the payment – while 13 million had applied. Some 67 000 households registered with the Minha scheme were also then included in the recipient list for the regular Social Safety Net (SSN) programme. In addition, The SSN cash transfer programme was vertically expanded, whereby 600 000 recipients received a one-time top-up. On April 7th, the Ministry of Labour and Social Affairs also launched the “1 Million Food Basket”, a campaign to distribute food to those most in need due to the preventive measures and economic downturn. Households were targeted using the SSN registry. Penalties for late payment of social security contributions for the month of February 2020 were also waived until the end of March 2020.

Additional measures included:

- Suspending all repayments due on residential plots of land sold or leased to citizens from all government institutions until the end of the current emergency, with no penalty interest for a period ending on 31/07/2020 at the latest.
- Exempting commercial, industrial and other government real estate tenants from paying rental fees for the duration of the current emergency.
- Exempting occupants and tenants of commercial, industrial and other properties that belong to municipal institutions from paying cleaning services fees for the duration of the emergency.
- The suspension of mortgage repayments for three months for borrowers from the Ministry of Housing, Construction and Municipalities' Housing Fund.
- The suspension for three months of the repayment of loans obtained from the Central Bank of Iraq's '1 and 5 trillion dinars' finance schemes for small and medium size business projects.

Yet, there is a general perception in Iraq of the ineffectiveness of these programmes because of limited government focus on the implementation of the Labour Law and the absence of government cooperation. In turn, the ILO and Fafo assessment of the impact of COVID found that the majority of enterprises surveyed (89%) were not aware of the support provided by government (Kebede, Stave and Kattaa, 2020^[13]).

4.6. Concluding remarks

The transition to formality highlights the complex nature of the drivers of informality, and the findings from this research confirm the multiple and wide-ranging the factors contributing to informality in Iraq. These include barriers relating to the structure of the labour-market and macro-economic conditions; challenges to government capacity to effectively legislate and enforce compliance; and demand-side barriers to formalisation, including in relation to awareness of rights and obligations, administrative and financial barriers, and the lack of incentives to formalise. However, the Iraqi context is also highly unique, and the findings point to key factors that require specific attention in the country, including the large public sector in the labour-market, corruption - which results in limited trust in institutions - and the legacies of the conflict and political tensions, which affect the macro-economic environment and thereby, formal job creation and business development. These require tailored and evidence-based policies to effectively promote the formalisation agenda in Iraq.

Existing laws relating to labour, social security and economic units present several weaknesses, including in terms of the absence of some key implementing regulations, barriers to freedom of association, limited coverage (particularly in the case of social security), or in terms of onerous burdens imposed for the formalisation of enterprises. However, significant efforts are currently underway in the field of social security in particular to expand scope and coverage of social insurance schemes to informal workers.

References

- CSO/KRSO/ILO (2022), *Iraq Labour Force Survey 2021*, International Labour Organization, Central Statistical Organization, Kurdistan Region Statistics Office, Iraq, https://www.ilo.org/beirut/publications/WCMS_850359/lang--en/index.htm. [7]
- ILO (2022), *ILOSTAT Data*, <https://ilostat.ilo.org/data/> (accessed on 13 November 2023). [6]
- ILO (2021), *A diagnostic of the informal economy in Iraq*, ILO Regional Office for Arab States, Beirut, https://www.ilo.org/wcmsp5/groups/public/---arabstates/---ro-beirut/documents/publication/wcms_830086.pdf. [11]
- IMF (2022), *Iraq Economic Monitor (December-2022)*, International Monetary Fund, <https://www.imf.org/en/News/Articles/2022/12/07/iraq-staff-concluding-statement-of-the-2022-article-iv-consultation-mission>. [1]
- IMF (2017), "Iraq – Selected Issues: IMF Country Report August 2017", *IMF Country Report*, No. 2017/252, International Monetary Fund, <https://www.imf.org/en/Publications/CR/Issues/2017/08/09/Iraq-Selected-Issues-45175>. [8]
- Kebede, T., S. Stave and M. Kattaa (2020), *Rapid assessment of the impacts of COVID-19 on vulnerable populations and small-scale enterprises in Iraq*, International Labour Organization, Fafo, http://search.ilo.org/wcmsp5/groups/public/---arabstates/---ro-beirut/documents/publication/wcms_751209.pdf. [13]
- MOP et al. (2021), *Iraq MSME 2020 Survey*, <https://www.undp.org/iraq/publications/iraq-msme-2020-survey>. [9]
- Transparency International (2021), *Corruption Perception Index 2021*, <https://www.transparency.org/en/cpi/2021> (accessed on 13 November 2023). [12]
- UNICEF (2018), *2018 Multiple Indicator Cluster Survey (MICS6) Briefing*, <https://www.unicef.org/iraq/reports/2018-multiple-indicator-cluster-survey-mics6-briefing>. [2]
- UNICEF/World Bank (2020), *Assessment of COVID-19 Impact on Poverty and Vulnerability in Iraq*, UNICEF/World Bank, https://www.unicef.org/iraq/media/1181/file/Assessment_of_COVID-19_Impact_on_Poverty_and_Vulnerability_in_Iraq.pdf. [3]
- UNOCHA (2022), *Iraq Humanitarian Needs Overview 2022 (March 2022)*, <https://www.unocha.org/publications/report/iraq/iraq-humanitarian-needs-overview-2022-march-2022>. [4]
- World Bank (2021), *Informal Sector Enterprise Surveys What Businesses Experience: Profile of Cities in Iraq*, World Bank, Washington, DC, [https://www.enterprisesurveys.org/content/dam/enterprisesurveys/documents/informal-enterprise-survey/Iraq%202021 Informal%20Sector%20Enterprise%20Surveys_Profile%20of%20Cities_English.pdf](https://www.enterprisesurveys.org/content/dam/enterprisesurveys/documents/informal-enterprise-survey/Iraq%202021%20Informal%20Sector%20Enterprise%20Surveys_Profile%20of%20Cities_English.pdf). [10]
- World Bank (2017), *Iraq Systematic Country Diagnostic*, World Bank, Washington, DC, <https://doi.org/10.1596/26237>. [5]

For further reading

- Government of Iraq (2022), *Iraq Labour Force Survey 2021*, https://iraq.un.org/sites/default/files/2022-07/wcms_850359.pdf.

5

Informality in Jordan

This chapter offers a comprehensive examination of the socio-economic context and human development challenges in Jordan, with a specific focus on the issue of informality. Through an analysis of micro and macro data, the chapter derives stylized facts regarding the prevalence of informality among both businesses and workers. Emphasizing the scale and evolution of informality over time, the chapter also explores the impact of the COVID-19 pandemic on informal workers and businesses. Finally, an assessment of the institutional framework is presented, evaluating its capacity to integrate informal workers and businesses while addressing the principal challenges impeding the formalization of the economy.

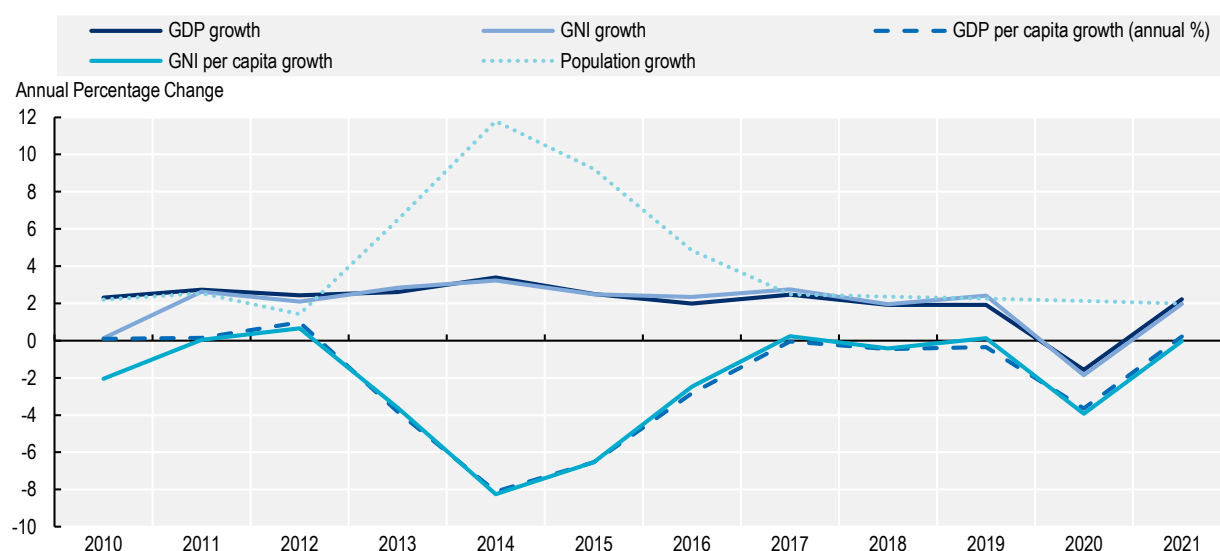
Key messages

- Jordan exhibits relatively positive indications on relevant human development and macroeconomic aggregates. However, the Jordanian labour market, faces multiple challenges in terms of job creation and informal employment. The unemployment rate reached 23.1% in the third quarter of 2022 rising from 19.1% pre-pandemic (in 2019), for all Jordanians, and as high as 46.9% for youth (15-24 years old).
- The informal economy accounted for between 16% and 18% of Jordan's GDP in the last decade on average, while informal employment has steadily increased in Jordan over the last several years. The share of informal workers rose from 44.7% in 2017 to 53.5% in 2020, and then fell slightly to 51.6% in 2021.
- Female labour force participation rates are extremely low in Jordan (13.5% in 2021, third lowest in the Arab region) and typically women will tend to remain in the labour force after marriage if they have a formal job offering good working conditions, stability, safety, and paid sick or maternity leaves.
- The COVID 19 pandemic hit informal workers and youth men harder, and hit informal workers who worked outside establishments (e.g. street vendors) hardest.
- While the legal coverage of the social insurance system in Jordan does not include all categories of workers, the effective coverage of private sector employees, who are legally covered, does not exceed 39% (this percentage is 75% in the public sector).
- Assessing informality among firms in Jordan is not straightforward due to the absence of data. Most firms in Jordan are registered with their local municipalities. However, far fewer register with the tax authorities (i.e. the Income and Sales Tax Directorate).
- The outbreak of COVID-19 has deeply affected businesses. A survey during the pandemic revealed that 7% of the surveyed enterprises were operating as before the pandemic, 39% were operating with reduced staff and/or reduced hours, while 51% of the enterprises had closed their operations temporarily.
- While the government's endeavours to enhance institutional and legal frameworks are acknowledged, there remains a critical need to cultivate and bolster public trust in governmental bodies and institutions.

Jordan is an upper middle-income country with an estimated population of 11.06 million in 2021 (Department of Statistics, 2021^[1]). Jordan has a Human Development Index (HDI) of 0.729, which reflects relatively high (according to UNDP classification) human development, ranking 102nd relative to the rest of the world, and ranking 10th relative to other Arab States (UNDP, 2022^[2]). Jordan is better ranked by its HDI value compared to its Gross National Income (GNI) value, reflecting relatively good performance on nonmonetary indicators of wellbeing (health and education). Jordan has one of the highest mean years of schooling in the region (10.5 years), second only to the UAE which ranks first on the HDI index in the region. Jordan has also achieved gender parity in terms of expected years of schooling and almost achieved it in terms of mean years of schooling.

Despite these positive indicators, Jordan has a high poverty level of 24.1% in 2022¹ (at the national poverty line), rising sharply compared to the previous estimate of 15.7% based on 2017-18 data². Jordan's economy has been growing slowly over the last several decades with GDP growth averaging just 2% per year between 2010 and 2021, while GDP per capita growth has declined by an average of 2% per year over the same period (Figure 5.1).³ Part of this GDP per capita decline is explained by the sharp increase in population between 2013 and 2016 as Jordan witnessed a sharp influx of Syrian refugees, while overall GDP growth remained relatively stable. The COVID-19 pandemic and the Ukraine war have had major effects on the Jordanian economy. Jordanian GDP declined by 1.6% in 2020, while GDP per capita declined by 3.6%, over three times as much as other Upper Middle-Income Countries (UMICs) (World Bank, n.d.^[3]). According to the IMF's latest World Economic Outlook estimates, Jordan's economy is expected to rebound somewhat to grow at 2.7% in 2023⁴ (above its annual average growth rate over the last decade) but below the average for the Middle East (3.2%) and North Africa regions (4.4%) (IMF, 2023^[4]).

Figure 5.1. Key indicators of Jordan's growth performance 2010-2021



Source: World Development Indicators, <https://databank.worldbank.org/>

One of the major challenges facing the Jordanian economy is that it has not been able to create enough jobs. The unemployment rate reached 23.1% in the third quarter of 2022 rising from 19.1% pre-pandemic (in 2019), for all Jordanians, and as high as 46.9% for youth (15-24 years old); moreover, Jordan's unemployment rate, while declining slowly since their peak in late 2020 and early 2021, have declined less than similar countries such as Egypt, Morocco and Tunisia (Department of Statistics, 2023^[5]; Youssef, Janzer-Araji and Mazahreh, 2023^[6]). Indeed, Jordan's economy suffers from high unemployment, high levels of informality (Figure 5.2) and very low levels of labour force participation rates among Jordanians,

at under 35%.⁵ Women's labour force participation rates in Jordan are among the lowest in world averaging about 14% over the last several years (Department of Statistics, 2023^[5]). The private sector was weakened by the pandemic as expected, and micro and small enterprises were more than twice as likely to face temporary closures as medium enterprises.⁶

The Jordanian economy exhibits relatively positive indications on relevant macroeconomic aggregates. Inflation,⁷ for example, has so far remained relatively low compared to other countries in the region even in the aftermath of the international food and energy price hikes that started with the recovery from the pandemic and accelerated with the Ukraine crisis.

However, the Jordanian labour market, faces multiple challenges primarily due to a weak private sector that has not been able to create enough good jobs.⁸ For example, Jordan was one of only a few countries⁹ in the region to have exhibited negative private sector employment growth over the latest two rounds of the World Bank Enterprise surveys, between 2013 and 2019, even before the pandemic, while countries such as Egypt, Tunisia and Morocco all registered positive private sector employment growth over similar time periods (Islam, Moosa and Saliola, 2022^[7]).

Public opinion surveys provide additional insight into the general sentiment of the population with regard to key challenges and concerns and show that 64% of the sample in Jordan ranked concerns over the economic situation, including poverty, unemployment and inflation, as the most important challenge facing the country today.¹⁰

An influx of migrant workers and refugees over the past decade has contributed to Jordan's economic challenges. While estimates vary, Jordan is estimated to host over 1.5 million migrant workers,^{11 12} mostly unskilled workers from Egypt, Syria, the Philippines and Bangladesh, although only about 330 thousand of them are formally registered with the Ministry of Labour (Ministry of Labour, 2022^[8]). Jordan is also a host to over 2.2 million Palestinian refugees¹³ and based on the Jordanian Ministry of Interior an estimated 1.4 million Syrian refugees (Stave, Kebede and Kattaa, 2021^[9]) of which only about 660 000 are registered with UNHCR. Jordan is the second largest refugee host in the world in per-capita terms. Unlike other refugees, Syrians are allowed to work in Jordan, but only in specific industries.¹⁴ The Syrian crisis continues to have a major impact on the Jordanian economy and labour market, although studies have found that Syrian refugees tend to compete more with other migrant workers rather than Jordanians.¹⁵

In addition, the Ukraine crisis and the related food and energy price crises in 2022 have also raised concerns about the prospects of sustained recovery. Jordan imports almost 80% of its domestic consumption of several major commodities such as sunflower oil, barley, maize and wheat, all of which witnessed rapid price inflation due to the crisis (UNDP, forthcoming). Central banks' reaction to the rampant inflation have led to a series of interest rate hikes that is expected to continue into the near future. This will likely put strain on highly indebted nations like Jordan¹⁶ in terms of loan repayment and consequently is expected to have crowding out effects on development expenditures. Jordan's fixed exchange rate relative to the dollar may put it in a relatively better position than many other countries currently also grappling with rampant devaluation of their currencies, at least temporarily. It may however come at the long run cost of depleting foreign exchange reserves and lead to devaluation in the future.

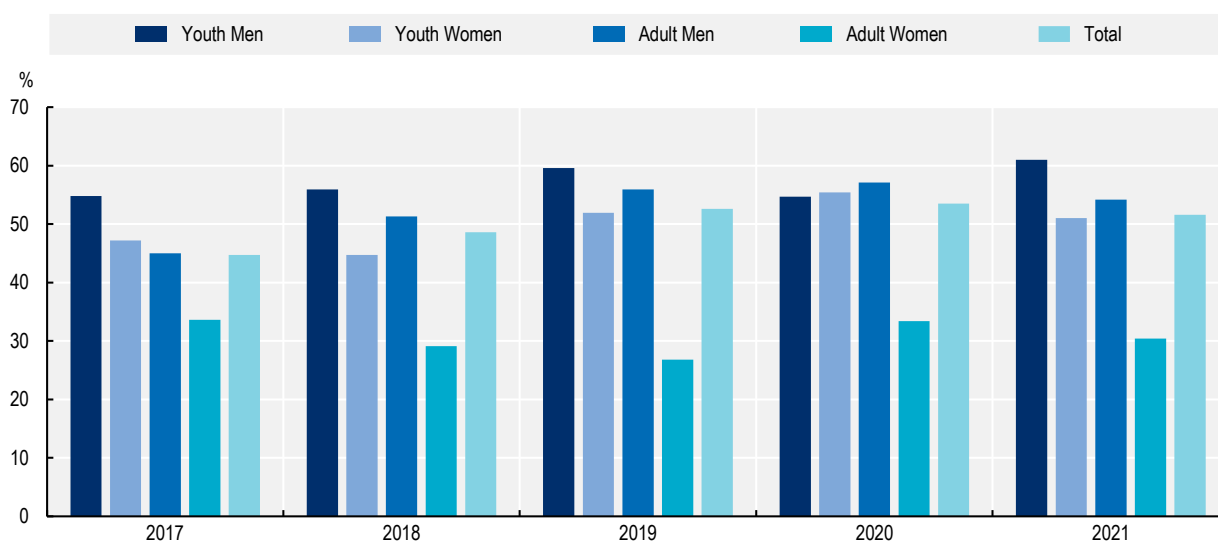
5.1. Stylized facts about informality

The size of the informal economy and its contribution to GDP can vary depending on the methodology used to estimate it. A recent set of estimates by Elgin et.al. (2021^[10]) suggests that the informal economy accounted for between 16% and 18% of Jordan's GDP in the last decade on average.¹⁷ The study also suggests that the share of GDP from informal activities has been declining slowly in Jordan, from an average of about 19% of GDP in the 1990s, to 17% of GDP in the last decade (see Figure 1.2 in Chapter 2 and Figure 5.A.7 in the appendix to this chapter).

5.1.1. Informality of employment and impact of COVID-19

Informal employment has steadily increased in Jordan over the last several years. The share of workers who were classified as informal¹⁸ rose from 44.7% in 2017 to 53.5% in 2020, and then fell slightly to 51.6% in 2021 (Figure 5.2). These shares are lower than for other Arab countries for which we have data, for whom informal employment ranges between 51% and 87% of overall employment.¹⁹ This average masks wide variance between groups, however. Young men (15-24 years old) tend to have higher shares of informality than other groups, although in 2020 youth women and adult men surpassed them for the first time. Adult women tend to have the lowest shares of informality. This however does not necessarily reflect better working conditions for older women. Female labour force participation rates are extremely low in Jordan (13.5% in 2021, third lowest in the Arab region) and typically women will tend to remain in the labour force after marriage if they have a formal job offering good working conditions, stability, safety, and paid sick or maternity leaves.²⁰

Figure 5.2. Share of informal employment in total employment by sex and age group, Jordan, 2017-21



Notes: Based on ILO's definition of informal workers. Youth are those aged 15-24, adults are 25 years and older.

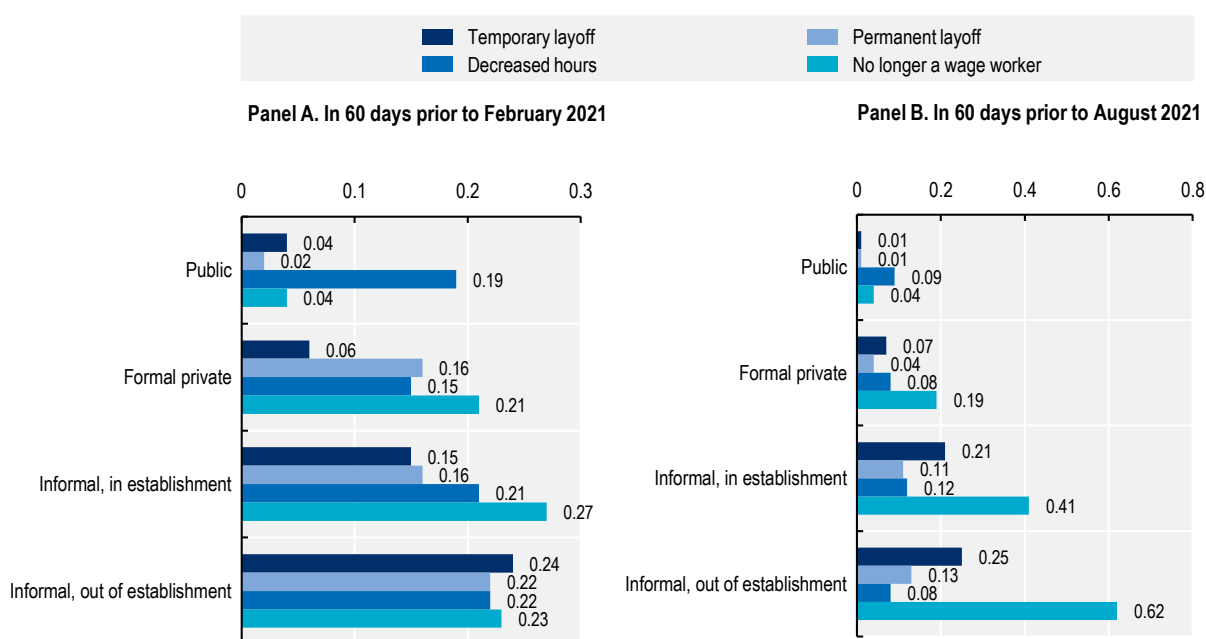
Source: ILOSTAT (2023) based on Jordan's Employment and Unemployment Surveys.

The COVID-19 pandemic created a strong negative shock to both aggregate supply and aggregate demand. It had a devastating impact on labour markets everywhere. Lockdowns and mobility restrictions severely limited the demand for goods and services around the world, especially in industries such as restaurants, hotels, travel and tourism, wholesale and retail trade (UNDP, 2021^[11]), where informal or irregular workers tend to be concentrated. At the same time the supply of labour was restricted due to health fears, and mobility restrictions, combined with the fact that many workers were unable to perform their jobs remotely. These shocks hit informal workers harder throughout the course of the pandemic, and hit informal workers who worked outside establishments (e.g. street vendors) hardest.

Figure 5.3 shows the experiences of those who were wage workers at the onset of the pandemic in February 2020, based on rapid phone surveys conducted at two points in time during 2021 in Jordan: January–February, August–September. The survey asked these workers whether they had experienced temporary or permanent layoffs, decreased hours or were no longer wage workers either becoming self-employed, unemployed, or exiting the labour market all together, over the previous 60 days, and followed the same respondents over time. It also asked these workers about their employment status in February 2020, thus allowing us to track how different types of workers at the onset of the pandemic were affected by it.

Figure 5.3 confirms that, as expected, those who were public sector workers at the onset of the pandemic were least likely to be affected, and if they faced any impact it was mainly in the form of reduced hours. Private formal workers were affected slightly more, with many no longer being wage workers by the time of the survey (Figure 5.4). By far, informal workers, and especially those working outside establishments, were the most likely to face layoffs, decreased hours or to transition out of wage work, even a year and a half after the pandemic started.

Figure 5.3. Experience of those who were wage workers in February 2020 in the 60 days prior to February and August 2021, Jordan



Notes: Informal workers are defined as those who do not have a contract or do not have social security. The y-axis presents the workers' status in February 2020, and the x-axis presents the share of workers who were temporarily laid off, permanently laid off, faced decreased working hours or were no longer wage workers in the 60 days prior to February 2021 (left hand panel) and August 2021 (right hand panel).

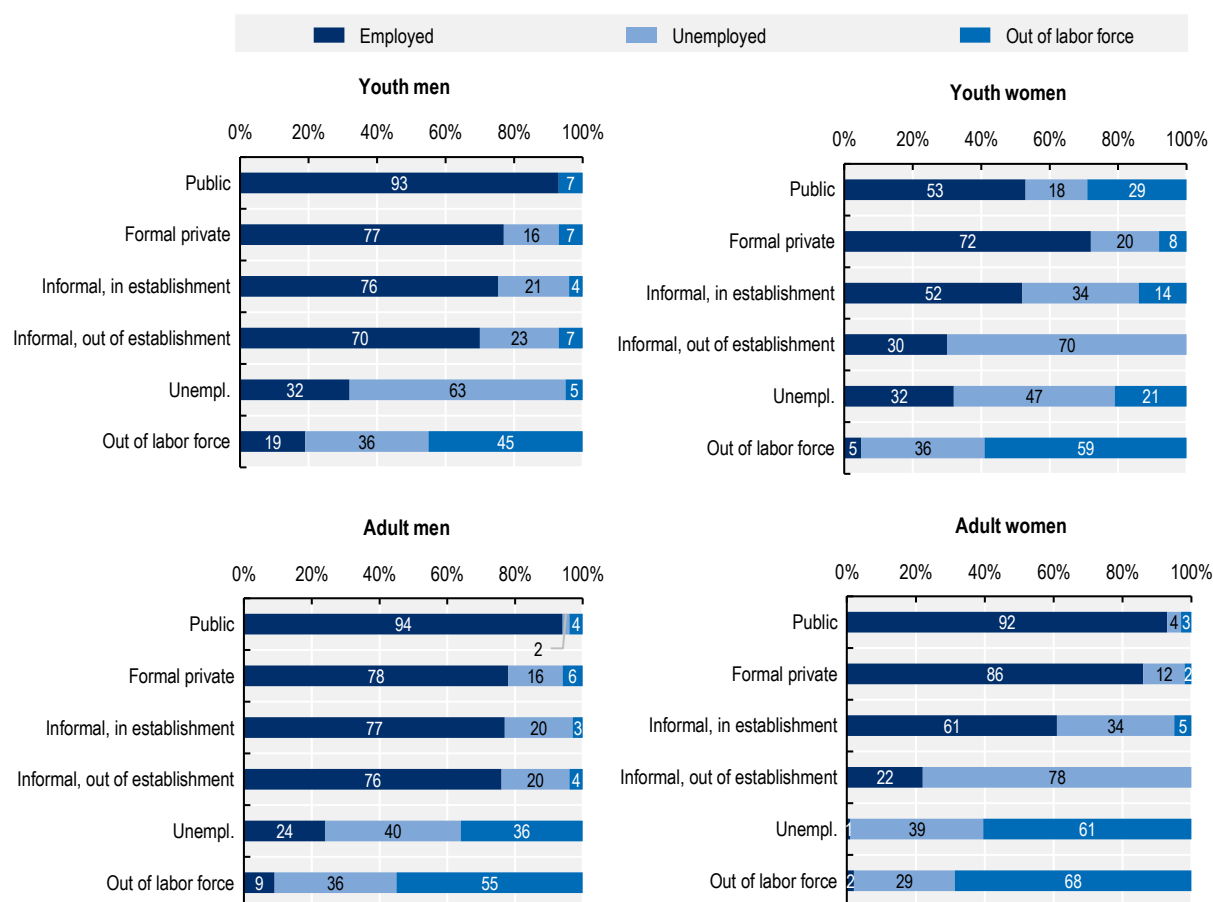
Source: Authors' calculations based on ERF COVID 19 MENA Monitor Household Surveys 2020-2021.

Figure 5.4 depicts the labour market transitions for workers in February 2021 (Panel A) and August 2021 (Panel B), relative to their employment status in February 2020. A year after the onset of the pandemic (February 2021), among those who had formal public or private jobs, youth women were the most adversely affected, either being more likely to become unemployed (18% for those who were employed in the public sector initially, and 20% for those who were in private formal jobs) or to exit the labour force altogether (29% and 8% respectively). Informal workers outside establishments were also more likely to become unemployed or to exit the labour force, regardless of age and sex, and youth and adult women were hardest hit in that category. By June (not shown to save on space) and August 2021 somewhat of a recovery occurred, with fewer women going out of the labour force (OLF) and to a lesser extent becoming unemployed, but for youth men who had been informally employed in February 2020, larger shares had become unemployed than earlier in the pandemic.

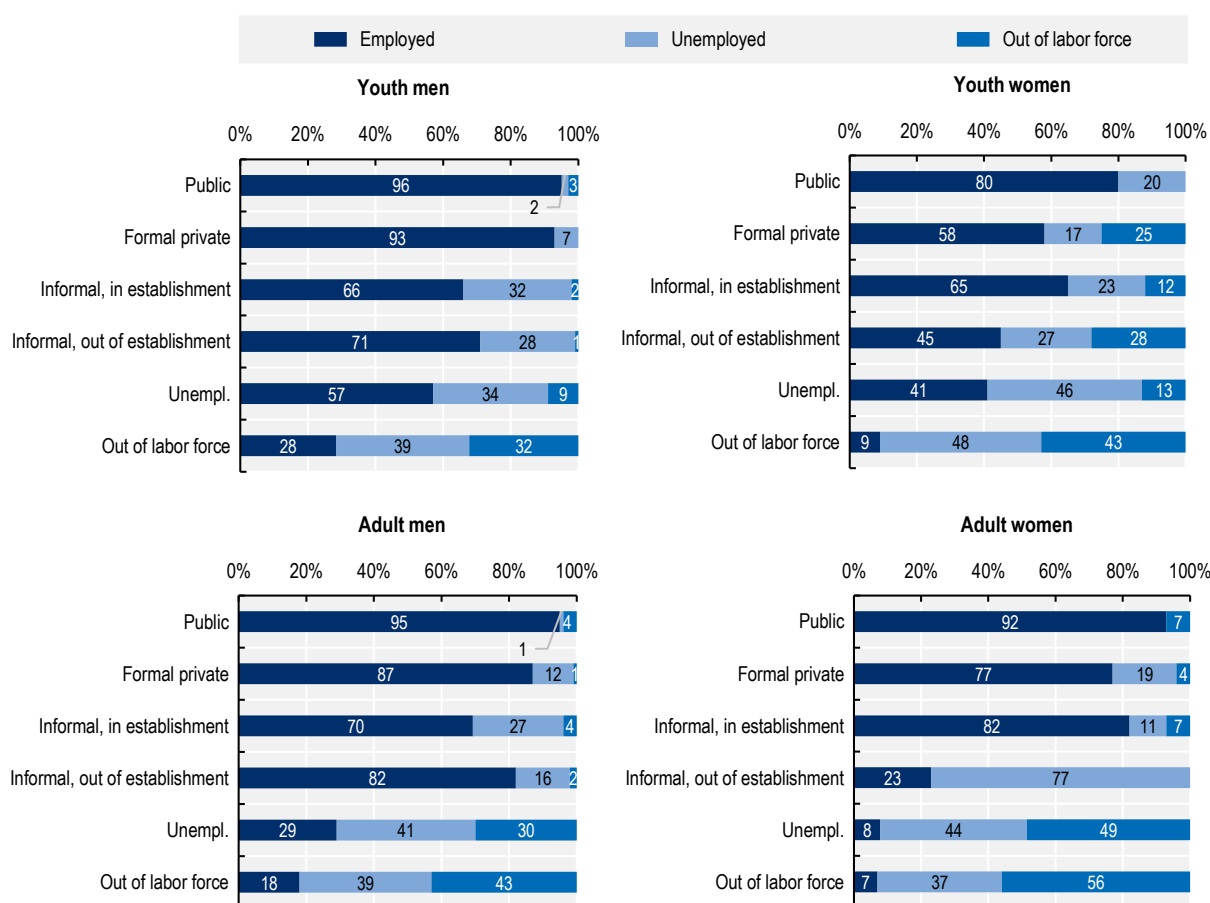
Figure 5.4. Labour market, by employment status in February 2020 and by age and sex, Jordan

Transitions between February 2020 and February 2021

Panel A. Transitions between February 2020 and February 2021



Panel B. Transitions between February 2020 and August 2021



Notes: Informal workers are defined as those who do not have a contract or do not have social security. The y-axis presents the workers' status in February 2020, and the x-axis presents the share of workers who were employed, unemployed or out of the labour force in the 60 days prior to February 2021 (Panel A) and August 2021 (Panel B).

Source: Authors' calculations based on ERF COVID 19 MENA Monitor Household Surveys 2020-2021.

Furthermore, based on the 2016 Labour force survey, Razzaz and Selwaness (2022^[12]) estimate that the legal coverage of wage workers in the private sector is 65%, while 22% are excluded because they work in agriculture of domestic sectors and 13% because they work fewer than 16 days per month. This means that the legal coverage of social insurance system in Jordan does not include all categories of workers. The effective coverage of private sector employees, who are legally covered, does not exceed 39% (this percentage is 75% in the public sector). They also highlighted the existence of both regulatory gap and compliance gap in the social security system in Jordan. Those gaps have been analysed and confirmed by an ILO report (2021) using the more recent data of LFS 2018. The report has suggested some policies helping to expand coverage and approaches to address legislative gaps, compliance and enforcement, and introduces new methods for expanded coverage.

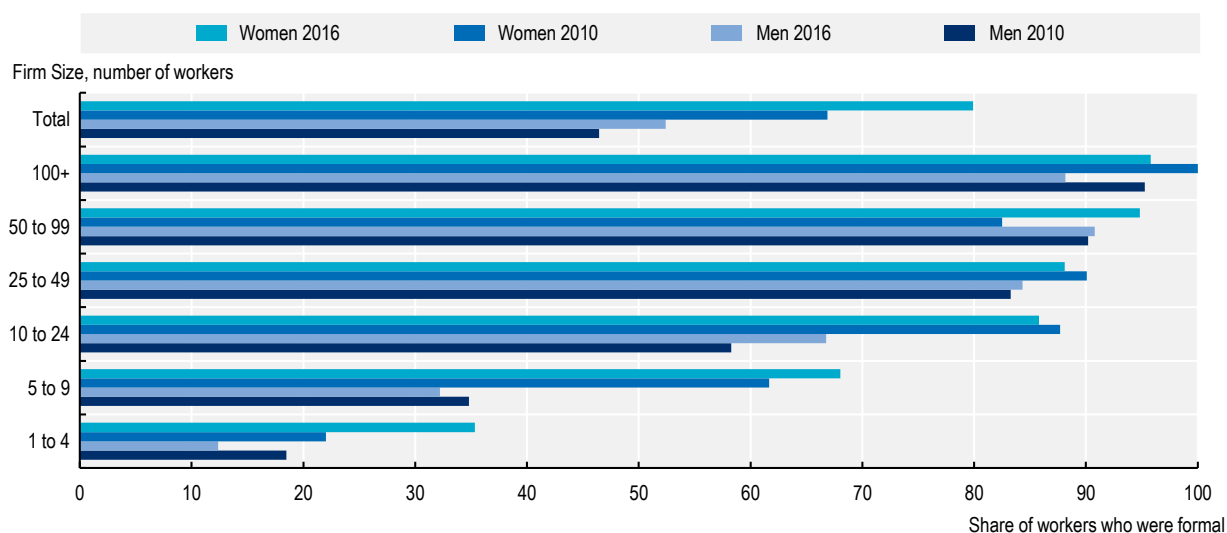
5.1.2. Informality among firms and impact of COVID-19

Jordan relies almost entirely on micro, small and medium enterprises (MSMEs) to drive its economy. MSMEs are estimated to represent more than 99% of the total number of private formal firms in Jordan and play an essential role in contributing to production as well as employment. 87.7% are micro

enterprises, 10.2% are small, 1.6% are medium-sized, and 0.5% are large enterprises.²¹ Private firms employing between 1 and 19 people account for over half of private sector employment and between 70% and 80% of formal jobs in sectors such as professional services, real estate, and wholesale and retail.

Assessing informality among firms in Jordan is not straightforward due to the absence of data.²² Most firms in Jordan are registered with their local municipalities.²³ However, far fewer register with the tax authorities (i.e. the Income and Sales Tax Directorate).²⁴ Moreover, employing the definition of employment formality as workers who are either covered by social security or who have a contract, as of 2016, there is a strong positive correlation between firm size and formality, suggesting that smaller firms are more likely to employ informal workers regardless of firm registration status (Figure 5.5). These trends are similar for both men and women, although women are more likely to be formally employed even in micro and small enterprises.

Figure 5.5. Share of Jordanian workers who were formal workers, by firm size and sex



Source: Authors' calculations based on JLMPS 2010 and 2016. A formal worker is defined as one who has social security or a contract.

The outbreak of COVID-19 has deeply affected businesses. An important measure of the pandemic's effect on the private sector is the share of firms that had temporarily closed.

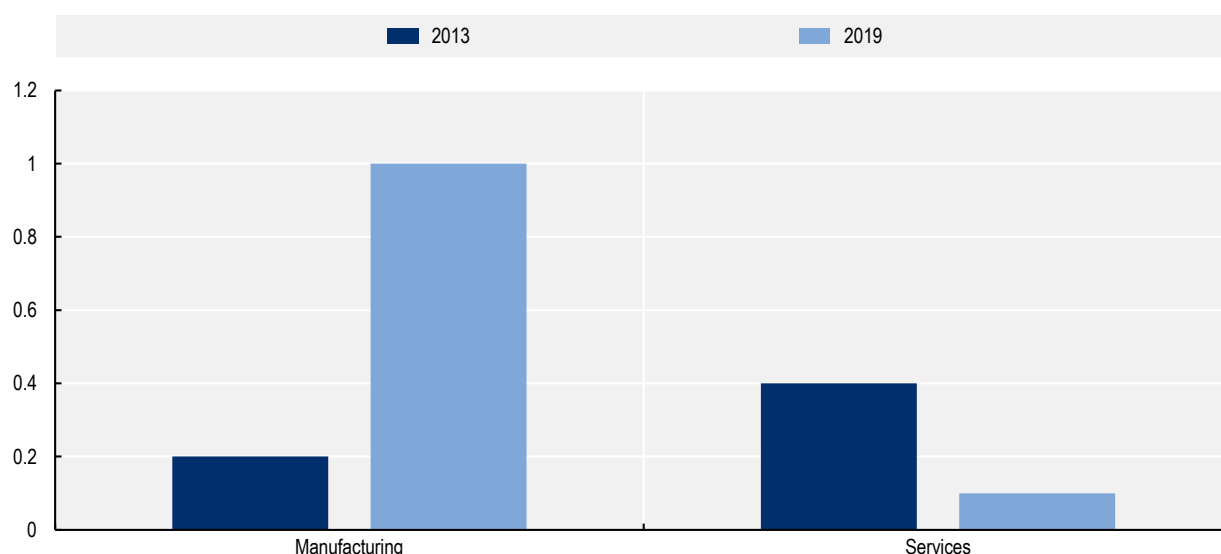
In April 2020, ILO and UNDP in collaboration with the Fafo Institute for Labour and Social Research conducted a sample survey of 1 190 enterprises (home-based businesses, micro and small businesses, as well as larger enterprises) in Jordan (Kebede et al., 2021^[13]).²⁵ The data were collected through a phone interview complemented by individual interviews and focus group discussions with representatives from various industrial sectors, including business organizations, trade unions, enterprise owners, and workers. At the time of the interview, only 7% of the surveyed enterprises were operating as before the pandemic, 39% were operating with reduced staff and/or reduced hours, while 51% of the enterprises had closed their operations temporarily. A larger share of micro (62%) and small enterprises (58%) had temporarily closed down their operations compared to medium and larger enterprises (less than 31%) (Kebede et al., 2021^[13]).²⁶

As reported by national sources, there is a lack of official information on the business informality rate. However, the surveys conducted by UNDP and ILO in Jordan to measure the impact of the COVID-19 on enterprises confirmed that the highest level of informality was among micro and small businesses. These surveys found that micro and small enterprises have largely not been able to take advantage of support packages provided to Jordanian enterprises by the government during the pandemic. Only 7% of the micro enterprises surveyed received any form of support from the government, compared to about 50% of the large – and more formal – enterprises.

Informal debt from family and friends was an important source of credit for micro and small enterprises in Jordan. While 44% of all debt to micro enterprises consisted of informal debt, this type of debt accounted for only 8% of large enterprises' total debt (Kebede et al., 2021^[13]).²⁷ This may be related to the high level of informality among micro and small businesses and the consequent inability to access formal credit.

Regarding the time in which, on average, a firm operated without being formal and comparing 2013 with 2019, in the service sector the duration has decreased (0.4 and 0.2 of a year respectively), while in the manufacturing sector it has increased substantially, from 0.2 to one year (Figure 5.6). According to the World Bank Enterprise Survey, in 2019 96.9% cent of the surveyed firms declared to have started their activities in the country as formal business, while in 2013 they were 94.9%.

Figure 5.6. Number of years firm operated without formal registration



Source: World Bank Enterprise Surveys 2013 and 2019.

5.2. Overview of the national institutional and regulatory frameworks and key challenges towards formalisation

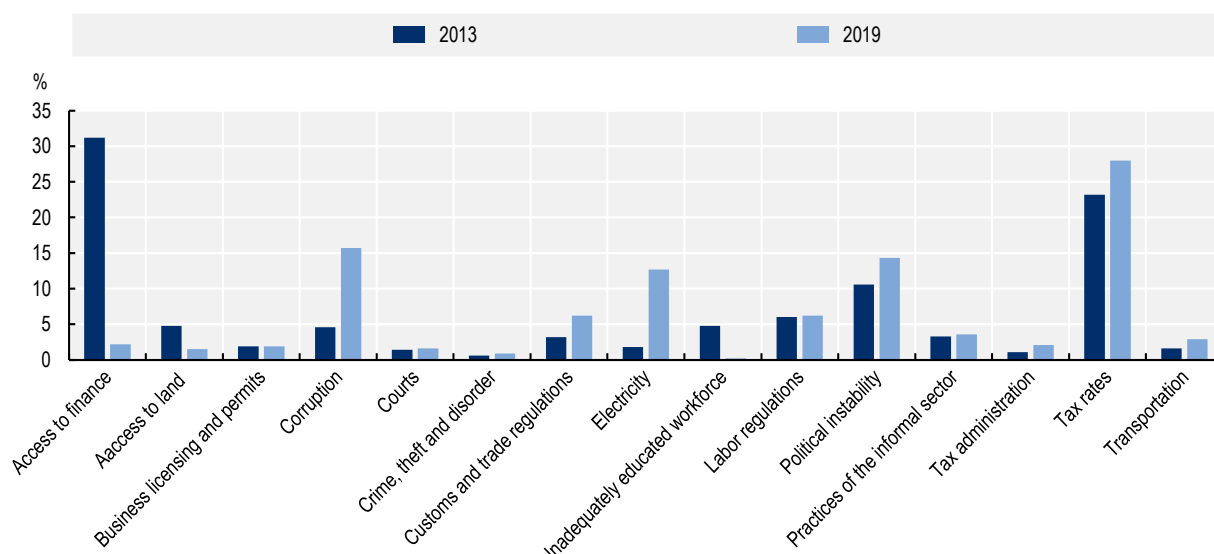
5.2.1. Business Environment and Access to Finance

The Government of Jordan has put a lot of efforts into creating a more effective and enabling environment for business. In this regard, in February 2019 the Government launched Jordan's Reform Matrix (2018 – 2024) which comprises of a set of policy and structural reforms that aim to improve the efficiency of the business and investment environment; reduce the cost of doing business; boost exports and investments; and enhance macroeconomic stability in order to improve the overall competitiveness of the economy, stimulate growth and create employment opportunities (Ministry of Planning and International Cooperation, 2021^[14]). Within the Reform Matrix in 2018, Jordan enacted three reforms for strengthening access to credit. In particular, the first transactions law was aimed at broadening the description of debts and obligations and the scope of assets usable as collateral, the second one amended insolvency law wanted to guarantee creditors absolute priority and provide a time limit and clear grounds for relief from automatic stays during reorganization procedures, while the third one introduced a new electronic, unified, modern and notice-based collateral registry (World Bank, 2020^[15]).

In 2021 the Government launched the “Investor Journey Reform Program” which aims to improve Government to Business (G2B) service delivery and increase efficiency of businesses and government, reduce compliance costs and time, as well as improve the predictability of the business environment. In this framework, the ISIC4 classification framework was adopted for newly registered businesses, as an effort to improve the coordination between government agencies involved across the business lifecycle which in turn should help simplifying, unifying and expediting the registration and licensing procedures for businesses. In 2022, the country started to work on the Integrated Business Registry System which will unify the registration process through a single window at the Companies Control Department (Government of Jordan, 2022^[16]).

According to the World Bank Enterprise Survey, in 2013, 31.2% of the surveyed businesses pointed out that “access to finance” was the main business environment obstacle, while in 2019 only 2.2% perceived it as the most important one. At the same time, as shown in Figure 5.7, both in 2013 and 2019 a high percentage of businesses considered tax rates as the major obstacle.

Figure 5.7. Firms that consider a specific business environment obstacle as the most important



Note: The Enterprise Surveys cover small (number of employees: 5 to 19), medium (20 to 99), and large firms (100 or more). Firms with less than five employees and those that are 100% state-owned are ineligible for the survey. The sectors included are the non-agricultural, formal, private economy. Public utilities, government services, health care, and financial services sectors are not included in the sample.

For more details about the 2013 and 2019 survey data, see: <https://microdata.worldbank.org/index.php/catalog/2065> and <https://microdata.worldbank.org/index.php/catalog/3734>.

Source: World Bank Enterprise Surveys 2013 and 2019.

In terms of national institutions, the Jordan Enterprise Development Corporation (JEDCO) was established in 1972 as the government arm to support the private sector in Jordan. It is a government independent corporation whose board is made up of both public and private sector representatives and chaired by the Minister of Industry, Trade and Supply. JEDCO offers a range of programmes and services to start ups and MSMEs across all sectors to become more competitive in the global market by providing technical and financial support (https://jedco.gov.jo/EN/Pages/About_JEDCO).

5.2.2. Social protection

Social protection is a key concern related to the functioning of labour markets, as it can impact the conditions and incentive mechanisms that underpin the informal economy. In Jordan, as in many Arab countries, social protection is mainly made up of four components: social insurance, social assistance, employment policies/Active Labour Market Policies (ALMPs), and humanitarian/ informal social protection.²⁸

The social security corporation (SSC) is the main institution of social insurance in Jordan. The corporation covers workers against all work-related social risks. Contributions for workers covered by the SSC stand at 21.75% of their wage, with employers contributing 14.25% and the worker covering the remaining 7.5%. (These rates are fairly middle-of-the-road for the Middle East).²⁹ The number of active insured persons increased from 1.16 million in 2015 to 1.3 million in 2019. Despite some progress, the coverage rate for workers remains low. For example, the estimated percentage of workers who have coverage in the event of a work injury is only 57% in 2020, which, although higher than that of some other Arab countries like Tunisia (28%) and Egypt (36%), is still lower than the average for Arab States (63%). Moreover, the estimated share of unemployed individuals receiving unemployment benefits is remarkably low at 5.3% (see coverage by branch of social insurance are displayed in Figure 4.A.1 in the appendix).

National Aid Fund (NAF) is the main institution of social assistance in Jordan. It runs several social assistance programmes, providing vulnerable and poor households in-kind and cash transfer benefits, as well as training and employment support benefits. The Zakat fund is another programme that provides in kind and in cash benefits.

The ALMPs/employment policies in Jordan are made of four main categories: skills training, employment services, entrepreneurship promotion and subsidized employment. An inventory of the different programmes has been done in 2017 and it identified 84 interventions (ILO, 2017_[17]). Most of those interventions were made up of skills training (technical and vocational skills) and employment services, whereas entrepreneurship promotion and subsidized employment programmes were less frequently offered. The interventions were mainly funded by government and foreign donors, with little involvement of private sector and local agencies.

The humanitarian/informal component of social protection in Jordan is led by NGOs and UN organizations who cover mainly refugees through several programmes (cash assistance, vouchers, and winterization schemes;³⁰ education; employment and empowerment, and protection).

Further, Jordan has developed a national social protection strategy 2019-2025. This strategy focuses on three pillars, namely: Opportunity, Dignity, and Tamkeen. The “Opportunity” pillar focuses on improving social insurance and employment opportunities. The “Dignity” pillar focuses on improving social assistance programmes, and finally the “Tamkeen” pillars focuses on providing quality education for the population.³¹

During the COVID-19 pandemic, many social policy measures have been implemented. The IPC-IG policy tracker identified 25 policies targeting different categories of population providing them with different type of services. Figures 4.A.2-A.6 in the appendix summarize the type of policies and the targeted population.

The Social protection programmes above may have different effect on informality in a way or another; indeed, the presence of parallel components of social protection could lead to substitution effect and may have an impact on occupational choices. Relying on the view of different schools of thought on the informal economy (Sobh, 2019_[18]; Merouani, El Moudden and Hammouda, 2021_[19]), this chapter assumes informal labour markets comprise workers with marginal and self-subsistence activities (Dualist and Structuralist schools), but also workers who deliberately seek to avoid regulations and taxation (Legalist and Voluntarist schools). Hence, we believe that while some workers in Jordan would prefer working formally, other workers could substitute a formal employment opportunity (with contribution to social insurance) by informal employment, with potential non-contributory benefits. For example, Sobh (2019_[18]) showed,

through field work and focus group discussions, that individuals who work in the informal sector in Jordan prefer to remain informal due to their perception of inadequate and insufficient benefits and services obtained from being in the formal sector, compared to the associated costs, both monetary and non-monetary. These issues and other challenges related to formalization will be discussed further in the policy analysis section.

5.3. The Fiscal System

The Ministry of Finance is responsible for managing the government's finances and implementing fiscal policy. The government's budget is divided into two main categories: the recurrent budget, which covers the day-to-day expenses of the government, and the development budget, which is used to fund capital projects and investments. Jordan's public finances have been under pressure in recent years due to a combination of factors, including high levels of debt, slow economic growth, and a large public sector. In order to address these challenges, the government has implemented a number of fiscal consolidation measures, such as reducing subsidies, raising taxes, and increasing efficiency in the public sector. In terms of revenue, the government mainly relies on taxes, which include income taxes, sales taxes, and customs duties. The government also receives revenue from natural resources, such as phosphates and oil shale, as well as foreign aid.

There is no small business tax regime in Jordan. MSMEs are required to pay the same types of taxes as individuals with income or larger firms, depending on their business structure. Self-employed, micro and small firms are subject to Personal Income Taxes (PIT), not Corporate Income Taxes (CIT). The exemption on income for households with dependents are up to 23 000 JDs (about USD 32 400), and for individuals, it is 9 000 JDs (roughly USD 12 600). If business revenues are less than 23 000 JDs (USD 32 400 or almost eight times Jordan's per capita income) for a given year, MSMEs registered as self-employed would not be subject to any income taxes.³² For revenues above this threshold the following PIT rates apply: 5% for the first 5 000 JDs of revenue, with rates increasing incrementally to 25% for 20 000 JDs of income above the exemption level). All other businesses have to pay CIT for which the standard rate is 20%, however, there are more than seven different CITs depending on the year and sector. In addition, a national contribution tax has been imposed on business profits (since January 2019), ranging from 1-7% depending on the industry. In sum, tax rates on corporate revenues range from 21% to 38% (with discounted rates applicable in 2019 by year and industry, converging with standard rates by 2024).

In addition, small businesses are required to file payroll taxes and social security contributions for their employees. As mentioned in the previous section, the employer is required to contribute 14.25% of the employee's salary (in addition to the full salary payment) and the employee's contribution is 7.5%. No reductions or exemptions apply for MSMEs. Reforms in social security reforms in the past decade, which include contribution requirements for MSMEs and the self-employed, together with higher rates, likely contributed to the increase in some categories of informal employment since 2010 (Assaad, Krafft and Keo, 2018^[20]; Brodmann, Jillson and Hassan, 2014^[21]; ESC, 2014^[22]; Sobh, 2019^[18]).

There are indirect taxes that are also applicable, and they are complex. General Sales Tax (GST) is applicable to firms, there is a registration limit (currently 10 000 JDs for manufactured goods and 75 000 JDs for all other commerce). Therefore, many MSMEs would not be required to pay GST but for cottage manufacturing firms, or those with sales surpassing 75 000 JDs (approximately USD 105 600), there are seven standard GST rates (16% standard, 10%, 5%, 4%, 2%, 0%, and tax-exempt goods) each applicable to very specific types of products. Complicated schedules for special sales taxes also apply for many different products.

The perceived (combined) high rates of taxes,³³ cumbersome and ambiguous regulatory and legal tax systems result in widespread tax evasion, and high costs of compliance may all be contributing to discouraging formalization.

5.4. Trust in institutions

Public trust could be a determinant of many individual behaviours and choices, including the choice of participation in social security and the formal sphere. Indeed, empirical evidence indicates that public trust may account for the presence as well as persistence of informality (Elgin and Tosun, 2017^[23]).

In Jordan, as in many Arab countries, trust in institutions is low. The Arab Barometer Survey (ABS) 2021-2022 shows that 68% of respondents do not trust the government (71% for male and 65% for female), which is comparable to the sample average 69%. Surprisingly, the survey shows that young people (18-29) are more likely to trust government (34%), while this proportion is slightly lower (31%) for older adults (30 years old and more). Further, the data shows that there is a negative relationship between level of education and trust in government. While 37% of respondents with low level of education level report that they trust government, this percentage was equal to 32% for people with medium level and 26% for respondents with high level.

Trust in the Parliament seems to be even lower according to the ABS as only 16% of respondents reported they trust it (13% for male and 19% for female respondents), which is lower than the sample average estimated at 21.4%. Young respondents (18-29) are more likely to trust the Parliament (19%) than adult (15%). The negative relationship between education and trust is confirmed also in this case as 18% of respondents with low education trust the Parliament, against 17% for respondents with medium level of education, and 12% for those with high level.

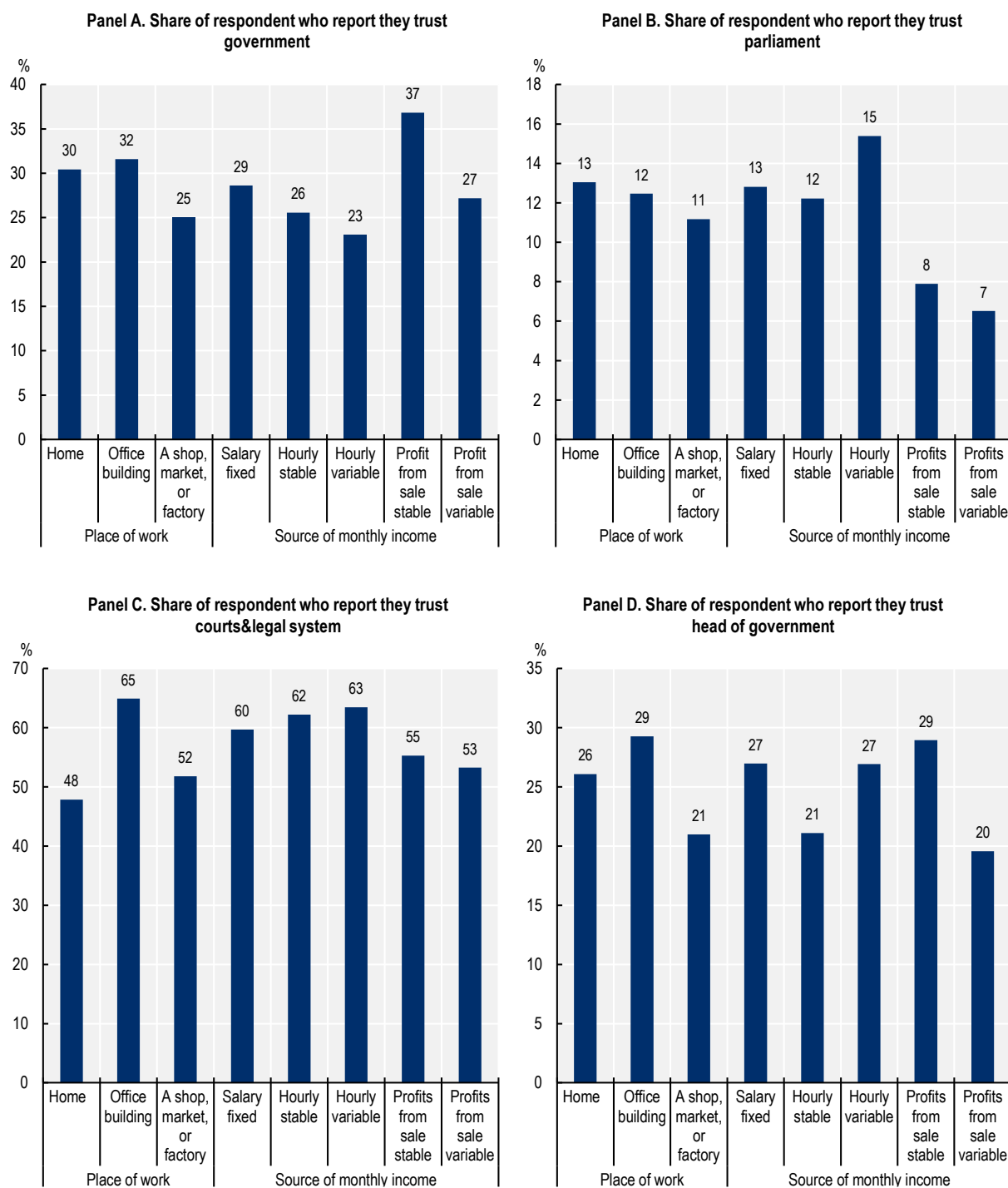
Trust in Head of Government/Prime Minister is also low in Jordan: only 29% of respondents report trusting the Head of Government (26% for male and 33% for female respondents), which is lower than the sample³⁴ average estimated at 36%. 32% of youth (18-29) and 29% of adult (30 years old and more) report they trust it. The negative relationship between public trust and education is also confirmed here. The ABS data show the share of respondents who report that they trust the Head of Government varies from 32% for respondents with low level of education to 30% for respondents with medium level, and 26% for respondents with high level.

The level of trust in court and legal system was also collected in the ABS, showing that 62% of respondents report trusting them (60% for male and 64% for female respondents). This is higher than the sample average of 44%.³⁵ The data also shows that 66% of young respondents (18-29) and 61% of adults report they trust court and legal system. However, the data indicates that there is no significant difference in trust towards the court and legal system between respondents with low (62%), medium (61%), and high (63%) levels of education.

While ABS 2021-2022 does not contain a variable measuring informality, we have utilized two proxy variables that could inform about the nature of jobs, namely: place of work and the type/regularity of income to examine the relationship between formality and trust in government. The data show that these informality proxies are associated with low trust in various types of institutions (Figure 5.8).

Respondents who work in shops, market and factories (who are more likely to work informally) have the lowest propensity to trust governments and other institutions compared to respondents who work in offices (Figure 5.8). Although people who work from home are more likely to work informally, their overall trust in institutions is not significantly lower than that of people working in offices. However, it should be noted that they exhibit a notably lower level of trust in the court and legal system compared to those who work in offices. Further, the figure shows that respondents for whom variable-profits from sales is the main source of income (who are more likely to occupy an informal job) have a lower propensity to trust institutions. While we argue that more reliable data on informality are needed to confirm the aforementioned relationship, we believe that those figures support the hypothesis of a negative relationship between trust in government and informality of labour.

Figure 5.8. Trust in institutions by workplace and source of monthly income, Jordan



Source: Arab barometer survey 2021-2022. Wave VII (accessed on 10 January 2023).

References

- Alazzawi, S. and V. Hlasny (2022), “Youth labor market vulnerabilities: evidence from Egypt, Jordan and Tunisia”, *International Journal of Manpower*, Vol. 43/7, pp. 1670-1699, <https://doi.org/10.1108/IJM-04-2021-0239>. [42]
- Assaad, R., C. Krafft and C. Keo (2018), “The Composition of Labor Supply and Its Evolution from 2010 to 2016 in Jordan”, *Economic Research Forum Working Paper Series*, No. No. 1183, <https://doi.org/10.1093/oso/9780198846079.003.0001>. [20]
- Assaad, R. and C. Salemi (2019), “The structure of employment and job creation in Jordan: 2010–2016”, in *The Jordanian Labor Market: Between Fragility and Resilience*, Oxford University Press, Oxford, <https://doi.org/10.1093/oso/9780198846079.003.0002>. [32]
- Bender, K., M. Kaltenborn and C. Pfleiderer (2013), “The political Economy of social protection reforms in developing countries”, in *Social Protection in Developing Countries*, Routledge, <https://doi.org/10.4324/9780203082294>. [41]
- Brodmann, S., I. Jillson and N. Hassan (2014), “Social Insurance Reform in Jordan: Awareness and Perceptions of Employment Opportunities for Women”, *Social Protection & Labor Discussion Paper*, No. No. 1402, World Bank, <http://www.worldbank.org/sp>. [21]
- Department of Statistics (2023), “23.1% unemployment rate during the third quarter of 2022”, *PRESS/3 rd Q. 2022*, Department of Statistics of Jordan, http://dos.gov.jo/dos_home_e/main/archive/Unemp/2022/Emp_Q32022.pdf (accessed on 20 November 2023). [5]
- Department of Statistics (2021), *Jordan in Figures 2021*, Department of Statistics of Jordan, Amman, https://dosweb.dos.gov.jo/DataBank/JordanInFigures/Jorinfo_2021.pdf (accessed on 20 November 2023). [1]
- DTDA/DI/Danish Ministry of Foreign Affairs (2022), *Labour Market Report: Jordan - 2020*, Danish Trade Union Development Agency, Confederation of Danish Industry and Danish Ministry of Foreign Affairs, <https://www.ulandssekretariatet.dk/wp-content/uploads/2020/09/LMP-Jordan-2020-final-version.pdf> (accessed on 20 November 2023). [35]
- Elgin, C. et al. (2021), “DP16497 Understanding Informality”, *CEPR Discussion Paper*, No. 16497, CEPR Press, Paris & London, <https://cepr.org/publications/dp16497>. [10]
- Elgin, C. and H. Tosun (2017), “A note on informality and public trust”, *Economics Bulletin*, Vol. 37/4, pp. 2595-2601. [23]
- El-Mallakh, N. and J. Wahba (2018), “Syrian Refugees and the Migration Dynamics of Jordanians: Moving in or Moving Out?”, *Economic Research Forum Working Paper Series*, No. 1191, Economic Research Forum, Cairo, <http://www.erf.org.eg>. [31]
- ESC (2014), *Tax Evasion in Jordan: causes, means, and size*, Jordan Economic and Social Council (ESC). [22]
- Fallah, B., C. Krafft and J. Wahba (2019), “The impact of refugees on employment and wages in Jordan”, *Journal of Development Economics*, Vol. 139, pp. 203-216, <https://doi.org/10.1016/j.jdevco.2019.03.009>. [30]

- Government of Jordan (2022), *Reform Matrix: 2021, At a glance*,. [16]
- ILO (2022), *ILOSTAT Data*, <https://ilostat ilo org data/> (accessed on 13 November 2023). [40]
- ILO (2021), *Opportunities for extending social security coverage in Jordan*, ILO Regional Office for the Arab States, https://www ilo org global programmes and projects/prospects/publications/WCMS_770085/lang--en/index.htm (accessed on 15 November 2023). [39]
- ILO (2017), "Promoting youth employment and empowerment of young women in Jordan: An assessment of active labour market policies", *Impact Report Series*, No. Issue 9, ILO, Geneva, <http://www ilo org publns>. [17]
- IMF (2023), "Real GDP growth: Annual percent change", in *World Economic Outlook*, IMF, https://www imf org external datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEOWORLD (accessed on 20 November 2023). [4]
- Islam, A., D. Moosa and F. Saliola (2022), *Jobs Undone: Reshaping the Role of Governments toward Markets and Workers in the Middle East and North Africa*, The World Bank, <https://doi.org/10.1596/978-1-4648-1735-9>. [7]
- Kebede, T. et al. (2021), *Impact of COVID-19 on Enterprises in Jordan: One year into the pandemic*, International Labour Organization, https://www ilo org beirut/publications/WCMS_813448/lang--en/index.htm. [13]
- Krafft, C. and R. Assaad (2019), *The Jordanian Labor Market: Between Fragility and Resilience*, Oxford University Press, Oxford, <https://doi.org/10.1093/oso/9780198846079.001.0001>. [28]
- Krafft, C. and C. Hannafi (2022), "Minimum and Living Wages in Jordan and Tunisia: Implications for Social Protection Floors", *ERF Policy Brief*, No. No. 89, Economic Research Forum. [29]
- Mahon, A. and J. Heymann (2012), *The Review of social protection indicators in early childhood*, UNESCO. [38]
- Merouani, W., C. El Moudden and N. Hammouda (2021), "Social Security Enrollment as an Indicator of State Fragility and Legitimacy: A Field Experiment in Maghreb Countries", *Social Sciences*, Vol. 10/7, p. 266, <https://doi.org/10.3390/socsci10070266>. [19]
- Ministry of Labour (2022), *The National Labour Market Figures (2017-2021)*, Ministry of Labour of Jordan - Labour Market Studies Unit, https://mol.gov.jo/ebv4.0/root_storage/ar/eb_list_page/%D9%85%D8%A4%D8%B4%D8%B1%D8%A7%D8%AA_%D8%B3%D9%88%D9%82_%D8%A7%D9%84%D8%B9%D9%85%D9%84_%D8%A7%D9%84%D9%88%D8%B7%D9%86%D9%8A%D8%A9_2017-2021-0.pdf (accessed on 23 November 2023). [8]
- Ministry of Planning and International Cooperation (2021), *Jordan's Reform Matrix (2018 – 2024): Background and Progress Update*, Ministry of Planning and International Cooperation of Jordan. [14]
- Mohanna, Z. and T. Haddad (2021), *Jordan Country Trends Report: Study Research On Vulnerability To Trafficking In Persons Among The Crisis-Affected Populations In The Levant Region*, IOM, https://jordan.iom.int/sites/g/files/tmzbd1991/files/documents/jo_country-trends_0.pdf (accessed on 20 November 2023). [27]

- Razzaz, S. and I. Selwaness (2022), “The Jordanian Social Contract: Shifting from Public Employment As A Source of Social Insurance to Government-Regulated Social Insurance”, *ERF Working Papers Series*, No. 1582. [12]
- Refaqat, S. et al. (2022), *Jordan Economic Monitor - Spring 2022 : Global Turbulence Dampens Recovery and Job Creation*, World Bank, <http://documents.worldbank.org/curated/en/099410007122222740/IDU05823c2b70646004a400b9fa0477cea7736a4> (accessed on 23 November 2023). [26]
- SME Finance Forum (2023), *MSME Economic Indicators*, SME Finance Forum, <https://www.smefinanceforum.org/data-sites/msme-country-indicators> (accessed on 23 November 2023). [37]
- Sobh, B. (2019), *State of the Informal Sector in Jordan: Opportunities for Integration*, USAID, Amman, https://pdf.usaid.gov/pdf_docs/PA00W963.pdf (accessed on 15 November 2023). [18]
- Stave, S., T. Kebede and M. Kattaa (2021), *Impact of work permits on decent work for Syrians in Jordan*, ILO and Fafo, <http://www.ilo.org/publns>. [9]
- Trading Economics (2023), *Social Security Rate*, Trading Economics, <https://tradingeconomics.com/country-list/social-security-rate> (accessed on 23 November 2023). [36]
- UNDP (2022), *Arab Human Development Report 2022: Expanding Opportunities For An Inclusive And Resilient Recovery In The Post-Covid Era*, UNDP Regional Bureau for Arab States, New York. [2]
- UNDP (2021), “Lives versus livelihoods: The Covid-19 pandemic and labour markets in Arab States”, *RBAS Working Paper Series*, UNDP, New York. [11]
- Weldali, M. (2022), “Poverty rate of 24.1% requires policy change — experts”, *The Jordan Times*, <https://jordantimes.com/news/local/poverty-rate-241-requires-policy-change-%E2%80%94-experts> (accessed on 20 November 2023). [25]
- Winkler, H. and A. Gonzalez (2019), *Jobs Diagnostic: Jordan*, World Bank, <http://www.worldbank.org>. [24]
- World Bank (2022), *World Development Indicators*, World Bank, Washington, DC, <https://databank.worldbank.org/source/world-development-indicators> (accessed on 20 November 2023). [33]
- World Bank (2021), *Poverty & Equity Brief: Jordan*, World Bank Group, Amman, https://databankfiles.worldbank.org/public/ddpext_download/poverty/987B9C90-CB9F-4D93-AE8C-750588BF00QA/AM2020/Global_POVEQ_JOR.pdf (accessed on 20 November 2023). [34]
- World Bank (2020), *Doing Business 2020: Comparing Business Regulation in 190 Economies*, World Bank, Washington, DC, <http://hdl.handle.net/10986/32436>. [15]
- World Bank (n.d.), *World Development Indicators*, World Bank, Washington, DC. [3]

Youssef, H., A. Janzer-Araji and J. Mazahreh (2023), *Jordan Economic Monitor - Fall 2022 : Public Investment - Maximizing the Development Impact* Jad Raji, World Bank, Washington, DC, <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099704301182329091/idu099db31500c35504e0f09d2e0a0fd0c30a5f4> (accessed on 20 November 2023). [6]

Notes

¹ Based on Jordanian officials' announcements as quoted in Weldali (2022^[25]).

² The latest Poverty and Equity brief from the World Bank (2021^[34]) states that in 2019 the Government of Jordan had announced a poverty rate of 15.7% based on the 2017-2018 HIES, that had been completely revamped in terms of design with World Bank support.

³ Authors' calculations based on World Development Indicators World Bank (2022^[33]). Jordanian GDP declined by 1.6% in 2020, while GDP per capita declined by 3.6%, over twice as much as other Upper Middle-Income Countries (UMICs) that witnessed an average GDP per capita decline of 1.03% in 2020.

⁴ GDP growth reached 2.2% in 2021 and 2.1% in 2022 according to the latest IMF World Economic Outlook estimates.

⁵ Based on statistics for quarter 3 of 2022 (Department of Statistics, 2023^[5]), the labour force participation rate for those 15+ years of age was 33.0% (52.5% for males compared to 13.7% for females) falling from 34.4% (54.4% for males and 14.5% for females) in same period of 2021.

⁶ FAFO, ILO, UNDP (2020 & 2021), Impact of COVID-19 on enterprises in Jordan.

⁷ Inflation was projected to moderately accelerate in 2022, the CPI inflation is projected to reach 3.3% in 2022 and 3% in 2023 compared to 1.3% in 2021, which is low compared to other Arab countries.

⁸ See for example Krafft and Assaad (2019^[28]) and Youssef, Janzer-Araji, and Mazahreh (2023^[6]).

⁹ For instance, Lebanon for which Enterprise surveys exist, had negative private sector job growth.

¹⁰ Based on the Arab Barometer survey conducted between 2021-2022.

¹¹ Estimates vary by source. The figure of 1.5 million migrant workers was quoted in several sources including (DTDA/DI/Danish Ministry of Foreign Affairs, 2022^[35]), (Mohanna and Haddad, 2021^[27]).

¹² As per a statement from a policymaker: A substantial portion of informal workers in the agricultural sector is comprised of migrant workers.

¹³ Many of whom have become Jordanian citizens. 370 000 Palestinian refugees still live in camps with uncertain legal status (DTDA/DI/Danish Ministry of Foreign Affairs, 2022^[35]).

¹⁴ Jordan has a dual minimum wage system based on nationality: the minimum wage for Jordanians was 260JD as of January 2023, and 230 JD for non-Jordanians (slated to be indexed to inflation during the current year although as February 2023 the decision was taken to postpone this increase once again due to the multiple shocks facing the Jordanian economy. Several industries are also exempt from the minimum wage legislation such as textiles and clothing and domestic work (Krafft and Hannafi, 2022^[29]). This complex system may push low-skilled Jordanian workers to informal work, especially if they are less skilled than their migrant counterparts (Winkler and Gonzalez, 2019^[24]).

¹⁵ See for example El-Mallakh and Wahba (2018^[31]); Fallah, Krafft, and Wahba (2019^[30]). Assaad and Salemi (2019^[32]), however argue that the influx of Syrian workers has led to an increase in irregular employment especially among men from lower wealth quintiles.

¹⁶ Jordan's government and guaranteed gross debt in 2021 was 113.8% of GDP, although generally under favourable conditions (Refaqat et al., 2022^[26]).

¹⁷ The first estimate is based on a Dynamic General Equilibrium Model (DGE), while the second one is based on a Multiple indicators multiple causes model (MIMIC). For more information on the two methods see Elgin et. al. (2021^[10]).

¹⁸ The government of Jordan classifies informal workers as employees whose employer does not pay social security contributions on their behalf; employers and own-account workers whose enterprise is informal/ not registered; and contributing family workers (ILO, 2021^[39]).

¹⁹ ILOSTAT (ILO, 2022^[40]), SDG Indicator 8.3.1 Proportion of informal employment in total employment by sex and sector (%), Annual.

²⁰ This finding has been corroborated in several studies about the region. See for example Assaad et. al. (2017) where they conclude that “marriage by the median age reduces the probability of working for women by 47% in Jordan, 33% in Tunisia and 16% in Egypt. Much of the effect is due to a reduction in the probability of private wage work, which is reduced by 76% in Jordan, 57% in Tunisia and 40% in Egypt”. See also AlAzzawi and Hlasny (2022^[42]), Lasassi and Tansel (2020), “Female Labor Force Participation in Five Selected Mena Countries: An Age-Period-Cohort Analysis” and Assaad et. al. (2020) “Explaining the MENA Paradox: Rising Educational Attainment, Yet Stagnant Female Labor Force Participation” and references therein.

²¹ The MSME Economic Indicators Database 2019 records the number of formally registered MSMEs across 176 economies (SME Finance Forum, 2023^[37]). In Jordan, the Ministry of Industry and Trade classifies MSMEs based on the number of employees and the paid capital investment, so micro: less than JD 30 000 and 1- 9 employees; small: more than JD 30 000 and 10 - 49 employees; medium: more than JD 30 000 and 50 - 249 employees; large: more than JD 30 000 and 250 and above employees.

²² See IMF, 2018 for a discussion of approaches to determining the size of the informal economy. The challenge of determining the extent of informality among Jordanian firms was corroborated in discussions with the Ministry of Planning and International Cooperation (MoPIC) and the Social Security Corporation, November 9, 2022.

²³ As reported by national sources, there is a lack of official information on the business informality rate. However, based on interviews with the Jordanian Ministry of Labor, with the exception of home-based enterprises, over 90% of all MSMEs in Jordan are registered. This figure is also very similar to data from

the World Bank Enterprise Survey (2019) for Jordan where 97% of enterprises surveyed reported that they were registered when they first started operations.

²⁴ *Ibid.*

²⁵ The majority of the enterprises were micro enterprises with less than four employees (41%), 28% were small enterprises with 5 to 19 workers, 13% had 20 to 49 workers, 8% had 50 to 99 workers, while 10% of the enterprises had more than 100 employees.

²⁶ ILO and UNDP, Impact of the COVID-19 pandemic on enterprises in Jordan, 2020. These results are opposite to the findings of the follow-up enterprise survey, that included 601 firms which were interviewed between May 2019 and November 2019 and then re-contacted in July/August 2020 and in November 2020 – January 2021. In this survey the largest number of businesses that had permanently closed since pandemic declared were large firms (15.8% large, 13.5% small and 7.2% medium-sized enterprises).

²⁷ ILO and UNDP, Impact of the COVID-19 pandemic on enterprises in Jordan, 2020.

²⁸ While it is widely accepted that there is no one unique definition of social protection (Mahon and Heymann, 2012^[38]) (Bender, Kaltenborn and Pfeleiderer, 2013^[41]), this chapter uses UNDP's definition. For UNDP, social protection systems are articulated around programmes, platforms and institutions that provide coherence and consistency and are organized around contributory or non-contributory forms of income support and around social assistance, social insurance and labour market interventions.

²⁹ Based on author analysis of posted rates for countries in the Middle East and North Africa available at <https://tradingeconomics.com/country-list/social-security-rate> (Trading Economics, 2023^[36]).

³⁰ Winterization programmes (cash grants and winter items) support refugees and IDPs to cope with the weather conditions during the coldest months of the winter. For instance, the UNHCR Winterization strategy focuses on: 1) Provision of seasonal cash assistance for vulnerable families, 2) Provision of core relief items specific to winter such as high thermal blankets, plastic sheets, and winter clothes, and 3) Winterization of shelter including shelter weather-proofing and repairs, improvements to drainage systems and other infrastructure in camps and informal settlements.

³¹ https://www.social-protection.org/gimi/gess/ResultAchieved.action;jsessionid=Xkw431t8FlqG1BhQjvLRKRJwmV_PnrLneAa_mwh2N91ZjqntAPAgX!256579239?id=939

³² MSMEs have three options for business registration: self-employment (i.e. no partners, but can have employees), a partnership or an LLC.

³³ According to a survey conducted among informal businesses in Jordan (Sobh, 2019^[18]); and this was also one of the biggest obstacles to doing business in Jordan in the 2013 and 2019 by the World Bank enterprise surveys.

³⁴ The question was asked only in Iraq, Lebanon, Libya, and Morocco.

³⁵ The question was asked in most countries covered by the Arab Barometer Survey.

6

Economic and social policies and their impact on formalisation: Developing a Policy Assessment Framework

This chapter presents a methodology to assess the potential effectiveness of social and economic policies, implemented during the COVID-19 pandemic, in increasing formality, and facilitating the transition from informality to formality, of both workers and enterprises. This methodology consists of building a Policy Assessment Framework that can inform about the possible impact of diverse policy initiatives on informality. The Framework results from a thorough review of a large number of studies and meta-analyses that used a variety of estimation methods, for a large number of different countries, to evaluate the impact of a given policy intervention on informality. The chapter applies the preliminary Framework to the policies and measures implemented by the governments of Egypt, Iraq and Jordan during the COVID-19 pandemic and beyond, to examine how they may affect formalisation.

The three countries under study in this report, namely Egypt, Iraq and Jordan, implemented a large number of policies and programmes that attempted to address the detrimental effects of the COVID-19 pandemic. Some policies aimed to provide immediate support through social protection programmes, either creating new programmes or expanding access and coverage of existing ones.¹ Other policies were targeted towards specific types of workers or enterprises, expanding social insurance benefits, reducing taxes or fees or providing increased access to finance. While these policies and programmes had a direct impact on welfare, in this chapter we investigate their potential impact on informality and on the transition of firms and workers from informality to formality.

6.1. Research methodology and data collection

A systematic evaluation of policy and programmatic impacts ideally entails a rigorous data collection process both at baseline and at several points during and after the programme implementation, and a deliberate experimental design that randomises the treatment among otherwise largely similar beneficiaries; or a large-scale data collection exercise combined with econometric estimation to account for potential endogeneity and other estimation issues. Due to the nature of the COVID-19 pandemic, i.e. a sudden and unexpected event, a systematic evaluation using Randomized Control Trials (RCTs) would have been difficult and challenging to implement without jeopardizing equity.² Moreover, few countries in the region have released large scale national surveys conducted both before and after the pandemic that can be used for econometric estimation of impact.³

This report proposes a Policy Assessment Framework to understand the potential impact of policies implemented during the COVID 19 pandemic on informality of employment and enterprises. The Framework aims to identify “what works”: effective policies that enhance formalisation or reduce informality. The framework is based on evidence from the literature, covering large groups of countries under varying socioeconomic contexts. The effects of these policies on formalisation can, however, vary in magnitude and direction, presenting diverse implications across different contexts and studies. Given the variability of results across previous studies, employing meta-analysis (Box 6.1) proves to be a valuable statistical tool in deriving accurate and informed conclusions on the effect of a given policy or programme. To construct the Framework, we relied on literature that uses meta-analyses and systemic literature reviews. When no meta-analysis or systemic literature review was available, we relied on single empirical studies covering several countries, where the studies selected presented results validated for all countries and used several estimation methods.

The Framework does not extensively cover a range of policy areas such as education quality, reskilling and upskilling, social economy, or sustainable investment, that may support formalisation. These limitations are acknowledged as our primary objective centered on delineating the impact of policies implemented during the COVID-19 pandemic specifically, and hence the definition and scope of the Policy Assessment Framework was driven by those policies, rather than encompassing all potential policy aspects that could affect informality.

Box 6.1. Meta-analysis and policy design

Meta-analysis is a statistical method used to combine results from multiple studies that have investigated the same research question, with the goal of producing a single, summary estimate of the effect. It is a quantitative research method that involves systematically reviewing, synthesizing, and analysing the results of multiple independent studies.

- The first step in a meta-analysis is to clearly define the research question, including the type of studies to be included, the specific outcomes of interest, and any other relevant criteria.
- Next, researchers conduct a systematic search of the relevant literature, using specific criteria to identify studies that meet the inclusion criteria. They extract relevant data from each study, including information about the study design, participants, interventions or exposures, outcomes, and effect sizes.
- The extracted data is then analysed statistically to produce a summary estimate of the effect. This can involve using a range of statistical methods, depending on the nature of the data and the research question.
- Finally, the results of the meta-analysis are interpreted in the context of the original research question and the available evidence.

Meta-analysis can be used to synthesize results from a wide range of study designs, including randomized controlled trials, observational studies, and quasi-experimental designs. It can be especially useful when there are several similar impact assessments or evaluations with or without consistent outcomes, or when there are smaller to medium-sized assessments or trials with inconclusive results.* In such cases, a meta-analysis can help to synthesize the results of multiple studies, clarify the overall impact or magnitude of an intervention or exposure, and identify factors that may be influencing the results. This allows policymakers to make more informed decisions based on a comprehensive and objective assessment of the evidence.

For example, an influential set of studies on the effect of minimum wage on employment by Card and Krueger (1993^[1]; 1995^[2]) concluded that the increase in the minimum wage did not decrease employment, contradicting economic theory and many previous studies. These findings were supported, with some variations in magnitude and among specific groups, by several more recent meta-analyses by Reich, Allegretto and Montialoux (2019^[3]); Allegretto et al. (2018^[4]), Doucouliagos and Stanley (2009^[5]), and Belman and Wolfson (2014^[6]); meta-analysis by Broecke, Forti and Vandeweyer (2017^[7]) found some indication that more vulnerable groups (youth and the low-skilled) are marginally more adversely affected, and that higher minimum wages lead to more informal employment.

Note: * When analysing individual studies, it is common to encounter varying results and conclusions. However, the reliance on meta-analysis and systematic review techniques offers a powerful means to statistically evaluate these effects, accounting for the diversity of contributions and highlighting the most prevalent and statistically significant outcomes. This process is akin to analysing microdata, where individual behaviours may vary, but statistical analysis unveils the modal behaviour, effectively revealing the overarching trends and patterns within the data.

The Policy Assessment Framework is divided into two broad categories of policies: "*carrots/incentives*" and "*sticks/law enforcement*", referring to policies that are intended to create incentives for higher formality or transition from informality to formality vs those meant to penalize or to ban informality, respectively. Within each category (*carrots or sticks*), we identified a number of common policy initiatives, as presented below. The rationale for the inclusion of policies under the category of carrots or sticks is discussed in Section 6.2, when introducing the policy initiatives reviewed for this report.

- Carrots/Incentives
 - Non-contributory social assistance policies, including conditional and unconditional benefits
 - Social insurance and other occupational related policies
 - Active labour market policies
 - Business and financial services related policies
- Sticks/ Law Enforcement
 - Laws and regulations on labour and business formality and their enforcement

Within each one of these sub-categories, governments can implement a variety of different interventions that may have an impact on formality. Based on a careful review of the meta-analyses identified and of relevant literature, we were able to answer several important questions about the potential impact of each policy or measure on formality (the share of formal workers or firms) and formalisation (the transition from informal to formal):

- Does the policy increase formality?
- Does the policy increase informality?
- Does the policy encourage the transition from informality to formality?
- Does the policy encourage the transition from formality to informality?

Table 6.1 presents a preliminary Policy Assessment Framework (PAF), divided into the five broad policy categories. Within each one of these categories, there are many possible specific measures, and we present the evidence for each separately, where information from the literature was available. In cases where we did not find studies that examined the impact for similar policies, we left the cell empty.

- For example, under the “non-contributory social assistance” category of policies, unconditional cash transfer (first row) was not found to increase the rate of formality (column 3) according to the literature. However, it may increase informality (column 4) as the recipients receive the benefit without having to bear any costs associated with becoming formal. We were not able to find studies that examined whether such policies encourage the transition from informal to formal, and we, therefore, left the cell empty (column 5). Finally, available studies found no evidence that such unconditional cash transfers encourage the transition from formal to informal (column 6). These inferences are based on Canelas and Niño-Zarazúa (2022^[8]), who reviewed several studies from Asia and the Pacific, Latin America, and Africa.

Table 6.1. Policy Assessment Framework

Policy Category	Specific Policy Measure	Likely to increase formality?	Likely to increase informality?	Likely to facilitate the transition from informality to formality?	Likely to facilitate the transition from formality to informality?
Carrots/Incentives					
Non-contributory social assistance, including conditional and unconditional benefits	Unconditional cash transfer	No	Yes, may increase informality if the payment is high relative to expected wages		No
	Universal subsidies on	No	Yes, may		

	commodities such as food and energy, and free universal healthcare (Bosch, Cobacho and Pagés, 2014 ^[9]) ¹		increase informality if the benefit is generous and for specific groups ²		
	Free COVID-19 testing for specific groups	No	No	No	No
	Conditional Cash Transfers (CCT) ³	Small positive effect	No		
Contributory Social Insurance or other Conditional Benefits	Long term expansion of social insurance ⁴	Yes			
	Temporary reduction of payroll taxes and social security contributions (Mehrotra, 2020 ^[10] ; Van Elk, De Kok and Lindeboom, 2014 ^[11])	Yes, during the programme, but risk of exit if the programme stops			
	Tax incentives (Floridi, Demena and Wagner, 2020 ^[12] ; Jessen and Kluve, 2021 ^[13])	Yes	No	Yes, some evidence of transition, depending on context	
	Social security information campaigns (Canelas and Niño-Zarazúa, 2022 ^[8])	Yes, small positive effect			
	Wage payment/support and paid leaves during crises	Yes, but only saves the jobs of current employees	No	No	No
Active Labour Market Policies	Labour Market/ Vocational Training programmes (Escudero et al., 2019 ^[14] ; McKenzie, 2017 ^[15] ; Card et al., 2018 ^[16])	Yes		Yes	
	Public work/Cash for work (McKenzie, 2017 ^[15] ; Escudero et al., 2019 ^[14])	No, only temporary effect on poverty and income		No	
	Wage subsidies (McKenzie, 2017 ^[15]) ⁵	Yes, temporary impact while programme is in effect		No	
	Search and matching assistance (McKenzie, 2017 ^[15] ; Card, Kluve and Weber, 2010 ^[17] ; Eurofond/ILO, 2017 ^[18] ; Hardoy et al., 2018 ^[19] ; Kluve, 2010 ^[20] ; Kluve et al., 2019 ^[21] ; Novella and Valencia, 2022 ^[22])	Yes			
	Entrepreneurship and self-employment programmes (McKenzie and Woodruff, 2014 ^[23])	Yes, small or insignificant effects		No	
	E-governance (digitalisation) Elbahnasawy (2021).	Yes			
Business and Financial Services	Access to entrepreneurship training, skills development and tailored business development services Elbahnasawy (2021).	No or little evidence of impact			
	Access to inclusive financial services (Floridi, Demena and Wagner, 2020 ^[12])	Yes		Yes	

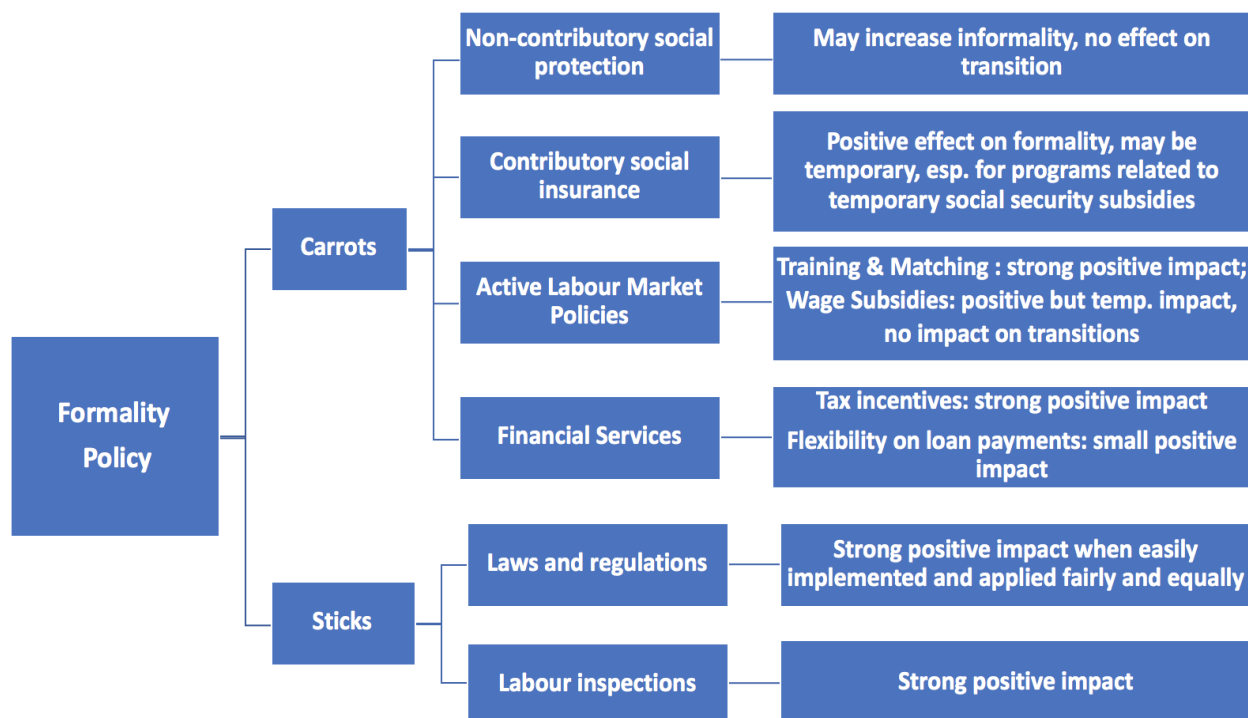
	Simplification of registration procedures, business entry reforms (Mehrotra, 2020 ^[10] ; Van Elk, De Kok and Lindeboom, 2014 ^[11]) (ease of doing business, one stop shop/Mono tax, etc.)	Yes, large reductions in barriers to entry are associated with increases in firm registration (Van Elk, De Kok and Lindeboom, 2014 ^[11]) but the impact is more prevalent for larger and growth-oriented firms (Floridi, Demena and Wagner, 2020 ^[12]) Bruhn (2011), Mondragón- Véléz and Peña (2010), La Porta and Shleifer (2008), Klapper et al., (2006)		Yes, weak evidence or small effect (Floridi, Demena and Wagner, 2020 ^[12] ; Van Elk, De Kok and Lindeboom, 2014 ^[11])	
	Access of businesses to public procurement (public market and contract) (ILO, 2017 ^[24] ; Floridi, Demena and Wagner, 2020 ^[12])	Yes, small positive effect on firm registration			
	Access to subsidized loans, loan moratoria (Floridi, Demena and Wagner, 2020 ^[12])	Yes, small positive effect on firm registration	Yes	Yes, small effect	
	Postponement of utility bills	No			
	Flexibility on loan payments (deferment of payments)	Yes, small effect		Yes, small effect	
		Some broad evidence on increased benefits leading to higher formality but generally small effect			
Sticks/Law Enforcement					
Laws and Regulations	Labour inspection ^{6,7}	Yes, small effect	No	Yes	
	Enforce labour or business formalization ⁸	Yes	No	Yes	

Notes:

1. See Canelas and Niño-Zarazúa (2022^[8]) for the case of general subsidies (non-contributory social assistance) and Martinelli (2017^[25]), for the particular case of universal basic income.
2. Among the small number of studies that investigated this issue there is some evidence that universal subsidies, when offered in parallel to contributory social insurance policies, can lead to a substitution effect and higher share of informal employment. These effects are however small and only found among specific populations hovering around the formal and informal sector and “that are close to the cut-off point that separates the formal from the informal economy, [that are] associated with programmes that provide relatively generous benefits, or that adopt targeting mechanisms via means-tests or proxy-means tests” (Canelas and Niño-Zarazúa, 2022^[8]).
3. and 4. Few studies, and therefore meta-analyses, have examined the effect of conditional cash transfers (CCTs) on informality, and results are mixed. Barbosa and Corseuil (2013^[26]) evaluated the Bolsa Familia programme and found no impact of CCTs on occupational choice between formal and informal jobs for Brazilian adults. Teixeira (2010^[27]) studied the same programme and found that CCTs marginally reduced working hours, with the effect more pronounced among informal workers. Baird, Mackenzie and Özler (2018^[28]) summarise results of several studies examining the effects of cash transfers on adult labour market outcomes and conclude that there is generally little impact of CCTs on adult labour choices, unless they are associated with a specific employment focus such as job search and matching, or business start-up. It is worth noting that these are not based on meta-analyses, but several individual case studies, and are highly dependent on the country context and the type of beneficiary and intervention.
5. Found to be effective during shocks to reduce layoffs, but again temporary while subsidy is in effect.
6. Jessen and Kluve (2021^[13]) find a small but consistently positive effect on formality using meta-analysis methodology.
7. Mehrotra (2020^[10]) provides a summary of several case studies where increased inspections or enforcement of laws and regulations pertaining to formality had a positive effect on formality, and on transition from informality to formality.
8. Jessen and Kluve (2021^[13]), Mehrotra (2020^[10]) and Van Elk, De Kok, Durán, and Lindeboom (2014^[11]). The latter also provides examples of case studies where enforcement worked better than information campaigns or waiving registration costs.

Figure 6.1 presents a summary of the different policy categories and the most important conclusions about formality (the share of formal workers or firms) and formalisation (transition from informal to formal) with reference to specific commonly adopted measures.

Figure 6.1. Summary of Policy Assessment Framework



6.2. Applying the Policy Assessment Framework to policies from Egypt, Iraq, and Jordan

This section applies this preliminary Framework to the policies and measures implemented by the governments of Egypt, Iraq and Jordan during the COVID-19 pandemic and beyond, to examine how they may affect formalization. We collected detailed and comprehensive information on policies implemented since the onset of the pandemic from several different policy trackers: IPC-IG, World Bank, IMF, ILO Social Protection Tracker, UNESCWA and UNDP-UN Women Gender Tracker. and for Egypt, the Policy Tracker established by the Ministry of Planning and Economic Development (<https://policytracker.mped.gov.eg>).

For Jordan we also consulted several national sources such as the Social Security Corporation (<https://www.ssc.gov.jo/en/home/>), the Ministry of Labor (<https://mol.gov.jo/>), the National Aid Fund annual reports (https://naf.gov.jo/EN/List/Annual_reports), for additional detailed and up to date information on programme/policy duration, number of beneficiaries and cost, where available. In Iraq, updates provided by the Cabinet on interventions and responses to COVID-19 were also consulted.

Relying on the framework above, we grouped the different policies into categories that would have similar impact on formality, informality or on the transition from informality to formality and vice versa. It is worth bearing in mind that the framework aims to assess the effect of policies uniquely on informality and transitions in /out of it, and not on other outcomes, such as population welfare or enterprise performance.

We begin with the group of policies that can be considered incentives or “carrots” for formalisation. Table 6.2 presents **Non-contributory Social Assistance** policies and measures implemented by each of

the three governments, a brief description of each programme and the expected impact. Notwithstanding the important positive impact of these programmes on population welfare and their significant role in dampening the effects of the crisis, the literature presented in the Framework finds that this category of programmes/policies does not tend to increase formality.

- Canelas and Niño-Zarazúa (2022^[8]), using meta-analysis, found that the expansion of non-contributory social protection does not increase formality. They noted through ILOSTAT data that, as expected, there is strong negative correlation between the scale of the informal economy and the share of workers that have access to contributory social insurance; this correlation is instead much weaker in the presence of non-contributory schemes.
- The small number of studies that have investigated the impact of non-contributory policies on informality found some evidence that when universal subsidies are offered in parallel to contributory social insurance policies, they can lead to a substitution effect and a higher share of informal employment. These effects are however small and only among “specific populations that are close to the cut-off point that separates the formal from the informal economy, associated with programmes that provide relatively generous benefits, or that adopt targeting mechanisms via means-tests or proxy-means tests”.⁴
- There is no evidence that non-contributory programmes create incentives for formal workers to become informal.

In general, the prime purpose of social protection systems, particularly non-contributory schemes, is not to formalise employment and therefore they alone are insufficient policy tools to promote formality. Obviously, improving the working conditions of those in the informal economy until the actual transition to formality takes place whether by providing social protection, including through non-contributory schemes, or by improving other working conditions of informal workers, is of the utmost importance, even if it does not facilitate the transition directly.

Table 6.2. Non-contributory social assistance policies and programmes: Potential impact on informality

Programmes/policies	Description	Potential impact on informality
Jordan		
The monthly aid programme	Monthly funds were provided to vulnerable households, in an amount that ranged between 50 and 200 JD per month per family, depending on the social conditions of the family. In 2021, 108 443 households benefited from the programme with an estimated annual budget of 101 million JD.	No impact as those programmes are non-contributory social assistance programmes . They might in contrast increase informality when the amount of benefit is high (see footnote 6). However, we could not find any evidence in favour of the impact of the programmes on the transition from the formal to the informal economy.
Takaful 1 (complementary aid programme)	Top-up for beneficiaries of the monthly aid programme, targeting working vulnerable households whose incomes are lower than the average wages and salaries in Jordan, and those who fall below the poverty line or face other financial challenges. In 2021 (latest data available) 88 434 households benefited from the programme with an estimated annual budget of 100 million JD.	
Emergency financial aid	Emergency financial aid disbursed to needy families who were going through exceptional emergency circumstances. In 2021, 5 056 families benefited from this programme with an annual budget of 1 047 875 JD.	

Immediate aid programme	Poor individuals or families benefited from this programme in case they went through unusual circumstances or needed to meet urgent financial expenditures. In 2021, 4 603 families benefited from the programme with an annual budget of 88 325 JD.
Complementary aid programme	This programme aimed to reduce the poverty gap of families receiving the monthly aid programme (row 1 above) by granting them additional financial aid on a quarterly basis in addition to the monthly aid programme. The programme included two quarterly rounds in 2021, covering 11 236 households with an estimated budget of 1 083 000 JD.
Takaful 2	Social Protection Programme to support daily wage workers; three-month emergency cash transfer programme targeted at informal workers, providing a monthly benefit depending on household size. The programme was run only in 2020, covered 250 000 households, with a total budget of 83 000 000 JD.
Takaful 3	Temporary cash assistance for households with an unemployed breadwinner or daily wage worker whose work was terminated or negatively affected by the pandemic. In 2021, 154 000 households benefited from the programme, with an estimated total budget of 28 591 604 JD.
Bread Subsidy removal-cash Compensation Programme	Cash compensation, provided to National Aid Fund (NAF) beneficiaries and other targeted households, following the 2018 total removal of the bread subsidy. In 2020, more than one million households benefited from the programme at a cost of more than 102 million JD.
Free bread for NAF beneficiaries	Bread and other commodities were delivered to existing beneficiaries of the recurrent cash assistance programme within the NAF, during the first week of the full lockdown. 105 000 households benefited from the programme.
Winter cash assistance	NAF beneficiary families received a single payment as assistance to meet winter expenses every year. In 2021, 104 169 households benefited from the programme at a cost of JD 3 055 365.
'Hajati' Cash Transfer programme for Syrian refugees	The 'Hajati' Cash Transfer programme, specifically tailored to Syrian refugees and vulnerable Jordanian families, was expanded to cover 18 000 additional vulnerable children.
Palestinian Refugees cash transfers	A total of 20 500 of the most vulnerable Palestinian refugees residing in Jordan (Jerash camp) that do not hold Jordanian citizenship (targeting within this group the elderly, female-headed households and families with children under the age of five years) received a one-time UNRWA cash assistance of 50 JD during April/May 2020
Zakat Fund	Until 14 April 2020, 150 000 families received cash and in-kind aid provided by the Zakat Fund, for a total value of approximately JD 2 million. These were a combination of old and new beneficiaries. Priority was given to daily wage workers.
COVID Food vouchers for underprivileged families	On March 31, 2021, the government announced a COVID stimulus package with a total value of JD 448 million. The package included measures to help underprivileged families with food vouchers during Ramadan to buy foodstuffs from the civil and military consumer corporations.
Social assistance to sick and elderly	Half of the Maternity Insurance Contributions in 2020 (JD 16 million – about USD 23 million) were used to support vulnerable groups, mainly old age and sick people. The allocated amounts were used for cash transfers and in-kind aids. Companies that owe contributions to SSC from the past (arrears amount to 340 million JD) were legally allowed to make such payments in the future.

Physical rehabilitation support	This programme targets individuals with disabilities, providing them with funding to acquire medical devices and equipment that fit their needs. In 2021, 720 families benefited from the programme with a total budget of 264 376 JD.	
Price controls	The government introduced a policy setting price ceilings on essential products in 2020.	
Food Parcels (In-Kind support)	The Social Security Corporation (SSC) provided in-kind support to about 100 000 (other reports indicate 35 000-50 000) vulnerable families that include an individual over the age of 70 and casual workers. Food parcels' monetary value ranged between 40-50 JD.	There is no evidence in literature that such targeted universal health interventions have any impact on either in the increase of formality, increase in informality, transition from informal to formal or vice versa.
Free test for COVID-19	Free COVID tests were provided to individuals exposed directly to a COVID patient, to individuals who received an extreme alert from the national COVID detection phone App, and to individuals who had COVID symptoms for an unspecified period of time. These free tests were available only at specific COVID testing centres set up by the government, which were opened in certain areas.	
Free treatment for COVID-19 patients	The Government and Ministry of Health covered the cost of treatment for any COVID-19 patients admitted to government hospitals under this programme.	
Egypt		
Economic support for irregular labour	Registration of irregular labour ⁵ on the Ministry's website for the receipt of a monthly EGP 500 grant, which contributed to the establishment of a national database of irregular labour. This programme involved adding the workers names and contact information to a government-maintained list. It did not involve registration in Social Security or any other aspect of formalization	These programmes fall under non-contributory social assistance programmes (potential impact as above).
Economic support for irregular labour 2	Launching the disbursement of the second instalment of the 500 EGP grant from 21 to 25 June 2020, with a prepaid card that beneficiaries received when disbursing the first payment.	
Economic support for irregular labour 3	Disbursing the third batch of the EGP 500 grant from 16 to 20 August 2020 for 1.6 million irregular workers to help them facing the economic and social repercussions of the COVID-19 pandemic. The total for the three payments was over EGP 2.4 billion	
Emergency financial aid for irregular labour	Funding the payment of a grant of 500 pounds per month for irregular labours for three months in cooperation with the Ministry of Manpower.	
Financial support to workers affected by COVID-19 effects	Provided financial support to workers affected by the COVID-19 crisis by establishing a fund for emergency subsidies.	
Financial support to workers affected by COVID-19 effects 2	This programme aims to extend the period of disbursement of the subsidy amount to casual workers affected by the repercussions of the Coronavirus until the end of 2020.	
Ahalina	The initiative, launched by the Egyptian government through a community partnership under the slogan "Hand with Hand, Help", aimed to support irregular employees affected by the economic damage of the COVID-19 pandemic; in this context Bank Misr launched a financial incentive to encourage fundraising through the use of the E-wallet.	
The Zakat House supporting the irregular workers in overcoming the COVID-19 pandemic.	Provided EGP 500 from the Zakat house every month starting in May 2020 till the end of December 2020, those who applied through Al-Azhar electronic gate. More than 100 000 irregular workers applied for the aid.	
Presidential initiative "Haya kareema" in partnership with the World Food Programme	The initiative aimed to distribute 500 billion EGP grant in a 3-year programme launched in 2020, targeting 12 000 individuals residing in the most needy villages in Sohag, Qena, and Assiut.	
"Al-Khair Convoys" delivering food to those in need in 17 governorates	"Al-Khair Convoys" delivered food and medical supplies to help in the prevention of COVID-19 beneficiaries (vulnerable households and families) in 17 governorates.	
Increasing the benefits from Takaful and Karama	Takaful ("Solidarity") provides support to poor families with children under 18, and Karama ("Dignity") assists the elderly poor and people with disabilities. The conditional cash support provided by the programmes aimed to strengthen social protection, especially for women in charge of their families, while facing the COVID-	

	19 pandemic. The budgets of the Takaful and Karama cash transfer programmes were increased, adding 160 000 beneficiaries. In addition, as a response to the impact of the Ukraine war on the Egyptian economy and the disruption of global supply chains, in April 2022 Takaful and Karama schemes were extended to a total of 450 000 new families.	
Iraq		
Public Distribution System/Ration card system	This system was originally designed to be a temporary solution for a specific emergency, has been ongoing ever since its launch. The PDS is almost universal, with assistance reaching 96% of the population.	These programmes fall under non-contributory social assistance programmes (potential impact as above).
Islamic-based systems of social protection	The measures involve non-contributory social assistance schemes including Zakat and Khums.	
Social Safety Net	The programme supports households with incomes below the national poverty line (IQD 105 000/month) and particularly women over the age of 55 and men over the age of 65, divorced or widowed women over the age of 65 and orphans below 18 years of age. As of 2022 the programme reaches 5.2 million individuals, targeted using a PMT approach.	
Minha Grant (COVID pandemic response)	A programme, administered by the Ministry of Planning, provided eligible households not receiving other aid support or pension with a monthly payment totalling of IQD150 000	
SSN top up (COVID pandemic response)	600 000 recipients received a one-time top-up. The Social Safety Net (SSN) top-up programme in Iraq was launched in response to the COVID-19 pandemic to provide additional support to vulnerable households affected by the economic consequences of the pandemic. The programme was funded by the World Bank and implemented by the Iraqi government in collaboration with UN agencies and other partners. It aimed to provide cash transfers to around 1.5 million households, who received a top-up payment to their regular social welfare payments to help them cope with the economic impact of the pandemic. The programme prioritised female-headed households, households with persons with disabilities, and internally displaced persons (IDPs).	
1 Million Food Basket campaign (COVID-19 pandemic response)	A campaign to distribute food to those most in need due to the preventive measures and economic downturn caused by the COVID-19 pandemic. The programme now represents a top-up for SSN recipient households.	
Supporting the Ministry of Health's (COVID-19 Response)	In order to support the Ministry of Health's COVID-19 response, the Central Bank of Iraq created a donation fund for financial institutions. This fund generated USD 37 million, including initial contributions of USD 20 million from the Central Bank and USD 5 million from the Trade Bank of Iraq. To ensure resources for healthcare, the authorities reduced non-essential spending and protected budget allocations for the Ministry of Health. Additionally, the Supreme Committee for Health and National Safety introduced a cash transfer programme for families of private sector workers who lack government salaries or benefits. Each eligible person received 30 000 Iraqi dinars (USD 25), with the total cost of the scheme amounting to approximately 300 billion Iraqi dinars (USD 254 million).	
Emergency food security law	The emergency food security bill addressing the country's immediate requirements for food security, energy imports, social security transfers, job creation, and essential development projects. The bill, allocating a total of IQD25 trillion (USD 17.2 billion) for 2022, enables the government to utilize various sources of funding. These include foreign funds held by the Ministry of Finance (MoF), grants, subsidies, and foreign aid.	

The second category of identified measures and programmes is Expanding Contributory Social Insurance Schemes, which includes contributory social protection programmes that provide compensation in case of lifecycle risks or contingencies such as sickness, work injury, invalidity/disability, unemployment, maternity/paternity, death of a spouse or parent, old age. In addition, schemes that fall under 'financial services' were also included that helped in reducing debt burden through deferring loan payments and tax relief (White, 2016^[29]).

Table 6.3 presents several programmes that expanded or provided additional benefits through social insurance programmes. As presented in the Framework (Table 6.1), evidence from the literature suggests

that such expansion of social insurance schemes has some positive effects on increasing formality. Indeed, workers do their own cost-benefit analysis and realise the substantive benefits of paying social insurance for themselves and their families in a crisis situation. However, while some studies show that the effect of policies aiming at expanding social insurance is positive in the long term (Peksevim and Akgiray, 2019^[30]), other studies find that such effects tend to be temporary, dissipating once the programme ends.

Among the few studies that investigated the other three policy categories (i.e. tax incentives, information campaigns, wage payments/support):

- Tax incentives have no impact on increasing informality, and a small positive effect on the transition from informal to formal. Indeed, tax incentives are often more targeted at incentivising investment; instead, simplified tax regimes (also referred to as “presumptive tax regimes”) ease regulatory requirements, compliance costs, and in some cases the tax burden, therefore encouraging formalisation.
- Similarly, financial incentives of deferring debt payments also had limited impact on transition to formalisation and no impact on increasing informality.
- Wage payments or support and paid leaves during crises were not found to have any impact on informality or on transitions in both directions.

In Table 6.3, blank entries reflect other policies where no studies were found that examined their impact on the four questions under consideration. It is worth noting that the effects of temporary social protection programmes may not necessarily be limited to the short term. The underlying philosophy of social protection is to provide temporary interventions by the state to assist vulnerable and impoverished populations in becoming self-sufficient in the future. Therefore, it would be valuable to explore the impact of these temporary programmes on informality, as they could potentially serve as a steppingstone towards more sustainable initiatives in the long run. In fact, promoting formalisation should involve a combination of policies, including raising awareness among workers and employers about the benefits of formal employment.

Table 6.3. Programmes expanding Contributory Social Insurance Schemes: Potential impact on informality

Programmes/policies	Description	Potential Impact on informality
Jordan		
Tamkeen (Empowerment) Ektisadi 1	Reduction of Social Security Contributions for private sector workers from 21.75% to 13.5%, with the employer's share decreased from 14.25% to 9.25% for one year until December 2020, later extended until May 2021. 14 000 enterprises have benefited from the programme. The programme provided 60 million JD additional liquidity according to the SSC 2021 report. https://www.ssc.gov.jo/wp-content/uploads/2021/10/corona-report.pdf	These programmes fall under expansion of social insurance schemes or reductions of payroll taxes and social security contributions .
Tamkeen (Empowerment) Ektisadi 2	A targeted programme for insured workers with a wage of 700 JD or below, allowing them to borrow one-off maximum of 200 JD to be paid at a later date with no interest. The programme was implemented by the Social Security Corporation and benefitted 163 426 workers until November 2020 with a total budget of 31 million JD. The SSC report in 2021 shows that 422 000 workers benefited from the programme, with a budget of 81 million JD. The programme was open to insured Jordanians, Gazan refugees, and foreigners with Jordanian mothers residing in Jordan.	Evidence from the literature suggests that when such expansions of social insurance schemes are temporary, they only have some <i>temporary</i> positive effects on increasing formality.
Musaned 1 and its amendment (Supporting) Programme	Provided persons insured against unemployment, either those employees whose service was terminated or whose work was suspended at an establishment that had frozen operation due to COVID-19, with 150-350 JD (USD 212-494) per month for three months. It applied to beneficiaries who had made at least 36 months contributions, receiving insurance of 50% of their salaries. Included people from the Gaza Strip and children of Jordanian	Where evidence was available, there was either a small positive effect on transition from informal to formal, or no effect at all. There was also no effect on increasing informality or

	women. It had 17 919 observed beneficiaries. The Musaned 1 programme has been amended to include an "unemployment allowance" for eligible beneficiaries, which is applicable for up to six months. Under this amendment, individuals who have previously benefited from Musaned (1) are now eligible for this allowance for a duration of six months. The total budget for Musaned 1 and Musaned 1 amended is estimated at 79.3 million JD in 2021. The two programmes covered 88 000 households and 404 000 persons.	transition from formal to informal, among the few studies that investigated these questions.
Musaned 2	The programme gave a one-off benefit of 450 JD (USD 634) to insured Jordanians and non-Jordanians living in the kingdom who were members of the Social Security Corporation (SSC) for three months that had at least 90 JD in their saving accounts. Workers were allowed to withdraw parts of their savings balance. The programme initially had a total of 143 006 beneficiaries and was announced during COVID-19. The 2021 SSC report, shows that the programme covered a total of 203 000 insured persons.	
Musaned 3	Voluntary members of the SSC were given a one-off benefit of 450 JD (USD 634) provided their last deductible salary was not over 500 JD and they were SSC insured with at least 12-month subscriptions. The beneficiaries were allowed to spend from their insurance funds in advance (withdraw parts of their savings balance) but subscription dues were to be fully settled by voluntary insurance subscribers. The 2021 SSC report shows that the programme covered 174 000 persons. The conditionality that beneficiaries of Musaned 2 & 3 and Tadamon 1 & 2 could not benefit from Musaned 1 was waived.	
Maternity Social Protection	In September 2020, Jordan endorsed Regulation No. (93) of 2020 on Maternity Social Protection under the Social Security Law. The regulation enabled working mothers with maternity insurance under the SSC and children aged under 60 months to return to work while receiving childcare subsidies for their children whether they attended a childcare facility or stayed at home. Monthly allowances with varied amounts depending on income level and location of childcare (in a centre or at home) were granted for a duration of six months following the maternity leave.	
Old age contribution suspension	Defence Order No. 1 of 2020 gave the SSC the authority to allow enterprises to suspend old age contributions for 3 months starting March 1, 2020 while maintaining coverage for maternity, unemployment, death, and occupational health. This reduced contributions from 21.75% to 5.25% (employer 4.25% and employee 1%).	
Pensioners' Loans	Individual pensioners were allowed to borrow amounts equivalent to 15 times their pensions, not exceeding a total of 15 000 JD, from the SSC. The programme was active before the pandemic, benefiting 225 987 pensioners and in October 2020, the government announced an increase of the budget from 85 million JD to 100 million JD in order to raise the number of beneficiaries.	
Unemployment Benefit	The SSC announced that workers on unpaid leave can apply for disbursement of unemployment benefits, provided they meet the relevant conditions and work in certain sectors, such as tourism, transportation and trade.	
No interest on arrears	On March 19 and as part of Defence Order No. 1, the Government announced that entities that owe contributions to Social Security Corporation will not accrue interest or be penalized, and they will be allowed to pay their contributions in instalments until the end of 2023.	
Childcare centres to receive cash benefits	In 2020, Regulation No. 93 of 2020 on Maternity Social Protection under the Social Security Law was endorsed, which allowed for registered childcare centres to receive direct cash benefits to cover 50% of their operational costs.	
Egypt		
Reducing tax burdens and improving the standard of living of citizens.	Increased the tax exemption limit during the budget of FY 2020/2021 from EGP 8 000 to EGP 15 000 in addition to the personal exemption limit of EGP 7 000 to a total of EGP 22 000 as net annual income.	These programmes fall under expansion of social insurance schemes or reductions of payroll taxes and social security contributions (potential impact as above).

Iraq		
Social security adjustments during COVID-19	Waiver of penalties for late repayment of social security contributions for private sector workers for 1 month. in 2020.	These programmes fall under expansion of social insurance schemes or reductions of payroll taxes and social security contributions (potential impact as above).
Social security law for private-sector workers.	The Social Security Law for Private Sector workers was adopted in 2023, prioritized by Government based on the significant impacts of COVID-19 on informal workers in the private sector. The law includes multiple provisions to extend coverage to informal workers, including by explicitly extending legal coverage, adoption of social security contribution subsidies, and creation of short-term benefits.	This law fall under expansion of social insurance .

The third category of programmes is **Active Labour Market Policies (ALMPs)** that aim to help individuals enter the labour market or to prevent already employed individuals from losing their jobs. There are several types of ALMPs, as shown in the Framework. Governments in the three countries implemented policies that fit under vocational training programmes, search and matching assistance, and wage subsidies (Table 6.4).

ALMPs programmes can have a strong impact on increasing formality as well as the transition from informality to formality. Vocational training programmes aim to raise or improve the skill level of workers and hence their productive capacity and value added which could improve their ability to find jobs in the formal economy. The rationale is to make workers a more valuable addition to the firm and hence raise their chances of landing formal jobs which are typically more expensive for the firm. Search and matching programmes and wage subsidies can also increase formalization by creating better linkages between supply and demand sides of the market, and by covering some of the high cost of hiring new workers (or keeping workers employed during crises), respectively. Typically, such wage subsidies were only provided for formal workers and therefore may have also increase the workers' own desire to work formally in cases where informality is a choice, e.g. some highly educated workers may choose to avoid the cost of formality and/or do not see its benefits (Merouani, El Mouddeh and Hammouda, 2021^[31]; Merouani, 2023^[32]).

Based on the Framework, there is evidence that the first two types have strong positive impacts on increasing formality and in the case of vocational training also on transition from informal to formal. Wage subsidies were found instead to have only temporary effects on increasing formality while the programme is in effect, and there is even some evidence that they may create 'replacement' in the labour market where firms replace existing workers with those who receive the subsidy vouchers, thereby having a negligible effect overall (Groh et al., 2016^[33]).

Table 6.4. Active labour market policies: Potential impact on informality

Programmes/policies	Description	Potential impact on informality
Jordan		
Training programmes for children of NAF beneficiary households	This programme aims to develop the skills and capabilities of the children of NAF beneficiary families through job skills training. The Fund covers the costs of training fees at specialized institutions and provides the trainee a monthly amount of 40 JD during the training period to cover the cost of transportation. In 2021 ⁶ 633 dependents received training with an overall cost of 116 064 JD.	Those programmes are classified under Active Labour Market Policies, either in the form of vocational training programmes or search and matching assistance (see policy assessment framework Table 6.1) and they are likely to have a significant positive impact on formality (and the transition from informal to formal for training programmes).
"Takaful plus" (Makani-UNICEF)	This programme provides children of NAF beneficiary families access to UNICEF's "Makani" centres. Makani ('My Space' in Arabic) centres provide a safe space for children and young people to access learning opportunities including digital and coding skills and soft skills, child protection and other critical services. In 2021, 22 554 children and adults benefited from the programme, 36% of whom were NAF beneficiaries.	
Employment programme	NAF beneficiary families' children receive support in search process for jobs and payment of social insurance fees for 2 years for those who find private sector jobs. In 2021, 180 individuals benefited from the programme. 79% of them were male.	
Tawkeed Programme	The Tawkeed programme, announced in January 2021, was launched to ensure that sectors and economic activities keep operating, provides training opportunities in collaboration with the private sector to train and qualify individuals wishing to work as health protection observers.	
Tadamun (Solidarity) 1	Insured private sector employees of businesses which had to reduce workers' salaries by up to 50%, or had to freeze operations entirely were able to benefit from unemployment allowance consisting of 50% of their salary, for two months. The support was conditional for companies registered within the SSC and employees whose contributions were paid for the preceding 12 months.	
Tadamun (Solidarity) 2	Insured private sector employees of businesses (with contributions less than 12 months) which had to reduce workers' salaries by up to 50%, or had to freeze operations entirely, as well as uninsured employees, were able to benefit from a monthly unemployment allowance for two months. With a budget of 23 million JD, Tadamun 1 and 2 covered 11 000 enterprises and 106 000 workers, according to the SSC 2021 report. https://www.ssc.gov.jo/wp-content/uploads/2021/10/corona-report.pdf .	These programmes are active labour market policies that provide some sort of wage subsidy benefit or unemployment benefit . Such programmes are usually effective at increasing formal employment temporarily, while the subsidy is in effect. There is no systematic evidence that they encourage transition from informal to formal employment.
Himayah (Protection) Programme	50% of salaries (min: 220 JD, max: 400 JD) was paid out as unemployment allowance to employees in the most affected sectors (transportation, tourism, food & beverages). By June 2021, the cost of the programme was estimated at 12.7 million JD covering 11 000 insured persons and 333 000 enterprises.	
Istidama (Sustainability) and Istidama + Programmes	Workers in the most affected sectors, and sectors that were not able to operate due to COVID received a wage subsidy of 50-75% of their wages from the SSC with some contribution from employers. Insurance contributions of workers in the sectors which were not able to operate were covered by the programme. The programme was extended several times and in October 2021 the Government announced the extension of the programme (Istidama+) till June 2022. Istidama+ programme covered 85% of the employee's salary (80% covered by the programme with a maximum of 800 JD, and 20% by the employer).	
Istidama ++ Fund	Extended social security benefits to a larger share of informal workers, continuing the previous two phases (Istidama and istidama +) from June 2022 to November 2023 with possibility of extension, pending funding. The programme's component 1 targets unregistered wage workers in agriculture and other sectors who work in MSMEs. Component 2 targets self-employed workers in transportation, tourism and agriculture.	

National Employment Programme 2022, "Tashgheel"	Programme aims to provide 60 000 job opportunities for Jordanians in the private sector. This programme was initiated in 2022 and is ongoing. The programme provides direct government financial support covering workers' wages, amounting to 150 JD per month: 130 JD as a contribution to workers' wages, 10 JD for transportation and 10 JD for social security contributions for a period of six months, provided that the work contract is signed between the employer and the worker for a period of at least one year. The programme targets 35% females and 7% NAF beneficiaries and will be available to people with disabilities. The minimum wage approved for the programme is 260 JD, and it targets the age group of 18-40 years old.	
Digital and entrepreneurship support	The Ministry of Digital Economy and Entrepreneurship launched a project in June 2021 for those who graduated during previous three years in digital and IT companies. The government subsidized 50% of the wages for a period of six months, at a total cost of 20 million JD. The employment subsidies supported inclusion, non-discrimination, and equal opportunity and specifically aimed to incentivize female employment. The programme is still ongoing according to the Ministry of Digital Economy and Entrepreneurship website, https://www.moddee.gov.jo/Ar/Pages/opportunities .	
One year Military service	The Ministry of Labour re-instated one-year military service to help contain youth unemployment in the aftermath of the pandemic.	Cash for work/public work programmes are not reported to have an impact on formality, and typically a short-term impact on poverty.
Public works/Cash for work	The Ministry of Agriculture launched a national afforestation project in governorates to employ 6 000 unemployed Jordanians at a cost of 10 million JD for a period of six months.	
COVID Jobs for youth	On March 31, 2021, the government announced a COVID stimulus package with a total value of 448 million JD. The package included measures to employ youth in COVID-related programmes such as vaccination campaigns at a cost of 10 million JD.	
Paid leave for public sector workers	In March 2020 public sector employees were granted official paid leave for two weeks, that was not deducted from employees' annual leave quota. This excluded 'essential workers' who were required to be present at work according to the decision of Prime Minister. This measure was later expanded to private sector workers (except for some essential sectors).	This policy belongs to the category wage payment/support and paid leaves during crises and it may only save the jobs of current employees, but is not reported to increase formality.
Egypt		
Qualifying young people for the labour market in light of the precautionary measures imposed by the COVID-19 pandemic.	Within the framework of implementing the "Survival Boats" initiative with the Arab Academy for Science and Technology and the World Food Programme, young people in most governorates of illegal immigration are trained on electronic jobs and remote work systems, including marketing and remote sales, or working in communication centres and online customer service.	Those programmes are classified under Active Labour Market Policies, either in the form of vocational training programmes or search and matching assistance (potential impact as above).
Nawarat baladak initiative for Egyptian expats	The initiative involved offering training and job opportunities to Egyptian workers laid off from work in countries abroad. It aimed to integrate returnees into various governorates' economies, in line with the competitive advantage of each governorate.	
Providing job opportunities for women while preserving their health from virus infection	The National Women's Council, through the Women's Business Development Centre with MSMEs and cooperatives, enabled women from different governorates under the project (AL Mashghal) to produce protective masks to be sold for public use in June 2020.	
Iraq		
Employment support services	The Ministry of Labour and Social Affairs implements employment support services, including job-matching activities for unemployed workers registered with the ministry. The ministry has recently rolled-out of a digital employment platform to provide such services.	Those programmes are classified under Active Labour Market Policies, either in the form of entrepreneurship and vocational training programmes or search and matching assistance (potential impact as above).
Skills programmes	The Ministry of Labour and Social Affairs implemented a variety of entrepreneurship training programmes, including through Know about Business KAB, Start and Improve your business SIYB as well as through access to fiancé and incubations. The Ministry provides through its TVET centres extensive skills training for unemployed people and intensified its digital employment services during and after COVID to absorb the increasing number of unemployed people. Ministry of labour and social affairs – Annual report 2021 https://www.molsa.gov.iq/upload/3067809035.pdf	

The fourth category of programmes includes a number of financial services including access to subsidised loans, loan moratoria, and flexibility on loan payments (Table 6.5). Access to such financial services typically requires the firms to be formal, and thus represents an incentive to formalise. Moreover, by helping enterprises to expand and grow, such financial services increase the profitability of enterprises and by extension their need for more workers and their ability to hire them formally.

These policies were found to have positive effects on formality, especially for programmes that have longer time horizons and that succeed in helping the enterprises grow and increase their overall profitability. According to the literature, growing access to financial services as well as more flexibility in credit have coincided with a falling share of the informal economy. Subsidised loans and payments flexibility have a strong positive impact on the real activity of SMEs as they can encourage capital accumulation and productivity improvements, and thus enhance long-run economic growth, particularly in the presence of informality (Antunes and Cavalcanti 2007), (World Bank, *The Long Shadow of Informality: Challenges and Policies*, 2021).

Table 6.5. Financial Services policies: Potential impact on informality

Programmes/policies	Description	Potential impact on informality
Jordan		
Concessional Financing Programme for Economic Sectors	Implemented by the Central Bank, the programme reduced interest rates to 1% instead of 1.75% for projects inside Amman governorate and 0.5% instead of 1% for projects in all other governorates on loans provided to medium and small enterprises for capital expenditure and workers' wages. The main sectors involved in the programme were tourism, agriculture, renewable energy, IT, transportation, health, technical and vocational education and engineering consulting, export industries. In March 2021, the programme covered 49 000 beneficiaries with a total programme budget of 1.4 billion JD. The Central Bank committee decided to extend this programme until the end of March 2024, due to its importance in supporting the gradual recovery of Jordan's economy. (ZAWYA/The Jordan Times, 2023 ^[34])	These policies belong to the category flexibility on loan payments (deferment of payments). According to the framework, some broad evidence on increased benefits leading to higher formality but generally small effects are noted and small effects on the transition from informal to formal.
Emergency COVID Loans to MSMEs	The programme provided loans for a 4.5 year-term with a 1-year grace period to cover capital expenditure and workers' wages to MSMEs in the most affected productive sectors including handcraft, retail and wholesale trade, hotels and tourism services, ICT, transportation, health, care services, hospitals, education, and manufacturing industries based on the agricultural sector. These soft loans, 85% of which were guaranteed by the Jordan Loan Guarantee Corporation (JLGC) for 54 months, included a 12-month grace period, and the government paid 2% of the interest throughout the loan period. Companies accessing these loans were not allowed to fire workers for the duration of the loan. The total budget of the programme is 700 million JD and it has been extended until the end of April 2023. Between April 2020 and until the latest update in March 2021, the programme supported 85 000 beneficiaries.	
Postponement of Loan payments	12 000 beneficiaries of productive families and vulnerable families benefitted from a total of 5 months postponement of loan repayments. This programme was carried out by the Ministry of Social Development. In March 2021, the government announced 448 million JD COVID stimulus package. Some of the measures included deferring instalments owed to public credit funds until the end of the year and increasing the limit of credit facilities of the Agriculture Credit Institution by 30 million JD. The programme ended in December 2021. (The Jordan Times, 2021 ^[35])	
Property Tax relief	Fines imposed on delayed payments of property tax were cancelled while taxpayers were also relieved from fines on outstanding balances they owe to the tax department if they paid off their dues before July 1, 2021. This measure was lifted at the end of 2022.	

	In June 2020, a battery of measures were announced to support the tourism sector, by: (i) allowing tourism sector to pay its 2019 tax liability in instalments with no penalty; (ii) reducing the general sales tax from 16 to 8% and the service tax from 10 to 5% for hotels and restaurants. (ZAWYA/The Jordan Times, 2020 ^[36])	
Simplification of procedures	The Government decided to waive the fees and fines for renewing licences for 2020 for business owners and employees in tourism professions. The ministry reimbursed the payments the workers had paid for these licenses. This measure ended in December 2021.	This programme falls under simplification of registration procedures, and business entry reforms , and is likely to have an impact on new registration but reported weak effect on transition.
Egypt		
Supporting the SME sector as a main pillar of the economy	Adoption of the Law of Development of Medium, Small and Micro Enterprises No.152 of 2020, which includes tax incentives, and tax and customs exemptions, in addition to financial and non-financial incentives.	
Preferential loans to work on micro-projects	In 2020-21, providing economic opportunities for owners of small and medium enterprises by increasing the number of beneficiaries of preferential loans to work on micro-projects. Signing of five contracts for projects between the Micro, Small and Medium Enterprises Development Agency, Banque du Caire, Banque Misr and National Bank of Egypt to increase the allocated portfolio with a value of EGP 1 billion five hundred seventy million to finance micro-projects and focus on women and youth.	
Loans to small enterprises on industrial and labour-intensive sectors	In addition to its direct lending activities, MSMEDA launched in 2020 a special initiative to support affected small enterprises - especially industrial and labour intensive ones - by providing a one year loan with a maximum amount of EGP 1 million with simplified terms and conditions.	
Incentives to banks in support to credit to the private sector	Expanding beneficiaries' base, from issuing EGP 100 billion guarantees through the Credit Guarantee Company, led by the Central Bank of Egypt, to banks. Guarantees cover 80% of loans. Financing comes as part of the banks' initiative to encourage them to provide loans to private sector companies targeting the manufacturing, agriculture, and construction sectors at a declining balance interest rate of 8%.	These policies belong to the category access to subsidized loans, loan moratoria that, according to the Framework, have small positive effects on increase of formality.
Promoting transparency and awareness of customers rights	Making compulsory for banks to communicate with defaulting or irregularly paying customers and inform them about a number of issues. These include reducing the clearing declaration period to 6 months or one year from the date of final full loan repayment and lifting the ban on such customers to allow them to engage again with the banking sector. This aimed to increase transparency between banks and customers and thereby improve the overall access to finance environment.	
Supporting SMEs to face the negative economic effects of the pandemic / Banque Misr Loan for SMEs and midcaps COVID-19	In March 2021, an agreement worth EUR 750 million between the European Investment Bank and the Banque Misr to finance SMEs to support the needs of working capital and capital expenditure to sustain growth and face the consequences of COVID-19. The support continues with two technical assistance agreements signed in 2022. Strengthening the Banque of Misr's support to small businesses and mid-cap enterprises. This is the EIB's largest financial sector technical assistance programme in the Middle East	
Supporting SMEs to face the negative economic effects of the pandemic –2 /National Bank of Egypt Loan for SMEs and midcaps COVID-19	In September 2020, the European Investment Bank and the National Bank of Egypt signed an agreement worth €800 million to finance SMEs and mid-caps to support their working capital and capital expenditure needs.	
Financing for small and medium projects to help sustainable development and the creation of new job opportunities	Saudi grant funds provided to SMEs via intermediaries such as National Bank of Egypt and MSMEDA These funds, valued at USD 200 million in total, have financed 2176 projects in the agricultural sector to support food security and have contributed to the creation of around 12 000 jobs.	

Preferential Loans to Small Enterprises	During 2020, MSMEDA signed 11 contracts totaling around EGP 1.5 billion with several banks (including National Bank of Egypt, Agricultural Bank of Egypt, the United Bank, Housing and Development Bank, Attijari-Wafa Bank, and Al-Baraka Bank) to provide diversified types of finance and avail the needed liquidity to small enterprises (short and medium-term loans, overdraft limits, and sharia'a compliant finance) to support their survival, sustain their activities, and avoid laying off workers.	
Support the economic sectors, maintain economic activity and production, respond to the needs of citizens	Waived late fees on taxes, including income tax, VAT, customs tax, real estate tax, social insurance fees, and other state dues. The amount waived was: (1) 100% of interest payments and late fees to be waived on a handful of taxes and state dues provided the full amount of taxes owed were paid before the draft of the new law comes into effect; (2) 90% to be waived if the original taxes and dues are paid in full within the first 60 days from the date of the implementation of the new law; (3) 70% to be waived if paid within 120 days from the date of the implementation of the new law (4) 50% to be waived if paid within 180 days from the date of the implementation of the new law.	These policies belong to the category flexibility on loan payments (deferment of payments) . According to the framework, some broad evidence on increased benefits leading to higher formality but generally small effects are noted and small effects on the transition from informal to formal.
Reducing overcrowding at tax offices, easing the burden on taxpayers and employers, and relieving the financial burden on them	Extended the deadline for filing tax returns for individuals after the legal period scheduled for March 31, until April 9, and cancelled the electronic filing fees. This measure ended in 2021.	
Iraq		
Mobile Registration of Enterprises	The Companies Registration Office deployed mobile officers who can visit companies run by persons with disabilities to process their registration applications.	This programme falls under simplification of registration procedures, or business entry reforms, and is likely to have an impact on new registrations, but weak effect on transition.
Tax exemptions	The Ministry of Trade pursued marketing approaches, facilitated logistics, and provided tax exemptions, to promote job creation.	This measure belongs to the category tax incentives , which according to the framework could have a positive impact on formality.
Credit and loans for Enterprises	1. The Chamber of Commerce provided loans and financial support to start-ups and other enterprises 2. The Central Bank of Iraq launched an initiative titled "1 trillion-dinar initiative" to support SMEs to access credit and loans. The operationalization of a financial inclusion initiative through ILO partnerships with the Central Bank of Iraq has expanded access to much needed finance for business development, particularly for internally displaced persons. 3. MOF is currently aiming to strengthen partnership with the private sector and, in coordination with the Iraqi Central Bank, is supporting access to finance through loans in public and private banks. 4. The MOLSA has an ongoing loan scheme of 5-20 million IQD without interest scheme for the unemployed people who are registered in the unemployed database. Recently the government agreed to allocate 150 billion IQD for increasing the number of beneficiaries.	These policies belong to the category access to subsidized loans, loan moratoria that, according to the framework, have small positive effects on increase formality.
Exemptions or suspensions of loan repayment, and fees, and rental payments (implemented in response to COVID)	1. Suspending all repayments due on residential plots of land sold or leased 2. Exempting commercial, industrial and other government real estate tenants from paying rental fees. 3. Exempting occupants and tenants of commercial, industrial and other properties that belong to municipal institutions from paying cleaning services fees. 4. Suspension of mortgage repayments for three months for borrowers from the Ministry of Housing, Construction and Municipalities' Housing Fund. 5. Suspension for three months of the repayment of loans obtained from the Central Bank of Iraq's '1 and 5 trillion dinars' finance schemes for small and medium size business projects	These policies belong to the category flexibility on loan payments (deferment of payments) . According to the framework, some broad evidence on increased benefits leading to higher formality but generally small effects are noted and small effects on the transition from informal to formal.

While no new policies implemented during the pandemic were found that fall under the “**sticks/law enforcement**” category – which is an interesting result in itself, Jordan already had in place several laws and regulations that mandated coverage of workers and enterprise registration and we mention these here for completion. For example, the Social Security Law (No. 1 of 2014) requires coverage of employees “without any discrimination as to nationality, and regardless of the duration or form of the contract” and regardless of the number of employees in the establishment (ILO, 2021^[37]). Routine checks are performed by the government agencies in charge and if an employer is found to be in violation, they are charged hefty fines.⁷ In practice however, this law does not apply to anyone working fewer than 16 days in a given month, which is the case for most agricultural workers and domestic workers. Migrant workers who are own-account workers, employers or contributing family members are also not covered by the law and not even eligible to enrol in the voluntary social security programme (ILO, 2021^[37]).

6.3. Case studies of successful transition from other world regions

In this section we present case studies of policy initiatives that have helped facilitate successful transition from informality to formality from around the world.

A relevant case is **Uruguay**’s Social Security System, which extended healthcare coverage to dependents of beneficiary workers. The reform was financed by an increase in payroll tax contributions of workers and had a positive effect on formality among salaried workers with children and also among those married to workers in the informal economy because prior to the reform, they had to pay out of pocket for their children’s healthcare. The results show that probability of informality declined by 5%. Workers with children were 1.3 percentage points more likely to become formal compared to workers without children. Female workers were also more likely to register compared to male workers.

An example of temporary impact comes from **Nicaragua**. In 2007, the government allowed informal workers to join the social insurance system through microfinance institutions. Informal workers had to pay a monthly premium of USD 15 and this premium was subsidised during the first year of the programme. While one third of the microentrepreneurs registered during the first year, only 10% remained enrolled after the subsidy ended (Hatt et al., 2009^[38]).

In **Sri Lanka**, De Mel, McKenzie, and Woodruff (2013^[39]) conducted a field experiment on incentives for informal firms to formalize. They found that offering only information about the registration process and reimbursement for direct registration costs had no impact on increasing formality. However, adding payments equivalent to between one-half and one full month’s profits for the median firm, led to registration of around one-fifth of firms. Further, offering a larger payment equivalent to two months’ median profits induced half the firms to register.

In **Vietnam**, Nguyen, Verreynne, and Steen (2014^[40]) used data from four firm surveys (conducted in 2005, 2007, 2009 and 2011) to understand the determinants of transition from informal to formal firms. They found that government-supported finance was associated with transition to formality. Such support encouraged firms to enter the formal economy rather than face the costs associated with remaining informal.

De Giorgi, Ploenzke and Rahman (2017^[41]) conducted an experiment in which firms were visited by representatives who delivered an official letter from the **Bangladesh** National Tax Authority stating that the firm is not registered and threatening punishment if it fails to register. They found that the intervention increased the rate of registration among treated firms, while firms located in the same market but not treated did not seem to respond significantly. The study also found that only larger-revenue firms at the baseline responded to the threat and registered.

Several countries have adapted their legislative framework to include non-traditional categories of workers, such as those in the “gig” economy, into the labour law. These examples can also be adapted to many types of informal and self-employed workers. In **France**, LeCab drivers (competitor of Uber) were classified as employees and are now covered by social security and the labour law. In **Spain**, the law ensures that self-employed workers, who earn more than 75% of their income from one client, are mandatorily covered under employment injury insurance (ILO, 2021^[42]).

Some countries like **Uruguay** and **Indonesia** have used innovative approaches to secure coverage of workers of the ride-hailing applications. They used a digital mechanism to ensure that ride-hailing applications automatically add a small social insurance contribution to the price of each ride (ILO, 2021^[42]). In **India**, an innovative programme provided coverage to workers in the construction sector where the majority of workers are informal and irregular. The building companies were required to contribute 1-2% of the value of each project to fund social protection benefits for the workers involved in each project (ILO, 2021^[42]).

6.4. Concluding remarks

The Policy Assessment Framework developed in this study provides a tool for policy makers across the Arab region to assess the possible impact of diverse social and economic policies on informality, with a view to assist the design of policies that can increase formality and facilitate the transition from informality to formality.

The Framework results from a thorough review of a large number of studies and meta-analyses that have used a variety of estimation methods, including experimental and quasi-experimental methods, for a large number of different countries, to evaluate the impact of a given policy intervention on informality. Distinguishing between incentive and penalty type-policies, the Framework classifies policies into five main categories: 1) Non-contributory social assistance policies, including conditional and unconditional benefits; 2) Social insurance policies and other occupational social benefits; 3) Active Labour Market Policies; 4) Business and financial services related policies; and 5) Law and regulations on labour and business formality and their enforcement.

The findings point to the following:

- Non-contributory social assistance benefits do not encourage formality and may result in the opposite transition, from formal to informal sector if the benefits are large.
- Social insurance policies were found to have temporary positive impacts on formality and transition from informal to formal (where studies were available) while the programme was in place.
- Active labour market policies often have small or temporary but positive effect on formality.
- Business and financial service policies also have a small positive effect on formality, and it was found that the larger the perceived benefit from formality the more likely the impact.
- The “stick” category, i.e. laws combined with strict enforcement, seem to have a strong positive impact on formality, provided these laws are applied fairly and uniformly across all stakeholders.

6.4.1. Toward formalisation

A conclusion from the analysis is that a few policy options are the most effective in increasing formality and facilitating transitions to formality for existing informal firms or workers, namely:

- *Making social insurance more affordable and accessible*, including for agricultural workers, migrants, other vulnerable workers, both in terms of cost and procedural requirements is key.
- *Active labour market policies in the form of training and wage subsidies are helpful*, even if just temporary and can especially help create a precedent in favour of hiring particular groups such as women and youth.
- *More fair and consistent law enforcement that applies equally* can go a long way in facilitating transition to formality.
- The most effective programmes usually involve a combination of incentives and law enforcement, both creating more benefits to formality, while also stepping up enforcement in a fair and uniform way.
- Finally, temporary programmes are likely to produce results that are also temporary. With one remark, though: governments can build on these temporary programmes, when successful, to create more sustainable initiatives. Indeed, it should be acknowledged that many temporary programmes have long term impacts by creating a precedent.

6.4.2. Improving working conditions of informal workers

It is important to stress that a comprehensive package is needed to improve working conditions of workers in the informal economy while simultaneously promoting the longer-term goal of formalisation. To that aim, non-contributory social assistance schemes remain important along with the contributory ones, as there is substantive evidence of how financial need, poverty and vulnerability can lead to informality. Actions in the form of raising awareness among workers and firms about the benefits of formalisation, as well as policies that target the demand side by promoting decent and formal job creation in targeted sectors through broad economic reforms and industrial policy are also critical.

These recommendations should be implemented through a social dialogue involving the relevant actors within each country, to ensure that all stakeholders are on board while taking local contexts into consideration.

References

- Allegretto, S. et al. (2018), *Minimum Wage Effects in Six Cities The New Wave of Local Minimum Wage Policies: Evidence from Six Cities*, Institute for Research on Labor and Employment, University of California, <http://laborcenter.berkeley.edu/minimum-wage-living-wage-resources/inventory-of-us-city-and-county-minimum-wage->. [4]
- Baird, S., D. McKenzie and B. Özler (2018), "The effects of cash transfers on adult labor market outcomes", *IZA Journal of Development and Migration*, Vol. 8/1, <https://doi.org/10.1186/s40176-018-0131-9>. [28]
- Barbosa, A. and C. Corseuil (2013), "Bolsa Família, Occupational Choice and Informality in Brazil", *Working Paper*, No. 118, International Policy Centre for Inclusive Growth, Brasilia. [26]
- Belman, D. and P. Wolfson (2014), *What Does the Minimum Wage Do?*, W.E. Upjohn Institute, <https://doi.org/10.17848/9780880994583>. [6]
- Bosch, M., M. Cobacho and C. Pagés (2014), "Effects of Non-Contributory Systems on Informality", in *Social Insurance, Informality, and Labor Markets*, Oxford University Press, <https://doi.org/10.1093/acprof:oso/9780199685233.003.0004>. [9]
- Broecke, S., A. Forti and M. Vandeweyer (2017), "The effect of minimum wages on employment in emerging economies: a survey and meta-analysis", *Oxford Development Studies*, Vol. 45/3, pp. 366-391, <https://doi.org/10.1080/13600818.2017.1279134>. [7]
- Canelas, C. and M. Niño-Zarazúa (2022), "Social protection and the informal economy: What do we know?", *Working paper Series*, ESCAP, Social Development Division, <http://www.unescap.org/kp>. [8]
- Card, D. et al. (2018), "Firms and Labor Market Inequality: Evidence and Some Theory", *Journal of Labor Economics*, Vol. 36/S1, pp. S13-S70, <https://doi.org/10.1086/694153>. [16]
- Card, D., J. Kluve and A. Weber (2010), "Active Labour Market Policy Evaluations: A Meta-Analysis", *The Economic Journal*, Vol. 120/548, pp. F452-F477, <https://doi.org/10.1111/j.1468-0297.2010.02387.x>. [17]
- Card, D. and A. Krueger (1995), *Myth and Measurement: The New Economics of the Minimum Wage - Twentieth-Anniversary Edition*, Princeton University Press, <https://doi.org/10.2307/j.ctv7h0s52>. [2]
- Card, D. and A. Krueger (1993), *Minimum Wages and Employment: A Case Study of the Fast Food Industry in New Jersey and Pennsylvania*, National Bureau of Economic Research, Cambridge, MA, <https://doi.org/10.3386/w4509>. [1]
- De Giorgi, G., M. Ploenzke and A. Rahman (2017), "Small Firms' Formalisation: The Stick Treatment", *The Journal of Development Studies*, Vol. 54/6, pp. 983-1001, <https://doi.org/10.1080/00220388.2017.1327660>. [41]
- de Mel, S., D. McKenzie and C. Woodruff (2013), "The Demand for, and Consequences of, Formalization among Informal Firms in Sri Lanka", *American Economic Journal: Applied Economics*, Vol. 5/2, pp. 122-150, <https://doi.org/10.1257/app.5.2.122>. [39]

- Doucouliaos, H. and T. Stanley (2009), “Publication Selection Bias in Minimum-Wage Research? A Meta-Regression Analysis”, *British Journal of Industrial Relations*, Vol. 47/2, pp. 406-428, <https://doi.org/10.1111/j.1467-8543.2009.00723.x>. [5]
- Escudero, V. et al. (2019), “Active Labour Market Programmes in Latin America and the Caribbean: Evidence from a Meta-Analysis”, *The Journal of Development Studies*, Vol. 55/12, pp. 2644-2661, <https://doi.org/10.1080/00220388.2018.1546843>. [14]
- Eurofond/ILO (2017), *Working anytime, anywhere: The effects on the world of work*, Publications Office of the European Union, Luxembourg, and the International Labour Office, <https://doi.org/10.2806/425484>. [18]
- Floridi, A., B. Demena and N. Wagner (2020), “Shedding light on the shadows of informality: A meta-analysis of formalization interventions targeted at informal firms”, *Labour Economics*, Vol. 67, p. 101925, <https://doi.org/10.1016/j.labeco.2020.101925>. [12]
- Groh, M. et al. (2016), “Do Wage Subsidies Provide a Stepping-Stone to Employment for Recent College Graduates? Evidence from a Randomized Experiment in Jordan”, *Review of Economics and Statistics*, Vol. 98/3, pp. 488-502, https://doi.org/10.1162/REST_a_00584. [33]
- Hardoy, I. et al. (2018), “Initiatives to Combat the Labour Market Exclusion of Youth in Northern Europe: A Meta-analysis”, in *European Youth Labour Markets*, Springer International Publishing, Cham, https://doi.org/10.1007/978-3-319-68222-8_16. [19]
- Hatt, L. et al. (2009), *Extending social insurance to informal sector workers in Nicaragua via microfinance institutions: Results from a randomized evaluation*, Private Sector Partnerships-One project, Abt Associates Inc, <http://www.abtassoc.com>. [38]
- ILO (2021), *Extending social security to workers in the informal economy: Lessons from international experience*, International Labour Organization, https://www.ilo.org/wcmsp5/groups/public/---ed_protect/---soc_sec/documents/publication/wcms_749431.pdf. [42]
- ILO (2021), *Law No. 1 of 2014 on Social Security Law*, https://www.ilo.org/dyn/natlex/natlex4.detail?p_isn=108105 (accessed on 17 November 2023). [37]
- ILO (2017), *Enterprise Organization*, https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/---ifp_seed/documents/publication/wcms_544828.pdf (accessed on 17 November 2023). [24]
- Jessen, J. and J. Kluve (2021), “The effectiveness of interventions to reduce informality in low- and middle-income countries”, *World Development*, Vol. 138, p. 105256, <https://doi.org/10.1016/j.worlddev.2020.105256>. [13]
- Kluve, J. (2010), “The effectiveness of European active labor market programs”, *Labour Economics*, Vol. 17/6, pp. 904-918, <https://doi.org/10.1016/j.labeco.2010.02.004>. [20]
- Kluve, J. et al. (2019), “Do youth employment programs improve labor market outcomes? A quantitative review”, *World Development*, Vol. 114, pp. 237-253, <https://doi.org/10.1016/j.worlddev.2018.10.004>. [21]

- Martinelli, L. (2017), "Assessing the Case for a Universal Basic Income in the UK", *IPR Policy Brief*, IPR Institute for Policy Research, <https://www.bath.ac.uk/publications/assessing-the-case-for-a-universal-basic-income-in-the-uk/attachments/ipr-assessing-the-case-for-a-universal-basic-income-in-the-uk.pdf>. [25]
- McKenzie, D. (2017), "How Effective Are Active Labor Market Policies in Developing Countries? A Critical Review of Recent Evidence", *The World Bank Research Observer*, Vol. 32/2, pp. 127-154, <https://doi.org/10.1093/wbro/lkx001>. [15]
- McKenzie, D. and C. Woodruff (2014), "What Are We Learning from Business Training and Entrepreneurship Evaluations around the Developing World?", *The World Bank Research Observer*, Vol. 29/1, pp. 48-82, <https://doi.org/10.1093/wbro/lkt007>. [23]
- Mehrotra, S. (2020), "From Informal to Formal: A Meta-Analysis of What Triggers the Conversion in Asia", *Global Employment Policy Review Background Paper*, No. N°2, ILO. [10]
- Merouani, W. (2023), "Youth informal employment in Arab States - exclusion and exit", in *Youth Employment Insecurity and Pension Adequacy*, Edward Elgar Publishing, <https://doi.org/10.4337/9781802208580.00017>. [32]
- Merouani, W., C. El Moudden and N. Hammouda (2021), "Social Security Enrollment as an Indicator of State Fragility and Legitimacy: A Field Experiment in Maghreb Countries", *Social Sciences*, Vol. 10/7, p. 266, <https://doi.org/10.3390/socsci10070266>. [31]
- Nguyen, T., M. Verreyne and J. Steen (2014), "Drivers of firm formalization in Vietnam: an attention theory explanation", *Entrepreneurship & Regional Development*, Vol. 26/7-8, pp. 574-593, <https://doi.org/10.1080/08985626.2014.959069>. [40]
- Novella, R. and H. Valencia (2022), "Active Labor Market Policies in a Context of High Informality: The Effect of PAE in Bolivia", *The Journal of Development Studies*, Vol. 58/12, pp. 2583-2603, <https://doi.org/10.1080/00220388.2022.2120803>. [22]
- Peksevim, S. and V. Akgiray (2019), *Reforming the Pension System in Turkey: Comparison of Mandatory and Auto-Enrolment Pension Systems in Selected OECD Countries*, OECD, Paris, <http://www.oecd.org/pensions/Reforming-the-Pension-System-in-Turkey-2019.pdf> (accessed on 17 November 2023). [30]
- Reich, M., S. Allegretto and C. Montialoux (2019), "The effects of minimum wages on low-wage jobs", *NBER Working Paper*, No. 25434, National Bureau of Economic Research. [3]
- Teixeira, C. (2010), "A heterogeneity analysis of the Bolsa Família Programme effect on men and women's work supply", *Working Paper*, No. 61, International Policy Centre for Inclusive Growth, Brasilia. [27]
- The Jordan Times (2021), "Gov't announces JD448m COVID stimulus package", *The Jordan Times*, <https://jordantimes.com/news/local/govt-announces-jd448-million-covid-stimulus-package> (accessed on 30 November 2023). [35]
- Van Elk, K., J. De Kok and G. Lindeboom (2014), *Enterprise formalization: Fact or fiction? A quest for case studies*, GIZ, <http://www.bmz.de>. [11]
- White, P. (2016), "Social protection systems", *Professional development reading pack*, No. No. 49, GSDRC Applied Knowledge Center. [29]

ZAWYA/The Jordan Times (2023), “The Central Bank of Jordan to increase interest rate by 25 basis points as of Sunday”, ZAWYA, <https://www.zawya.com/en/economy/levant/the-central-bank-of-jordan-to-increase-interest-rate-by-25-basis-points-as-of-sunday-xxfcxyc4> (accessed on 30 November 2023). [34]

ZAWYA/The Jordan Times (2020), “Jordan govt announces new measures to revive virus-hit tourism sector”, ZAWYA, <https://www.zawya.com/en/economy/jordan-govt-announces-new-measures-to-revive-virus-hit-tourism-sector-louskhod> (accessed on 30 November 2023). [36]

For further reading

Boly, A. (2018), “On the Short- and Medium-Term Effects of Formalisation: Panel Evidence from Vietnam.” *The Journal of Development Studies* 54 (4): 641–56, <https://doi.org/10.1080/00220388.2017.1342817>

Canelas, C. and Niño-Zarazúa, M. (2022), Informality and pension reforms in Bolivia: The Case of Renta Dignidad, *The Journal of Development Studies*.

Chen, Martha (2005), “The Business Environment and the Informal Economy: Creating Conditions for Poverty Reduction.” <https://www.wiego.org/sites/default/files/migrated/publications/files/Chen-Business-Environment-and-the-IE.pdf>

Dabla-Norris, E., M. Gradstein, and G. Inchauste (2008), “What Causes Firms to Hide Output? The Determinants of Informality.” *Journal of Development Economics* 85 (1–2): 1–27. <https://doi.org/10.1016/j.jdeveco.2006.05.007>

Gajigo, Ousman, and Mary Hallward-Driemeier (2012), “Why Do Some Firms Abandon Formality for Informality? Evidence from African Countries.” African Development Bank, Working Paper Series 164.

GSMA (2015), *Digital inclusion and mobile sector taxation in Jordan*. Prepared by Deloitte LLP.

Hlasny and AlAzzawi (2022), “Last in After COVID-19: Employment Prospects of Youths during a Pandemic Recovery”, *Forum for Social Economics*, Vol.51/2, pp. 235-244.

ILO (2020), [From Informal to Formal: A Meta-Analysis of What Triggers the Conversion in Asia](#).

ILO (2021), “Opportunities for extending social security coverage in Jordan”. ILO Regional Office for the Arab States, ILO, Geneva.

IPC-IG (2021), Social Protection Responses to COVID-19 in the Global South: Tracking Matrix

McKenzie, David, and Y. S. Sakho (2010), “Does It Pay Firms to Register for Taxes? The Impact of Formality on Firm Profitability.” *Journal of Development Economics* 91 (1): 15–24.

UNDP (forthcoming), “Implications of the War in Ukraine on the Arab States Region” RBAS Working Paper.

UNDP (2022), *Arab Human Development Report 2022 Expanding Opportunities for an Inclusive and Resilient Recovery in the Post-Covid Era*. New York: UNDP.

World Bank (2022), “Jobs Undone: Reshaping the Role of Governments toward Markets and Workers in MENA” <https://www.worldbank.org/en/region/mena/publication/jobs-undone-reshaping-the-role-of-governments-toward-markets-and-workers-in-the-middle-east-and-north-africa>.

Notes

¹ Expanding coverage involves adjusting the eligibility criteria or addressing cases where individuals were excluded by error or left behind because of the limited fiscal space.

² By their design, RCTs would only provide the support (treatment) to a random selection of beneficiaries and no support (or a different level/type of support) to the control group, thereby creating inequity in access to support during a situation of crisis.

³ In some cases, large-scale surveys were conducted but the data collected were not made publicly available to researchers.

⁴ Blank entries in Table 6.1 indicate that we were not able to find studies that have investigated this question in the literature: for example, to the best of our knowledge, no studies investigated the effect of unconditional cash transfers and universal subsidies on the transition from informality to formality.

⁵ The Social Insurance and Pensions Law, issued by Law No. 148 of 2019, identifies irregular workers as church clergy, cleaning staff and domestic helpers, traveling workers, temporary agricultural workers and farmers, owners of agricultural land that is less than one acre large and unused land.

⁶ This is the latest available information at the time of writing.

⁷ Based on interviews with the Jordanian Ministry of Labour officials.

The way forward

Informality is not a new phenomenon, but in face of the multiplication of domestic and global shocks the vulnerabilities associated with informal work and businesses today are an undisputable hurdle to more inclusive and equal societies and economic resilience.

Certain policy measures implemented with the intention of addressing the consequences of crises on vulnerable groups in the society – groups that include informal workers and businesses – can in fact unintentionally induce more informality, in a vicious cycle that makes formalisation and resilience even more difficult to reach. Understanding the expected impact on informality of diverse economic and social policy interventions can help governments to identify measures that support their key objectives (e.g. supporting poverty and firms in financial distress or expanding social protection) without altering motivations and incentives to formalisation.

To that aim, this report outlines a Framework for assessing the impact of economic and social policies on informality. The Framework, designed by ILO, OECD, and UNDP, is a hands-on instrument, allowing policy makers to foresee early on in the policymaking cycles the effects diverse economic and social policies could have on the informal economy. This tool adds to the vast literature on informality, and also complements recent work by the World Bank (June 2023).

The Framework was developed on the basis of desk research and consultations with experts and policy makers from the MENA region. The Framework was tested on a group of three countries, Egypt, Iraq, and Jordan. The analysis focused on policy initiatives adopted since the COVID-19 pandemic in the specific context of the MENA region, characterised by an under-developed private sector, low female labour force participation and a dominance of the public sector as formal employment provider.

The exploratory exercise on Egypt, Iraq, and Jordan pinpointed policy measures with positive impact on increasing formality and facilitating transition to formality for existing informal firms or workers. In this study, these included four types of policy actions: i) making social insurance more affordable and accessible for all workers, both in terms of cost and procedural requirements; ii) applying active labour market policies in the form of training and wage subsidies, even if just temporary, to help create a precedent in favour of hiring particular groups such as women and youth; iii) facilitate business registration and access to inclusive financial services; and iv) ensuring more fair and consistent law enforcement that applies equally. In fact, the most effective policy actions typically involve a combination of incentives and law enforcement, both creating more benefits for formal activities, whilst also stepping up enforcement in a fair and uniform way. This combination is consistent with what is typically recommended in comprehensive conceptual policy frameworks to address informality, a type of frameworks whose scope goes beyond the scope of this Report.

Beyond the main focus of formalisation, the report also highlights the urgent need to improve the working conditions of workers in the informal economy.

The role of policy dialogue. It is important to stress the effective use of the Framework counts on multi stakeholder dialogue being an integral dimension of the policymaking cycle. Policy recommendations should be the result of open and inclusive consultations with policy makers and interested parties from the

target countries; and social dialogue should support the implementation of the recommendations, involving the relevant actors within each country, to ensure that all stakeholders are on board while taking local contexts into consideration.

Finally, the report points to the need for more accurate data on the informal economy to improve policy analysis and design.

Next steps

Based on the information and data gathered, this report proposes a systematic evaluation of the impact of policies on labour and business formalisation in the MENA region, in the form of a Policy Assessment Framework.

The elaboration of the Framework was one step of the joint ILO-OECD-UNDP activity, whose ultimate aim is to create a Regional Platform for the exchange of good practices and peer learning on effective policy measures that would bring more workers and firms into the formal sector in MENA countries. Following steps will involve:

- Extending the scope of the activities to more MENA countries to substantiate and enrich the current insights and conclusions with additional evidence.
- Creating an online directory of policy measures and the evaluation of their impact on formalisation, including best practice and gender-sensitive approaches to formalisation with a view to address the gender dimension of informality.
- Reflecting on new trends and developments relating to the green and digital transitions and how they affect informality and/or formalisation processes.
- Organising an annual Regional Meeting on Tackling Informality and Facilitating Formalisation in MENA countries, to discuss the state of the informal economy, and progress with the implementation of recommended policy measures.

Informality and Structural Transformation in Egypt, Iraq and Jordan

A FRAMEWORK FOR ASSESSING POLICY RESPONSES IN THE MENA REGION

Informality is not a new phenomenon but today, in face of the multiplication of domestic and global shocks, the vulnerabilities associated with informal work and businesses are an undisputable hurdle to economic resilience and more inclusive and equal societies. Yet, certain policy measures implemented with the intention of addressing the consequences of crises on vulnerable groups in the society – groups that include informal workers and businesses – can unintentionally induce more informality, in a vicious cycle that makes formalisation and resilience even more difficult to reach. The report *Informality and Structural Transformation in the Middle East and North Africa* outlines a framework for assessing the impact of economic and social policies on informality. The framework was developed jointly by the ILO, OECD and UNDP, and is thought as a hands-on instrument, allowing policy makers to foresee early on in the policymaking cycles the effects diverse economic and social policies could have on the informal economy. This tool adds to the vast literature on informality. Understanding the expected impact of different policies on informality can help governments to identify measures that support their key objectives, e.g. helping firms in financial distress or expanding social protection, without altering motivations and incentives to formalisation.



PRINT ISBN 978-92-64-71130-3
PDF ISBN 978-92-64-88779-4



9 789264 711303