

# BRICS and the World of Work: Formalisation of Labour Market

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# **BRICS and the World of Work: Formalisation of Labour Market**

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## I. Introduction

**1.1 Globally, more than 61 per cent (or 2 billion) employed population work in informal employment<sup>1</sup> and more than 80 per cent of all economic units are informal** (ILO, 2018). The informal workers typically fall outside the purview of labour regulations, social protection ambits and protective measures at the workplace (ILO, 2013). The informal enterprises are mainly unregistered small-scale units, often employing ten or fewer workers and exhibiting low levels of productivity, low rates of savings and investment, and negligible capital accumulation. In addition to the existing pool of informal economy workers and economic units, the Covid-19 pandemic has led to an extreme situation by aggravating informalisation risks manifold (ILO, 2020a). Therefore, setting priorities and action towards reducing decent work deficits and rapid formalization of the informal economy workers and enterprises has received increasing attention in many countries around the world, including in BRICS countries.

1.2 At the international level, the historical adoption of International Labour Organization (ILO) Recommendation No. 204 concerning the Transition from the Informal to the Formal Economy (in 2015), which provides coordinated pathways towards formalization, has led to accelerated actions at the country level in support of formalization. With the launch of the Sustainable Development Goals (SDGs in 2016), which has a specific statistical indicator on informal employment (8.3.1<sup>2</sup>) under Goal 8, there is growing interest worldwide to support workers and enterprises operating in the informal economy for their transition to formality.

1.3 **Like other regions of the world, the BRICS countries have shared vision and commitment in facilitating the transition from the informal to the formal economy** through the design and implementation of innovative policies and programmes. To this effect, the BRICS member states have adopted a joint declaration on 'Employment Generation, Social Protection for All and Transition from Informality to Formality' in the second BRICS Labour and Employment Ministers' Meeting (LEMM) held in New Delhi, India in 2016<sup>3</sup>. In 2017, under Chinese Presidency, the BRICS Common Position on Governance of Future of Work adopted a resolution to continue to push forward the transition from the informal to the formal economy, strengthen policy support and supervision for small and micro enterprises, and provide equal protection for informal workers, including but not limited to part-time workers, on-call workers, temporary workers and agency

<sup>1</sup> Informal employment refers to working arrangements that are *de facto* or *de jure* not subject to national labour legislation, income taxation or entitlement to social protection or certain other employment benefits (advance notice of dismissal, severance pay, paid annual or sick leave, etc.).

<sup>2</sup> Indicator 8.3.1 intends to measure proportion of informal employment, by sector and sex.

<sup>3</sup> BRICS Labour and Employment Ministers' Declaration, New Delhi, India, 27-28 September, 2016.



workers<sup>4</sup>. In 2018, under the South African Presidency, the BRICS countries entered into a Memorandum of Understanding to establish and foster closer cooperation on informal economy and transition to formality<sup>5</sup>. In 2019, under the Brazil Presidency, the Labour and Employment Ministers recognised the importance of strengthening labour institutions to ensure adequate protection of all workers especially those engaged in new forms of employment and in informal work in BRICS countries. In October 2020, under the Russian Presidency, the LEMM acknowledged the pandemic's effect in enhancing the risk of informalisation and welcomed the progress made to ensure creation of high-quality formal employment and promote transition from the informal to the formal economy<sup>6</sup>.

1.4 The above discussion shows that the issue of 'formalisation of labour market' was one of the important agenda items of BRICS LEEM in 2016, and the issue has resonated in almost all the member states' meetings since then. Against this background, this issue paper is prepared in a comparative framework to support discussion during the upcoming BRICS Labour and Employment Ministers' Meeting under the Indian Presidency in 2021. The issue note specifically focuses on four key aspects: the statistical profile of the informal economy; the effect of the Covid-19 crisis and the risks of informalisation risks; documenting policy interventions and successful formalization practices at country levels; and highlights emerging issues and questions for deliberations during the meeting.

## II. Informality profile of BRICS countries

2.1 The BRICS member states – Brazil, Russia, India, China and South Africa – represent 42.9 per cent of the global employment. **BRICS together account for 44.6 per cent (897 million) of the global informal employment** (Figure 1) and make up nearly half of global informal sector enterprises (49.7 per cent).

2.2 **At the country level, the incidence of informal employment varies from country to country.** The share of informal employment to total employment (including agriculture) ranges from relatively low level of 35 per cent in Russia and South Africa to a moderate level of 48 per cent in Brazil, and 54.4 per cent in China, reaching a high of 88 per cent in India (**Figure 2**). If agriculture sector is excluded, the level of informal employment drops by 8 per cent and 3 per cent in India and Brazil respectively, without much change in other three countries.

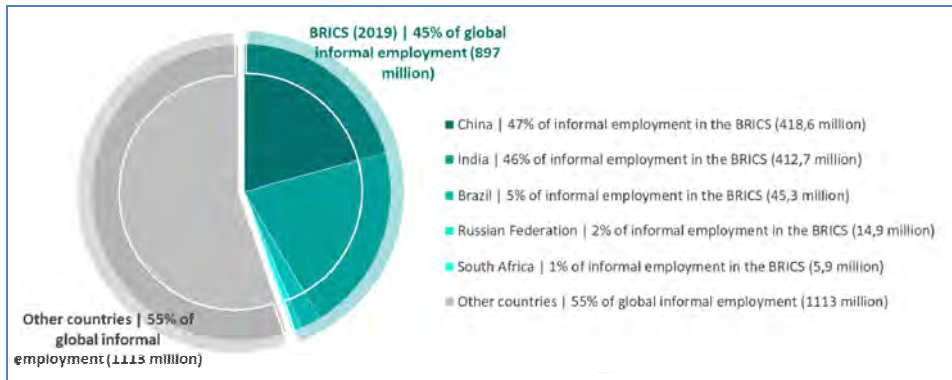
2.3 **Shaping informal employment depend on the type of production units (informal sector, formal sector or households) and status in employment.** Among the BRICS member states, informality is largely represented in the

<sup>4</sup> BRICS Labour and Employment Ministers' Declaration, Chongqing, China, 27 July 2017, Annex 1.

<sup>5</sup> BRICS Memorandum of Understanding in the social and labour sphere signed in Durban, South Africa on August 3, 2018

<sup>6</sup> BRICS Labour and Employment Ministers' Declaration, Russia, 09 October 2020, para 3 and 4.

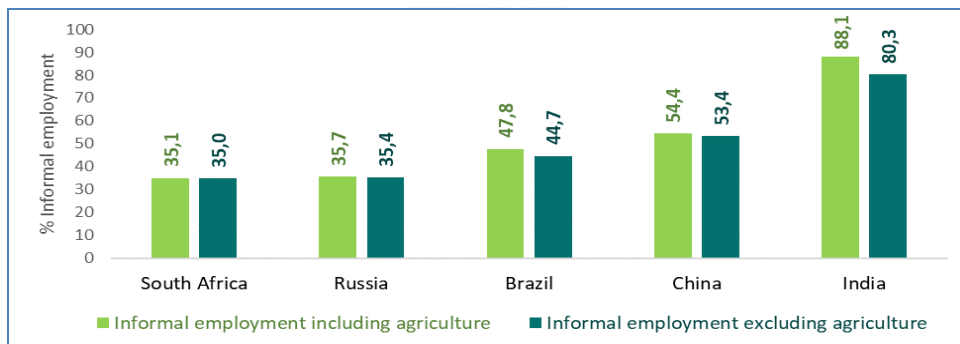
**Figure 1: Informal employment in the BRICS as part of global informal employment (% , 2019)**



**Note:** Total number of workers in informal employment extrapolated for 2019 including for China and Russia.

**Source:** ILO calculations based on national household micro datasets: Brazil (PNADC, 2019), China (CHIP, 2014), India (PLFS, 2019), Russia (Russia Longitudinal Monitoring Survey of HSE, 2014), South Africa (QLFS, 2019). To enhance international comparability, the estimate of informal employment follows the ILO recommended common set of operational criteria and might differ from national official estimates when they exist. For details see ILO (2018).

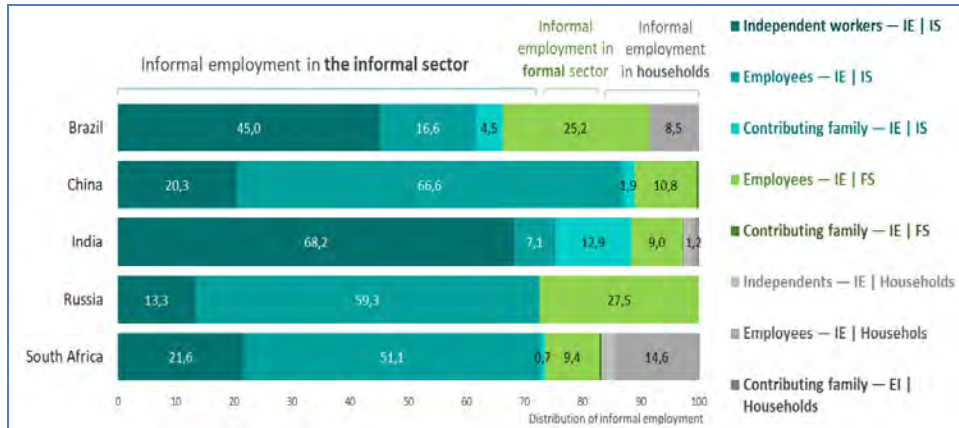
**Figure 2: Share of Informal Employment including & excluding Agriculture (% , latest available year)**



**Source:** see Figure 1

informal sector; this concern primarily independent workers (own account workers and employers) operating informal sector enterprises in India and Brazil and employees informally employed in the informal sector in Russia, China or South Africa. **(Figure 3)**. For all the workers concerned, formalization includes the formalization of enterprises as a mean to formalize jobs for independent workers and as a necessary condition for the formalization of the jobs of wage workers employed in those enterprises with the view to allow them to benefit from an effective labour and social protection.

**Figure 3: Composition of Informal Employment by sector  
(%, latest available year)**



**Note:** IE | IS = Informal employment in the Informal Sector; IE | FS: informal employment in the Formal Sector.

Independent workers comprises of own account workers and employers

**Source:** see Figure 1.

**2.4 Informal employment in BRICS countries is prevalent not just in the informal sector but also in the formal sector (Figure 3).** In Brazil and Russia employees in formal enterprises make up more than one fourth of all informal workers. In China, India and South Africa, employees in formal enterprises ranges from 9 to 11 per cent of total informal employment. This exhibition of informal employment in the formal sector which is noted over the past years, intensified during the Covid-19 pandemic. Many are undeclared workers calling for the formal recognition of their employment relationship and attached to it, an effective access to social and labour protections. Depending on protections attached to the different forms of employment agreements, having a contract, being declared is necessary but not always sufficient. Thus, understanding prevalent forms of informality and challenges they pose in terms of formalization of enterprises and jobs is extremely important for formulating appropriate formalisation strategies.

**2.5 Informal economy exhibits wide diversity and heterogeneity within each of the BRICS countries.** Informality is prevalent across all economic sectors, but some sectors are more represented in the informal economy than others (Figure 4). In Brazil, representation of informal economy sectors is more evenly spread and agriculture, wholesale and retail trade, construction, public administration and domestic workers account for 57.5 per cent of all informal employment. In Russia, wholesale and retail trade, construction, manufacturing, transport and agriculture are the five sectors having a combined share of 75 per cent in informal employment. In China, manufacturing, construction, administrative support, wholesale and retail trade, accommodation and food make up for nearly three-fourth of all



**Figure 4: Distribution of informal employment by broad sector (% , latest available year)**



Source: see Figure 1.

informal employment. In India, agriculture, construction, wholesale and retail trade, manufacturing and transport are the sectors most represented in the informal economy and account for 87 per cent of all informal employment. In South-Africa, wholesale and retail trade, education, construction, public administration, and accommodation and food sector have a total share of 70 per cent in total informal employment.

**2.6 The Covid-19 pandemic had a detrimental effect on the informal economy** (ILO, 2020b). In Russia, a World Bank Report estimate that informal employment fell by 1.9 million jobs between June 2019 and June 2020, reducing the rate of informal employment from 21.5 to 19.4 percent in the period (World Bank, 2020a, p. xii). The crisis also resulted in large decline in real wages in the country especially in hardest hit sectors, and the number of SME decreased by 4.2 per cent between October 2018 – 2020. In India, the pandemic led to contraction in Q1 GDP (FY 2020-2021) by 23.9 per cent but the recovery has been a V-shaped since then. The pandemic affected mostly the urban casual workers, a significant proportion of which are migrant workers (GoI, 2021). In China, the pandemic affected Q1-2020 growth which fell by almost 13% (compared to Q1 of 2019) – the lowest ever in last 40 years (ILO, 2020c). However, from Q2 onwards the growth rebounded. As per the National Bureau of Statistics, the number of flexible workers increased by 20 per cent in first quarter of 2020, compared to same period in 2019 (Qian and Wen, 2021; p.96). In South-Africa, a survey conducted by StatsSA showed that 89.5% of those who were employed before the national lockdown, remained employed during the lockdown, 8.1% reported that they lost their jobs or had to close their businesses and 1.4% became unemployed. The percentage of respondents who reported no income increased from 5.2% before the lockdown to 15.4% by the sixth week of national lockdown (StatsSA, 2020)<sup>7</sup>.

<sup>7</sup> For details of the Covid-19 impact see: <http://www.statssa.gov.za/publications/Report-00-80-03/Report-00-80-03May2020.pdf>



**2.8 There are multiple drivers of informality.** Inability of economies to create high productive jobs in the formal sector and transform abundant labour intensive sectors is one of the main factor behind persistence of high level of informality. Formalization therefore, requires expanding opportunities in the formal sector and preventing fall-outs from the formal economy. Apart from growth and its pattern, other root causes behind the prevalence of informal employment are lack of legal coverage and recognition in labour and business regulations, inadequate protection, lack of awareness about legal rights and non-compliance in practice. In addition to this, characteristics of workers such as lack of education, skill inadequacies, discrimination, poverty and lack of voice/representation and characteristics of enterprises such as lack of access to capital/financial resources, to public infrastructure, to markets and technology are other reasons behind continued persistence of informality in economies and societies. Accordingly, the BRICS member states have undertaken a variety of actions and initiatives for facilitating formalization of workers and enterprises, which is discussed in the next section.

### III. Policy Interventions and Good Practices

3.1 Comparable 'time series' data to understand changes in informal employment over time are not available across BRICS countries (ILO, 2018). However, **the country level data which are available shows a consistent downward trend in informal employment in recent years in all the BRICS member states.** This downward trend can be attributed to a broad range of interventions combining macro-economic and sectoral policies aiming at structural transformation and promote productive employment; policies measures and actions to expand the scope and coverage of legal regulation and adopting other formalization strategies and lastly policies aimed at formalizing specific categories of workers and economic units. All such interventions and policy actions undertaken by the member states, including successful practices, are briefly documented in the next section.

#### III. 1 Formalization Strategy in Brazil

**3.2 Among all the BRICS countries, Brazil's case is of considerable interest as the incidence of informality has come down significantly in recent years.** Share of informal employment in total employment declined substantially from 62 per cent to 55 per cent during 2000 to 2008 (de Vries et al, 2012) and to 47.8 per cent in 2019 (ILO, 2018). A number of studies argue that Brazil's ability to reduce informality can be attributed to specific policy interventions (Cazes and Verick, 2013; World Bank, 2012a) and appears to be contributing to economic growth (de Vries et al, 2012). Policy interventions related to improvements in easy access to cheap credit for firms to borrow (Catão et al. 2009); simplified registration procedures and lowered tax rates for small firms under the SIMPLES program (Perry et al., 2007) and government-directed industrial policies linking firm formalisation in order to be able to win government contracts (de Vries et al, 2012) have created



conditions wherein, the costs of formalizing a firm are increasingly offset by the benefits. Further, institution of an integrated policy framework to combat poverty, non-contributory social protection programmes, such as the *Bolsa Família*, and improved enforcement of tax and labour regulations have all contributed to the rapid formalisation of Brazil (World Bank, 2012a). Some of the major formalisation initiatives of Brazil, have been documented in following sections.

### Box 1: Monotax Regime: Brazil's Successful Practice for Enterprise Formalization

In 1996, Brazil as part of administrative simplification, started a programme called *Simples Federal* in 1996, which introduced a monotax for micro and small enterprises. It combined six tax and social security payments into one lump-sum amount. Despite these government efforts, initial results in terms of formalization were not positive. Subsequently, additional measures in the form of Simples National Regime was introduced in 2006 (by Supplementary Act No. 123) with the aim to create jobs and reduce informality among enterprises and their workers. The Simples National in particular provides for a monotax as well as simplified procedures for own-account workers and micro and small enterprises (MSEs) on business registration, taxation, social security, financial inclusion and government procurement. It includes a special statute called 'Individual Micro Entrepreneur' (IME) and a simplified tax and social security regime for own-account workers and MSEs. According to ILO, the number of MSEs that registered under monotax regime rose from 2.5 million in 2007 to 5 million in 2018. The monotax regime has also created the conditions to formalize workers - the enterprise registered under the regime reported increase in formal employment from 7.8 million in 2008 to 10.6 million in 2017.

Source: adapted from ILO, 2014 and 2019a

3.3 While Brazil prioritized the monotax regime (**Box: 1**) as the entry point for formalization, it has also undertaken a combination of specific measures for formalizing workers and enterprises. Some of the key measures in this regard are as follows:

- **In 2004, Brazil launched worlds' most extensive non-contributory conditional cash transfer programme called *Bolsa Família* to reduce poverty and inequality among low income households and help improve human capital outcomes. The programme benefits nearly 13 million families, out of which 75 per cent families operate in the informal economy (Machado et al, 2011, p.21<sup>8</sup>). Outcome assessment shows that the programme helped 30 million Brazilians to escape poverty<sup>9</sup>.**

<sup>8</sup> <https://ipcig.org/sites/default/files/pub/en/IPCWorkingPaper85.pdf>

<sup>9</sup> Estimate shows that more than 30 million Brazilian's escaped poverty between 2003-2014 due to Bolsa Familia, other pro-poor policies and a commodity boom (Marahao Belagua, 2020). <https://www.economist.com/the-americas/2020/01/30/bolsa-familia-brazils-admired-anti-poverty-programme-is-flailing>



- **In 2011 Brazil launched Pronatec** (National Programme for Access to Technical Education and Employment) the largest VET programs in Brazilian history to extend free technical training to young people below the poverty line and to registered workers of government cash transfer programs. Evidences of impact shows that earnings of individuals with technical qualifications on an average 10 per cent higher than the equivalent general education level (Almeida et al. 2014; Assunção and Gonzaga, 2010) and increases the probability of employment by 3.47 percentage points and formal employment by 2.7 percentage points (Oliva, 2014).
- **Brazil has established credit institutions for SMEs in the form of Programme for Employment Creation and Income Generation (PROGER) in 1994 and the National Programme for Guided Productive Microcredit (PNMPO).** The PROGER programme is operational in 3,600 municipalities and in 2016 granted 5 billion Brazilian reais (BRL) in credit lines for businesses<sup>10</sup>. In 2016, the PNMPO made BRL11.18 billion available to 3.7 million beneficiaries. The women make up 60 per cent of PNMPO clients, and that 90 per cent of all clients are own-account operators.

3.4 Lastly, in 2014, Brazil passed the **National Plan to Combat Informality of Employed Workers (PLANCITE)**, combining and integrating various isolated initiatives to provide more thrust and coherence to Government action. The plans aimed at intensifying the fight against unregistered labour regulations or informality by integrating several policies with simultaneous application in all of Brazil with the objective to formalize 17 million workers who currently have no access to social benefits.

### III.2 Formalization Strategy in Russia

3.5 **Compared to other low-income and middle-income countries, the informal employment level in Russia is not exceptionally high.** However, rising labour market informality in economic growth background is a matter of great concern (Packard et al. 2012; Gimpelson and Kapeliushnikov, 2014; World Bank, 2016). Informality increased from 12.5 per cent (8.2 million) in 2001 to 21.2 per cent (15 million) in 2016 as per the Rosstat Labor Force Survey (World Bank, 2019a). **However, recent trends show that informality which was rising from 2000 to 2016 shows signs of decline in the second half of the 2000s.** (Kim et al., 2019).

3.6 The objective of transition to formality forms part of Russia's National Development Goal through 2030, which came into effect on July 21, 2018. Out of the five development goal, the fourth goal emphasizes on 'decent and effective jobs and successful enterprises'. Further, Russia has made attempt to formalise the SMEs through improving their productivity and competitiveness (**Box 2**). It has also made sustained efforts to formalise the workers, apart from undertaking a series of tax,

<sup>10</sup> [https://www.ilo.org/dyn/normlex/en/f?p=1000:13100:0::NO:13100:P13100\\_COMMENT\\_ID:3960562](https://www.ilo.org/dyn/normlex/en/f?p=1000:13100:0::NO:13100:P13100_COMMENT_ID:3960562)



administrative and labour reforms. Some of the critical policy measures in this regard are documented very briefly below.

### Box 2: Russia's Strategy of Improving SME Productivity and Competitiveness as an Entry Point for achieving higher Formalization Results

The SMEs accounts for 20 per cent of Russia's GDP and 25 per cent of total employment. To make SME a vital source of growth and formal jobs, the government adopted SME Development Strategy (2030) to double SMEs' share in Russia's GDP to 40 per cent by 2030. The Strategy for Innovative Development of the Russian Federation 2020<sup>11</sup>, has also been integrated with its SME strategy. In order to improve skills development eco-system, the Government has restructured the TVET system. Russia has also established Agency for Strategic Initiatives (ASI) to reform the investment climate due to which it has advanced to 31<sup>st</sup> place in the World Bank's 2019 global ease of doing business ranking, from 120<sup>th</sup> position in 2012.

Source: adapted from World Bank (2012b and 2013).

**3.7 Russia has an extensive social protection system dominated by pensions,** followed by social assistance benefits (World Bank, 2016). Since, 2014, many reforms have been undertaken to align the programme with Russia's higher-level objective of halving poverty by 2024<sup>12</sup>. An assessment of the reforms show that 47 per cent of all means-tested benefits go to the poor; the bottom 40 per cent receives 75 per cent of all means-tested benefits (World Bank, 2019a), thus catalysing formality.

**3.8 On the taxation front, in 2001, Russia drastically reduced personal taxation levels to a 'flat' rate of 13% and simplified the tax filing system.** Payroll taxes were also affected. Before the reform, employers had to contribute up to 38.5% of the gross salary- to four different social funds. Starting in 2001, these contributions were unified into a single social tax with a regressive scale.

### III.3 Formalization Strategy in India

3.9 Informal employment account for 88 per cent of all employment in India as per the ILO harmonized definition in 2019. **The NITI Aayog in its voluntary reporting of SDGs has stated that approximately 80 per cent of India's workers are employed in the unorganized sector and more than 90 per cent in informal employment** (GoI, 2020b, p.83). Notably, the incidence of informal employment has come down in India albeit at a lower rate from 90 per cent to 88 per cent. In order to address this challenge, the government has step up its efforts towards creation of more good quality jobs and linking new entrants to the workforce with social insurance benefits provided by Employees' Provident Fund Organization (EPFO). The analysis of the EPFO

<sup>11</sup> The details of the strategy may be seen at: World Bank (2013): Developing Skills for Innovative Growth in Russia. Washington, DC: World Bank, pp. 31-32

<sup>12</sup> In May 2018, Russia declared a national goal of halving poverty by 2024 (President of Russian Federation Decree from 07.05.2018, No. 204).





data shows that 6.11 million, 7.85 million and 6.25 million were net addition to the payroll data in the year 2018-19, 2019-20 and 2021-22<sup>13</sup> respectively. The improvement in the quality of jobs of those who operate in the informal economy is also evident from the labour force survey (LFS) data which shows rising earnings among the casual workers in the last two decades – real weekly earnings increased from INR 582 in 2000 to INR 1277 in 2019 (Majid, 2021).

**3.10 To address informality in its labour market and among enterprises and to effect transition to formality, the Government of India has undertaken a series of initiatives and actions.** The broader government strategy towards formalization in India are - enhancement of agricultural productivity and doubling of farmers income by 2022; facilitating faster structural transformation and making manufacturing sector as the new growth hub with emphasis on 'Make in India' (MII); ramping up investment in the connectivity, digital, logistic and other infrastructure; nourishing MSMEs to become more productive, competitive and sustainable to create more jobs; reduction in the cost of capital and regulatory reform to promote ease of doing business; enhancing employability of youth and informal economy workers and increasing focus on fostering entrepreneurship, innovation and startups; establishment of employment relationship and expanding the scope of labour regulations and the Atmanirbhar Bharat Abhiyan<sup>14</sup> stimulus package (equivalent to 15% of GDP) during the pandemic. Below a few of these actions are discussed having highest relevance for formalization of workers and enterprises.

**3.11 Nourishing MSME sector<sup>15</sup> to become more productive, competitive and sustainable to create more jobs.** Some of the steps undertaken in this regard are: simplification of the registration system for new MSMEs in online 'Udyam' portal (<https://udyamregistration.gov.in/>) free of cost; establishment of credit institutions for micro and small enterprises in the form of Micro Units Development and Refinance Agency Ltd. (MUDRA) in 2015; provision for collateral free credit and capital subsidy for technological up-gradation of MSMEs; reserving 25 per cent of public procurement from MSMEs; 'vocal for local' initiative to encourage Indians to buy products from MSMEs; relief and credit support to stressed MSMEs<sup>16</sup> to fight against Covid-19 and regulatory reform including recent deregulation of labour laws to unshackle the MSMEs.

**3.12 To meet the challenge of skilling at scale with speed, standard and sustainability, Government has launched the 'Skilled India' programme in**

<sup>13</sup> As on 31<sup>st</sup> January 2021.

<sup>14</sup> The ABA package is the vision of the GoI of making India a self-reliant nation. For details of ABA package see Economic Survey, 2020-21 available at: <https://www.indiabudget.gov.in/economicsurvey/>

<sup>15</sup> The sector comprises of 63 million non-agricultural enterprises, of which 99% are micro-enterprises 0.52% are small enterprises and 0.01% are medium enterprises. Of the total MSMEs, 51.2% are located in rural and rest in urban areas (Annual Report of the MSME Ministry, 2020-21, pp 21-22).

<sup>16</sup> The detailed support measures may be seen in the Economic Survey, 2020-21 (GoI, 2021), Chapter 08, pp 262-264.



2015 with the objective to create a minimum of 400 million skilled personnel by 2022. Over 10 million persons have been trained under the National Skill Development Mission and another 8.7 million have been skilled under the Pradhan Mantri Kaushal Vikas Yojana (GoI, 2020b, p. 81). The government has also certified 7.75 lakh informal workers under Recognition of Prior Learning (RPL). The skills trainings has improved the labour market outcomes of both female and male trainees in terms of higher monthly earnings (GoI, 2020b, p.81).

**3.13 India is leveraging startups and innovation to drive economic growth, generate large-scale employment opportunities and to formalize the economy** (GoI, 2020a, p. 79). A dynamic eco-system has been built with the launching of 'Startup India' program<sup>17</sup> in 2016. Under this action plan, various benefits were provided to the Startups such as compliance regime based on self-certification, relaxed norms of public procurement<sup>18</sup>, faster exit (within 90 days), funding support, tax exemption for three years and exemption on capital gains. The number of startups recognized under Startup India increased from 503 in 2015-16 to 32,577 in 2020 (GoI, 2020b). Similarly, the efforts under innovation oriented growth strategy has produced positive outcome resulting in India breaking into the top 50 nations of the Global Innovation Index 2020 from 76<sup>th</sup> rank in 2014 (GoI, 2020a).

**3.14 In July 2017, as a part of structural reform the Government introduced the Goods and Service Tax (GST)** as a multistage, destination-based tax that is levied on every value-addition and has replaced a large number of indirect taxes at both the Centre and State level (GoI, 2020b). The GST also incentivizes smaller firms that buy from large enterprises to voluntarily register with the GST administration to avail themselves of input tax credit. Implementation of GST has resulted in widening the tax net and has added about 5 million new tax payers as of July 2018. Therefore, GST is showing signs of being to some extent, transformative for formality (Mehrotra, 2019).

**3.15 Since 2014 to promote ease of doing business and competitiveness, GoI has undertaken several regulatory reform at the Central Ministry level to simplify the process and make them more transparent.** Similarly, under the State Level Business Reforms Action Plan more than seven thousand reforms were undertaken to streamline the business regime in the States (GoI, 2020b). As a result of sustained efforts, India has improved its rank to 63<sup>rd</sup> position in 2020 from earlier rank of 142 in 2014 in the World Bank's Doing Business Report. To give further momentum to the ongoing reform process in 2019 and 2020, the GoI reformed the labour regulatory regime by reducing 29 central labour legislations into four codes. The reform in labour laws will help India to achieve the twin objective of being among top 50 countries in the World

<sup>17</sup> <https://www.startupindia.gov.in/>

<sup>18</sup> Startup India has facilitated procurement from startups on the Government E-Marketplace (GeM) portal. Presently, 53,226 orders have been received by startups with a value of over INR 2,279 Crores through GeM portal.



Bank ranking and further intensifying transition to formality in coming years **(Matrix: 1)**.

**3.16 India implemented world’s largest financial inclusion initiative through Direct Benefit Transfer (DBT) to deliver social safety nets swiftly to the poor and to bridge leakages.** This has propelled the unbanked, especially over 200 million women, into the mainstream financial system, accelerating their economic empowerment through new avenues of credit, insurance and Direct Benefit Transfers (GoI, 2020b, p.5).

**Matrix 1: New Labour Codes – An Integrated Pathways towards Robust Formalization of the Informal Economy**

| The Code on Wages, 2019  | The Code on Social Security, 2019  |
|--|--|
| <ul style="list-style-type: none"> <li>• Extension of legal coverage of minimum wages and timely payment of wages to all wage earners numbering 225 million in 2018/19;</li> <li>• Simplification in minimum wage structure and reduction in the number of wage rates;</li> <li>• Establishment of statutory national floor wage, the inclusion of minimum wage fixation criteria and adjustment timeline in the wage rules;</li> <li>• Mandatory issuance of wage slips and provision of e-payment of wages.</li> </ul> <p>Results in more formalization through the transfer of more welfare and social justice to the low paid wage workers, improvement in their quality of employment and improvement in compliance due to simplification of wage structure</p> | <ul style="list-style-type: none"> <li>• Extension of legal coverage of social security to the unorganized sector workers and migrant workers, including self-employed;</li> <li>• Gig and platform economy workers are defined and brought under the social security coverage;</li> <li>• Statutory registration of all unorganized sector workers in a web portal (using JAM Trinity framework) for providing identity, protection and extending social security benefits</li> </ul> <p>Results in enhancing the coverage of informal workers under social security benefit and concomitant formalization.</p> |
| The Code on Occupational Safety, Health and Working Conditions (2020)  | The Code on Industrial Relation, 2020  |
| <ul style="list-style-type: none"> <li>• Mandates issuance of appointment letter to all the employees which will help in formalizing employment relationship;</li> <li>• Provides for self-registration of migrant workers for extending social security and for ensuring portability of these benefits;</li> </ul>  | <ul style="list-style-type: none"> <li>• Introduced fixed-term employment on the basis of written contract to be appointed at par with permanent workers – it is expected that this flexible form of contract will provide a pathway into formal employment for the youth, unemployed and those with informal employment. It would also provide flexibility</li> </ul>   |





| The Code on Occupational Safety, Health and Working Conditions (2020)   | The Code on Industrial Relation, 2020  |
|---|--|
| <ul style="list-style-type: none"> <li>• Mandated e-registration of all establishment employing 10 or more employees.</li> </ul> <p>Results in establishment of firm employment relationship, more visibility of informal &amp; migrant workers/ establishments, migrant workers receives protection in matters of wages, social security and working conditions; firms gain legal entity status, government able to provide effective support – leading to more formalization.</p> | <p>to firm to cope with unexpected fluctuations in demand.</p> <ul style="list-style-type: none"> <li>• Threshold for applicability of regulations relating to closure, retrenchment and layoffs have been enhanced to enterprises employing 300 or more workers – thereby reducing the labour costs of MSMEs and encouraging them to hire more formal employees.</li> </ul> |

*Source:* Prepared from the provisions of the four labour codes enacted by the Government of India

3.17 Recently, the **GoI launched Pradhan Mantri Rojgar Protsahan Yojana (PMRPY)**<sup>19</sup> to directly intervene and incentivize employers for creation of more formal jobs by fully reimbursing employer's social insurance contribution rate of 12 per cent in case of new employees. Under the scheme, 12.1 million new employees have been hired through 152.8 thousand establishments. Available data and evidences support the view that the formalization of the workers in eligible enterprises has improved with the incentive under the PMRPY scheme (GoI, 2021).

### III.4 Formalization Strategy in China

3.18 **Employment in the informal economy is not officially defined in China** (Qian and Wen, 2021). In the absence of official estimates of informal employment<sup>20</sup> various researcher Majid (2015) and Mehotra (2019) have estimated the size of regular employment to understand the extent of formality and informality. Mehrotra (2019) shows that regular (or stable/formal) employment,<sup>21</sup> which stood at 39.5 per cent in 1990 rose to 63.9 per cent in 2011 (as given in ILO, 2020d, pp. 157-158). This in turn indicates a continuous decline in non-regular (or unstable/informal) employment. **The**

<sup>19</sup> <https://pmpy.gov.in/>

<sup>20</sup> In China, stable employment and flexible employment (is used in Social Insurance Law, 2011) is officially used, although no official definition exist. Stable employment refers to work in the traditional employer-employee relationship. In contrast, flexible employment generally refer to the work beyond the traditional form of employment in terms of working time, wages, workplace, social insurance, employment relation, etc. According to the Chinese Premier Li Keqiang, flexible employment is rapidly developing in China and there are now about 200 million involved in flexible employment (For details see: <http://in.china-embassy.org/eng/zgxw/t1860396.htm>).

<sup>21</sup> Regular employment is considered as Chinese equivalent of formal employment. Regular employment in China consists of the workforce employed in three different types of enterprises: traditional formal enterprises; emerging formal enterprises; and individual businesses and small enterprises (as given in ILO, 2020d).



**consistent of rise in regular employment in formal enterprises have been attributed to adoption of a socialistic market economic system** leading to continuous high GDP growth rates<sup>22</sup>, and a well conceptualized and sequenced employment intensive industrialization strategy which helped in rapid movement out of agriculture to non-agriculture sector and from rural to urban centers (Majid, 2015; Mehotra, 2019). Further, substantial reduction in poverty as per official poverty line<sup>23</sup>, complete eradication of extreme poverty<sup>24</sup>, continuous rise in disposal income<sup>25</sup>, near universalization of social security (**Box: 3**), simplified business registration (through Five-in-One Business License System) and deregistration procedure, reduction in VAT rates and differential tax treatments for small and thin profit enterprises (STE) had also role in decline in the level of informal employment. Apart from growth and industrialization strategy, the Government of PRC have also established additional formality inducing institutional measures, policies and regulations. Below some of these important policy measures have been documented.

3.19 In 2008, China adopted the **Employment Promotion Law**<sup>26</sup> (EPL) which provides a legal framework for implementing an active employment-first policy **to ensure 'full employment' and take significant responsibility for creating decent employment for building a harmonious society** (ILO, 2011a). The EPL also provides for improvement and brining stability in China's employment labour relations and extending social security. The above two concrete provisions in the EPL forms the legal basis to promote rapid transition to formality.

3.20 In 2007 China adopted **the Labour Contract Law** to regulate and recognize labour relationships. Some of the important provisions of Labour Contract Law<sup>27</sup> in the context formalizing employment relationships are - stipulates that all forms of labour relationships be established by concluding a written labour contract; provides for a graduation system from fixed term contract to open-ended contract for workers who have worked ten consecutive years in a work unit; and extends labour protection to two non-standard forms of a labour relationship: labour dispatch workers and part-time workers.

<sup>22</sup> China's GDP which was CNY367.9 billion yuan (approximately \$218.5 billion) in 1978 increased to CNY82.1 trillion (approximately \$12 trillion) in 2017 propelling it to the upper middle-income category (Gongcheng and Scholz, 2017).

<sup>23</sup> Between 1978 and 2017, China lifted a total of 660 million people out of poverty and rural poverty headcount ratio dropped from 10.2 per cent in 2012 to 1.7 per cent in 2018 (Gongcheng and Scholz, 2017).

<sup>24</sup> In July 2020, the Government announced eradication of extreme poverty.

<sup>25</sup> Per capita disposable personal income topped 30,000 yuan per month (<https://news.cgtn.com/news/2020-05-22/Full-text-Premier-Li-s-speech-at-the-third-session-of-the-13th-NPC-QHaP1FpB8k/index.html>)

<sup>26</sup> [http://english.www.gov.cn/archive/laws\\_regulations/2014/08/23/content\\_281474983042585.htm](http://english.www.gov.cn/archive/laws_regulations/2014/08/23/content_281474983042585.htm)

<sup>27</sup> <https://www.ilo.org/dyn/natlex/docs/ELECTRONIC/76384/108021/F755819546/CHN76384%20Eng.pdf>



### Box 3: China: Extending Social Security to Formalize the Informal Economy Workers

In China, the Government trust social security as an important governance instrument for managing the reform risks and improving people's well-being. Accordingly, it has set a national objective towards full coverage of all who should be covered by compulsory social insurance and social assistance by 2020 (13<sup>th</sup> Five Year Plan, Chapter 64). In accordance with the target, in 2011, China adopted Social Insurance Law that provides for five different mandatory and contributory social security benefits to those having recognized labour relationships and concerns mainly full-time workers, regardless of enterprise type and household registration status. In 2014, it extended social security through a unified Residents' Pension Scheme to vulnerable population groups (rural residents and non-salaried urban residents) including informal economy workers (farmers and urban workers including migrant workers) who were not covered under any pension scheme and have limited contributory capacity. At the end of September 2020, the number of people participating in basic pension, unemployment, and work-related injury insurance has reached 987 million<sup>28</sup>, 212 million, and 263 million respectively, achieving the 13<sup>th</sup> Five-Year Plan's targets ahead of schedule. This remarkable coverage under especially under the pension scheme has been viewed as extraordinary achievement.

Source: Gongcheng and Scholz, (2017) and ILO (2019b)

3.21 Migrant workers constitute 200 million plus in China's urban workspace, many of them are in flexible employment. In 2019 the government took a series of measures strengthening – **better enforcement of labour laws (through cross-regional co-ordination and by signing joint memorandum with 29 state council departments)** in order to address the issue of non-payment of wages on time. The steps involved punishing the violators; blacklisting employers who had maliciously postponed paying workers; nation-wide restrained from market access, bidding and financing – to raise the cost of committing violations<sup>29</sup>.

3.22 **China has deepened specific business regulatory reforms**, to support innovation, entrepreneurship and start-ups and also to facilitate enterprise registration and their formalisation. In fact, China considers better business environment as productive power<sup>30</sup> and to this effect, in 2015 it started the initial reform with "Fang Guan Fu" (**Box: 4**) and in January 2020, the state council deepened the reform by issuing a new regulation to optimize the business environment<sup>31</sup>. As a result of sustained reform, China has successfully improved its rank in the World banking doing of business report from 96 rank in 2014 to 31<sup>st</sup> place in 2020. Since 2015 business start-ups and

<sup>28</sup> This figure includes also participants of Residence Pension Scheme, 2014 as well.

<sup>29</sup> [http://english.www.gov.cn/news/policy\\_briefings/2019/01/19/content\\_281476485366510.htm](http://english.www.gov.cn/news/policy_briefings/2019/01/19/content_281476485366510.htm)

<sup>30</sup> [http://english.www.gov.cn/premier/news/201911/22/content\\_WS5dd7be08c6d0bcf8c4c179fe.html](http://english.www.gov.cn/premier/news/201911/22/content_WS5dd7be08c6d0bcf8c4c179fe.html)

<sup>31</sup> The regulation may be seen at: [http://www.gov.cn/zhengce/content/2019-10/23/content\\_5443963.htm](http://www.gov.cn/zhengce/content/2019-10/23/content_5443963.htm)



innovation continued to surge nationwide, with an average net increase of over 10,000 businesses per day<sup>32</sup>. All this led to rise in China's rank in global innovation index from 35<sup>th</sup> in 2013 to 14<sup>th</sup> in 2020.

#### Box 4: The "Fang Guan Fu" Reform Initiatives of China

The "Fang Guan Fu" reform initiatives, as key measures to change the role of the government and improve the business environment and revitalize market activities, focus on redefining the relationship between the government and the market through deregulation, streamlined administrative procedures and improved public services. Deregulation includes reducing regulation and micro-management by the government, and letting the market play the dominant role in economic activities. Streamlined administrative procedures imply simpler and fewer administrative approval procedures, as well as the transformation towards more risk based ex-post supervision by the government rather than intensive administrative approval at the early stage of business activities. Improved public services include those that better respond to the real needs of businesses and the public, and more efficient services thanks to increased emphasis upon the internet and digital technologies. The "Fang Guan Fu" reform initiatives emphasize the combination of reforms in these three aspects to remove institutional barriers to a better business environment and sustainable economic development.

**Source:** adopted from World Bank (2020b)

3.23 Lastly, **China has also harnessed the use of technology to support inspection and compliance, extend social protection coverage, and to address wage arrears.** Some of the successful e-formality initiatives having implications for effecting transition to formality are briefly highlighted below.

- In 2013, China introduced a nationwide technology based - **Twin Networks Management System (Grid based and Network based) - to modernize the labour inspection system.** In 2016, in Qingdao, China it was reported that due to Grid based management system, social insurance coverage was extended to 43,000 previously uncovered workers between 2012 and 2014 (ILO, 2016a).
- In 2016, **Shandong developed and deployed a digital and data driven e-service platform**<sup>33</sup> to facilitate extension of unemployment insurance and to provide access to employment services.
- In 2017, **Zhejiang applied a digital governance tools to eliminate wage arrears among the migrant construction workers** through developing an IT based system i.e., Enterprise Wage Payment Online Supervision System<sup>34</sup> (EWPOSS). The EWPOSS led to RMB 2,967 billion of supervised wage deposit from 21.057 supervised projects.

<sup>32</sup> <https://news.cgtn.com/news/2020-05-22/Full-text-Premier-Li-s-speech-at-the-third-session-of-the-13th-NPC-QHaP1FpB8k/index.html>

<sup>33</sup> Adapted from - UN Policy Dialogue # 1: Social Protection at the time of Covid-19 and Beyond: Building an Inclusive and Sustainable Social Protection System: Summary Note

<sup>34</sup> Developed from a PPT prepared by: Huang Kun, Wei TU and Wenjing LI (2021), Using information technology to improve labour inspection efficiency and guaranteeing wage payment to workers in construction sector in China, CALSS, January 19, 2021 (unpublished).



### III.5 Formalization Strategy in South-Africa

**3.24 The South-African labour market is largely formal.** The size of informal employment is not particularly high and account 35 per cent (or 5.9 million) of the total employment – as per the ILO harmonized definition in 2019. Among the BRICS member states, South Africa account for just 1% of the total informal employment. However, if one takes into account QLFS data produced by StatsSa, then the extent of informality further reduced to 30% (or below 5 million workers) during 2018 (Mike, 2019). **Overtime, the extent of informality has remained stable.** South Africa has taken various policy measures to address informality in its economy such as constituting a national task team for preparing a roadmap towards formalization, simplifying the minimum wage system and establishing a national minimum wage, addressing skills deficits, facilitating MSME growth, extending social protection and institutionalizing social dialogue mechanism. Some of the policy measures are described in subsequent paragraphs.

**3.25 The National Development Plan (NDP) of South Africa puts highest priority on job creation and extension of decent work to the informal economy.** Accordingly, South Africa has established a national task team in 2015 to implement ILO Recommendation 204, dealing with the Transition from the Formal to the Informal Economy. The task team has carried out a comprehensive diagnosis of the informal economy and its drivers and is in the process of preparing a road map for formalization through tripartite consultation (ILO, 2017 and 2020e).

**3.26 Skills deficit is one of the major reason for prevalence of informality among the youth and also among micro-enterprises, which is well recognized in its NDP.** Accordingly, the Government has taken many steps to operationalize the vision of the NDP into action. Some of the notable achievements in this regard are as follows: establishment of a National Skills Development Plan (NSDP)<sup>35</sup>, 2030 – with a target of the NDP is to achieve 1.25 million enrolments; establishment of a National Artisan Development Strategy (NADS) in 2018 to produce 30,000 artisans per year; creation of a skills development fund (NSF) by imposing levy of 1% on employers salary bill; launching of a labour activation program (LAP) in 2015 alongside an unemployment insurance fund (UIF), launched a digital platform - Employment Services South Africa (ESSA) – a job matching services for the unemployed youth; and developed mechanism to access informally acquired skills and competencies of the workers and ensuring portability of skills into certification to facilitate transition to the formal economy.

**3.27 In South Africa, MSMEs employ between 50-60 percent of South Africa's work force and contribute around 34 percent of GDP (IFC, 2018).** Based on StatsSA research, 85 per cent of MSMEs (2.309 million) in 2017 are informal and in survivalist business. Access to markets, finance, skills and burdensome regulation remain some of the biggest barriers to MSME growth in the country. In order to address these issues, the Government has taken a number of steps<sup>36</sup> such as creation of a new Department of Small Business Development in 2014; automation of company registration at CIPC reducing business registration

<sup>35</sup> <https://www.chieta.org.za/Portals/0/ndp2030.pdf>

<sup>36</sup> This section is developed from IFC (2018).





time a day; amendment to public procurement regulations reserving 30 percent of all large contracts for micro enterprises and black owned small businesses; facilitating linkage of small business with corporate value chain and ongoing review of red tape impact assessment bill in the parliament to reduce regulatory burden on the MSMEs. The Government has also introduced two special tax regimes – Small Business Corporation (SBC) regime and turnover tax regime to provide tax concessions for small businesses and a simplified tax system for micro enterprises respectively.

**3.28 South Africa has expanded social security manifold since 1994.** The NDP-2030 outlines South Africa’s social protection strategy to protect the old and the young, as well as adults of working age who are unable to work because of structural unemployment, illness and disability. As per the mandate of the NDP, South Africa has set up Expanded Public Works Programme (EPWP) in 2003 through which it has generated over 8 million temporary employment opportunities up for the unskilled, unemployed, poor and vulnerable (ILO, 2018<sup>37</sup>). Secondly, it has also established a contributory Unemployment Insurance Fund (UIF) to provide short-term benefits to workers when they become unemployed or are unable to work due to illness, maternity leave or adoption leave. Lastly, it has also established an extensive means-tested unconditional cash-transfer system (i.e. social grants) under which around 17.5 million out of 57 million South Africans now receive support – the majority of which are children and the elderly (OECD, 2020). It has played a critical role

#### Box 5: Tripartite social dialogue in South Africa to curb the informalisation of formal economy jobs

Between 2006 and 2012, permanent employment in South Africa’s formal sector dropped from 70 to 60 per cent. This was associated with a growing casualization of the labour force and an increase in the use of fixed term contracts and of private employment services referred to as “labour brokers”. Protracted negotiations at NEDLAC and a lengthy parliamentary process led to the promulgation of amendments to the Labour Relations Act in early 2015. Labour broking was not banned outright but the amended law placed restrictions on it. For example, fixed term contracts were to last no more than three months, except under specified circumstances; a worker with a fixed term contract longer than three months could reasonably expect permanent employment; and fixed term and permanent workers were to enjoy equal treatment. The Temporary Employment Service (TES) agencies were obliged to register under a new Employment Services Act (also negotiated at NEDLAC) and a TES worker placed with a client for more than three months was deemed to be employed. It is still too soon to gauge the impact of these changes on the prevalence of temporary contracts. Nonetheless, this case study shows how social dialogue can be used as effective tool to curb the informalisation of formal economy jobs.

Source: adapted from ILO (2020f)

<sup>37</sup> ILO (2018): South Africa - Expanded Public Works Programme



in reducing poverty, inequality and protecting vulnerable households from economic shocks.

3.29 Social dialogue is an important component of the strategy promoting transition to formality. **South Africa has institutionalized social dialogue mechanism by establishing National Economic Development and Labour Council (NEDLAC)** by enacting the NEDLAC Act (No.35 of 1994), which is tripartite in nature. The NEDLAC over time has evolved and played prominent role in arriving at consensus on many contentious issues, most importantly during the negotiation over the level of national minimum wage and placing restrictions on labour broking by bringing amendment to the Labour Relations Act (**Box 5**).

#### IV. Issues and Questions for Discussion

4.1 As discussed in this issue paper, informal economy exhibits wide diversity and heterogeneity within each of the BRICS member states and there are multiple drivers of informality. Further, the Covid-19 crisis has highlighted the extreme vulnerability of those who operate in the informal economy. The crisis serves as a reminder of the crucial need to make transitioning from the informal to the formal economy a priority area in the national policy agenda and to scale-up existing interventions. The BRICS member countries have undertaken a number of measures in the past to increase the levels of formalization of their respective economies, which is documented in this issue paper. During the crisis also, the member states undertook many interventions to protect the loss of livelihoods of informal economy workers and preventing collapse of small economic units, thereby mitigating the risk of further informalisation. Therefore, time has come to consolidate the progress made, understand the lessons learnt, identify the possible gaps and evolve a futuristic strategy towards faster formalization in terms of LEMM declaration. To facilitate the discussion around these issue, a set of possible questions have been prepared which may be finalized after agreement among the member states.

##### IV.1 Progress made, achievements and lessons learnt

- What progress have been achieved by member states in transitioning workers and economic units from the informal to the formal economy since 2016?
- What measures/strategies have been adopted? What are their priorities/components, main target groups (self-employed, employees, informality in formal sector, informal businesses, specific sectors, etc.) and how are they implemented? What are the main gaps in term of issues or groups not covered?
- What are the achievements and lessons learnt from the implementation of the existing strategy and practices? Are there any good and innovative practices, which can be recommended for implementation in other member states as per their national context?



- Who are the main drivers/actors and their role in formulating and implementing measures/strategy at the country level? How views of informal economy workers and economic units are taken into account with regard to measures that concerned them directly? What are the constraints and challenges faced by the authorities in the process and how they can be addressed?
- What sort of coordination mechanism exists at the country level for co-ordination between different actors, programmes and policies? If no coordination mechanism exists, how to institutionalize an integrated approach by harmonizing isolated approaches with proper coordination and interconnected mechanism?

#### **IV.2 COVID-19 and challenges to future formalization**

- To what extent the Covid-19 crisis has impacted the informal economy workers and economic units and reversed the formalization process in your country?
- What type of fiscal/monetary stimulus were provided to recover from the current crisis? Whether the stimulus support was inclusive and sufficient in terms of factoring in the requirements of the informal economy workers and enterprises to facilitate their sustainable recovery? What are the approaches adopted to reach out to the informal economy workers and economic units with the stimulus relief measures?
- What are the current and future challenges to formalization due to the crisis? What are the measures undertaken to assess and prevent the risk of informalisation in dealing with the crisis?

#### **IV.3 Monitoring formalization results & evolving a coherent formalization strategy**

4.2 Data collection on informality and its multiple drivers as per national circumstances remains essential for developing and implementing appropriate strategies for their formalization. Reliable data and relevant statistics are also essential to monitor progress towards formalization (in line with SDG 8.3 and indicator 8.3.1). In this context, would you agree to the idea of collectively monitor along time actions taken and results obtained in fulfillment of SDG 8.3 and indicator 8.3.1 with the help of the BRICS network of research institutes?

4.3 Lastly, would it be appropriate for BRICS member states to explore the advantages of adopting national formalisation strategy that aims to provide coherent interventions across several areas to act on multiple drivers of informality to further scale-up existing efforts towards formalisation?

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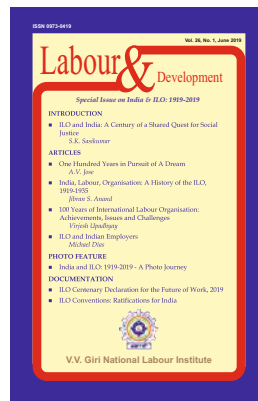
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